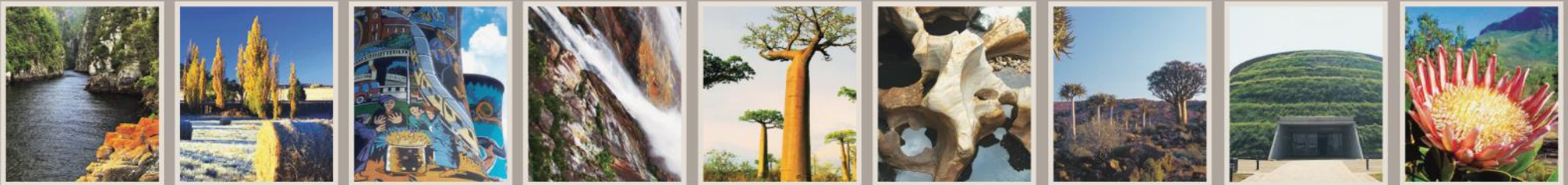


PFMA  
2015-16



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



## **Briefing to the Portfolio Committee: Defence and Military Veterans Audit outcomes of the portfolio for the 2015-16 financial year**

*11 October 2016*

1

## The AGSA's promise and focus



# Reputation promise

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The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

## Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Defence and Military Veterans portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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# Our annual audits examine three areas

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1

FAIR PRESENTATION AND  
RELIABILITY OF FINANCIAL  
STATEMENTS

2

RELIABLE AND CREDIBLE  
PERFORMANCE INFORMATION  
FOR PREDETERMINED  
OBJECTIVES

3

COMPLIANCE WITH KEY  
LEGISLATION ON FINANCIAL  
AND PERFORMANCE  
MANAGEMENT



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## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

2015-16  
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## Qualified opinion



Auditee:

- had same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements.
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.
- did not comply with key legislation in certain instances.

## Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- did not comply with key legislation.

## Disclaimed opinion



Auditee:

