

ANNUAL REPORT
2013 - 2014
*African Renaissance and International
Cooperation Fund*

A better South Africa * A better Africa * A better world

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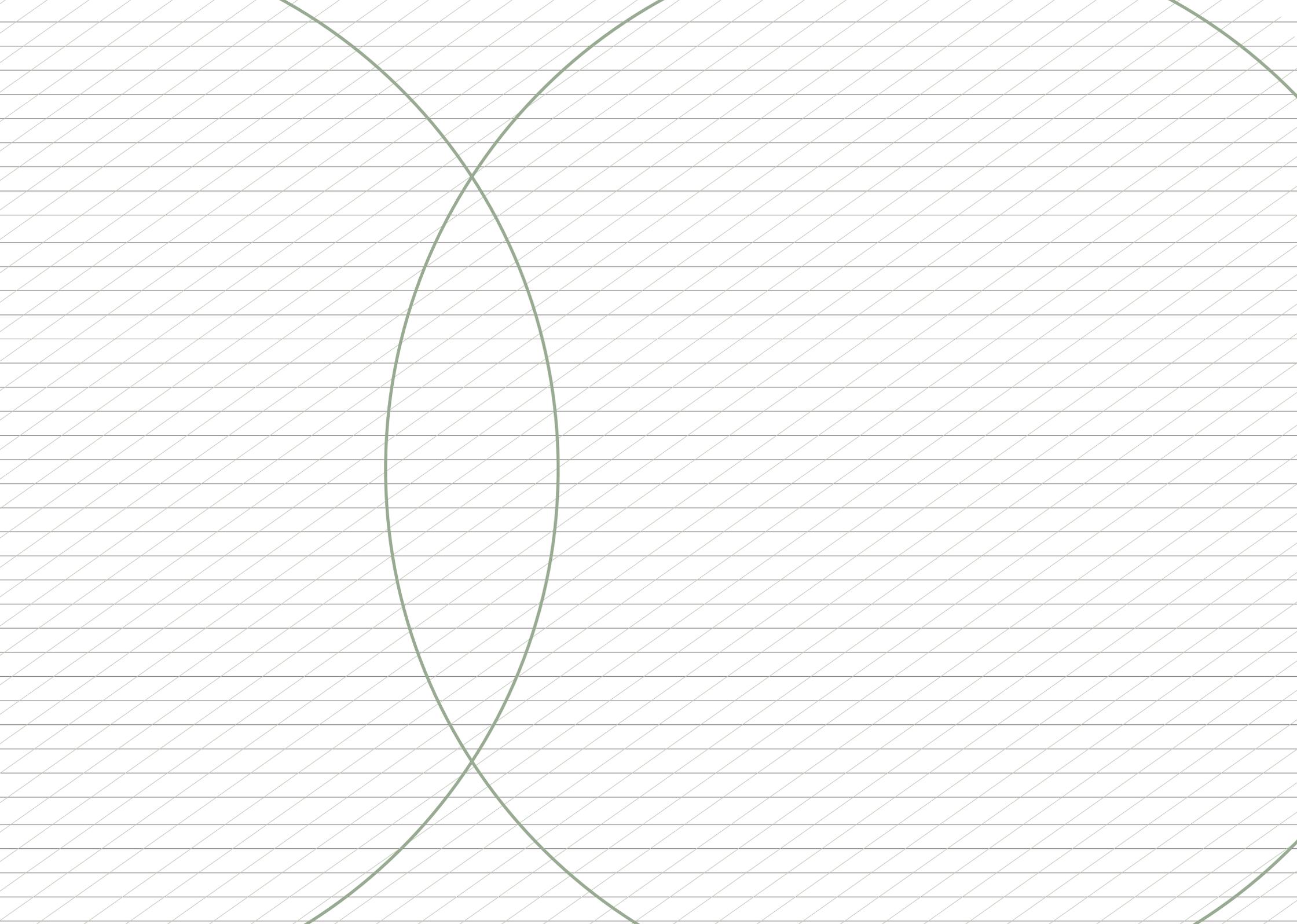
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REPORT T THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE AFRICAN RENAISSANCE AND INTERNATIONAL COOPERATION FUND

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the African Renaissance and International Cooperation Fund set out on pages 12 to 29, which comprise the statement of financial position as at 31 March 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

The Accounting Authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa (PFMA), 1999 (Act 1 of 1999) and the African Renaissance and International Cooperation Fund Act, 2000 (Act 51 of 2000) (ARF Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted

my audit in accordance with the Public Audit Act of South Africa, 2004 (Act 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. 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.

4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the African Renaissance and International Cooperation Fund as at 31 March 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matter

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

8. As disclosed in note 9 to the financial statements, irregular expenditure to the amount of R529 574 000 (R10 636 000) was incurred as a result of non-compliance with supply chain management prescripts and funds disbursed exceeding the authorised amount.

