



AUDITOR - GENERAL  
SOUTH AFRICA

# AGSA Briefing to the Portfolio Committee

## Portfolio Committee on Defence and Military Veterans

16 March 2022



# 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:

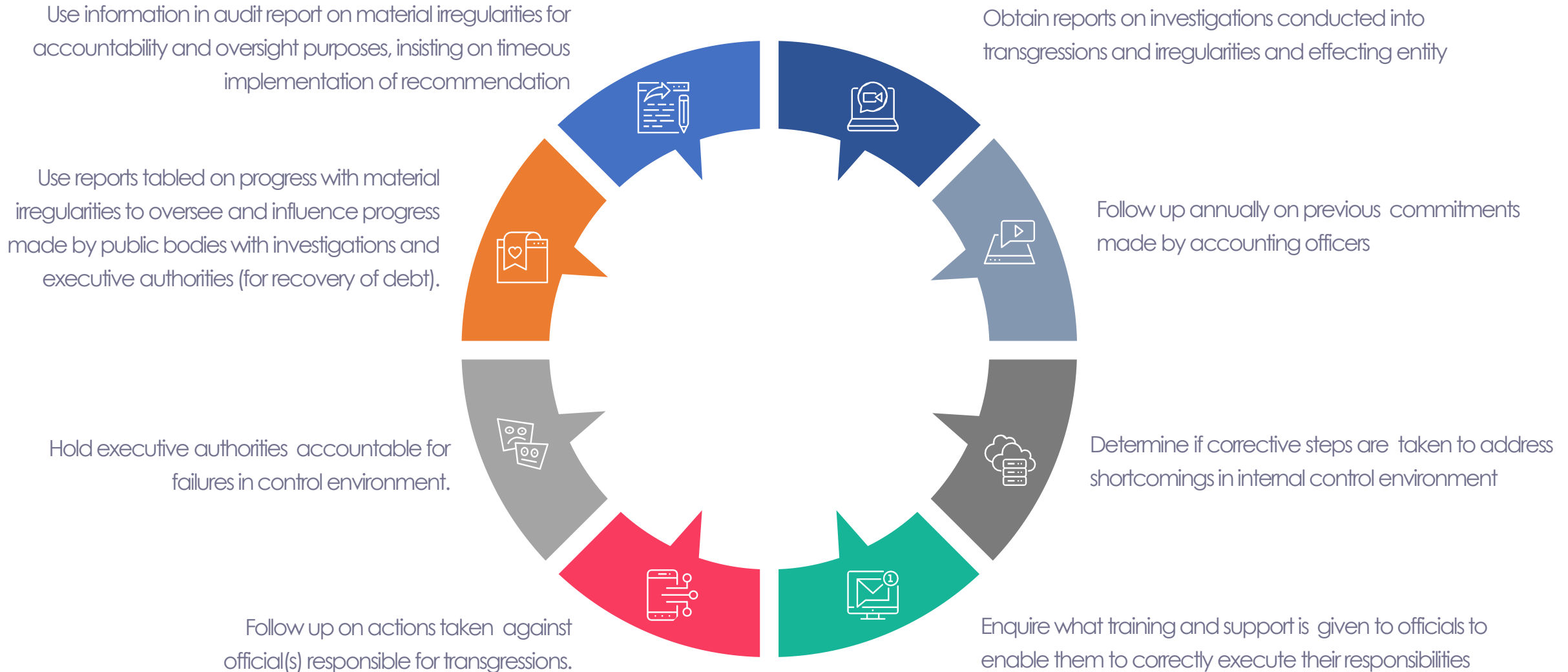
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and 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 recommendations emanating from the *Budgetary review and recommendations report (BRRR)*.



# What we understand as the role of oversight





AUDITOR-GENERAL  
SOUTH AFRICA

# Status of Records Review



# Status of records review objectives and format

Identify key areas of concern that may derail progress in preparation of financial and performance reports and compliance with relevant legislation, and may result in regression in audit outcome

Provide our assessment of status of key focus areas we reviewed

Assess progress made in implementing action plans / follow through on commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

## Status of records review (SoRR)



Follow-up procedures



Analysis of financial and non-financial information  
(internal and external reports/documents and discussions  
with management)

