



**PFMA  
2021-22**

# Budgetary review and recommendations report (BRRR) **Portfolio Committee on Defence and Military Veterans**

28 September 2022



AUDITOR-GENERAL  
SOUTH AFRICA



## MISSION

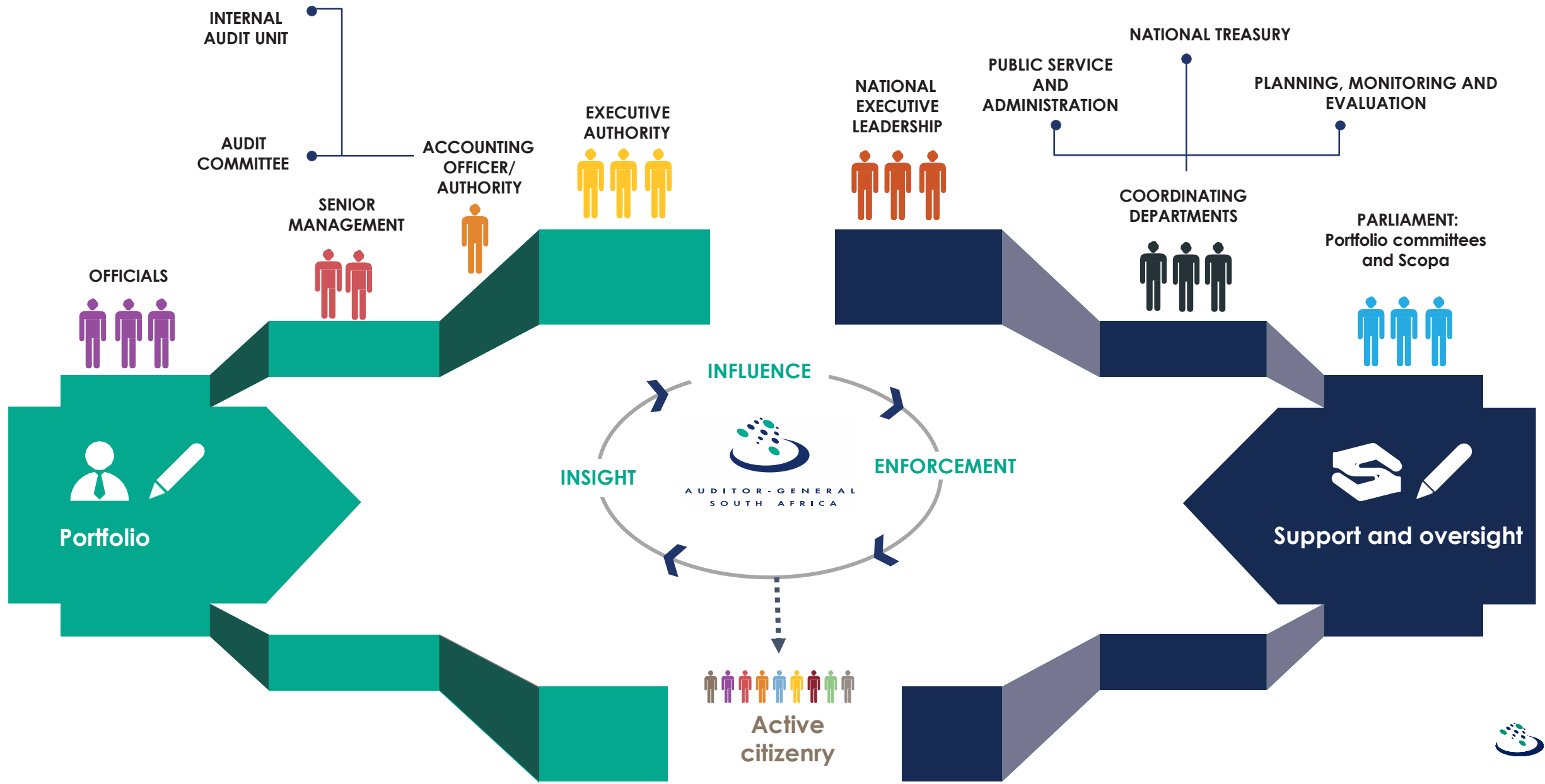
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