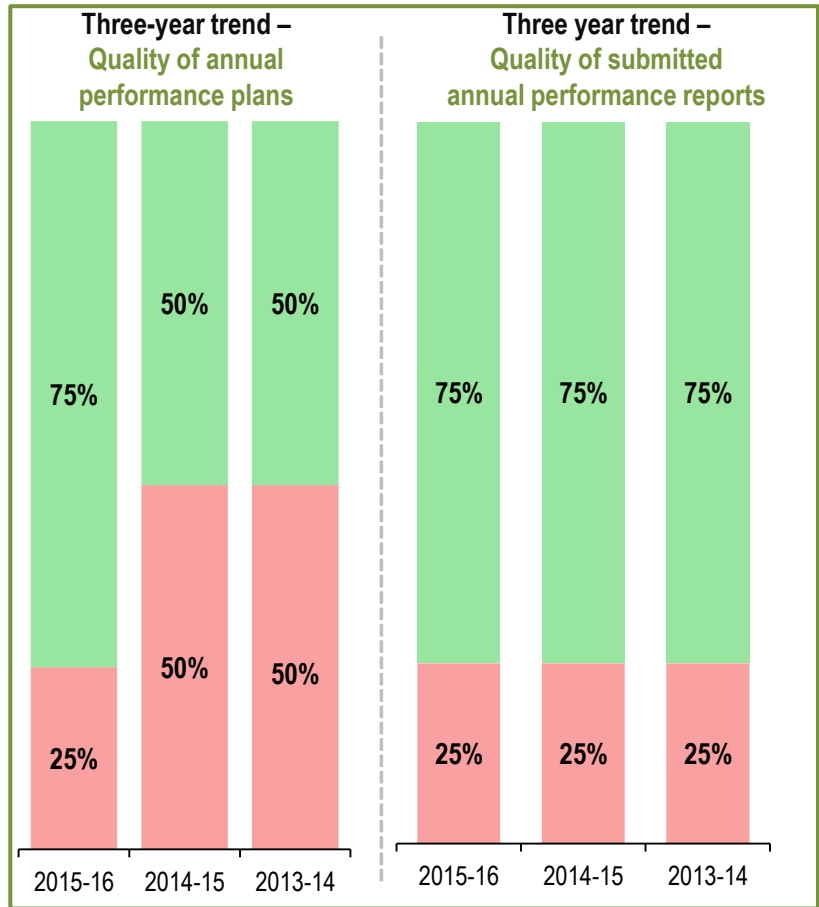
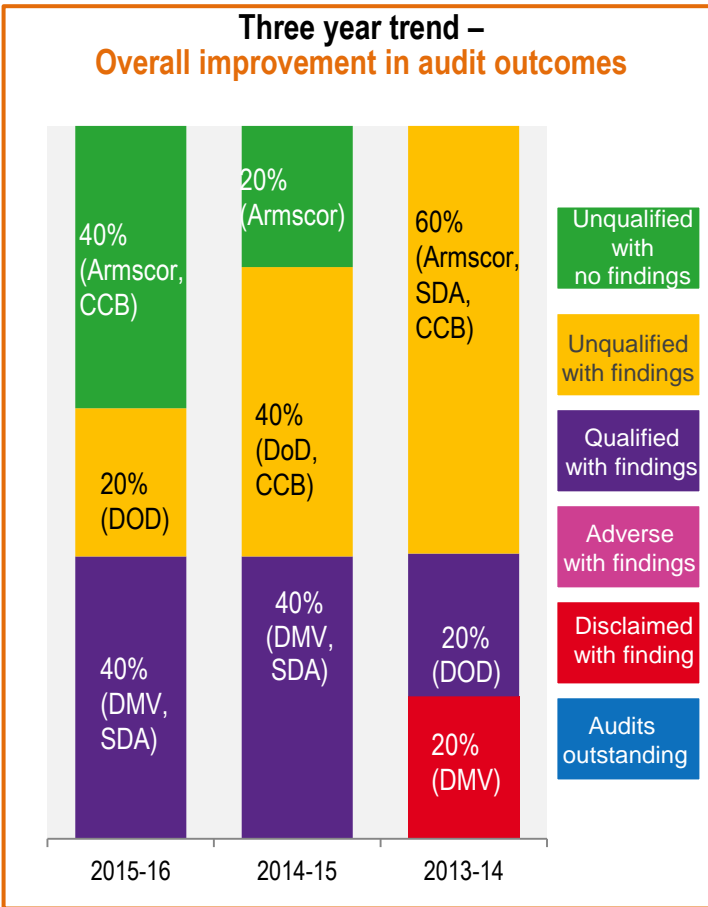
- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

2

## The 2015-16 audit outcomes and key messages



# Improvement in audit outcomes over 3 years



**1** To improve/maintain the **overall audit outcomes**, financial statements processes,

- Although the portfolio's overall outcomes have improved, attention should be focused on entities that remained qualified or unqualified with findings to improve their audit outcomes.
- Leadership should ensure that regular preparation and review of financial and performance reports takes place and enforce proper monitoring of compliance with legislation.
- Entities with good audit outcomes should continue to monitor key controls to sustain clean audit outcomes.

**2** .... **compliance** with key legislation and....

- Financial statement preparation remains a concern as material adjustments are effected to AFS submitted for audit;
- Inadequate monitoring of SCM legislation resulted in non-compliance with SCM legislation;
- Although internal controls detect unauthorised, irregular and fruitless and wasteful expenditure (UIFW), leadership should focus on internal controls to prevent incurring U.I.FW expenditure.

**3** .... **performance planning and reporting** must be improved by....

- At DoD management implemented recommendations made by the AGSA during interim audits on the APPs by crafting clearer and unambiguous indicators and targets that conform to the smart principles. Management avoided material findings on reliability in the audit report by subsequently correcting the misstatements identified during the audit.
- With regards to DMV the delay in the implementation of proper systems and processes and approval of standard of operating procedures resulted in performance reports that were not useful and reliable.
- Proper monitoring controls should be implemented by DoD and DMV to ensure accurate and complete reporting on performance information.