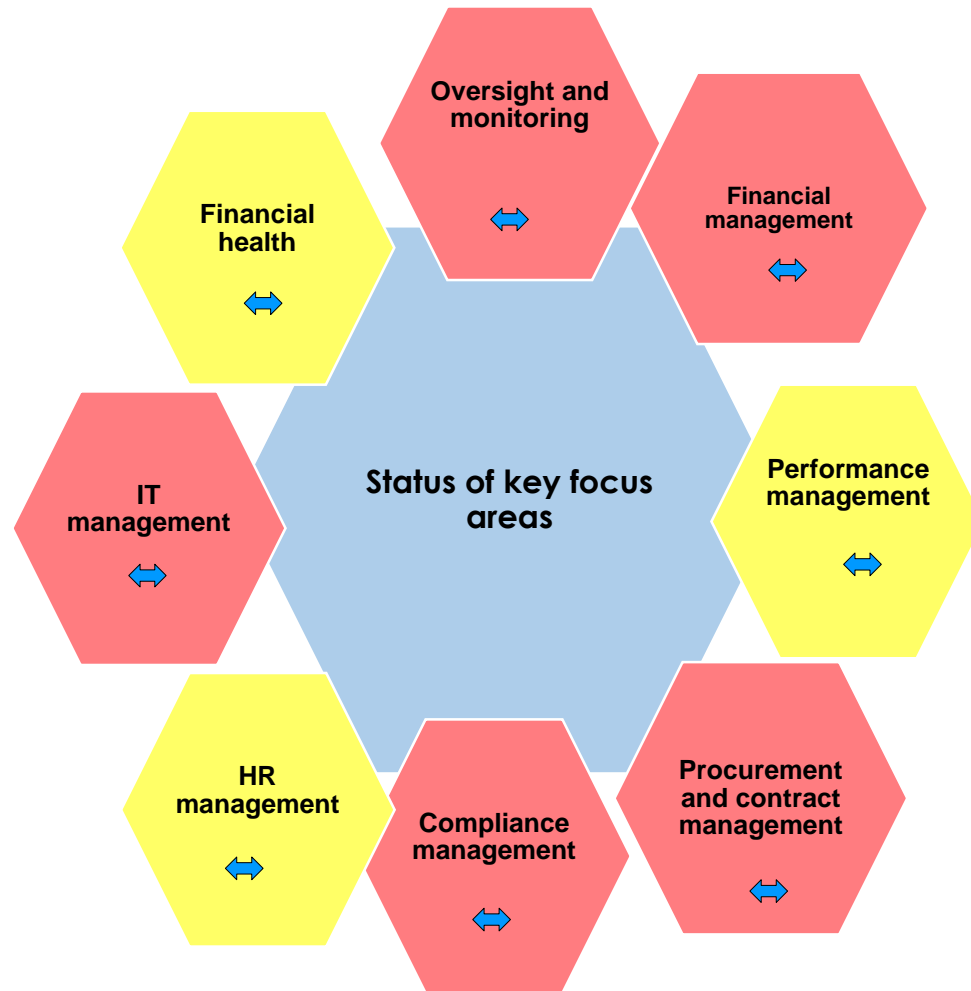
Legend:

Good	Basics are in place as no concerns were identified
Concerning	Concerns identified
Intervention required	Level of concerns identified indicates that AO needs to urgently intervene to prevent audit failure

Movement is assessed as follows:

	Improved
	Unchanged
	Regressed

# Status of records review – Department of Defence (DOD) as at 31 December 2021





# Key insights on focus areas: DOD

---

## Oversight and monitoring

- The department has not implemented preventative controls and consequence measures to address the issue of the department's employees doing business with the department and other state institutions in contravention of Public Service Regulation 13(c).
- There is a concern from the audit committee that the department has not taken appropriate actions to monitor the implementation of action plans to address internal control deficiencies and audit findings raised.
- After more than two years, the critical post of the chief audit executive has not yet been filled. The Internal Audit Division is still not sufficiently resourced relative to the size and nature of the department's operations.

## Financial management

- The department did not establish adequate and sufficient internal controls to ensure that tangible asset registers are regularly updated and necessary adjustments are made to the registers. In the prior year, the department was qualified on assets that are recorded in the registers but that could not be verified to exist. The department is still in the process of correcting the tangible asset registers for assets that were previously not verified to exist.
- During the 2020-21 audit, the department did not establish adequate and sufficient internal controls to monitor leave processing, as a result not all leave transactions were recorded. The action plan to address this matter was still being implemented and thus we have not verified the adequacy of the plan.
- The department did not fully record irregular expenditure in the past three years, this resulted in the qualification on completeness of irregular expenditure. The CFO tasked the internal audit division with reviewing procurement transactions to identify all instances of irregular expenditure. At the date of our review, six procurement units (out of 73 units) had been completed. The rest of the procurement units will be completed by end of March 2022. At time of our review, the department had not disclosed the disputed irregular expenditure of R1,53 billion identified in the prior year

