



ACTION PLANS BY DEPARTMENT OF DEFENCE AGSA AUDIT FINDINGS

AIM

**TO UPDATE THE PORTFOLIO COMMITTEE ON DEFENCE
ON THE ACTION PLANS (consolidated) UNDERTAKEN BY
THE DEPARTMENT OF DEFENCE TO ADDRESS THE AGSA
AUDIT FINDINGS FOR THE FIN YEAR 2012/13 AS ALSO
PRESENTED BY AGSA TO the PCD.**

SCOPE

Audit Opinion and Emphasis of Matter Trends

Additional and or other Matters and Non Compliance Trends

Analysis of Control Findings

Management Report: FY 2012/13

Tangible Assets

Intangible Assets

Predetermined Objectives

SCOPE (Cont...)

- ☐ **Predetermined Objectives**
- ☐ **Compliance with Laws and Regulations**
- ☐ **Financial Statements**
- ☐ **Policies and Procedures**
- ☐ **Irregular Expenditure**
- ☐ **Reconciling of transactions**
- ☐ **Internal Audit**
- ☐ **Challenges**

AUDIT OF FINANCIAL STATEMENTS - EMPHASIS OF MATTER

Item	Amount	Amount	Amount	Amount
Particulars	Particulars	Particulars	Particulars	Particulars
Fixed Assets	Fixed Assets	Fixed Assets	Fixed Assets	Fixed Assets
Current Assets	Current Assets	Current Assets	Current Assets	Current Assets
Liabilities	Liabilities	Liabilities	Liabilities	Liabilities
Capital	Capital	Capital	Capital	Capital
Reserves	Reserves	Reserves	Reserves	Reserves
Provisions	Provisions	Provisions	Provisions	Provisions
Income	Income	Income	Income	Income
Expenses	Expenses	Expenses	Expenses	Expenses
Profit	Profit	Profit	Profit	Profit
Loss	Loss	Loss	Loss	Loss
Net Worth	Net Worth	Net Worth	Net Worth	Net Worth
Assets	Assets	Assets	Assets	Assets
Liabilities	Liabilities	Liabilities	Liabilities	Liabilities
Capital	Capital	Capital	Capital	Capital
Reserves	Reserves	Reserves	Reserves	Reserves
Provisions	Provisions	Provisions	Provisions	Provisions
Income	Income	Income	Income	Income
Expenses	Expenses	Expenses	Expenses	Expenses
Profit	Profit	Profit	Profit	Profit
Loss	Loss	Loss	Loss	Loss
Net Worth	Net Worth	Net Worth	Net Worth	Net Worth

TRENDS (Contd.)

[illegible]

ADDITIONAL INFORMATION AND DISCLOSURES (Cont...)

	2008/09	2009/10	2010/11	2011/12	2012/13
Additional and/or Other Matters				Strategic planning and performance management	Reliability of information (Predetermined Objectives)
				Achievement of planned targets	Material adjustments to the annual performance report
					Other Reports: Performance audit on use of consultants
	Internal control deficiencies: Relates to basis for qualified opinion (6 issues above)				Internal Control: Leadership Financial and performance management Governance Financial Reporting Framework

Challenges for FY (Major assets)

Specialised Military assets

- Projects and accounting thereof.
 - Being addressed via the Asset Management workgroup with DMD and Armiscom and SA Army workgroup.
- Capital components (1346 items at R1,3bn estimated value), Ground support equipment and technical publications. Being addressed by the benchmarking exercise.
 - UK will be deploying a Logistician from BPST to address.
 - Brazil will be sending our query to the Log Divisions. Would like matter to be handled Minister to Minister and request meeting.
 - India, same as Brazil.
 - Canada and US distributed to relevant logistics division.
- NT to change the SCOA table on parachutes.

Transport (TPT) Assets

- Continuous review of the SCOA classification.
- Will take time judging by Canada and UK. All categories, not just TPT.

Plan and Challenges for 2013/14 FY (Major Assets)

Machinery and Equipment (Major)

- Completeness of prior period assets, and
- Additions being addressed by the Asset management implementation project.

Biological Assets

- Will be presented.
- Additions to be confirmed.