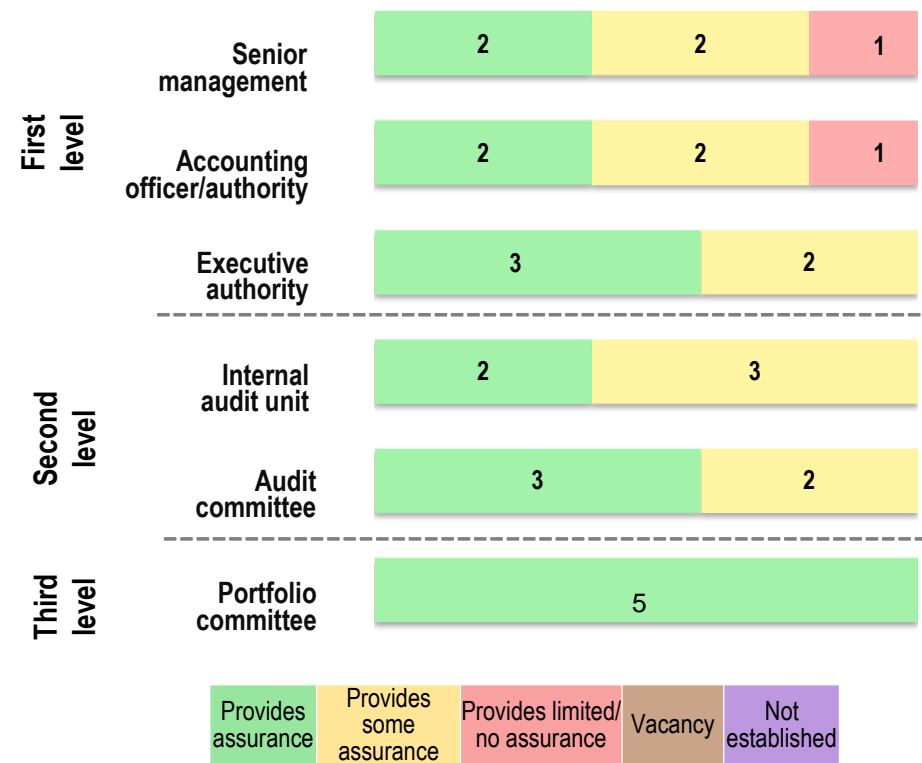
# Improvement in audit outcomes over 3 years - continued

## Status of Key controls

	DOD	DMV	Armscor	SDA	CCB
<b>LEADERSHIP</b>	↓	↓	↓	↔	↔
- Effective leadership	Good	Concerning	Good	Good	Good
- Oversight responsibility	Intervention required	Intervention required	Good	Good	Good
- Effective HR management	Concerning	Intervention required	Good	Good	Good
- Policies and procedures	Concerning	Intervention required	Good	Good	Good
- Audit Action plans	Concerning	Intervention required	Good	Good	Good
- ICT governance	Intervention required	Good	Concerning	Good	Good
<b>FINANCIAL AND PERFORMANCE MANAGEMENT</b>	↓	↓	↑	↑	↔
- Proper record keeping	Concerning	Intervention required	Good	Good	Good
- Daily and monthly controls	Concerning	Intervention required	Good	Good	Good
- Regular, accurate & complete	Intervention required	Intervention required	Good	Good	Good
- Review and monitor compliance	Intervention required	Intervention required	Good	Good	Good
- Design and Implement IT controls	↔	↑	↔	↔	Good
<b>GOVERNANCE</b>	↔	↑	↔	↔	↔
- Risk management	Good	Good	Good	Good	Good
- Internal Audit	Concerning	Good	Good	Good	Good
- Audit committee	Good	Good	Good	Good	Good

Good
Concerning
Intervention required

## Assurance providers per level



### 4 ... providing attention to the key controls by...

- Despite the portfolio improving outcomes, focussed interventions and commitments are still required in order to improve the current status of the key controls.
- Dedication is required for DOD and DMV, which has regressed in leadership and financial and performance management areas. This was mainly caused by DMV vacancies at key positions which resulted in lack of effective leadership and oversight and thus a weak control environment.
- With regards to the DOD, oversight responsibility exercised regarding financial reporting and compliance was not adequate.