# Key insights on focus areas: DOD (cont.)

## Procurement and contract management

- In the prior year, we reported a number of audit findings relating to non-compliance with procurement and contract management legislation. Based on our review of procurement-related action plans, we noted that most actions were still in progress, with some having a planned completion date of February 2022.
- Based on our review of the irregular expenditure registers and interim financial statements, we noted that the department has already incurred irregular expenditure of R61,5 million.
- The SCM function remains located within the logistics environment, contrary to the requirement of treasury regulation 16A4.1, which states that the SCM function must be under the direction of the CFO. No progress has been made in addressing this matter to deal with the non-compliance.

## Compliance management

The balance of irregular expenditure that has not been dealt with as disclosed in the interim financial statements amounts to R10,5 billion, while the balance of fruitless and wasteful expenditure amounts to R428 million. At the date of our review, the department had a total of 523 cases of irregular expenditure and 88 cases of fruitless and wasteful expenditure recorded on the respective registers. The status of the investigations is depicted as follows:

Status of investigation	Fruitless and wasteful expenditure cases	Irregular expenditure cases
In progress	24 (27%)	300 (57%)
Not started	54 (62%)	207 (40%)
Finalised	10 (11%)	16 (3%)
Total	88	523

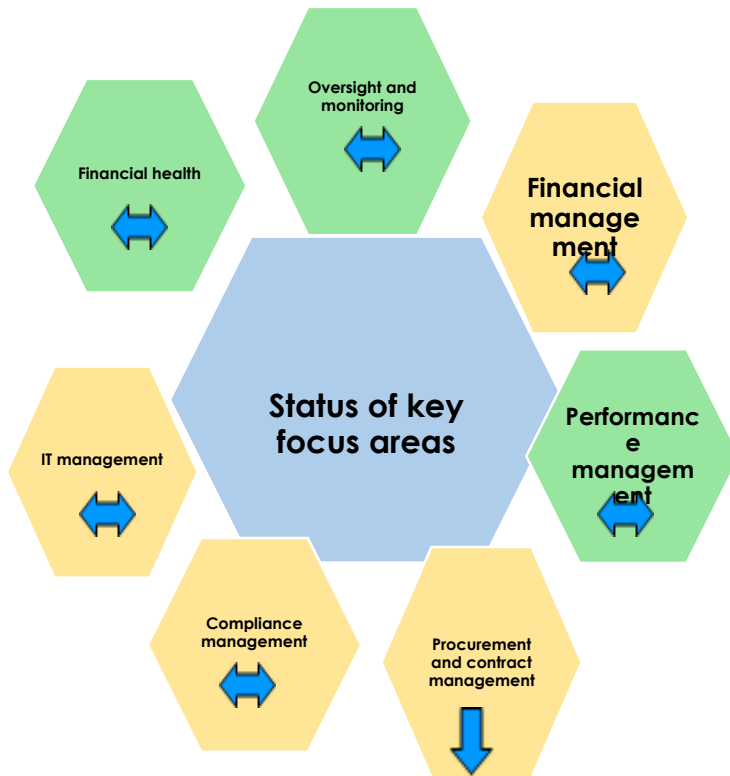
# Key insights on focus areas: DOD (cont.)

## Compliance management

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, as provided in the table below.

