



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Defence and Military Veterans

3 November 2021



Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

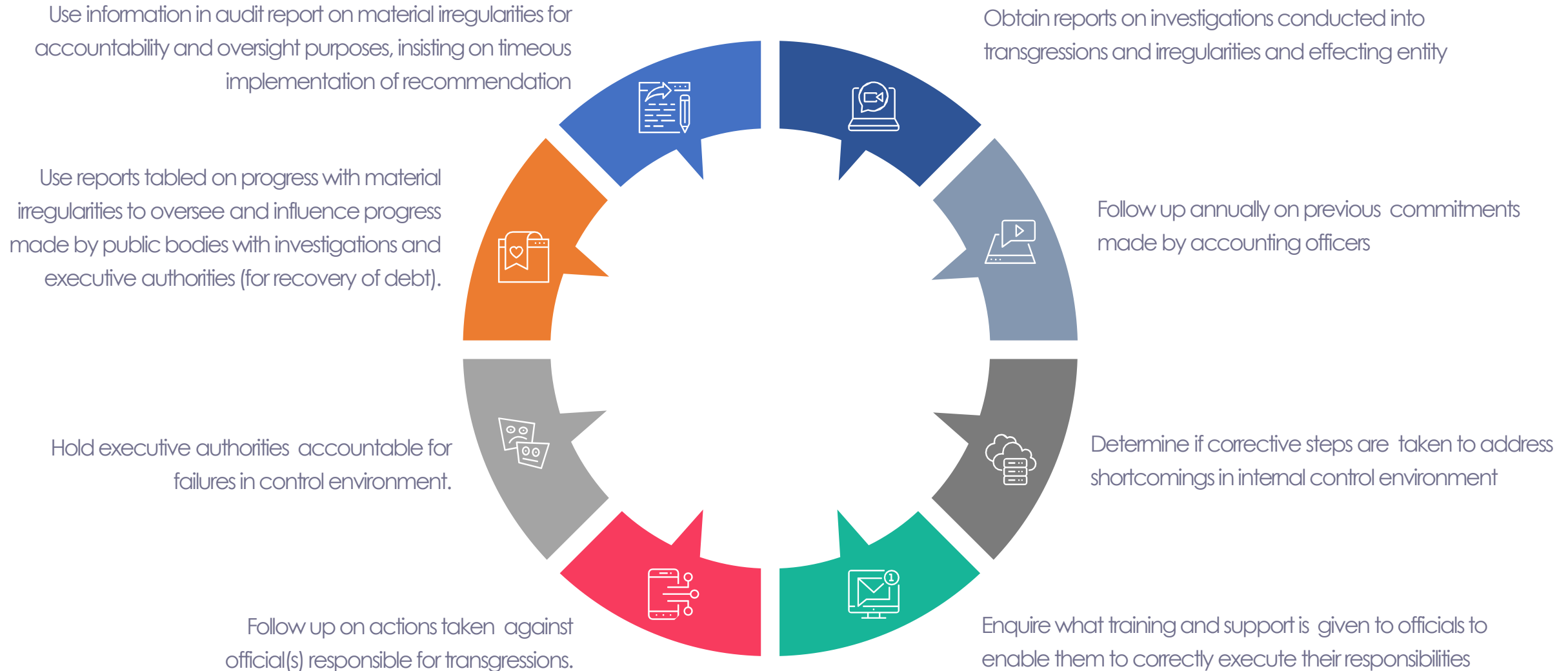
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution.

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight





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Focus

AGSA audit outcomes

Unqualified opinion with no findings (clean audit)



Auditee:

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

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

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

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions 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.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they 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

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:



Improved



Unchanged



Regressed



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Portfolio outcome

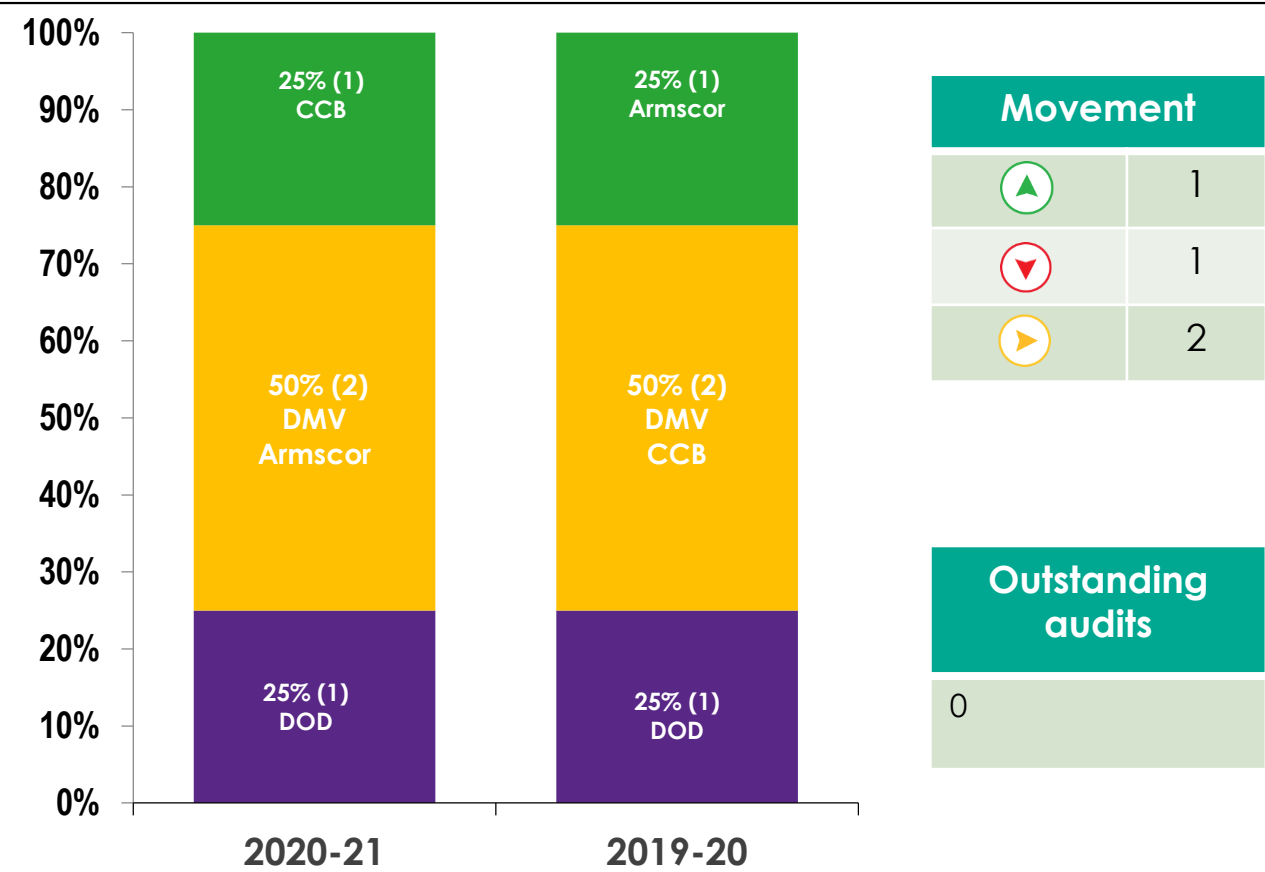
Defence portfolio auditees

Percentages in this presentation are calculated based on **completed audits of four auditees**, unless indicated otherwise.