### 5 ... the key role players as part of their role in combined assurance

- Basis for PC evaluation:
- Oversight role into robust budget vote process, review of the annual report including the audit report, quarterly reporting;
  - Follow up on progress made by the entities to address poor audit outcomes;
  - Recommendations made in relation to key audit matters; and
  - Follow up on key matters reported in the committee's prior year BRRR report.
- The Portfolio committee performed in terms of the legislative oversight requirements and it engages with the entities in the portfolio.
- Accounting officers and senior management did not implement adequate internal controls to ensure accurate and complete financial and performance reporting.







3

**Performance management linked  
to programmes/ objectives tested**



# Quality of annual performance plan and quality of submitted annual performance reports improved

Outcomes of programmes/objectives selected for testing:

Auditee:	Move ment	Programmes/ Objectives	Usefulness	Reliability
DMV		<i>Programme 2: Socio-Economic Support</i>	Important targets were not specific and measurable; and Important indicators were not well defined.	Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets.
		<i>Programme 3: Empowerment and Stakeholder Management</i>	Important targets were not measurable; and Important indicators were not well defined.	Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets.
DOD		<i>Programme 2 to 4</i>	No material findings reported.	Management avoided material findings on reliability in the audit report by subsequently correcting the misstatements identified during the audit.
Arm Scor		<i>Goal 1 to 6</i>	No material findings reported.	No material findings reported.
CCB		<i>Programme 2 to 4</i>	No material findings reported.	No material findings reported.



4 **Financial management**



# Slight regression in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

Material misstatements in submitted annual financial statements

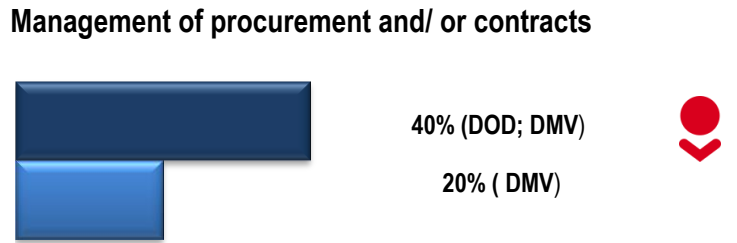
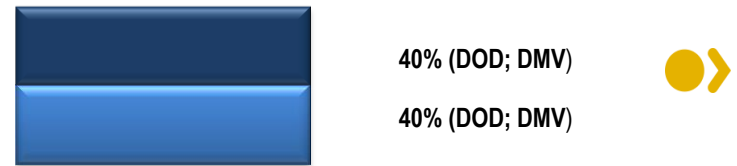
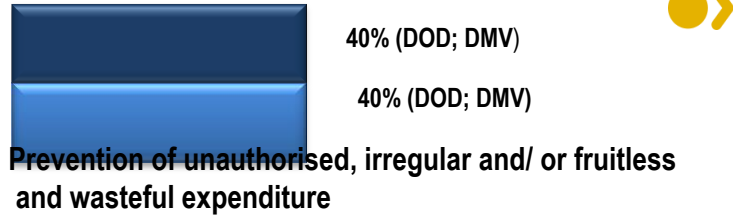