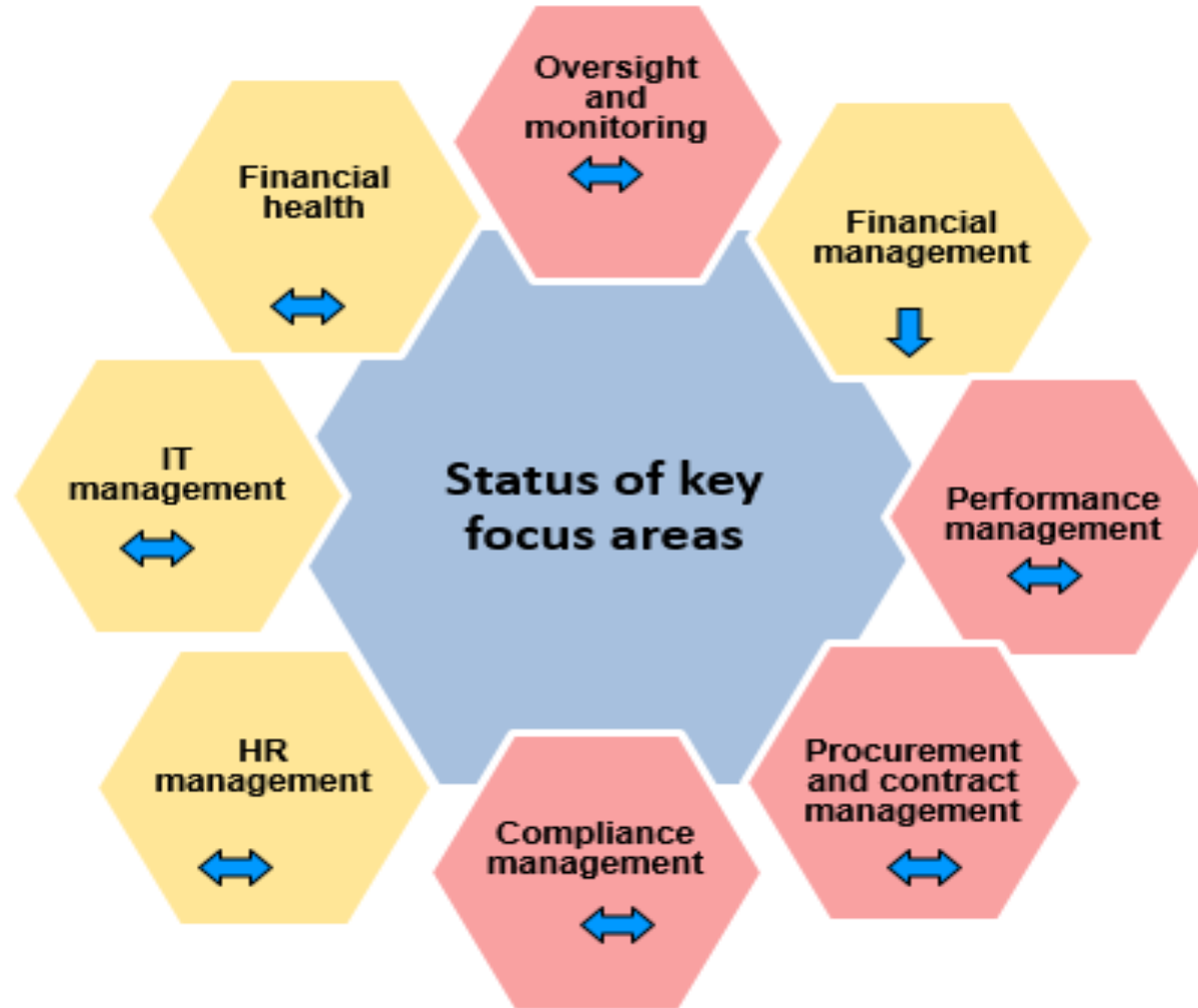
No.	Description	Date	Amount	Status
1	Asset management contract awarded in 2013. This contract ended in 2016.	2013-2016	604 531	The investigation commenced on 24 June 2020. The report was finalised in May 2021 and handed over to the accounting officer (AO) and Chief of the South African National Defence Force (CSANDF) for review and decision.
2	Continuous asset and inventory verification contract awarded in February 2017	2017-2021	616 900	The Internal Audit Division finalised the investigation on 30 November 2020 and submitted it to the AO and CSANDF for review and to implement the recommendations.
3	Through life capability management (TLCM) contract. This contract ended during the 2018-19 financial year.	2015-2019	239 040	The investigation by the inspector-general commenced on 23 June 2020. The report was finalised and handed to the AO and CSANDF in June 2021.
4	Eco Park Leased Properties unutilised	2015-2019	108 000	The Finance Division finalised the investigation on 30 November 2020 and submitted it to the AO and CSANDF for review and further action.
5	Repairs and maintenance to 1 Military hospital	2006-2020	453 698	The investigation report was finalised in December 2020 and handed over to the AO and CSANDF for further action.