Note: One small entity not included in this presentation is the SANDF Fund

Audit outcomes of the defence portfolio over 2 years



- The overall outcomes in the portfolio remained similar to the prior year.
- The **CCB** audit outcome improved to unqualified with no findings (clean audit) while **Armscor** regressed from unqualified with no findings to unqualified with findings. This was due to non-compliance as a result of material adjustments made to the submitted financial statements.
- The audit outcome for the **DOD** remained qualified, similar to the prior year. However, two new qualification areas were identified in the current year that relate to movable tangible assets that could not be verified for existence, and overstatement of leave entitlement.
- The audit outcome for the **DMV** remained the same as in the prior year. Material findings were reported on performance reporting and compliance with legislation.

Audit outcomes are depicted as follows:

Unqualified with no findings

Unqualified with findings

Unqualified with findings

Adverse with findings

Disclaimed with findings

Outstanding audits



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Quality of financial and performance reporting

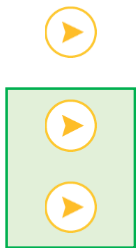
First focus area: credible financial reporting

Financial statements



- Submission of financial statements by legislated date **(all auditees)**
- Financial statements submitted without errors **(DMV, CCB) (2019-20: DMV and Armscor)**
- Quality of final submission after audit **(DMV, Armscor, and CCB)**

Movement



2020-21

2019-20

100% (4)	100% (4)
50% (2)	50% (2)
75% (3)	75% (3)

25% (ARMSCOR) achieved an unqualified opinion only because they corrected all misstatements identified during the audit.

Quality of submitted financial statements

- Two auditees **(CCB, DMV)** submitted financial statements that did not contain material misstatements and we wish to commend these entities.

Root cause analysis	Recommendation
<p>Two auditees (DOD, Armscor) submitted financial statements that contained material misstatements. Armscor subsequently corrected the misstatements thus achieving an unqualified opinion.</p> <p>The root causes that led to material misstatements are as follows:</p> <ul style="list-style-type: none">Management did not prepare regular, accurate and complete financial and performance reports that were always supported and evidenced by reliable information. This was mainly due to a lack of proper record management systems and insufficient controls over daily and monthly processing and reconciling transactions. (DOD)Inadequate reviews of the financial statements, lack of adequate preventative controls for processing and reconciling financial records as well as defragmented financial systems and system limitations. (Armscor)	<ul style="list-style-type: none">Perform adequate reviews of the financial statements and implement adequate preventative controls for processing and reconciliation of financial records.Adequate and proper record management systems must be implemented.Internal audit should scope in the review of the financial statements.Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year.

First focus area: credible financial reporting (cont.)

Qualification areas: Department of Defence

Goods and services and investments

The department accounts for non-sensitive and sensitive projects expenditure in connection with special defence activities. During the audit we could not obtain appropriate supporting audit evidence on sensitive projects expenditure and related investments due to the sensitivity of the environment and the circumstances under which the related transactions were incurred and recorded. This resulted in a material limitation of scope.

Irregular expenditure

During the audit we identified instances of irregular expenditure due to non-compliance with procurement legislation. We requested management to revisit the entire population and adjust the disclosure of irregular expenditure. However, the department did not revisit the population and effect the required adjustments, with the result that we could not confirm the completeness of irregular expenditure disclosed in the notes to the financial statements. In addition, the accounting officer did not disclose some cases of irregular expenditure identified by the auditors. This resulted in a recurring qualification on irregular expenditure disclosed in the financial statements, as the same finding was reported in the last two financial years.

Movable tangible capital assets

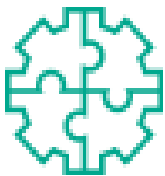
During the audit we were unable to verify some of the movable tangible capital assets that were disclosed in the financial statements. Management could not indicate where these assets were located, nor could they provide other information in support of these assets. This resulted in the qualification on the existence of movable tangible capital assets disclosed in the financial statements.

Employee benefits

The department did not establish adequate internal controls to monitor leave processing. As a result, not all leave taken by officials was captured on the system during the year. This resulted in the leave balance and the related provision being overstated in the disclosure to the financial statements.

Second focus area: credible performance reporting

Performance report



	Movement	2020-21	2019-20
Performance report submitted without errors (Arm Scor)	▶	25% (1)	25% (1)
Performance report adjusted for material misstatements to improve reliability (CCB 20-21 & 19-20, DOD 19-20)	▼	25% (1)	50% (2)
Reliable reporting of achievements (Arm Scor & CCB 19-20 and 20-21, DOD only 19-20)	▼	2	3
Usefulness of performance indicators and targets (all auditees)	▶	4	4

Quality of performance reporting

- In the current year, there has been a regression in the quality of performance information submitted for auditing in the portfolio. DOD and DMV (Only DMV in 19-20) had findings on the reliability of reported performance information.
- Arm Scor had no material findings reported on the usefulness and reliability of the reported performance information for 20-21 & 19-20.
- Material misstatements were identified in the annual performance report submitted for auditing by CCB (20-21 & 19-20). As these material misstatements were subsequently corrected, no material findings on the usefulness and reliability of the reported performance information were reported.

Root cause analysis	Recommendations
<ul style="list-style-type: none"> • Delays in providing clear guidance on new performance indicators (DOD) and a lack of proper record management systems, as well as insufficient controls over daily and monthly processing and reconciling transactions (DMV). 	<ul style="list-style-type: none"> • Management should perform adequate reviews of the annual performance reports and implement adequate preventative controls for processing and reconciliation of performance records. In the case of new performance indicators clear and timely guidelines should be rolled-out to all relevant parties involved in the reporting chain.