Figure 2: Qualification areas over three years

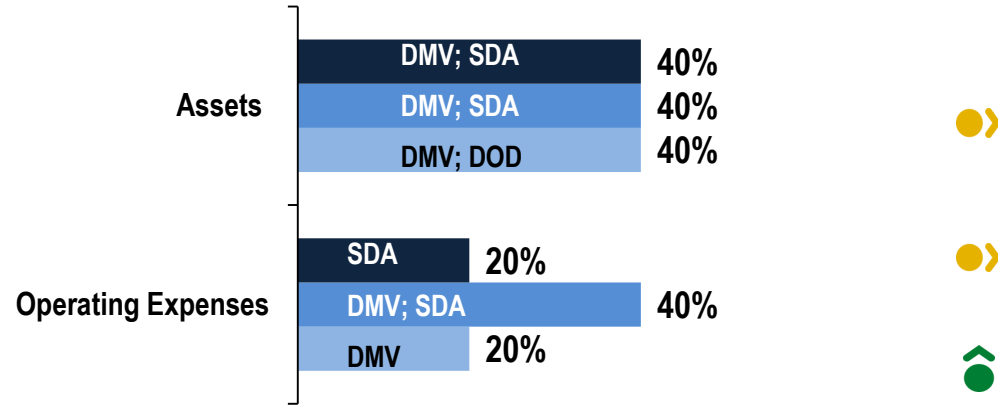