Restatement of corresponding figures

9. As disclosed in note 10 to the financial statements, the corresponding figures for 31 March 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the African Renaissance and International Cooperation Fund at, and for the year ended, 31 March 2012.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA, and the general notice issued in terms thereof, I report the following findings

relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

11. I am unable to report findings on the usefulness and reliability of the annual performance report of the African Renaissance and International Cooperation Fund as it was not prepared as required by section 55(2)(a) of the PFMA.

Compliance with laws and regulations

12. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

Strategic plan and annual performance report

13. National Treasury Instruction Note No 33 prescribes that all public entities are required to produce strategic plans and annual performance plans that comply with the mandatory requirements of the framework. The entity failed to produce a strategic plan and an annual performance plan as required by National Treasury Instruction Note No 33.

Non-compliance with quarterly reporting requirements

14. Treasury Regulations 29.3.1 prescribes that the accounting authority must establish procedures for quarterly reporting to the executive authority in order to facilitate effective performance monitoring. The entity failed to report quarterly on its performance to the Executive Authority.

Annual financial statements, performance and annual report

Annual financial statements

15. The accounting authority submitted financial statements for auditing that were not prepared in all material aspects in accordance with the prescribed financial reporting framework as required by section 55(1)(a) and (b) of the PFMA. The material misstatements identified by the AGSA with regard to irregular expenditure, accounts payable and other income were subsequently corrected.

Annual performance report and plan

16. Section 55(2)(a) of the PFMA prescribes that the annual report and financial statements must fairly present the state of affairs of the public entity, its business, its financial results, its performance against predetermined objectives and its financial position as at the end of the financial year concerned. The entity failed to submit an annual performance report as required by section 55(2)(a) of the PFMA.

Procurement and contract management

17. The accounting authority did not take adequate and effective steps to ensure compliance with National Treasury Practice Note No. 8 of 2007/08. Supply

chain prescripts were not followed and deviations were not properly motivated.

Expenditure management

18. The accounting authority did not take adequate and effective and appropriate steps to prevent and detect irregular expenditure as per the requirements of section 51(1)(b)(ii) of the PFMA.

Delegation of authority

19. Section 56(1)(a) and (b) of the PFMA, prescribes that the accounting authority may in writing, delegate any of the powers entrusted or delegated to the accounting authority in terms of this act, to an official in that public entity or instruct an official in the public entity to perform any of the duties assigned to the accounting authority in terms of this act. The fund has been established as an entity in terms of the PFMA, however, no existing organogram, including a delegation of authority was established that indicates the reporting lines, responsibilities and powers of the officials delegated to monitor the activities of the fund.

Materiality and significance framework

20. Treasury Regulation 28.3.1 prescribes that the Accounting Authority must develop and agree on a framework of acceptable levels of materiality and significance with the relevant executive authority. The entity did not develop a materiality and significant framework as required by the Treasury Regulations 28.3.1.

Ineffective systems of financial and risk management and control

21. Section 51(1)(a)(i) of the PFMA, prescribes that the Accounting Authority must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.
22. The fund did not develop and document policies and procedures that could provide a framework on how its operational activities should be carried out in accordance with section 51(1)(a)(i) of the PFMA.
23. The Accounting Authority has failed to ensure that a risk assessment is conducted regularly and that a risk management strategy is implemented in accordance with Treasury Regulations 27.2.1..
24. The advisory committee of the fund, established in accordance with section 5(1) of the ARF Act, did not have documented terms of reference that stipulate, among others, its powers and duties.
25. The secretariat of the fund, established in accordance with section 6(2) of the ARF Act, did not have documented terms of reference that stipulate, among others, its powers and duties. The secretariat has failed to perform the functions of monitoring and administration of projects as prescribed by the same legislation.
26. Section 5(4) of the ARF Act, prescribes that loans or financial assistance must be granted or rendered in accordance with an agreement entered into between the relevant parties, excluding assistance for the

promotion of democracy and good governance or the prevention or resolution of conflict. Contracts between the entity and the project implementing agencies for projects amounting to R362 381 000 were not concluded.

Internal control

27. I considered internal control relevant to my audit of the financial statements and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on predetermined objectives and compliance with laws and regulations included in this report.

Leadership

28. The Accounting Authority has failed to exercise adequate oversight over the establishment of a proper governance framework, including policies and procedures and internal controls over the activities of the Fund, resulting in findings on predetermined objectives and material non-compliance with laws and regulations.

Auditor-General

Pretoria

31 July 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

ACCOUNTING OFFICER'S REPORT

REPORT BY THE ACCOUNTING OFFICER TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA.