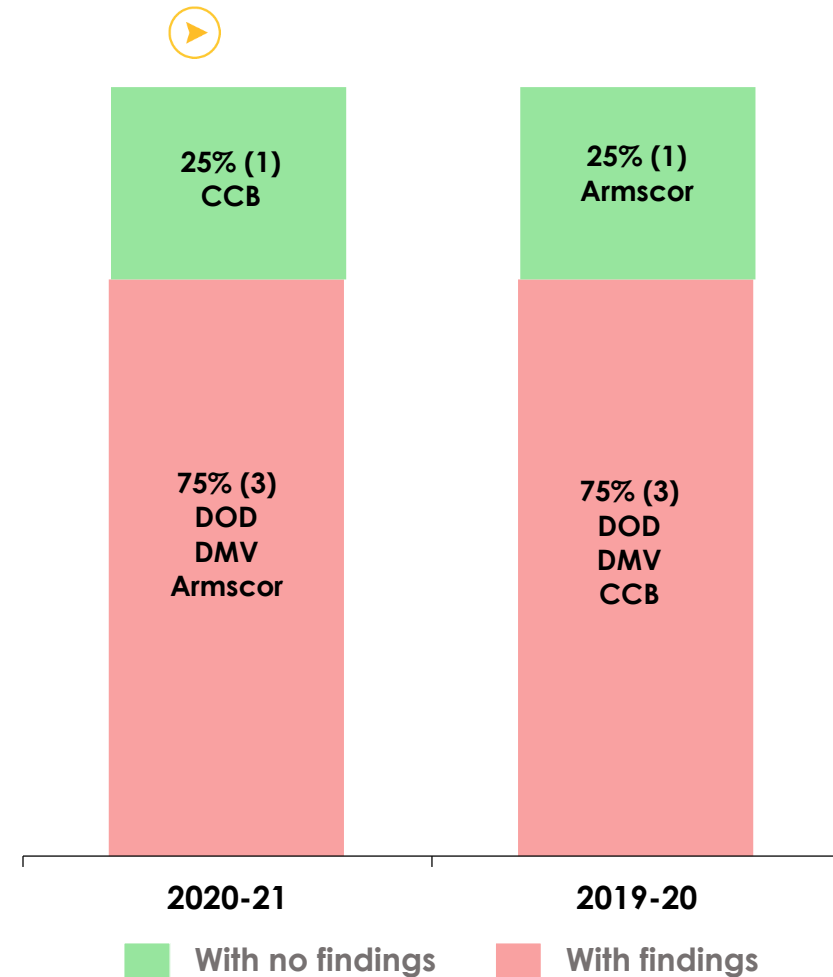
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Compliance with legislation

Third focus area: compliance with legislation

- In the current year the outcomes on compliance with legislation remain unchanged from the prior year
- Two auditees (**DOD and DMV**) did not implement effective action plans to address significant internal control deficiencies relating to compliance with legislation.
- **Armsscor** submitted financial statements that contained material errors and this resulted in non-compliance with legislation.
- We will further unpack the challenges of compliance in three sections, i.e. **expenditure management**, **procurement and contract management** and **consequence management**.

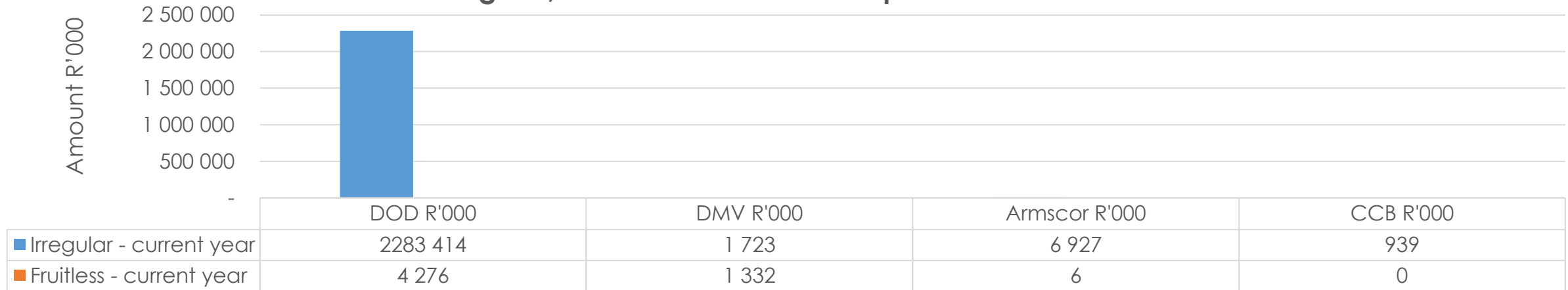
Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure

Nature of irregular, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Irregular expenditure

- Total irregular expenditure identified – R2,29 billion.
- R2,28 billion (99,6% of total) was incurred by the DOD.
- Irregular expenditure incurred by DOD mainly relates to:
 - Compensation of employee (COE) budget exceeded without approval (R1,78 billion)
 - Non-compliance with procurement legislation.

Fruitless and wasteful expenditure

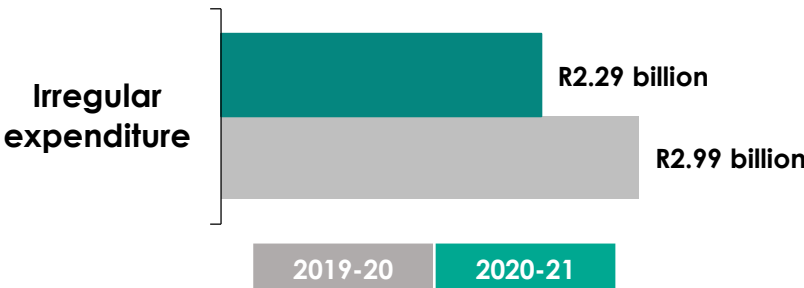
- Total fruitless and wasteful expenditure identified – R5,61 million.
- R4,28 million (76% of total) was incurred by the Department of Defence, mainly relating to interest on late payments.

Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



- R2,29 billion – irregular expenditure in 2020-21
- R2,99 billion – irregular expenditure in 2019-20 (including prior period error adjustment of R156 million)
- Irregular expenditure (disclosed) has reduced by 23% compared to the prior year

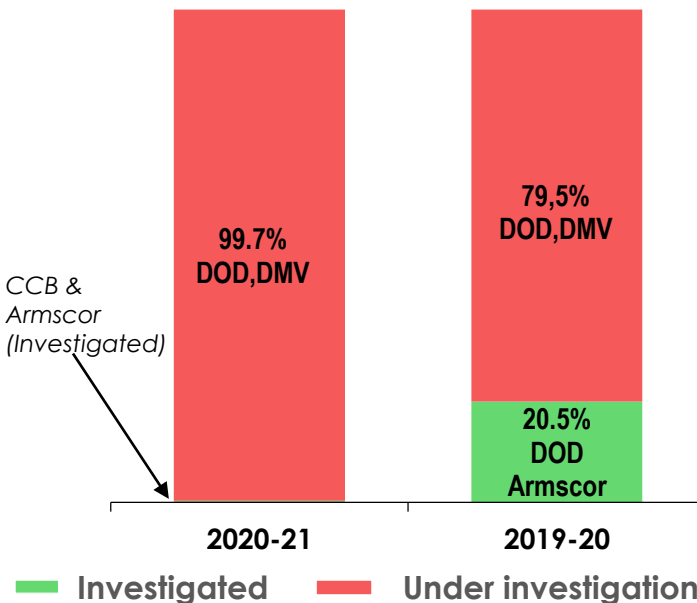
Nature of irregular expenditure

The highest contributor to irregular expenditure in the portfolio is DOD. The analysis of irregular expenditure disclosed by DOD is as follows:

- The approved COE budget was exceeded without approval from National Treasury (R1,78 billion).
- Various non-compliance with procurement legislation at DOD (R373,57 million).
- Irregular expenditure disclosed in the current year in relation to the prior year (R101,33 million).
- Importation of unregistered medicine without approval from the relevant authority at (R33,46 million).
- Additional irregular expenditure of R1,5 billion identified by auditors was not disclosed in the DOD financial statements.