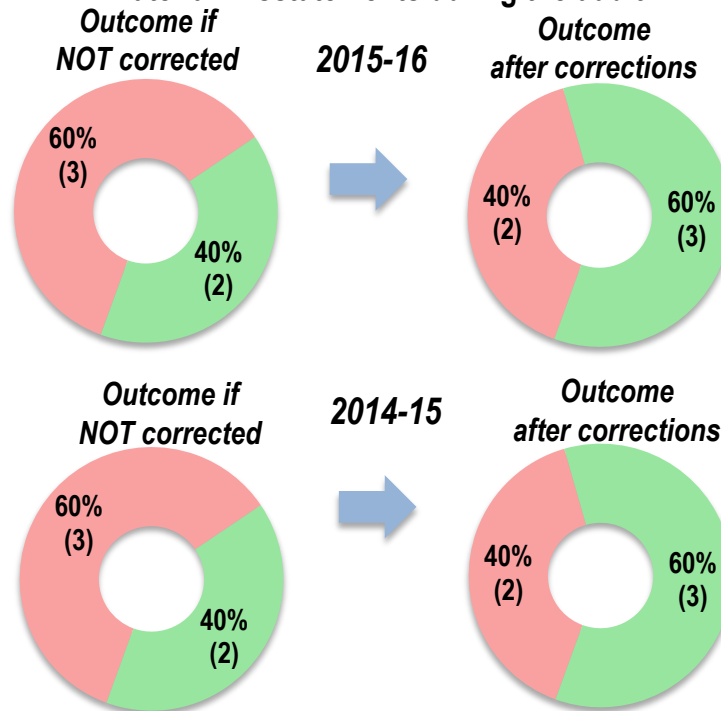
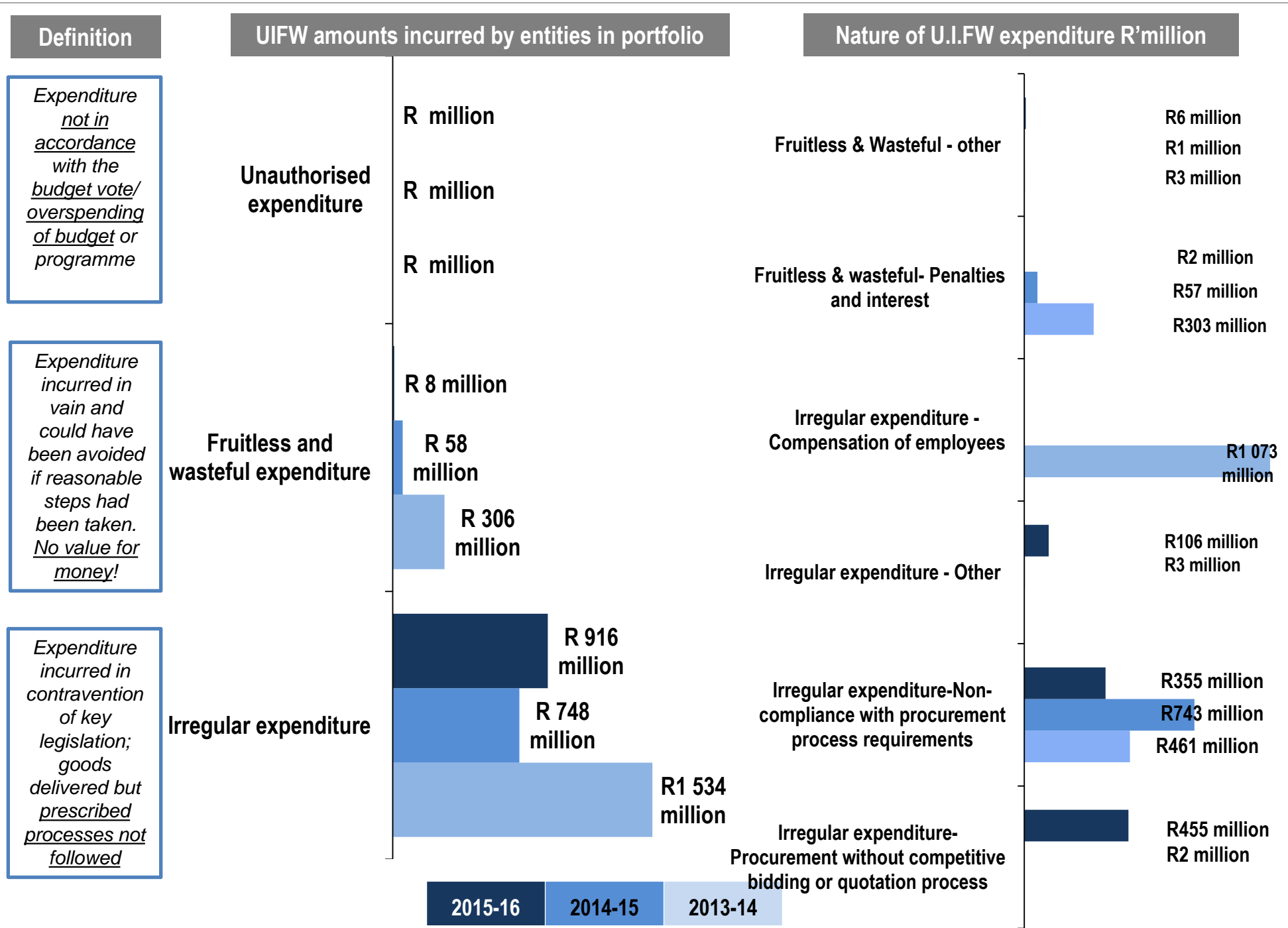


