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**PRESENTATION TO THE
PCD ON DOD'S
PROGRESS OF
IMPLEMENTATION ON
THE 2020/2021 AUDIT
ACTION PLAN**

AIM OF PRESENTATION

The aim of the presentation is to keep the Portfolio Committee updated on the status of implementation of the DOD's action plan and resolving prior year's AGSA's audit findings and observations.

BACKGROUND TO THE 2020/2021 AUDIT QUALIFICATIONS

The AGSA issued an Audit Report, which is a public document and is included in the Annual Report of the Department.

- The Department received a Qualified Audit Opinion on four account balances and disclosure notes as follows:
 - Goods and Services and related Investments within the Special Defence Account
 - Completeness of Irregular Expenditure
 - Movable Tangible Assets
 - Leave Provision Liability

- The AGSA also raised findings on the usefulness and reliability of performance information
- The AGSA also issued a detailed management report, which is made up of 11 annexures, these annexures are the various balances and components audited by the AGSA.



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BACKGROUND TO THE 2020/2021 AUDIT QUALIFICATIONS

- These annexures are the detailed audit findings issued by the AGSA to the Department
- The Department, then develops action plans for each finding issued to resolve or manage the control weaknesses which resulted in the finding being raised.
- These action plans are then consolidated by the Finance Division and presented at monthly Accountability Management Committee meetings for monitoring and monthly feedback from the Chiefs of Services and Divisions.
- These meetings are chaired by the Accounting Officer (The SecDef) and attended by all the Chiefs of Services and Divisions

DETAILS OF THE FOUR AUDIT QUALIFICATIONS

The Department received a Qualified Audit Opinion on the following account balances

Goods and services and investments within the Special Defence Account

- ❖ *The department accounts for non-sensitive and sensitive projects expenditure in connection with special defence activities as per section 2(2)(a) of the Defence Special Account Act of South Africa, 1974 (Act No. 6 of 1974), as amended. This qualification is based on the limitations placed on full access to the sensitive projects expenditure and related investments. This is mainly due to the sensitivity of the environment and the circumstances under which the related transactions were incurred and recorded.*

Irregular Expenditure

- ❖ *The Department has 73 procurement units across the country. There are inadequate systems to detect, record and appropriately disclose all irregular expenditure in the financial records of the Department, which results in not all non-compliances with SCM regulations being identified and recorded.*

Movable Tangible Assets

- ❖ *The auditors could not verify the existence of some machinery and equipment. The qualification is based on samples audited which have been projected to the entire population of class of assets, resulting in the misstatement being material.*

Employee Leave Benefits

- ❖ *The department did not establish adequate internal controls to monitor leave processing. As a result, not all leave transactions were captured, which resulted in the leave balance and the provision being misstated*

Action Plan - GOODS AND SERVICES AND INVESTMENTS WITHIN THE SPECIAL DEFENCE ACCOUNT

Action Plan for the Qualification of the Transactions within the Sensitive environment.

- ❖ The sensitive environment of the SDA makes up 12% of the spending within the Special Defence Account allocation and 1.2% of the entire R54.2 billion of actual expenditure for the year under review. The Auditor-General has full access to 98.8% of the Department's spending.
- Discussions are being held within the Portfolio Committee on Intelligence on how to manage the possible risk of completeness and accountability within the Covert space, which includes Crime Intelligence and State Security .
- There will be interactions between the three agencies involved to find a common approach on accountability
- A set date is not yet determined

Action Plan COMPLETENESS OF IRREGULAR EXPENDITURE

- ❖ The AGSA indicated that the Department does not have adequate systems to identify, detect and record irregular expenditure.
- ❖ The Department incurred Irregular Expenditure of R2.8 billion.
- ❖ Included in this was the underfunding of the Compensation of Employees (CoE) valued at R2.6 billion.