The root cause of the irregular expenditure was the ineffective review and monitoring controls over compliance with laws and regulations, which fail to detect and prevent non-compliance.

Previous year irregular expenditure reported for investigation

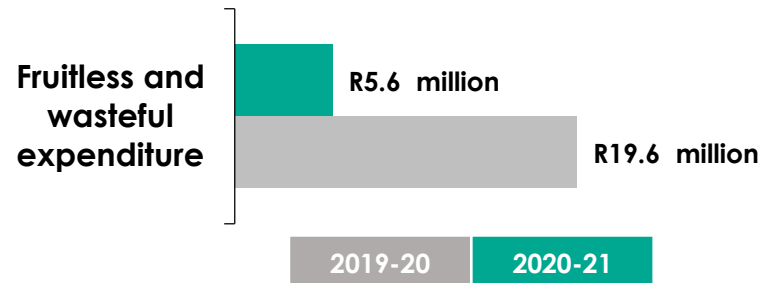


Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by entities in portfolio

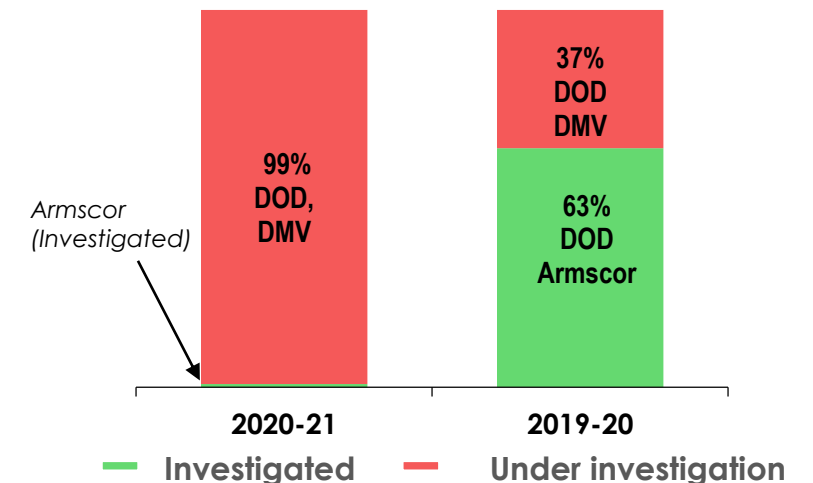


- R5,6 million – in 2020-21 financial year
- R19,6 million – in 2019-20 financial year
- Fruitless and wasteful expenditure has reduced by 71% compared to the prior year

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified amounts to R5,6 million, down from the reported prior year value of R19,6 million.
- R4,1 million (96%) of the fruitless and wasteful expenditure relates to the DOD, mainly for interest and foreign currency fluctuation as a result of a late payment.

Previous year fruitless and wasteful expenditure reported for investigation



Compliance with legislation



Consequence management

Consequence management remains a challenge at the following entities:

- **Department of Defence**
- **Department of Military Veterans**

Sufficient and appropriate audit evidence could not be obtained that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PFMA. This was because investigations were not conducted into some instances of irregular, fruitless and wasteful expenditure incurred in prior years.

At DOD we also noted that in some instances where investigations were conducted and finalised, the department failed to take disciplinary steps and/or recover losses where required. This includes matters that had been reported as material irregularities.

Recommendations

- There must be timely investigations of reported irregular, fruitless and wasteful expenditure.
- Accounting officers/authorities must ensure that timely disciplinary actions are taken against officials that transgressed procurement regulations or incurred fruitless and wasteful expenditure.
- Accounting officers/authorities must enhance action plans to address repeat findings.
- Leadership must exercise oversight and take decisive action regarding consequence management.

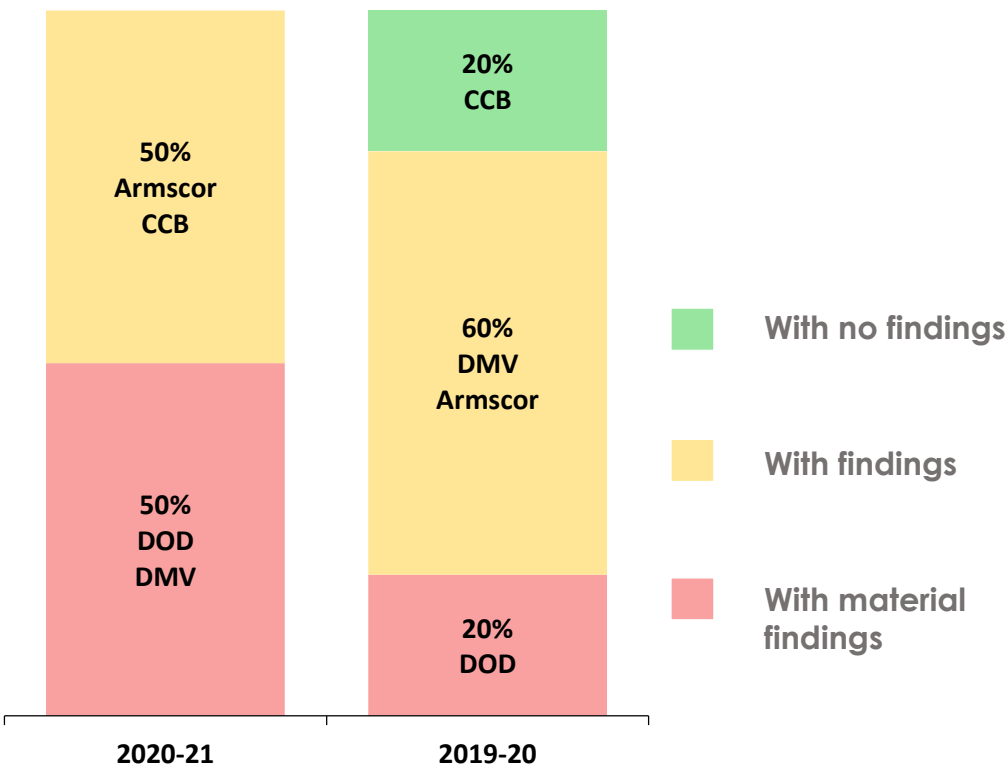
Other Investigations

The following investigations were conducted during 2020-21:

- The Special Investigating Unit conducted an investigation covering the 2018-19 period into allegations of procurement irregularities on information and communication technology (ICT) services and licences. The investigation is being conducted in terms of Proclamation No. R.41 of 2019, dated 25 June 2019. We had not yet received this report at the date of this briefing.
- The Special Investigating Unit conducted investigations into covid-19 PPE procurement by state institutions. The investigation is being conducted in terms of Proclamation No. R23 of 2020. We had not yet received this report at the date of this briefing.
- The department conducted a forensic audit on the refurbishment of the One Military Hospital and on the contract with a service provider for the asset management contract. We had not yet received these two reports at the date of this briefing.

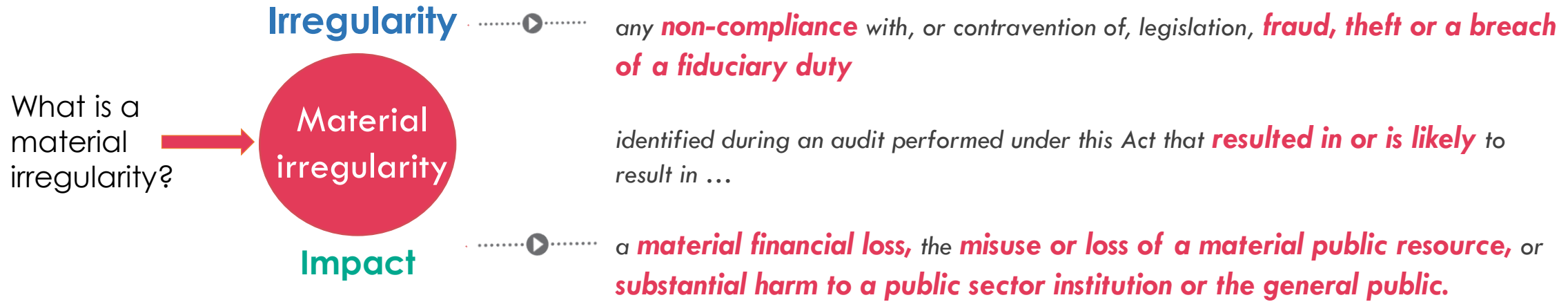
Supply chain management

▼ **Overall regression in SCM compliance**
 All SCM findings should be investigated



Most common findings on supply chain management	Recommendations
No competitive and fair procurement practices. (DOD, Armscor, CCB)	<ul style="list-style-type: none"> Preventative controls should be strengthened to prevent irregular/ fruitless and wasteful expenditure.
Bid documentation for procurement of commodities designed for local content and production did not stipulate the minimum threshold for local production and content. (DOD, DMV)	<ul style="list-style-type: none"> Accounting officers should implement and track action plans to address non-compliance matters identified. Consequence management should be applied.

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we will follow a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Selection criteria

Any non-compliance in line with the definition stated above.

The material irregularity (MI) process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **The DOD and Armscor were selected for MI implementation in the defence portfolio.**

Implementation of expanded mandate in 2020-21



Status of MIs identified during the audit

Department of Defence

Personal protective equipment (PPE) not procured in cost-effective manner

- The accounting officer (AO) was notified of the MI on 15 July 2021 and convened a board of inquiry on 16 August 2021 to investigate and report on the circumstances that led to the MI by 20 September 2021.
- On 23 September 2021, we followed up with the department on the investigation but received no response from the AO.
- We are now in the process of escalating this matter to the appropriate structures and persons in the AGSA for a decision on the course of action to be taken in accordance with the Material Irregularity Regulations.

Recommendations:

- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

Implementation of expanded mandate in 2020-21 (cont.)



Status of MIs in progress

Department of Defence

Importation of unregistered drugs without approval from regulating authority

- The department did not obtain approval from the South African Health Products Regulatory Authority (Sahpra), as required by MCSA regulation 6.2, before importing the unregistered drug Heberon® Alfa R (Heberon) into the country. The department procured 970 895 vials of Heberon from a Cuban supplier between 27 April 2020 and 17 August 2020. Sahpra re-authorised the use of only 10 vials of Heberon on a single patient on 5 October 2020. Sahpra has granted no further approvals. The department currently has approximately 970 885 vials that are not approved for patients. The outstanding approval, together with the approaching expiry dates of March and April 2022, will most likely result in the department not administering some or all of the remaining drugs. Therefore, the non-compliance has resulted in a likely material financial loss of R260 342 813 to the department.
- The AO was notified of the MI on 13 August 2021. On 28 September 2021, the AO responded and indicated that the department was in the process of appointing an Clinical Research Organisation to assist in obtaining approval from Sahpra for the research trials.

Recommendations:

- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

Implementation of expanded mandate in 2020-21 (cont.)



Status of MIs previously reported

Inventory and asset management contract not awarded only to the bidder that scored the highest points in the evaluation process

- The department did not comply with the requirements of the Preferential Procurement Policy Framework Act in awarding this contract. The non-compliance is likely to result in a material financial loss as the contract was awarded to two bidders at a higher price for the same scope of work.
- During the 2019-20 audit we issued recommendations to the AO to investigate the irregular expenditure, quantify the financial loss suffered, take appropriate and effective actions against officials identified to be responsible and determine whether the responsible official is liable by law for the losses suffered by the department for the purpose of recovery.
- Based on the assessment of the AO's written response and supporting evidence on the implementation of the recommendations, we concluded that the recommendations had not been adequately implemented. The AO cited limitations with the Defence Act, which does not give powers to the AO to take disciplinary action against the military command members as the reason for lack of implementation. This limitation, however, does not impact implicated civilian officials and the quantification of the financial loss.

Recommendations:

- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

Implementation of expanded mandate in 2020-21 (Cont.)