1. INTRODUCTION

1.1 The African Renaissance and International Cooperation Fund (hereafter referred to as the "Fund" and or "ARF") was established in terms of Section 2(1) of the African Renaissance and International Cooperation Fund Act, 2000 (Act 51 of 2000) and is under the control of the Director-General (DG) of the Department of International Relations and Cooperation (DIRCO). The current Act replaced the former Economic Cooperation Promotion Loan Fund Act, 1968 (Act 68 of 1968), which was repealed on 24 November 2004. This report covers the activities of the Fund during the 2012/13 financial year in terms of the objectives and goals of the Act.

2. OBJECTIVES OF THE FUND

2.1 The objective of the Fund is to promote economic cooperation between the Republic of South Africa and other countries by granting loans and/or rendering other financial assistance in respect of development projects in such countries. Therefore, the Fund enables the South African Government to identify and fund, in a proactive way:

- 2.1.1 cooperation between the Republic of South Africa and other countries, in particular African countries
- 2.1.2 promotion of democracy and good governance
- 2.1.3 prevention and resolution of conflict
- 2.1.4 socio-economic development and integration
- 2.1.5 humanitarian assistance
- 2.1.6 human resource development.

2.2 Loans or other financial assistance are granted in accordance with an agreement entered into by the country in question and the Minister of International Relations and Cooperation (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.

2.3 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, grants or other financial assistance. The Advisory Committee consists of the following members:

2.3.1 the DG of International Relations and Cooperation or the delegate of the DG

2.3.2 three officers of the Department appointed by the Minister

2.3.3 two officers of the National Treasury appointed by the Minister of Finance.

2.4 The recommendations of the Advisory Committee are sent to the Minister for approval. The Minister then writes a letter seeking concurrence from the Minister of Finance. Once concurrence is secured, the funds are disbursed as per the arrangements in the project proposal.

2.5 At the start of the 2012/13 financial year, the ARF Advisory Committee made recommendations pertaining to the areas of focus. The recommendations made can be summarised as follows:

- 2.5.1 emergency humanitarian relief
- 2.5.2 capacity for election support (IEC)
- 2.5.3 institution-building in fragile countries e.g. Somalia
- 2.5.4 capacity-building and training in government-related affairs
- 2.5.5 governance and justice: projects run by the Public Protector
- 2.5.6 emerging black farmers and service-providers.

3. RELATED PARTIES

- 3.1 The Fund is managed by DIRCO and payments are made on behalf of the Fund by the department once concurrence is received from the Minister of Finance. This has resulted in the opening of control accounts (Payables and Receivables) in the accounting records of the Department and these accounts are reconciled to the records of the Fund. The financial statements of the Fund are prepared separately from the Department as the Fund is registered as a Schedule 3A Public Entity in terms of the Public Finance Management Act (PFMA), 1999 (Act 1 of 1999). All transactions and information arising from the work of the Fund are audited by the Auditor-General South Africa on an annual basis.
- 3.2 A Secretariat for the Fund resides in the Branch: Africa Multilateral, as set up according to the Act by the DG of DIRCO. The Secretariat provides administrative support to the Advisory Committee and is specifically responsible for:
 - 3.2.1 preparing project proposals for presentation to and consideration by the Advisory Committee
 - 3.2.2 facilitating the meetings of the Advisory Committee
 - 3.2.3 preparing a record of such meetings
 - 3.2.4 facilitating the process of securing concurrence letters

- 3.2.5 facilitating the finalisation of service level agreements/ intergovernmental agreements
- 3.2.6 facilitating the process for the disbursement of funds
- 3.2.7 monitoring the implementation of projects by means of reports, ad-hoc site visits, as well as maintaining a project database.

4. GENERAL REVIEW OF THE STATE OF FINANCIAL AFFAIRS

4.1 Revenue R601 million (2012: R527 million)

- 4.1.1 In terms of the Act, income, among other sources, consists of money appropriated by Parliament for the Fund. During the year under review, an amount of R517 million (2012: R450 million) was appropriated and subsequently transferred by DIRCO to the Fund.
- 4.1.2 The interest received of R74 million (2012: R77 million) from investments, relates to the amount deposited with the Corporation for Public Deposits in the South African Reserve Bank.
- 4.1.3 Sundry income from prior year surpluses R10 million (2012: Nil), resulting from a refund for the Democratic Republic of Congo project.

4.2 Expenditure

- 4.2.1 During the year under review, an amount of **R1 070 million** was approved for projects. The distribution of funds can be summarised as follows:

	R'000
4.2.1.1 Prevention and resolution of conflicts	16 324
4.2.1.2 Socio-economic development and integration	321 634
4.2.1.3 Humanitarian assistance	576 600
4.2.1.4 Human resource development	155 748
Total	1 070 306

4.3 Receivables

4.3.1 Receivables represent monies withdrawn from the Fund for local and foreign aid but which were not fully disbursed by DIRCO on behalf of the Fund and also grants refunded by the recipients. A list of receivables is attached as **Annexure 1**.