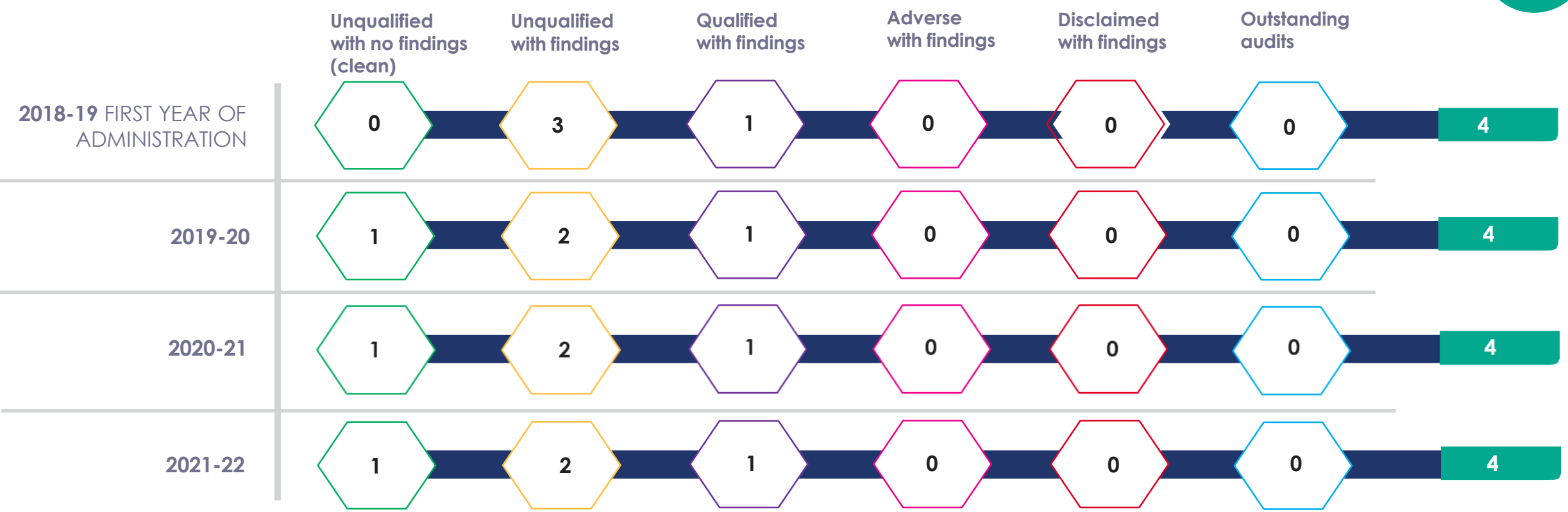
## VISION

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





# Initial improvement over administration term, thereafter overall stagnation in audit outcomes



**MOVEMENTS FROM PREVIOUS YEAR:**  
 0 ↑ 0 ↓

**FROM FIRST YEAR OF ADMINISTRATION:**  
 1 ↑ 0 ↓

Castle Control Board (CCB)

Department of Military Veterans (DMV)  
 Armaments Corporation of South Africa SOC Limited (Armscor)

Department of Defence (DoD)

None

None

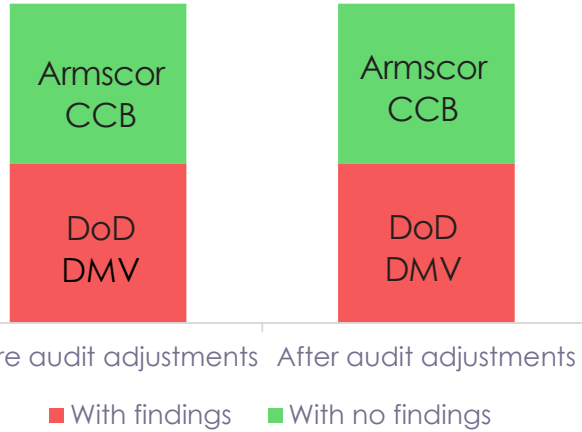
**Outstanding audits**  
 There are no outstanding audits within the portfolio