Status of MIs previously reported

Inventory and asset management contract not awarded only to the bidder that scored the highest points in the evaluation process

On 18 August 2021, the auditor-general issued a directive to quantify the loss and recover it, as well as remedial actions to address the MI for implementation by 18 November 2021. The AO was notified of the following remedial actions to address the above material irregularity, which should be implemented by 18 November 2021 :

- Effective and appropriate disciplinary steps must be taken against any civilian official whom the investigation found to be responsible, as required by section 38(1)(h) of the PFMA and in accordance with treasury regulation 9.1.3.
- Appropriate action must be taken to determine whether the civilian official(s) responsible is/are liable for the losses suffered by the department for the purpose of recovery, as required by treasury regulations 9.1.4 and 12.7.1.
- Steps must be taken to ensure that the chief of the South African National Defence Force takes:
 - (i) effective and appropriate disciplinary action against any military command official whom the investigation found to be responsible, as required by section 38(1)(h) of the PFMA and in accordance with treasury regulation 9.1.3.
 - (ii) appropriate action to determine whether the military command official(s) responsible is/are liable for the losses suffered by the department for the purpose of recovery, as envisaged by treasury regulations 9.1.4 and 12.7.1.
- If the chief of the South African National Defence Force fails to take effective and appropriate disciplinary action against military command official(s), and/or fails to take appropriate steps to determine whether the responsible command official(s) is/are liable for the losses suffered by the department for the purposes of recovery, the accounting officer must promptly, and before the expiry of the three-month period envisaged in the notification of remedial action, notify the executive authority of such failure.

Implementation of expanded mandate in 2020-21 (cont.)



Status of MIs previously reported

Lease payments made for unoccupied office buildings

- The department made lease payments for unoccupied office buildings, in contravention of section 45(b) of the PFMA. The non-compliance resulted in a financial loss of R108,3 million. The AO was notified of the MI during the 2019-20 audit.
- The investigation by the accounting officer into the circumstances that led to the MI was completed by 30 November 2020. The accounting officer did not provide further information on the progress made in addressing the material irregularity upon request.
- We therefore concluded that appropriate steps were not taken to address the MI. The following recommendations were included in the audit report which must be implemented by 11 November 2021:
 - The financial loss should be quantified and the officials responsible for the financial loss must be identified
 - Effective and appropriate disciplinary steps should commence against any civilian or military command official found to be responsible
 - Appropriate action must be taken to determine whether the official(s) responsible is/are liable by law for the losses suffered by the department for the purpose of recovery.

Recommendations:

- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.

Implementation of expanded mandate in 2020-21 (cont.)



Status of MIs previously reported

Unfair award for supply of fuel

- In 2019, the department awarded a contract worth R13,9 million for the supply and delivery of fuel to a supplier using evaluation criteria that differed from those stipulated in the original request for quotations. The awarding of the contract using different criteria resulted in non-compliance with treasury regulation 16A.3.2(a), which requires that the supply chain management process be fair, transparent, competitive and cost-effective. The non-compliance caused a material financial loss of R2,57 million due to a higher price being paid for the fuel.
- The AO was notified of the MI during the 2019-20 audit and had committed to take the necessary actions to address the matter. However, the internal investigation concluded that there had been no non-compliance and therefore the AO disagreed with the MI.
- We identified gaps in the manner in which conclusions were reached without supporting evidence and a lack of consideration of the transparency and fairness of the process followed.
- The MI has been further reviewed by the relevant AGSA structures. We are currently in the process of referring this MI to a public body for investigation.

Recommendations:

- The portfolio committee should monitor the implementation of consequence management in the portfolio, including steps taken to address material irregularities reported.



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Portfolio snapshot

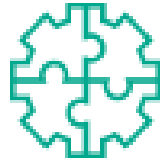
Portfolio snapshot 2020-21



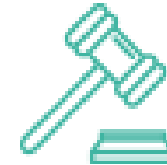
Clean audits: 1
(2019-20: 1)



**Financially unqualified
financial statements: 3**
(2019-20: 3)



**No findings on performance
reports: 2**
(2019-20: 3)



**No findings on compliance
with legislation: 1**
(2019-20: 1)



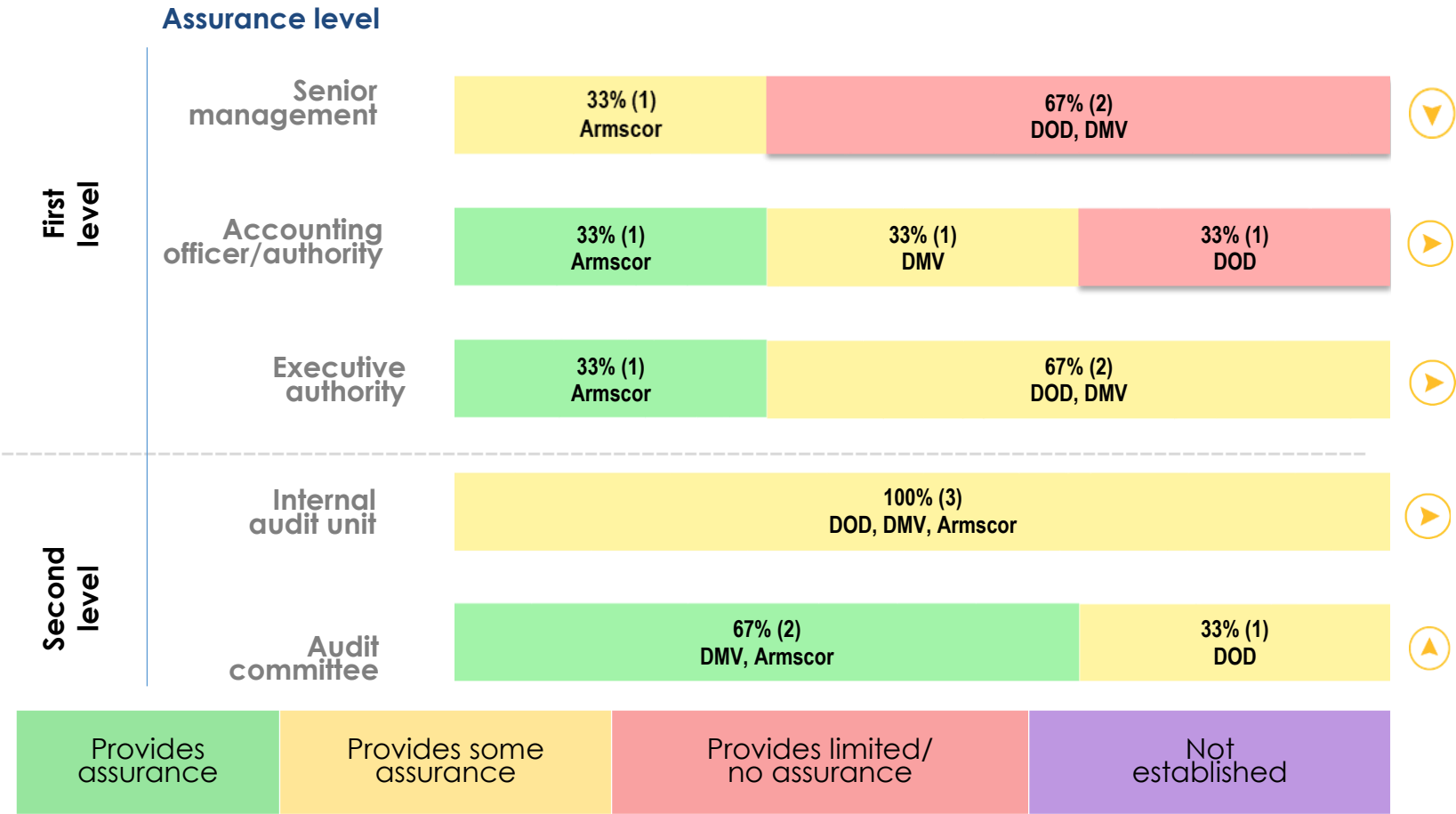
**Irregular expenditure:
R2,29 billion**
(2019-20: R2,86 billion)