# Status of records review – Armaments Corporation of South Africa SOC as at 31 December 2021



Focus area	Insights
<b>Financial management</b>	<ul style="list-style-type: none"> <li>The compilation of the financial statements are performed through the collation of information from various legacy systems. The procurement of an ERP system to assist in this regard has not yet been completed, which indicates that the risk of possible delays and errors still exists as manual interventions will still be required when compiling the financial statements.</li> <li>Management compiled action plans and items due at the time of review were duly implemented.</li> </ul>
<b>Procurement and contract management</b>	<ul style="list-style-type: none"> <li>In the previous two years, we raised findings relating to single-source suppliers being approved as sole suppliers. We emphasised the importance of SCM officials having a clear understanding of the difference, as there is a risk of possible irregular expenditure if there is no evidence of appropriate approval.</li> <li>The chief executive officer (CEO) has committed to review the SCM structure and roll out refresher training to strengthen controls in this area.</li> </ul>
<b>Compliance management</b>	<ul style="list-style-type: none"> <li>Armscor incurred some irregular expenditure in the current year due to not following SCM processes for appointing single-source suppliers.</li> <li>The key matters as detailed in the procurement section above would be key to assist the entity in addressing this non-compliance.</li> </ul>
<b>IT Management</b>	At the time of our review, management was still in the process of addressing prior-year audit findings.

# Status of records review – Department of Military Veterans (DMV) as at 31 December 2021



# Key insights on focus areas: DMV

## Oversight and monitoring

- The internal audit unit is not adequately capacitated as there is currently only one employee within the unit. The department has embarked on a process to appoint an external service provider to support the internal audit function, but the process has not yet been finalised.
- The director of internal audit (DIA) is currently acting as the Chief Financial Officer and there is currently no official acting in the DIA role, which puts further strain on the internal audit unit. When the DIA returns to her position, she will review activities for which she was a preparer or reviewer, posing a self-review threat to independence.
- The audit committee comprises three members; however, the membership of the third member has been suspended. As a result, the department does not meet the requirements of section 77(a) of the PFMA, which requires that the audit committee consist of at least three persons. This also impacts the oversight decisions made as the audit committee currently does not meet the quorum requirements of three members.
- The quarterly reports for the first and second quarters were submitted to the National Treasury and the executive authority without being reviewed by the audit committee in contravention of Treasury regulation 3.1.10(d)
- The department has some policies that have not been reviewed for five years, as well as other policies that are in draft and have not yet been signed for final approval, but are deemed to be in effect.
- The department does have processes in place for monitoring of action plans developed to address internal control weaknesses identified in the prior year; however, some of the actions as per the action plan have not yet been implemented and will be actioned only on or before 31 March 2022.

## Human resource management

- The following long-outstanding key vacant positions must be filled to address service delivery challenges within the department and to maintain stability within leadership:
- Deputy Director-General: Corporate Services (vacant since 1 September 2019) and Deputy Director General: Socioeconomic Support (vacant since January 2017).
- The department's organisational structure was approved on 30 June 2010 and has been under review for a number of years.

# Key insights on focus areas: DMV (cont.)

## Performance management

- The department has underachieved on its performance for the period 1 April 2021 to 31 December 2021. The department's overall achievement on its performance objectives was recorded at 42%. For the socio-economic support programme, the department had planned for five targets for the third quarter and only one was achieved. The department is currently in the process of determining the budget implications of fully implementing the policy for pensions and subsidised public transport. These two indicators were not budgeted for in the 2021- 22 financial year and the related planned targets have not been achieved.
- The internal audit's reports noted that for the reported performance information for quarter one, there were differences between the reported achievement and the supporting documentation.

## Compliance management

- We reviewed the progress made to implement the recommendations by the Department of Planning, Monitoring and Evaluation (DPME) as part of initial investigation into prior years' irregular expenditure. We noted that written warnings were issued to four of the affected officials and the rest of the of the 64 cases have been provided to the external investigator. The delays in concluding investigations may lead to non-compliance with the PFMA and treasury regulation 4.1.2, and may result in negative audit outcomes.
- The department has not complied with treasury regulation 8.2.3 on paying service providers within 30 days for the period 1 April 2021 to 30 November 2021. This may result in the department incurring fruitless and wasteful expenditure for interest paid on late payments to service providers. The department should expedite the process of ensuring that LOGIS is fully functional to improve its operating effectiveness in expenditure management.

## IT management

Management was in the process of addressing weaknesses reported in 20-21. The department was still using the military veterans beneficiaries database (MVBD) based on the Microsoft Access tool to manage military veterans' beneficiaries. The MVBD does not have functionality to log and retain activities performed by users or changes made on MVBD. As a result, assurance on implemented user access and change management controls around the MVBD can not be provided. The Department of Military Veterans and the State Information Technology Agency (SITA) have entered into an agreement to develop and implement the integrated database management system (IDBMS).