Heritage assets – Moveable (MHA)

Accomplishments to date (1052 items in AR) :

- Develop and provide awareness training.
- Item identification at unit level and Confirmation at Service/Division level.
- Recognition, recording, tagging and photographing.
- Quality assurance of data on prescribed templates.
- Data verification and cleansing by NCB, SCOA and FCC
- Unit stores accounting.
- Population and verification of Moveable Heritage Asset Register.
- 7 Pilot sites in progress. Zwartkops museum(SAAF), Special Forces museum; Armour museum – Tempe; The Castle military museum; SA Naval museum, Simon's Town; SAAF museum Ysterplaat, and PE SAAF museum.

Major challenges for 2013/14 (Major Assets)

Heritage assets

Challenges

- No reference to MHA in Defence Act and General Regulations.
- Identification thereof at unit level.
- Determining of Ownership (DOD/NPF/Private).
- Supporting documentation.
- Preparation of loan registers at unit level.
- Re-classification of MHA from SMA and TPT.
- Compliance to regulatory frameworks and Acts.
- Involvement with SA Heritage Resource Agency (SAHRA) and other relevant organisations.
- Researching and establishment of permanent management structures.

Planning Challenges for FY 13/14 (Minor Assets)

Minor assets

Asset management implementation plan addressing.

Split current year projections in total per the system:

- 40% included in the current asset register per next slide.
- 60% in the 2014/15 asset register per next slide.
- Current disclosure to be same as the previous period on prior period acquisition additions.
- Current additions at Cost.

INTANGIBLE ASSETS

Findings: Intangible assets were identified which were not recorded on the asset register. The department did not correctly apply the reporting framework and the asset register and the asset disclosure note did not agree.

Action: The Minister approved the structure and posts for the Intangible Capital Assets (ICA) function. The Def Mat Division (DMD) who is a custodian and nodal point for ICA is currently acquiring the assistance of an external service provider for the training and compilation of the ICA register.

Action: Policy on the management of DOD ICA. Efforts are made to speed up the approval process to ensure that the DOD has an approved policy in place for the current audit cycle.

INTERNAL ASSETS (Cont...)

Observation: Further, the Audit Management Team (AMT) identified major role-players (DefMat, Armscor, CMIS, GITO, and DCC) and currently monitoring the activities on a fortnight basis. All these role-players together with AMT members had a mini workshop on 08 November 2013 where ICA related findings were comprehensively discussed and solutions formulated as below:

- Financial Management Division (FMD) will draw up and provide all Financial Authority (FA) expenditure reports per Services and Divisions from the FMS for the past 6 years including the current one .

MANAGING ASSETS (Cont...)

- The Services and Divisions (through their command and control structures) are currently using these reports by analysing and cleaning them up to ensure, availability of supporting documents, correct allocation, valuation and ultimately completeness of ICA Register. This is intended to avoid the nil return submitted by Services and Divisions which led to the incompleteness identified by AGSA.
- Definition of ICA through the ICA policy has been provided to AMT members to use to ensure accuracy of the analysis and coherent approach across the Department. Once finalised returns will be submitted to DMD for consolidation.
- From April to May IAD will perform an independent state of statutory audit readiness review once finalised to confirm accuracy.

PREDETERMINED OBJECTIVES

Findings: The reliability of information presented for significantly important targets with respect to the Force Employment Programme could not be presented.

Action: The DOD is in the process of developing for promulgation the DOD Strategic Direction (DOD SD) Framework/Policy that will direct the DOD strategy, planning, budgeting, reporting, risk management, performance information management and a DOD Integrated Strategic Management Enabler (ISME) process. The DOD ISME will enable the full scope of performance information management inclusive of storage and retrieval.

PERFORMANCE OBJECTIVES (Cont.)

Findings: Reconciliations of supporting documents to predetermined objectives are not always performed. (DPSP DIV)

Action: Performance Information Technical Data Sheets had been developed as prescribed by the National Treasury (NT) for each DOD performance indicator as a fundamental tool to ensure source identification and location to enhance the reporting process.

Action: Standard Operating Procedures (SOPs) are being developed at the lowest levels, especially in the Force Employment Program, to guide record keeping, thereby supporting the reliability of reported performance information.

COMPLIANCE WITH LAWS AND REGULATIONS

Problem Statement: The department is in the process of addressing non-compliance issues relating to human resource management matters. (Verification of Appointments). It is this finding that contributed to the slow rate of appointments in the DOD general and IAD specifically.