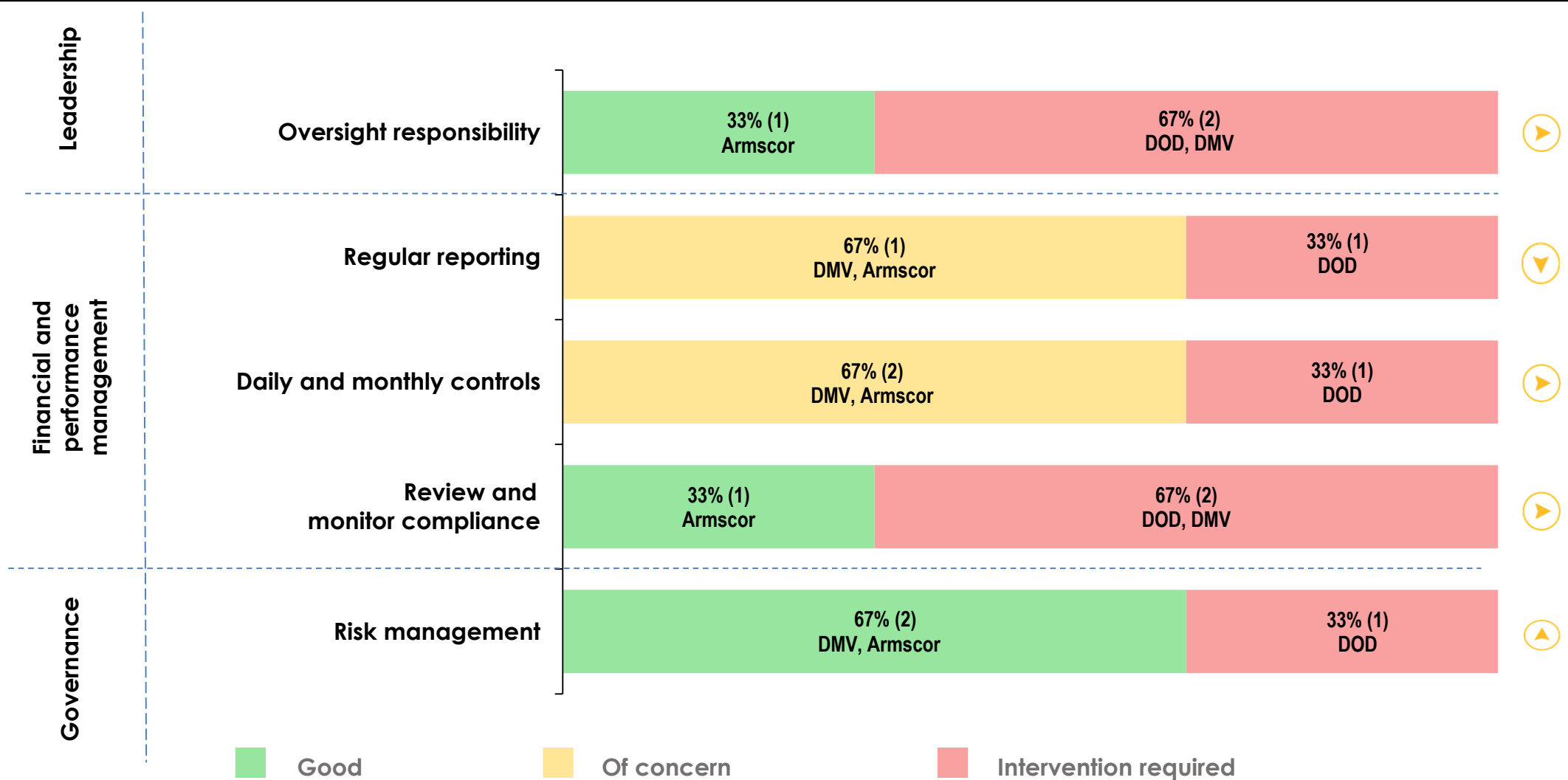
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Governance and internal controls

Assurance provided

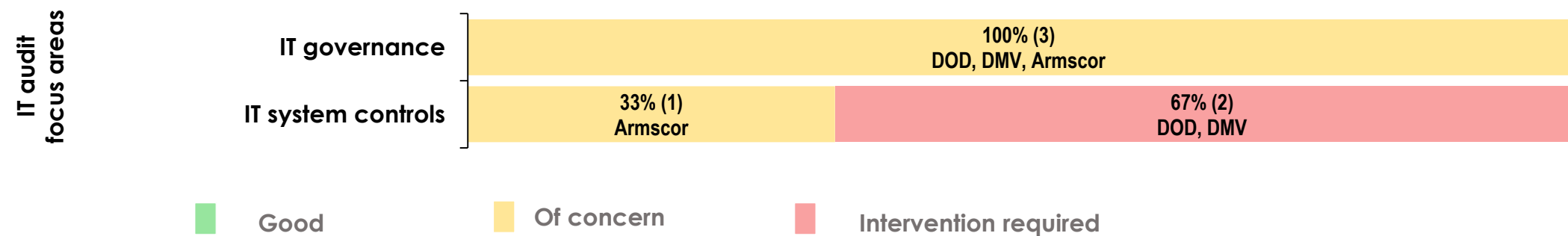


Status of internal control



Status of information technology (IT) environment

- **IT governance** – to ensure IT is effectively and efficiently used to enable the entity to achieve its mandate by specifying the decision rights and accountability framework to encourage desirable behaviour in using IT
- **IT system controls** – to ensure the entity’s IT operates as intended to achieve its mandate
- Effective IT governance and system controls help to ensure that entities are not vulnerable to cyberattacks and business continuity concerns



Areas	Root cause	Recommendations
IT governance	Control weaknesses in the areas of IT governance, IT security management (including internal vulnerability assessment), IT service continuity and user access management (DOD, DMV and Armscor).	Management should monitor the implementation of action plans to address findings.
IT system control	Management had not designed and implemented appropriate controls relating IT security management and IT service continuity management (DOD, DMV and Armscor).	Management should monitor the implementation of action plans to address findings.