- **With regard to the CoE shortfall, numerous discussions have been held with the National Treasury and the Portfolio committee has been informed with regard to the dilemma the department is facing on the reduction of the CoE allocation. A request was made to NT to condone this underfunding, however, it was not approved.**

- **The Internal Audit Division, Inspector General and the Military Police are investigating the circumstances surrounding the incurrence of irregularities and recommendations are in the process of being made for implementation.**



Action Plan COMPLETENESS OF IRREGULAR EXPENDITURE....Cont

- The Internal Audit Division has been tasked to investigate additional unidentified irregular expenditure.
- This investigation is still ongoing, additional Irregular Expenditure has been identified and once agreed to by the respective procurement units, it will then be disclosed in the financial records prior to year end.
- The Governance Risk and Compliance Accountability Committee for Procurement which has been set up have been providing training to procurement practitioners to ensure they understand the SCM prescripts and legislation and apply them consistently.
- The committee does oversight visits to Procurement Units across the country focusing on high risk areas and findings and instituting corrective measures. Reports and findings from these visits are shared with the Auditor General and the DOD Audit Committee.



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ANNEXURE A – INTERNAL AUDIT

FINDINGS

STATUS OF IMPLEMENTATION

- | FINDINGS | STATUS OF IMPLEMENTATION |
|--|--|
| Internal Audit Plan not timeously approved | The Audit plan for the 2022/23FY has been approved on 25 Feb 2022 |
| No Approved combined assurance plan | There is a draft Combined Assurance Plan in place and it will be approved as soon as the consultation processes are completed during the 2022/23FY |
| Five year external Quality Assessment not done | A service provider has been appointed and a final report on the outcome of the assessment will be available prior to year end |



FINDINGS

- Internal audit division not adequately resourced

STATUS OF IMPLEMENTATION

- Budget cuts imposed on the Department have made it quite impossible to increase existing structures.
- There are discussions between the Accounting Officer, the Internal Audit Division and the Inspector General Division on how adequately qualified and experienced internal auditors may be transferred within the two assurance divisions to ensure service delivery and compliance with legislation are not compromised



ANNEXURE B – TANGIBLE ASSETS

FINDINGS

- Existence of assets could not be verified
- Incorrect classification of Capital Work in Progress items
- Immovable tangible assets incorrectly classified

STATUS OF IMPLEMENTATION

- Almost 70% of the items identified in the audit report for existence have been resolved. There are Boards of Enquiries that are still ongoing at unit level and target date for finalisation is 31 March 2022.
- Controls, via monitoring of the stock take process are in place to ensure that the possibility of a repeat of this finding is minimised.
- This matter was corrected and finalized during the audit
- All items have been captured on the Logistics systems as Movable Assets

FINDINGS

- Covid medical equipment not accounted for in the registers

STATUS OF IMPLEMENTATION

- South African Military Health Services has completely captured all these items.
- The reason they were not accounted for in the previous financial period is they were a donation, and at the time the Department was finalising the donations approval processes, which have since been finalised



FINDINGS

- Air Force assets being stripped for spare parts

STATUS OF IMPLEMENTATION

- This relates to one GRIPEN fighter jet. The technical report from AGSA's Technical Division, indicates their agreement with the stance taken by the DOD.
- There is no prescript that requires any government department to adjust values due to damages. The AGSA will resolve this matter in their audit files and remove it from the management report.



ANNEXURE C – INTANGIBLE ASSETS

FINDINGS

- Software access management tool does not exist to verify the existence of software licenses
- Intangible software registers not complete

STATUS OF IMPLEMENTATION

- CMIS (IT) Div requested the services of SITA to investigate a Software Asset Management (SAM) tool to assist the Department to manage and verify software applications
- The CMIS Division has done a complete exercise to identify and record all intangible software assets. The assistance of SITA in providing the stated tool will improve the completeness of the register.