Figure 3: Auditees who avoided qualifications due to the correction of material misstatements during the audit



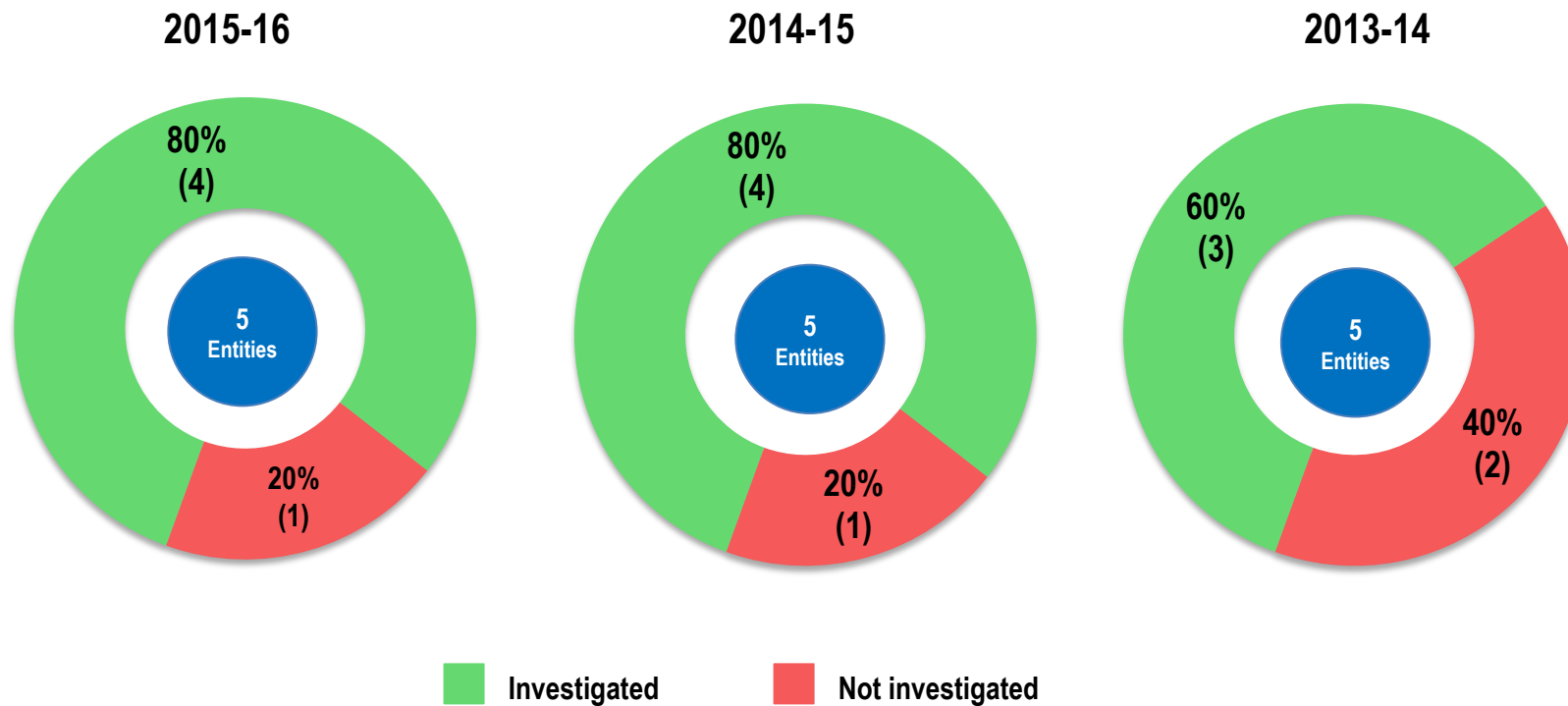
# Analysis of irregular and fruitless and wasteful expenditure over 3 years



# Follow up action of irregular and fruitless and wasteful expenditure over 3 years

## Investigations of U.I.FW expenditure

4 auditees (80%) [2014-15: 4 (80%)] lodged investigations to determine root cause and consequences of U.I.FW incurred.  
The investigations are still in progress.



5

**Top four root causes, follow up on commitments and proposed recommendations**





# Top four root causes, follow up on commitments and proposed recommendations

1 ... the following **root causes** must be addressed ...

## Root causes

Slow response by management (Accounting Officer and senior management)



Instability or vacancies in key positions



Lack of consequences for poor performance and transgressions



Key officials lack appropriate competencies



■ 2015-16 ■ 2014-15

- Those charged with governance should exercise oversight and monitoring over audit action plans to ensure that audit recommendations are implemented.
- Consequence management should be implemented in instances where management fails to address audit recommendations.
- Vacancies in senior positions should be filled timely to ensure that the control environment is strengthened and to enhance timely decision making.
- In filling vacancies management and political leadership should ensure that vacancies are filled with competent officials that would be able to deal with financial and performance reporting.

2 ... through honouring the following **commitments** made by the executive authority.....

## Status of key commitments by minister

None.

A task team will be established to assist Department of Military Veterans (DMV) in addressing matters affecting the performance of the department.

Fill the vacant posts of Department of Defence internal audit.

Not implemented In progress Implemented New

- The minister implemented some of the commitments that were made to address 2014-15 audit findings.

3 ... and implementation of the following **proposed commitments** by the PC.

1. The Portfolio Committee should obtain audit action plans and monitor progress during quarterly reporting.
2. Monitor consequence management for the departments on a quarterly basis.

# Questions



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