AUDITOR-GENERAL  
SOUTH AFRICA

# Material Irregularity



# At the centre of the PAA amendments – material irregularity

Irregularity

What is a material irregularity?

Material irregularity

Impact

- any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty** identified during an audit performed under this Act that **resulted in or is likely** to result in ...
- a **material financial loss**, the **misuse or loss of a material public resource**, or **substantial harm to a public sector institution or the general public.**

To allow for establishing capacity and processes, we followed 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 which 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.**

# Status of previously reported material irregularities



## Status of MIs reported

### Description

#### 1. 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.

#### 2. 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 accounting officer (AO) was notified of the MI during the 2019-20 audit

### Status:

- Remedial actions and AG Directive were issued on 17 August 2021 as the previously issued recommendations were not implemented within the stipulated timeframes.
- The remedial actions and directive have also not been implemented; therefore, the MI is escalated further within the AGSA structures for the next course of action.
- Audit report recommendations were issued on 12 August 2021 as the AO had not taken appropriate steps to address the MI. The recommendations on disciplinary action and recovery of financial loss have not been implemented. The MI has been escalated for the next step.

# Status of previously reported material irregularities- (cont.)



## Status of MIs reported

### Description

#### 3. Unfair award of fuel contract

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 non-compliance caused a material financial loss of R2,57 million due to a higher price being paid for the fuel.

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

The AO was notified of the MI on 15 July 2021 and convened a board of inquiry on 16 August 2021 to investigate and finalise by 20 September 2021.

#### 5. 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 into the country.

### Status:

- We concluded that the AO has not taken appropriate steps to address the MI. The MI was referred to the Directorate for Priority Crime Investigation (DPCI) for investigation in November 2021.
- Appropriate action has not been taken to address the MI. The decision on the next course of action to be taken is under review by the MI committee.
- The AGSA is evaluating all information at its disposal to determine the next step. Currently the MI is not resolved as the first payment made has not been recovered and no action has not been instituted against officials involved.

## Material Irregularity – Actions by Portfolio Committee

---

- Portfolio Committee to follow up on the progress and action taken for the MI
- Evaluate the actions taken to prevent the MI from re-occurring
- Determine what action or consequence have been taken against those responsible for the MI and monitor implementation of consequences and recovery of losses.



AUDITOR-GENERAL  
SOUTH AFRICA

# Accelerate improvements in accountability



# *A culture of accountability to improve the lived experiences of citizens*

---

- The general report for the 2020-21 audit outcomes of national and provincial government was tabled in December 2021, the theme of this report was centered on a call to all role players to accelerate improvements in accountability.
- The overall outcomes reflected “incremental improvement” in the national and provincial government audits, with an increase in the number of clean audits. However, the report also recorded low levels of accountability among accounting officers and accounting authorities. The AGSA has emphasized in the past that a culture of consequence management should be enforced.
- There is slow progress in the implementation of the audit action plans and lack of consequence management, which negatively affected the lived experiences of citizens.
- The improvements we seek do not only reside within the domain and responsibility of the accounting officer or authority and the auditors – they depend on the entire accountability ecosystem, which includes various role-players who all need to play their part effectively to enable a culture of accountability in sustainable and meaningful ways.



AUDITOR-GENERAL  
SOUTH AFRICA

# Recommendations

# Recommendations to ensure improvement in audit outcomes

## The following must be addressed within the portfolio:

What remains which still requires attention:

Follow-up on the Material Irregularities and ensure that they are all addressed and relevant actions taken against all implicated officials.

What must be done/ actions to effectively journey towards of better audit outcomes:

Ensure that all the key audit issues reported in the status of records review under the key focus areas are timeously addressed.

## Accounting Officers/Authorities within the Defence Portfolio

- Ensure adequate and effective implementation of preventative controls.
- Develop and timely implement effective action plans to address audit findings and key deficiencies. The accounting officer/authority, with the support of the audit committee, should monitor the implementation of action plans.
- Conduct proper and timely investigations into all instances of irregular fruitless and wasteful expenditure and material irregularities to determine whether any official is liable for the expenditure, and institute disciplinary action.



## Monitoring by the Portfolio Committee

- 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.



# THANK YOU

AUDITING TO  
**BUILD PUBLIC CONFIDENCE**



[www.agsa.co.za](http://www.agsa.co.za)



**Auditor General of South Africa**



**@AuditorGen\_SA**



**Auditor-General of South Africa**