ANNEXURE D – Audit of Performance Objectives

FINDINGS

- Misstatement of reported achievement in the annual performance report
- Insufficient evidence provided to support reported achievement

STATUS OF IMPLEMENTATION

- The Performance Indicator (PI) "Percentage compliance with capabilities required to support national efforts in mitigating and combating the spread of COVID-19" was a once off indicator and discontinued for the FY2021/22.
- However, measures have been put in place to ensure that in current and future audits overstatements are not repeated and insufficient evidence will not be provided in other Indicators.
- Indicators are verified and supported prior to being recorded as achieved.



ANNEXURE E – HUMAN RESOURCES

FINDINGS

- Leave entitlement and capped leave balances are misstated – not captured

STATUS OF IMPLEMENTATION

- CHR issued an Instruction dd 16 Nov 21 informing Services and Divisions about capturing of leave and the requirement for chiefs of Services and Divisions to submit compliance certificates on a quarterly basis to confirm the status of leave management.
- HR Division monitors the leave administration transactions on the system report deviations by level 4 units to the chiefs of Services and Divisions



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ANNEXURE E – HUMAN RESOURCES (Cont..)

FINDINGS

- Leave entitlement and capped leave balances are misstated – not captured (Cont..)
- Overtime – orders not submitted for audit

STATUS OF IMPLEMENTATION

- In order to improve controls, Persol system is being enhanced to address leave audit findings that were related to incorrect inputs used to calculate leave entitlement and capped leave balances. Significant progress has been made and completion is expected by 15 March 2022
- The outstanding documents were submitted to AGSA and the SA Army has ensured that the unit corrects the whole population.



ANNEXURE E – HUMAN RESOURCES (Cont..)

FINDINGS

- Lack of controls over housing allowances
- MSDS appointments were signed after resumption of duty

STATUS OF IMPLEMENTATION

- All Housing allowance applications for FY20/21 were verified and corrected. HR will perform monthly verifications to detect errors with effect from 30 April 2022
- SA Army is still in process of rectifying this audit finding. Dir HR Acquisition will ensure that no MSDS salaries are activated without signed appointment letters and contracts



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ANNEXURE F – GOODS AND SERVICES

FINDINGS

- Invoices not paid within 30 days
- Misstatement of payables and accruals
- Provision for environmental liability not adequately calculated

STATUS OF IMPLEMENTATION

- The Department is working with SITA to enhance the current ageing system to track invoices.
- Dashboards have been developed by SITA for Services and Divisions and are in the testing stage to enable tracking of invoices captured, aged and ready for payment.
- Services and Divisions have 33 accrual champions, who are trained on a regular basis to account for and record obligations for their respective environments. The latest training session was on 21 February 2022.
- Costly exercise to appoint consultants on a yearly basis. Discussions with Department of Environmental affairs and Water and Sanitation to work together.



FINDINGS

These were special value for money audits done on

- Project Thusano,
- 1 Mil Ramp and
- Importation of Heberon Alpha 2B

STATUS OF IMPLEMENTATION

Status of these special audits have been presented to the PCD



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FINDINGS

- Control weaknesses on lodging and boarding
- Update of Debtors policy

STATUS OF IMPLEMENTATION

- Housing registers are being updated on a monthly basis and reconciled to what has been allocated.
- Updated Debtors policy is in the approval stage.



ANNEXURE I – INFORMATION SYSTEMS

FINDINGS

- SITA and DOD agreements not reviewed
- ICT security policy outdated
- Firewall management controls were not adequately designed and implemented
- Disaster Recovery Plans for hosting environments was not adequately implemented

STATUS OF IMPLEMENTATION

- There is a valid agreement currently in place which does not affect service delivery. The DOD is meeting SITA in April 22 to review the terms of the current agreement.
- The policy is in the process of being updated and will be finalized by November 2022
- The controls should be finalized, tested and implemented by June 2022
- The Business Continuity Management Plan is under review



FINDINGS

STATUS OF IMPLEMENTATION

- Details have been presented in earlier slides



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Thank You



Questions?