Action: HR Division to issue an Interim Implementation Instruction to address the following:

- Pre-screening (criminal checks, verification of qualifications)
- Investigate the possibility of appointing a private service provider to assist with pre-screening in order to improve turn around times.
- Strengthen internal controls – no appointment letter will be issued without proof of pre-screening documents.
- Chiefs of Services and Divisions to be accountable for all appointments of civilians approved within their environments.
- Improve record keeping of appointment submissions for audit trail.

COMPLIANCE WITH LAWS AND REGULATIONS

CONCERN

Issue/Concernment. The department is in the process of addressing non-compliance issues relating to human resource management matters. (Verification of Appointments).

Action: HR Division to issue an Interim Implementation Instruction to address the following:

- Pre-screening (criminal checks, verification of qualifications).
- Investigate the possibility of appointing a private service provider to assist with pre-screening in order to improve turn around times.
- Strengthen internal controls – no appointment letter will be issued without proof of pre-screening documents.
- Chiefs of Services and Divisions to be accountable for all appointments of civilians approved within their environments.
- Improve record keeping of appointment submissions for audit trail.

FINANCIAL STATEMENTS

Action: A programme of action on addressing the AGSA recommendations (both DOD Corporate and those relevant to specific Service and/or Division) and preparation and change management processes for implementation of accounting principles has been developed and is being implemented.

Action: To deal with all AGSA findings relating to Annual Financial Statements (AFS), an accounting manual with Standard Operating Procedures (SOP,) to guide the timely review to ensure accurate preparation and completeness has been developed by FMD and is being used to compile AFS on an ongoing basis.

Action: A Log/Fin Workgroup was also established to address the issues pertaining to Assets.

FINANCIAL STATEMENTS (Cont.)

Project teams have also been established to regularly review the inputs received relating to Accruals, Contingent Liabilities and Commitments.

Action: To ensure overall accuracy of AFS, the FMD through the CFO will give guidance to all the disclosure requirements. This will address issues of misstatements and non-compliance thus providing an overall monitoring of all financial related entries by the CFO.

Action: A programme of action on addressing the AGSA recommendations (both DOD Corporate and those relevant to specific Service and/or Division) and preparation and change management processes for implementation of accounting principles has been developed and is being implemented.

FINANCIAL STATEMENTS (Cont.)

Findings: The CFO has conducted Orientation Road Shows across DOD intended to also assess the level of Financial Management Skills and competencies within Services and Divisions.

Action: The CFO is in the process of filling the vacancy of Chief Director Finance Management Services

Action: Relevant Services and Divisions to comprehensively address all the issues raised in the draft management report during the audit and prior years. The IAD has done analysis in this regard and is managed through the AMT.

Action: IAD will perform an independent comprehensive quarterly review once adequately resourced, which is currently done at a high level

POLICIES AND PROCEDURES

Findings: Some policies and procedures to ensure full compliance with laws and regulations are still in the process of being developed and or rolled out.

Action: A policy on moveable and immoveable heritage assets has already been issued as a Log Instruction in July 2013. This matter is included in the policy on the management of moveable tangible assets, issued as a Logistic Instruction in July 2013.

- **Action:** The policy on the disclosure of the Defence Endowment Property portfolio addresses the requirements of Chapter 9 (as a logistic instruction) is being finalised.

IRREGULAR EXPENDITURE

Findings: The accounting officer did not take effective steps to prevent irregular expenditure.

Action: The Department has an established Board that specifically deals with Irregular Expenditures. The establishment of this Board has resulted in reduction of the cases of irregular expenditures as Services and Divisions are held individually accountable.

RECONCILING OF TRANSACTIONS

Problem: Daily and monthly processing and reconciling of transactions between financial and asset registers was not performed. Only interim and year-end reconciliations were performed. (FMD, Log Div).

Action Plan. A Logistic and Finance workgroup has been established where reconciliations are prepared and reviewed on a monthly, and on an on- going basis going forward.

INTERNAL AUDIT

The internal audit section was not adequately resourced and consisted only of the head of Internal Audit who was appointed in April 2012. Internal audit has performed no financial and performance audits. A structure and budget has been approved for the 2013/2014 financial year and the process of advertising and filling positions has begun subsequent to year end.