# Portfolio performance



## Quality of performance reports before and after audit



## Findings: Planning for service delivery

### DMV

- Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by the public service regulation
- Procedures to facilitate effective performance monitoring, evaluation and corrective action through quarterly reports were not established, as required by treasury regulation 5.3.1

## Findings: Reporting

### DoD

- Material misstatements were reported under **programme 2: force employment**
  - The misstatements mainly related to the classified indicator *percentage compliance with combat ready capabilities available for the SANDF*, where it was identified that certain of the capabilities (e.g. special forces medical task team, level 1 medical capability, air medical evacuation team etc.) were not supported by sufficient appropriate audit evidence

### DMV

- Material misstatements were reported under **programme 2: socio-economic support**
  - The supporting evidence provided for the indicators listed below materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence:
    - PPI 201: number of approved non-statutory forces (NSF) received from the verification panel for inclusion in the database
    - PPI 202: number of military veterans provided with newly built houses per year
    - PPI 206: number of bursaries provided to military veterans and their dependents per year
  - The planned target as per the approved annual performance plan and the performance against the planned target were not reported in the annual performance report for the following indicators:
    - PPI 205: number of military veterans participating in the subsidised public transport benefit pilot project
    - PPI 206: number of bursaries provided to military veterans and their dependents, per year
  - For various indicators, the variance between the planned target of youth and/or persons with disabilities and the reported achievement was not reported in the annual performance report
  - The planned target for the indicator PPI 204: number of military veterans participating in the pension benefit pilot project, was the number of military veterans participating in the pension benefit pilot project, while the reported achievement referred to policy in draft

## Impact

### DoD

- Capabilities may not be available to support the SANDF operational requirements