4.4 Payables

4.4.1 Payables represent the monies due by the Fund in terms of the binding agreements. These commitments are listed in **Annexure 2**.

4.5 Partnership Fund for Development Bill

4.5.1 One of the priority objectives of the South African Government is the consolidation of its international assistance. Consequently, a Draft Bill is in the finalisation stage and will provide for the establishment of the Partnership Fund for Development. The objective is to support South Africa's outgoing development cooperation policy by providing funding and technical support for development initiatives. The proposed Partnership Development Fund will replace the ARF.

5. CORPORATE GOVERNANCE ARRANGEMENTS

5.1 During the period under review, the Advisory Committee made recommendations to the Minister and the Minister of Finance on the disbursement of funds through grants and other financial assistance as contemplated in Section 4 of the African Renaissance and International Cooperation Fund Act, 2000 (Act 51 of 2000). Pursuant to the concurrence letters, the Advisory Committee facilitated the conclusion of the memorandum of agreement with the relevant parties, *inter alia*, other governments as well as organisations not for profit in a form of grants and no loans were granted.

5.2 The Fund, through its Secretariat, during the reporting period disbursed a total amount of R804 million, on new projects as well as ongoing projects that were approved in prior years. During the period under review, the Fund was seized with requests for humanitarian assistance, which were unprecedented, due to the scale and magnitude of intervention required. In the absence of an emergency relief policy and strategy, the ARF had to respond to the call for assistance from affected governments, including the African Union's (AU) appeal for assistance, which necessitated direct involvement of the Advisory Committee, through the Secretariat in the disbursement of aid or relief.

5.3 The implementation of the Advisory Committee recommendations, also posed a challenge in the disbursement of funds to selected agencies.

5.4 Thus, the Fund further takes note of the possible deviation from the procurement framework (supply chain prescripts) that highlights instances that may be construed as cumulative irregular expenditure of R540 million. Refer to note 9 of the annual financial statements for the details of this irregular expenditure.

5.5 The Advisory Committee, through the Secretariat, has started to develop policies and procedures for adoption in 2013/14 that are intended to enhance the governance framework, including the capacity to respond to emergency situations. Comprehensive investigations (including the projects approved in the prior years) in order to comprehensively report on possible deviations from the procurement framework have started and it is expected to present to the DG a comprehensive report by the end of December 2013.

5.6 Audits

5.6.1 During the year under review, internal and external audits were conducted on the Fund with the specific emphasis on projects. The audit identified internal control weaknesses and offered comprehensive recommendations to the Fund management.

5.7 Audit reports

5.7.1 The various audit reports have identified internal control weaknesses in the implementation of various projects.

5.7.2 During the 2013/14 financial year, the Fund will enhance the internal controls and governance measures to address the reported weaknesses.

5.8 Audit Committee

5.8.1 The DIRCO Audit Committee reviewed and approved the department's internal audit and external audit plans, which included the audit of the Fund and related projects. The related audit reports from the internal and external auditors have been received and considered by the Audit Committee.

5.9 Events after the reporting date

5.9.1 South African Development Agency (SADPA)

The establishment of the government component of SADPA was gazetted in the Presidential Proclamation of 14 June 2013. SADPA will execute the disbursements of funds, monitor the implementation of the approved ARF projects as well as render secretariat services to the Advisory Committee of the ARF.

5.10 Additional information

5.10.1 There are no outstanding Standing Committee on Public Accounts (SCOPA) resolutions.

5.10.2 The financial position of the ARF as at 31 March 2013 and the results of its operations are set out in the attached annual financial statements:

5.10.2.1 Statement of Financial Performance

5.10.2.2 Statement of Financial Position

5.10.2.3 Statement of Changes in Net Assets

5.10.2.4 Cash-Flow Statement

5.10.2.5 Notes to the Annual Financial Statements

5.10.2.6 Annexure 1 – Receivables

5.10.2.7 Annexure 2 – Payables

5.10.2.8 Annexure 3 – Amount payable to related parties

5.10.3 The Accounting Officer has approved the above-mentioned financial statements.



Ambassador JM Matjila

Director-General: International Relations and Cooperation

Date: 31 July 2013

STATEMENT OF FINANCIAL PERFORMANCE for the year ended 31 March 2013

	Note	2012/13 R '000	2011/12 R '000
Revenue			
Revenue from non-exchange transactions			
Appropriated funds	1	517 982	450 370
Revenue from exchange transactions			
Investment income	2	73 467	77 177
Other revenue		10 000	-
Total revenue		601 449	527 547
Expenditure			
Provision for impairment of trade receivables		-	(9 525)
Local and foreign aid assistance	3	(1 070 306)	(270 636)
Total expenditure		(1 070 306)	(280 161)
Surplus / (Deficit) for the period		(468 857)	247 386

