

ON A JOURNEY TO A SAFER SOUTH AFRICA

Creating a safe and secure, crime free environment, that is conducive for social & economic stability, supporting a better life for all.



Progress with previous audit findings

**2017 Annual Financial Statements
21 August 2018**

#Patriotic & Selfless Service



Presentation Overview

- 2017 Annual Financial Statements Audit Finding
- Background
- Action Plan to address finding
- Latest progress



Movable tangible assets

3. The department did not disclose network assets purchased in the annual financial statements even though future economic benefits or service potential was received by the Department in accordance with the Modified Cash Standards (MCS) 2, Concepts and Principles. The department did not account for network assets purchased by the department and on its behalf by the State Information Technology Agency (SITA) in the disclosure note for movable tangible assets. Consequently the disclosure note for movable tangible assets is understated. I was unable to determine the full extent of the understatement as it was impracticable to do so.

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Background



- SAPS transferred all of its network and hosting assets to SITA (Cabinet approval, Treasury approval - State Information Technology Agency Act (SITA), Act no 88 of 1998.) Section 19 of the SITA Act provided for the transfer of assets) since the establishment of SITA. These assets were accounted for by SITA at the time.
- SAPS reported on end-user equipment (desktops, laptops, printers) as per business agreement and will continue to do so.
- AGSA requires SAPS to disclose all network assets irrespective of the arrangements contained in the SITA act, Business Agreements, Service Level Agreements etc.



- SITA took ownership of network and hosting equipment transferred on inception as well as assets procured on SAPS behalf. SITA reported on these assets in their AFS annually until 2006.
- A decision was then taken by SITA to remove these assets from their asset register.
- Subsequent to that, assets were still procured by SITA on SAPS behalf but not disclosed in the asset register of their AFS
- During the period 2014/15 to 2016/17, assets were procured directly by SAPS using the SITA contracts and subsequently installed and maintained by SITA
- AGSA performing audit at SITA during 2016/17 raised the issue of ownership and non-disclosure of these assets with SITA in February 2017

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Action Plan to Address Finding

Action Plan to Address Finding



- To resolve the finding the following process unfolded according to a joint Asset Verification Project Plan between SAPS and SITA
- SITA has stratified the sites that need to be considered for the verification and divided them into three categories: The first category relates to the SITA switching centres, the second to the sites with asset quantities of 100 and above assets and the third with sites with assets below 100 items.
- Switching centres and sites with assets with 100 items and above were verified by SITA with support from Sizwe (SITA appointed service provider). Sites with less than 100 items were analysed by comparing the assets on the Action Request for Service System (ARS) with assets that are accessible on the Network Monitoring System (NMS). However, due to many assets being old, some assets are not accessible on the NMS. Due to this, it was decided to also physically verify these assets. SAPS agreed to also assist with this process.



Action Plan to Address Finding

- The results of the fixed asset verification were captured on the ARS and were signed off. The project plan provided for quality assurance measures to ensure that the results were captured accurately. SITA internal audit assisted in this regard. SITA also appointed IDG Consulting to assist with quality control of the project and in particular advise on the technical accounting aspects of the accounting frameworks applicable as well as aspects to consider from an auditing perspective.
- Significant movements (mostly additions) to the ARS due to new equipment bought and installed had to be taken into account. The additions had to be verified against the additions to the ARS to ensure that the ARS was updated and that it presents a complete, accurate and valid source of assets (basically as an asset register).
- Apart from the physical fixed asset verification, values had to be attached to the assets. The approach to this was to first separate assets that were out of the fixed asset life cycle of the assets. Assets outside of its life cycle will have an insignificant value. For assets within the asset life cycle, the value will be determined by the supporting documentation where the documentation can be used. (Where the supporting documentation is inadequate to determine the cost price of the specific asset, service providers were requested to provide information with regards to the estimated costs of these assets in order to determine the values attached to these assets.)

Action Plan to Address Finding



- Since inception of the project last year, SITA / SAPS Asset Verification Project Team meetings take place weekly to monitor on progress with Project Plan execution and to ensure timeframes are met. Minutes were kept and Project Plan updated continuously.
- AGSA was kept abreast with developments and copies of Project Plan provided at Steering Committee meetings as process unfolded.
- In order to also keep track with the process that unfolded in compiling the asset register, an Asset Verification Process document was compiled that detailed the technicalities and assumptions made throughout the process comprehensively
- The last meeting of the Project Team took place in May 2018 where the Asset Register was discussed and approved for disclosure in the SAPS 2017/18 Annual Financial Statements
- Due to no conclusion on the SITA Business Model at the time, SAPS has to disclose in their AFS and not SITA