### DMV

- Delayed service delivery to military veterans

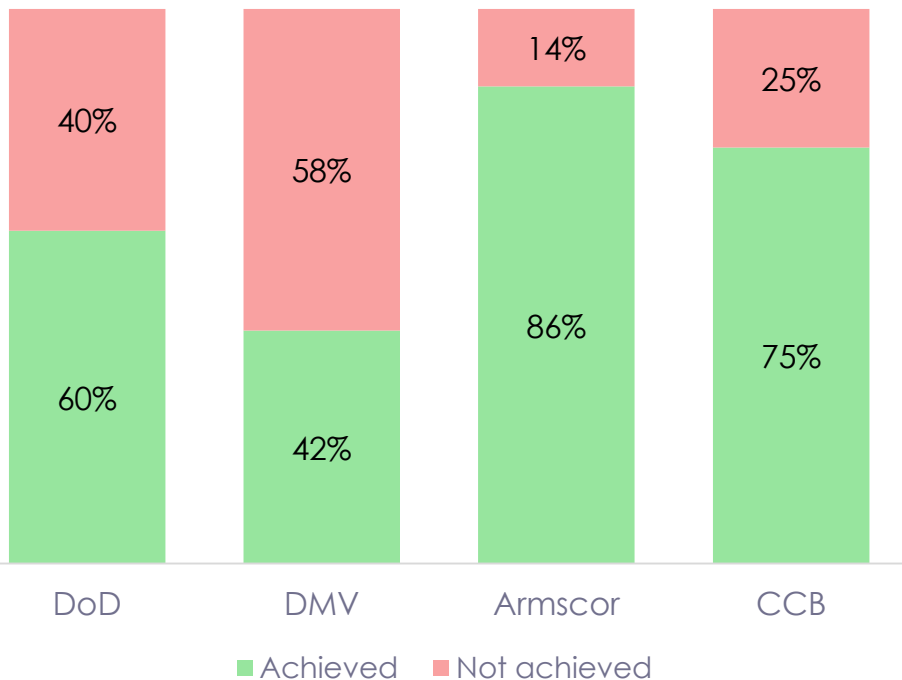


## Key targets in medium-term strategic framework for portfolio

DoD supported the following MTSF targets

- MTSF priority 6: Social cohesion and safer communities – SA's border effectively defended, protected, safeguarded and secured
- MTSF priority 7: A better Africa and world – percentage compliance with external peace missions, rescue operations and humanitarian assistance operations

## Achievement of annual targets as reported in annual performance report (all indicators) – 2021-22



### Key targets not achieved include:

#### DoD

- Number of planned joint, interdepartmental, interagency and multinational military exercises
- Percentage compliance with joint force employment requirements as resourced (*classified*)
- Percentage combat-ready capabilities available for the SANDF (*classified*)
- Percentage of the value of reimbursement by the UN/AU recognised

#### DMV

- PPI 201: Number of approved Non-Statutory Forces (NSF) received from the verification panel for inclusion in the database
- PPI 202: Number of Military Veterans provided with newly built houses per year
- PPI 204: Number of Military Veterans participating in the pension benefit pilot project
- PPI 207: Number of Military Veterans with access to health care services

### Impact of targets not achieved

#### DoD

- Capabilities may not be available to support the SANDF operational requirements

#### DMV

- Delayed service delivery to the military veterans



# Achieving key performance targets – summarised information from performance report

## Department of Defence (DoD)

Performance indicator	Target	Actual performance	Reason for non-achievement
<b>Programme 2: force employment</b>			
Number of planned joint, interdepartmental, interagency and multinational military exercises	2	1	Ex Good Hope was cancelled by mutual agreement because the German Defence Force experienced continuous challenges to providing the required capabilities for the exercise
Percentage of the value of reimbursement by the UN/AU recognised	70%	47%	UN funding is reliant on contributions from donor countries





# Achieving key performance targets – summarised information from performance report

## Department of Military Veterans (DMV)

Performance indicator	Target	Actual performance	Reason for non-achievement
<b>Programme 2: socio-economic support</b>			
<b>PPI 201:</b> Number of approved non-statutory forces (NSF) received from the verification panel for inclusion in the database	3 000	151	3 005 files were assessed by the verification panel, but only 151 applicants could be recommended for inclusion on the national military veterans database
<b>PPI 202:</b> Number of military veterans provided with newly built houses per year	355	71	<p>Poor delivery of houses by Department of Human Settlements (DHS) due to a variety of challenges such as:</p> <ul style="list-style-type: none"> <li>• delays in SCM processes to appoint contractors</li> <li>• delays in signing MoUs with the HDA</li> <li>• lack of serviceable sites to build houses</li> <li>• illegal invasions</li> <li>• recent geotechnical investigation reports unavailable in different provinces</li> </ul> <p>National DMV database verification still in progress across provinces, which also has an impact on those who may qualify if they are registered on the database.</p>
<b>PPI 204:</b> Number of military veterans participating in the pension benefit pilot project	200	Policy in draft process and awaiting final actuarial report	Policy is in draft process, pending the final actuarial report from the appointed service provider and engagement with stakeholders
<b>PPI 205:</b> Number of military veterans participating in the subsidised public transport benefit pilot project	200	0	Policy is in draft process and, due to the complexity of the public transport sector, extensive data and information collection is still required along with stakeholder engagement to assist policy development and implementation





## Project Thusano

Assessed the appropriateness of the continued technical and professional services for transport technique provided by a Cuban supplier based on a needs' analysis to determine economy efficiency and effectiveness. The expenditure to the Cuban supplier since 2014 was R1,2 billion, and the total cost of Project Thusano was R1,5 billion