STATEMENT OF FINANCIAL POSITION as at 31 March 2013

	Note	2012/13 R '000	2011/12 R '000
ASSETS			
Non-current assets			
Trade and other receivables	4	125 442	66 931
Total non-current assets		125 442	66 931
Current assets			
Cash and cash equivalents	5	1 515 014	1 727 595
Total current assets		1 515 014	1 727 595
Total assets		1 640 456	1 794 526
LIABILITIES			
Current liabilities			
Trade and other payables	6	707 500	409 936
Total current liabilities		707 500	409 936
Total liabilities		707 500	409 936
Net assets			
Accumulated surplus / (deficit)		932 956	1 384 590
Total net assets and liabilities		1 640 456	1 794 526

STATEMENT OF CHANGES IN NET ASSETS as at 31 March 2013

	Notes	Accumulated Surplus R'000
Balance as 1 April 2012 as originally stated		1 056 041
Prior year error	7	17 223
		1 073 264
Refund of unspent funds and previous surplus		81 164
Surplus for the year 31 March 2012		247 385
Balance as at 31 March 2012		1 401 813
Surplus / (deficit) for the year		(468 857)
Balance as at 31 March 2013		932 956



CASHFLOW STATEMENT for the ended 31 March 2013

		2012/13	2011/12
	Note	R '000	R '000
Cash flow from operating activities			
Receipts			
		601 449	547 285
Appropriated funds	1	517 982	450 370
Investment income	2	73 467	77 177
Other revenue		10 000	19 738
Payments			
		(804 030)	(250 507)
Cash disbursements on projects	8	(804 030)	(250 507)
Net cash flows from operating activities		(202 581)	296 778
Cash flows from investing activities			
Loans granted to associates / other economic entities		-	-
Cash and cash equivalents at the beginning of the year		1 727 595	1 430 817
Cash and cash equivalents at the end of the year		1 515 014	1 727 595

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY NOTES

1. SIGNIFICANT ACCOUNTING POLICIES

The African Renaissance and International Cooperation Fund is scheduled as a 3A Public Entity in terms of the Public Finance Management Act, 1999 (Act 1 of 1999).

The principle accounting policies applied in the preparation and presentation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP).

1.2 Judgements, estimates and assumptions

In applying accounting policies, management is required to make various judgements, apart from those involving

estimations, which may affect the amounts of items recognised in the financial statements. Management is also required to make estimates of the effects of uncertain future events which could affect the carrying amounts of certain assets and liabilities at the reporting date. Actual results in the future could differ from estimates which may be material to the financial statements. Details of any significant judgements and estimates are explained in the relevant policy where the impact on the financial statements may be material.

1.3 GRAP standards not yet effective

The following Standards of GRAP and / or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The Fund has not adopted any of these standards or amendments thereto early, but has referred to them for guidance in the development of the accounting policies of the Fund in accordance with GRAP 3:

Standard number	Standard name	Effective date (if applicable)
	Preface to Interpretations of the Standards of GRAP	No effective date
GRAP 18	Segment Reporting	No effective date
GRAP 20	Related Party Disclosures	No effective date
GRAP 25	Employee Benefits	No effective date
GRAP 105	Transfer of functions between entities under common control	No effective date
GRAP 106	Transfer of functions between entities not under common control	No effective date
GRAP 107	Mergers	No effective date

1.4 Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that resources will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

1.5 Currency

These financial statements are presented in South African Rand (ZAR).

1.6 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. Revenue comprises mainly government grants / transfer payments and investment income.

Revenue from non-exchange transactions

The ARF recognises revenue from appropriation funds when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from non-exchange transactions arise when the ARF either receives value from another entity without

directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from non-exchange transactions, including revenue from government grants, is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount (i.e. where all conditions have been met).

Revenue from exchange transactions

Investment income

Investment income comprises interest income on funds invested. Interest income for financial assets not classified at fair value through surplus or deficit is recognised on a time-proportion basis using the effective interest method.

1.7 Expenses

In accordance with the African Renaissance and International Cooperation Fund Act, 2000 (Act 51 of 2000) expenses are recognised at the date that the Minister of Finance has issued a concurrence letter indicating approval of projects recommended by the Advisory Committee and the disbursement thereof is in the Rand equivalents of the approved amount as per the date of the concurrence letter.

1.8 Comparatives

The comparatives shown in these financial statements are limited to comparatives shown in the previous year's audited financial statements.

1.9 Financial instruments

The Fund's principal financial assets are cash and cash equivalents and trade and other receivables. 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 principal financial liabilities of the Fund are amounts due to outside parties in respect of projects approved in terms of the African Renaissance and International Cooperation Fund Act, 2000 (Act 51 of 2000).