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Latest Progress



- On 31 May 2018, the Asset Register for Network Infrastructure was disclosed in the Annual Financial Statements of SAPS
- The register comprised 73 245 assets valued at R1,708 billion consisting of network, hosting and mainframe equipment
- The detailed register supporting the disclosure values accompanied the AFS submitted to the AGSA on 31 May 2018
- Several meetings were arranged in order to assist the AGSA with the audit process due to the complexities involved in the network infrastructure environment to understand the register, to locate a specific asset, component and sub-componentisation of the infrastructure amongst other. Some of the meetings were not attended by the AGSA



- The following documents were provided to the AGSA in support of the Register:
 - Asset Verification Project Plan
 - Asset Verification Process Document
 - Framework for Disclosure of Network Infrastructure in the AFS for 2017/18 as approved by the Accounting Officer
- A special meeting was arranged at SITA that involved the Business Executive, Senior Manager and other Managers of the AGSA as to allow for a proper understanding of the Register, the Network Infrastructure and to offer an opportunity to provide responses to questions seeking clarity
- During the audit itself, the AGSA raised a finding on completeness of the Register - 12 cases from the total population of 73 245
- The response to the finding can be summarised as follows:



- 6 of the 12 items in the table referred to sub-components of a bigger asset and have no individual value. These items all had different descriptions to what were reflected on the finding and were confirmed on the ARS System. These items are parts to a server bundle, lightning protector (plug), switch or parts to a server console. All of the above has no economic value and according to the process document not included in the register. (A network infrastructure consists of thousands of small individual parts that have no economic value once installed and therefore does not warrant inclusion.) Many network devices such as routers, switches and other network peripherals also have sub-modules and integrated modules with their own sets of model and serial numbers that will form part of the physical device/chassis and in most cases these sub-modules/integrated modules serial and model numbers will only be relevant to the Original Equipment Manufacturer (OEM) itself and not necessarily the end user/owner. (These types of devices/chassis will be seen as a single/bundled device and will be sold by the OEM as only a single physical device.)



- 3 of the items were confirmed on the asset register by using the serial number or the Web number on the asset register
- Items 10 and 12 on the sample provided by the AGSA had such limited information that management could not confirm the asset from the register due to a lack of information.
- From the sample provided, 1 asset (switch) was found to be not on the register. The ARS System however confirmed existence of the asset

→ It became evident from the interaction with the AGSA that the impression exist that this is an ongoing process and therefore the register is incomplete. Any asset register, moveable fixed assets, immovable fixed assets, minor and major asset registers are being updated regularly throughout a financial year. Reasons such as relocations, disposals, losses, additions etc. all require updating of asset registers.



- The essence is that the reporting requirements as at a certain given point in time requires from the department to produce an asset register as at a given reporting date for a specific reporting period.
- The fact that updates to the ARS System are affected does not necessarily implicate incompleteness.
- It was emphasized the importance to note the reason for the continuous updates on the network infrastructure and to consider such within the broader perspective of supporting and process documentation as provided.
- Irrespective of the efforts by the Department to resolve this issue, the following opinion is included in the Draft Audit Report:



- *I was unable to obtain sufficient appropriate audit evidence to substantiate that immovable tangible capital assets were completely disclosed in note 31 of the annual financial statements. The systems that produced the asset register were not reliable and the process of compiling the asset register was still ongoing at the date of my report. I was unable to confirm the completeness of these assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to immovable tangible assets stated at R1. 7 billion (2017: R1.6 billion) in note X to the annual financial statements.*



- Basis for opinion refers to no reliance on systems that produced the information.
- Outcome of AGSA System analysis requested subsequent to data dump provided, but no evidence produced by AGSA.
- Both systems accessed were confirmed to be SITA systems. (Not only used for SAPS.)
- No finding raised in order to allow for comments by SITA as custodian of system.
- One of the issues kept referring to is the reliability of the systems generating the information. Critically, both systems utilised (although not designed as Fixed Asset Registers) have the controls necessary to produce a reliable list of the assets—although ARS as it stands today is vastly different to the ARS of 31 March 2018. ARS is a live system which is updated on a daily basis.



- The Network Management System (NMS) is a verification tool- from both an existence and completeness perspective, in fact- it proved its completeness tool, when the NMS system detected a number of items which were not in ARS but were pulled in to demonstrate completeness- for example the mother-child issues.
- In a project like this- the risk of completeness will always exist- however, it has been compensated on a materiality basis as well, where the sites of the two remaining provinces were selected where the asset count was between 15 and 100 per the ARS system. Risk of completeness – mitigated to less than materiality.

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