Action: The approval of 2013/14 budget enabled the Division to advertise posts. The secretary and the Office Manager assumed duties on 15 January 2014. The interviews for the posts of technical staff (Assistant and Deputy Directors) was finalised in November 2013 and currently awaiting for HR to finalise the process of vetting and SAQA verification of the appointed candidates.

INTERNAL AUDIT (Cont...)

Lesson: Despite the lack of resourcing, the IAD has facilitated the establishment of the AMT and the Accounting Officer and OSANDE has formally appointed members and officials to represent all Services and Divisions in this forum to ensure all statutory audit related activities are dealt with timeously, audit language is spread across the DOD and information and responses are submitted timeously to AGSA (was assisted by the IG auditors). As a result the turnaround time for submitting information to AGSA reduced from about average of 100 days to about 13 days in the previous AGSA audit.

INTERNAL AUDIT (Cont...)

Action: is currently doing the detailed and comprehensive internal control issues analysis within all the findings as contained in the Final Management Reports from the previous years. These will be used to avoid recurrence of findings and to improve control environment.

Action: Internal Audit will once this information is compiled, conduct a state of readiness review. All Services and Divisions will finalise submitting inputs to Asset Register by the end of 31 March 2014. By 01 April 2014, the internal audit will be doing the state of readiness review of the Asset Register. Thereafter, on an ongoing basis the internal audit will be doing reviews.

AUDIT COMMITTEE

Findings: The audit committee could not fully comply with Military Regulation 3.1.10 as there were only two members of the Committee.

Action: Currently there are five Audit Committee members since July 2013 (most unfortunately assumed duties after the year end). the Department is in a process of headhunting additional member/s with military and legal skills.

OVERALL ACTIONS

Action: A two day Audit Orientation Workshop (AOW) was organised by IAD on 31st October and 01 November 2013 between the Management, AMT, AC and AGSA to evaluate successes, discuss and deal with the challenges of the statutory audit (including audit process and DOD challenges) and formulate a plan to address gaps. Furthermore to DOD and AGSA to educate each other on their business and systems. The Action plans with specific timeframes had been formally adopted and are being implemented (CDs are available).

Action: Another one day AOW will be held on the 13 March 2014 at the request of AGSA as they could not attend the previous one.

OVERALL ACTIONS (Cont.)

Assess: Independent State of readiness for statutory audit will be done by IAD between April and May for the current year and at the end of February (after the 3rd quarter) each year going forward.

Action: The Audit Committee (AC) will review all assurance quarterly (both financial and performance) reports including the year end AFS before submission for statutory audit and on an going basis to discuss the status of implementation of the programme on an a quarterly basis. IAD will provide reports in this regard and AGSA table the Dashboard reports.

CHALLENGES EXPERIENCED DURING DOD AUDIT

Issue	Solution
AGSA requesting information from individuals not identified as nodal points to deal with the audit in terms of the approved DOD audit protocol.	Audit Orientation Workshop as debriefing of the prior year statutory audit was held on 31 Oct to 01 Nov 2013 and the follow-up to be held on 13 March 2014.
AGSA planning of the audit not tabled to relevant Services and divisions. Relevant personnel may not be available at all times to provide accurate and on responses.	Strategic plans were tabled but not the detailed plan. This was also raised by the AC as a concern. It will further be resolved on the Workshop to be held on 13 March 2014.

CHALLENGES EXPERIENCED

DURING AGSA AUDIT (CONT.)

Issue	Solution
<p>Responses sent to AGSA by DOD members who are not identified as nodal points to deal with the audit in terms of the approved DOD audit protocol resulting to inaccurate and unverified responses</p>	<p>AGSA to adhere to the approved audit protocol. This will further be resolved on the Workshop to be held on 13 March 2014.</p>
<p>No feedback from AGSA wrt outstanding issues, resulting in surprise findings at the end of the audit.</p>	<p>AGSA to present their plans to the Department before commencement of an audit. This will further be resolved on the Workshop to be held on 13 March 2014.</p>

CHALLENGES EXPERIENCED

DURING AGSA AUDIT (CONT.)

Issue	Solution
Lack of clear cut off between AGSA planning and execution of the audit which result to planning issues made audit findings in the audit report .	AGSA to present their plans to the Department before commencement of an audit. This will further be resolved on the Workshop to be held on 13 March 2014.

THANK YOU