Initial recognition and measurement

Financial instruments are initially recognised when the entity becomes a party to the contract. The entity determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial instruments are initially measured at fair value plus transaction costs, except that transaction costs in respect of financial instruments classified at fair value through surplus or deficit are expensed immediately.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortised cost less impairment losses. Gains and losses are recognised in the Statement

of Financial Performance when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Loans and receivables are subsequently measured at cost less accumulated impairment losses.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows (excluding future expected credit losses).

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. The entity assesses whether there is objective evidence of impairment individually for financial assets that are individually significant, and individually or collectively for finance assets that are not individually significant. In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the entity will not be able to collect all of the amounts due under the original terms of the sale.

The carrying amount of the receivable is reduced through use of an allowance account and is recognised in surplus or deficit. Impaired debts are derecognised when they are assessed as uncollectable.

If, in a subsequent period, the amount of the impairment decreases and the decrease relates objectively to an event occurring after the impairment, it is reversed to the extent that the carrying value does not exceed the amortised cost. Any subsequent reversal of an impairment loss is recognised in surplus or deficit. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

1.10 Trade and other receivables

Trade and other receivables are recognised at historical cost which equates the fair value of the asset on the date of the Statement of Financial Position.

1.11 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Trade and other payables are recognised at historical cost, which equates the fair value of the liability on the date of the Statement of Financial Position.

1.12 Cash and cash equivalent

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

1.13 Rounding off figures

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

1.14 Related party transactions

DIRCO, which controls the Fund in making financial and operating decisions is regarded to be a related party. Specific information with regard to business with department is included in the disclosure notes.

1.15 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- the PFMA, or
- any national legislation providing for procurement in national government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised. Any irregular, fruitless and wasteful expenditure is charged against surplus or deficit in the period in which it is incurred.

1.16 Related parties

The ARF operates in an economic environment currently dominated by entities directly or indirectly owned by the

South African Government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government that influenced the ARF or vice versa will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. The ARF regards all individuals from the level of Executive Management up to the Board of Directors as Key Management per the definition.

Close family members of Key Management personnel are considered to be those family members who may be expected to influence, or be influenced by Key Management individuals in their dealings with the entity.

OTHER EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

OTHER EXPLANATORY NOTES	2012/13 R'000	2011/12 R'000
1. Appropriated funds		
Appropriation from Parliament	517 982	450 370
Total	517 982	370
2. Investment income	73 467	77 177
Interest from the bank account		
3. Local and foreign aid assistance		
Prevention and resolution of conflict	16 324	10 636
Human resources development	155 748	-
Socio-economic development and integration	321 634	-
Humanitarian assistance	576 600	260 000
Total	1 070 306	270 636
4. Trade and other receivables		
Department of International Relations and Cooperation:	125 442	74 385
Amounts not yet disbursed by DIRCO to the projects.	-	2 072
	125 442	76 457
Less: Provision for impairment of trade receivables	-	(9 526)
Total	125 442	66 931
5. Cash and cash equivalents		
Cash and balances with financial institutions	1 515 014	1 727 595
Total	1 515 014	1 727 595

	2012/13	2011/12
	R'000	R'000
6. Trade and other payables		
Payables per annexure 2	707 500	409 936
Total	707 500	409 936
7. Net cash generated from operations		
Surplus / (Deficit) for the period	(468 857)	247 386
Changes in working capital	266 276	49 392
Effect on payables	297 565	(35 457)
Effect on receivables	(58 512)	3 686
Other income	17 223	-
Other	10 000	81 163
Net cash flow from operating activities	(202 581)	296 778
8. Cash disbursements on projects	(804 030)	(250 507)
Prevention and resolution of conflict	(17 263)	-
Human resources development	(25 242)	-
Socio-economic development and integration	(226 986)	-
Humanitarian assistance	(534 539)	(250 507)

OTHER EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

		2012/13 R'000	2011/12 R'000
9. Material losses through irregular expenditure			
Incident / detail of irregular expenditure	Disciplinary steps taken / criminal proceedings		
Non-compliance with relevant regulations	The department will undertake an investigation of all the cases in 2013/14	529 574	10 636
Total irregular expenditure incurred		529 574	10 636

Analysis of cumulative irregular expenses

Opening balance	10 636	-
Add: Irregular expenditure - current year	529 574	10 636
Less: Amounts condoned	-	-
Closing balance of expenditure awaiting condonation / to be recovered	540 210	10 636

10. Prior year error

10.1 Irregular expenses

During the current financial year, the Fund corrected an oversight error. An amount of R10 636 million relating to irregular expenditure was omitted on the notes of the annual financial statements for the year ended 31 March 2012. The amount should have been disclosed on the notes as irregular expenditure, due to non-compliance with supply chain management regulations. Non-compliance with internal control processes was triggered by urgent projects which necessitated swift action. It was recommended by the Audit Committee that proper procedures be put in place in respect of urgent projects such as humanitarian projects which require swift response to be effectively executed.