Summary of 3 key root causes



Slow response by leadership/management



Lack of consequences for poor performance and transgressions



Adequate action plans are not in place or monitored



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Progress on the special reports

Progress on the special reports

Key observations as reported in SR2

- Shortcomings in planning, procurement, transportation, warehousing and recording of medicines – in particular the procurement and import of an unregistered medical drug (Heberon) from Cuba.
- Inadequate planning to justify required levels of medical equipment.
- Internal control weaknesses on procurement process (bid advertised and subsequently cancelled).
- Inadequate planning for PPE and subsequent procurement not aligned to planning.
- PPE not always procured at market-related prices

Follow up in the current year

- The department had not yet obtained approval from the relevant authority to use the drugs except for 10 vials that were re-authorised in October 2020. The payment of R34,86 million was subsequently correctly classified and disclosed as irregular expenditure. The investigation by the Ministerial Task Team is still in progress.
- The quantities of required medical equipment were adjusted as the process was unfolding. Some of the requirements on the initial list were not procured subsequently.
- The matter is currently under internal investigation
- Plans were adapted to cater for possible second or third waves of the spreading of the virus in South Africa.
- Procurement of PPE is no longer done on an emergency basis; normal SCM processes are followed. Irregular expenditure had mostly been disclosed in the financial statements.

Progress on the special reports

Key observations as reported in SR2

- Local content and production threshold requirements not applied when procuring three-ply surgical masks
- Transactions with tax-related deficiencies
- Inadequate controls in manual stock control process at main and regional depots

Follow up in the current year

- Procurement of PPE is no longer done on an emergency basis; normal SCM processes are followed. The irregular expenditure was not disclosed and no investigations have been initiated into the non-compliance. Management is disputing the finding.
- Procurement of PPE is no longer done on an emergency basis; normal SCM processes are followed. Irregular expenditure has been disclosed in the financial statements for some transactions.
- In progress

Progress on the special reports

New observations

- A number of internal control deficiencies linked to the approval and payment of allowances to deployed members were identified during the audit. These deficiencies resulted in:
 - Some instances where allowances were not approved at the correct delegations, with some members approving their own allowances.
 - Some members were paid allowances that were more than they were entitled to.
- Sanitisers with a value above R500 000 were not procured through the normal procurement process, as required by para 3.1 of National Treasury Instruction Note 11 of 2020-21, and the deviation was not obtained and approved.

Root cause

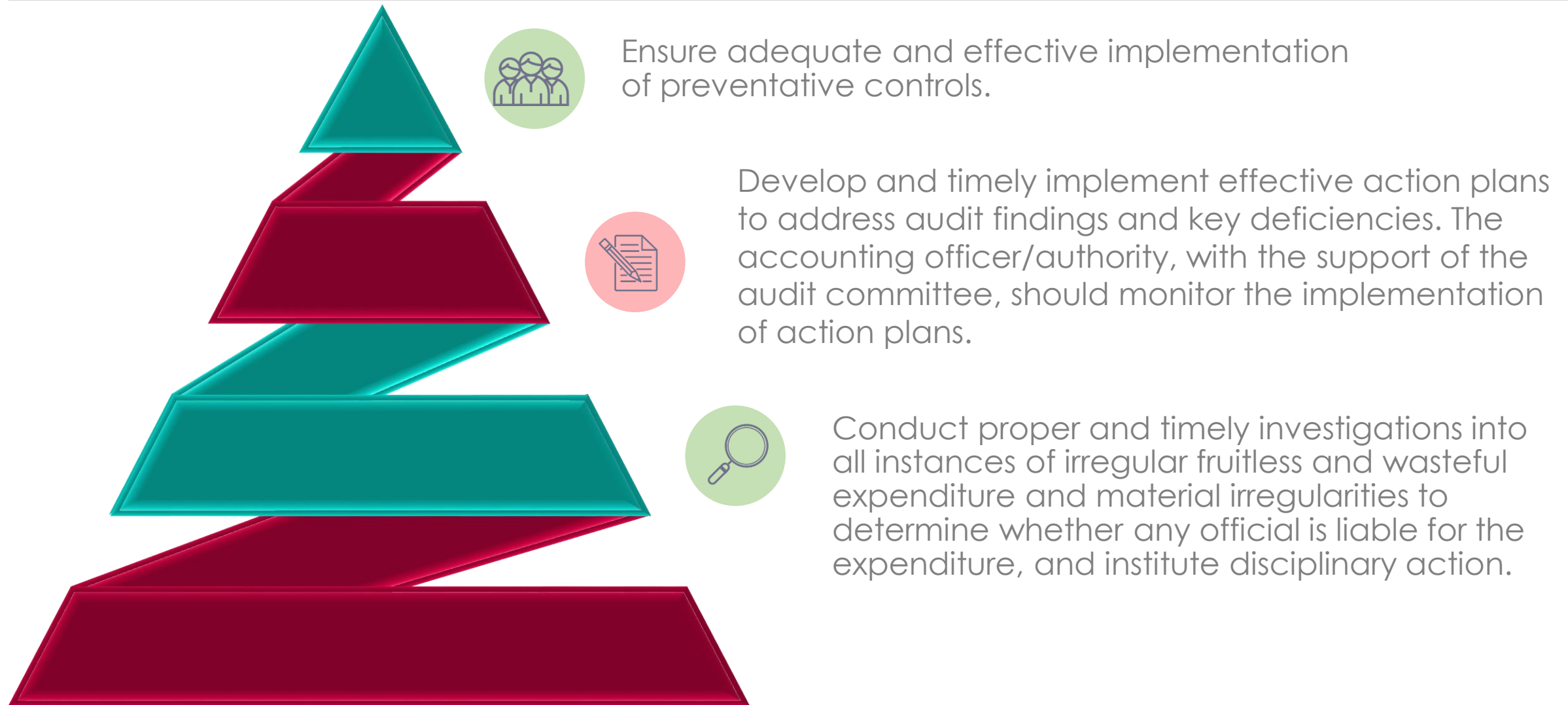
- Policies and procedures are not reviewed to ensure that they adequately addressed the approval of allowances relating to deployed members.
- Inadequate review and monitoring over approval and payment of allowances.
- Inadequate reviews and monitoring over compliance with applicable legislation.



AUDITOR-GENERAL
SOUTH AFRICA

Recommendations

Recommendations for entities within the defence portfolio



Recommendations to the portfolio committee

Monitor and regularly follow up with the executive authority and accounting officer/ authority on:

- implementation of action plans and preventative controls
- implementation of consequence management in relation to irregular, fruitless and wasteful expenditure, and steps taken to address material irregularities.

The **culture** of **consequence management** should be enforced in the portfolio.

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