10.2 Receivables

The annual financial statements have been adjusted to correct the amounts that were delayed in recovery due to lack of documentation.

The effect of the adjustment is as follows:

Impact on the statement of financial performance	R'000
Increase in transfer	17 223

Impact on the statement of financial position	
Decrease on trade and other payables	17 223

Revised amounts

	Accumulated Surplus
Balance as at 31 March 2011 as previously reported	1 056 041
Adjustment	17 223
Zimbabwe elections	2 227
Lesotho projects	6 552
Sudan elections	1
Mali African Cup of Nations	353
Guinea Bissau elections	590
Burundi	7 500
Restated amount	1 073 264

OTHER EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

11. Budget reconciliation

	Actual R'000	Budget R'000	Variance R'000	Explanation
Revenue	601 449	513 754	87 695	
Transfer payment	517 982	444 982	73 000	The variance relates to the funds received from NT due to function shift from the dti
Interest	73 467	68 772	4 695	Due to more funds being kept in the bank account
Other income	10 000	-	10 000	Due to refunds received from DRC project
Less: Expenditure	1 070 306	444 982	625 324	Due to more projects approved in 2012/13
Surplus / (Deficit)	(468 857)	68 772	(537 629)	

12. Taxation

No provision has been made for taxation as the Public Entity is exempt from income tax in terms of Section 10 of the Income Tax Act, 1962 (Act 58 of 1962).

13. Financial instruments

The ARF's financial instruments consist primarily of receivables, cash and cash equivalents and other payables. The ARF deposits all its cash with a reputable financial institution.

a. Credit risk

Credit risk represents the potential loss to the ARF as a result of unexpected defaults or unexpected deterioration in the credit worthiness of counterparties. The ARF's credit risk is primarily attributable to its receivables. However, this risk is minimal as the ARF receivables consist of funds due from DIRCO and are fully recoverable.

With regard to the credit risk arising from other financial assets which comprise cash and cash equivalents, the ARF's exposure arises from a potential default of the counterparty where credit rating is constantly monitored with a minimum exposure to the carrying amount of these instruments. The funds of the entity are kept with the South African Reserve Bank and the credit risk is thus minimal.

b. Market risk

Interest rate risk

This is mainly attributable to the ARF's investment account with the South African Reserve Bank. The ARF's sensitivity to interest rates is any deviation from the current money market interest rate of 5%. The risk of undue exposure for the Fund is negligible.

c. Liquidity risk

Management monitors forecasts of the ARF's cash and cash equivalents on the basis of the expected cash flow. The entity has sufficient cash resources to fund any commitments.

d. Currency risks

Transactions and balances in foreign currencies are translated into Rand at the rate ruling on the date of the transaction.

e. Other risks

Due to the nature extent of the ARF's financial instruments, the entity is not unduly exposed to price risks or other market risks. The ARF does not have any foreign accounts receivable or payable or derivative market instruments.

	31 March 2013 Amount R'000	31 March 2012 Amount R'000
f. Related parties exposures - DIRCO		
Payables per Annexure 3	-	18 648
Trade and other receivables per Annexure 1	125 442	66 931
	125 442	48 283

DIRCO is the controlling department to the entity.

Annexure 1: Trade and other receivables

Projects / receivables	2012/13 R'000	2011/12 R'000
Government of Guinea (Conakry): Rice Production, Waste Management and Technical Assistance	8 897	-
DRC Observer Mission	50 973	35 146
Emergency Assistance Aid	21	-
Guinea Bissau	5 736	-
Sahel Region (Mauritania and Chad)	14 071	-
Saharawi	10 000	10 000
Humanitarian Assistance to Niger	9 336	-
International Diplomatic Training Programme (IDTP)	3 026	136
University of South Africa (UNISA)	16 425	16 425
South Africa's participation in the Upcoming 2012/13 AU Election Observer Mission	1 957	224
Guinea Museum	5 000	5 000
TOTAL	125 442	66 931



Annexure 2: Trade and other payables

Projects / Payables	2012/2013 R'000	2011/2012 R'000
Government of Malawi	229 148	-
South Africa's Intervention in Sahel Region	135 551	-
The Cuba Economic Aid Package	100 000	100 000
Government of Guinea (Conakry): Rice Production, Waste Management and Technical Assistance	73 502	136 383
DRC Observer Mission	34 900	34 900
SAPS to Purchase Riot Equipment: DRC	24 000	24 000
Owing to Related Party	-	18 648
IGM Expansion Project (Madagascar)	14 100	14 100
African Ombudsman Research Centre (AORC)	14 100	-
Mozambique – Operation BAPISA	13 008	13 008
Saharawi	10 000	10 000
Humanitarian Assistance to Niger	9 336	-
International Diplomatic Training Programme (IDTP)	8 408	12 181
United Nations Mission in Liberia for the Rebuilding of the Liberian National Police	7 141	7 141
DPSA DRC Census	5 827	-
The Presidential Elections in Guinea Bissau	5 735	-
Government of Comoros: Electoral Assistance Projects	5 084	5 084
Guinea: Museum Project in Kindia	5 000	5 000
Timbuktu Manuscript Project	2 928	2 928
African Capacity-Building Foundation (ACBF)	2 422	-

University of South Africa (UNISA)	2 023	2 023
Projects / Payables	2012/2013 R'000	2011/2012 R'000
South Africa's Participation in the Upcoming 2012/13 AU Election Observer Mission	1 957	224
Cuban Medical Brigade in Sierra Leone	1 505	8 226
Elections in Sudan	827	827
VIP Protection Training to the DRC Protection Unit – SAPS	648	-
Independent Electoral Commission – DRC	262	262
Humanitarian Assistance to Somalia	67	-
Emergency Assistance Aid Congo	21	-
Improvement of Veterinary Laboratory Capacities in Sub-Sahara Africa	-	15 000
TOTAL	707 500	409 936



Annexure 3: Amount payables to related parties

Projects	2012/13 R'000	2011/12 R'000
OSOC-Guinea Bissau elections	-	590
Zimbabwe elections	-	2 227
Lesotho projects	-	6 552
Mali Cup of Nations	-	353
Burundi	-	7 500
Guinea Conakry	-	487
Sudan elections	-	1
Independent Electoral Commission (IEC) – DRC	-	938
TOTAL	-	18 648

PERFORMANCE OF THE FUND AGAINST ITS GUIDING PRINCIPLES

During the year under review, the fund disbursed funds to support projects that were approved in 2012/13 and finalised other projects approved in previous years in line with the guiding principles of the Fund as follows:

Performance indicator	Guiding principles	Actual performance
Managed the ARF in accordance with ARF Act, 2000 and PFMA, 1999	1. Democracy and good governance - Funds were disbursed to support the holding of democratic elections in identified countries in the continent	<ul style="list-style-type: none"> • South Africa's participation in the SADC Electoral Observer Mission 2012/13 as follows: <ul style="list-style-type: none"> - Lesotho (May 2012) - Angola (August 2012) - Referendum in Zimbabwe (March 2013) • Electoral assistance to Guinea Bissau
	2. Socio-economic development - Funds were disbursed to support sustainable development in Africa. Socio-economic development and integration aimed at eradicating poverty in Africa and to place African countries, on a path of sustainable growth and development	<ul style="list-style-type: none"> • Poultry Farming, Logistics and Chicken Feed Milling Project in Zambia • South Africa's assistance to Malawi • Improvement of veterinary laboratory capacities in Sub-Saharan
	3. Humanitarian assistance - Funds were disbursed to support programmes undertaken to relieve or reduce the results of natural or manmade disasters or other endemic conditions such as human pain, disease, hunger, or deprivation that might present a serious threat to life or that can result in great damage to or loss of property	<ul style="list-style-type: none"> • Humanitarian assistance to Niger • Humanitarian assistance to Chad • Humanitarian assistance to Mauritania • Humanitarian assistance to Mali • Assistance in dealing with the current food shortage in Lesotho • South Africa's assistance to Somalia • Humanitarian assistance to the Republic of Congo



Performance indicator	Guiding principles	Actual performance
	<p>4. Capacity-building</p> <ul style="list-style-type: none"> - Funds were disbursed to support frameworks for revitalising and extending the provision of education and technical training 	<ul style="list-style-type: none"> • The African Capacity-Building Foundation (ACBF) • African Ombudsman Research Centre (AORC) • Funding of the Dept of Science and Technology AVN Project • DPSA DRC Public Census Project • Continued with the International Diplomatic Training Programme (IDTP)
	<p>5. Cooperation with other countries and partners in various areas of development</p> <ul style="list-style-type: none"> - Funds were disbursed to support initiatives that are aimed at cooperation between South Africa and other countries, in particular African countries 	<ul style="list-style-type: none"> • Continued with the support of Government of Guinea (Conakry) Rice and Vegetable Production Project, Electricity Stabilisation Project • Continued with the Cuban Medical Brigade Project in Sierra Leone
	<p>6. Post-Conflict Reconstruction and Development</p> <ul style="list-style-type: none"> - Continued with the efforts to manage aspects of conflict, especially in four key areas: prevention, management and resolution of conflict; peace-making, peacekeeping and peace enforcement; post-conflict reconciliation, rehabilitation and reconstruction; and combating the illicit proliferation of small arms, light weapons and landmines 	<ul style="list-style-type: none"> - Continued with the support of South Sudan