### Impact:

- Procurement of services not economical when compared to SA industry needs
- Denied skilled South Africans the opportunity to be employed in sector and reduce the unemployment rate
- Denied an additional 15 mechanical engineers and 33 mid-level technicians an opportunity to be trained

### Cause:

No evidence of needs assessment and cost-benefit analysis to inform procuring services relating to tank and transport vehicles through project Thusano

### Recommendations to AO:

- Take effective and appropriate steps to prevent further irregular expenditure
- Reassess continuing the agreement for procurement of services for military transport and tank technique
- Examine different alternatives to achieve the objectives in the most economic, efficient and effective manner

## Overall observation results on Project Thusano

### Limitation of scope

Limitation of scope as all information was not provided and access to production centres was not granted. Auditors **were** unable to comprehensively evaluate the economical, efficient and effective provisioning of services for tank and transport technique on project Thusano

### Open-ended contracts

Supplementary agreements to the initial contract were used to directly add or extend services, resulting in open-ended contracts. The process was not fair, equitable and transparent because the market was not given an opportunity to participate in the additional procurement

### Uneconomical repair and maintenance services for tank and transport vehicles

The DoD paid 3,8 times (379%) more per hour than industry norms. This cost an additional R240 million

### Uneconomical professional/vocational training services for tank and transport military personnel

Training provided for transport and tank mechanical engineers and technicians in Cuba is between 86% and 162% more expensive (R16 million) than in South Africa.





## Department of Military Veterans

The audit included an assessment of compliance by the department with the Military Veterans Act 18 of 2011 paragraph 6(b) and Military Veterans Regulations 2(1)(a) & (b) **in relation to the database of military veterans and military veteran affairs**

### Impact

- Due to the lengthy registration process, individuals who qualify and are eligible for benefits may not have direct access to these benefits
- Without maintaining an accurate and complete database, benefits may be provided to military veterans that are not eligible to receive such benefits

### Cause

- Lack of adequate review and monitoring controls over compliance with the military veteran regulations to ensure that only military veterans and dependents registered on the database are provided with benefits
- Delays in the process of ensuring that the department has a credible military veterans database

### Recommendations to AO/AA

- Management should ensure that validation checks are conducted to confirm that only military veterans registered on the national military veterans database are provided with benefits
- The process of validating information on the military veterans database and verification and registration of military veterans on the database should be expedited

## Overall observation results of service delivery work

### Lengthy period to register military veterans

- The department took longer than 12 months to register individuals onto the database

### Benefits were provided to persons or individuals not on the database

- In some instances, benefits were paid to persons who were not confirmed or registered on the national military veterans database, as we could not trace the individuals or persons who received the benefits to the military veteran's database

### Accuracy and validity of persons added onto the database

- The department is data cleansing, rechecking the dataset to ensure that all persons eligible to register are included on the database; however, during the audit we could not confirm the number of military veterans that were added to the database as reported by the department



# Material irregularities



## The material irregularity (MI) process was implemented at the:

- Department of Defence
- Department of Military Veterans
- Armaments Corporation of South Africa SOC Ltd (Armcor)

## The MI process will be phased in during 2022-23 at:

- Castle Control Board

If **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:



means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit 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**



# Identified MIs – next steps and responsibilities

## 1 AGSA and AO/AA

**AO/AA...** implements the committed actions to address the MI and improves controls to prevent recurrence

**AGSA...** follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

## 2 AGSA and AO/AA



**AO/AA...** cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

**AGSA...** provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

## 3 AGSA and AO/AA



**AO/AA...** implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

**AGSA...** follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

## 4 AGSA and AO/AA

**AO/AA...** implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

**AGSA ...** follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days

### AO/AA is dealing with MI

### MI is referred to a public body

### Recommendation included in audit report

### Remedial action issued



#### Executive and oversight

**Executive...** monitors progress and supports AO/AA in addressing the MI and improving controls

**Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes



#### Executive and oversight

**Executive...** supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

**Oversight...** monitors progress with investigation and calls public body to account for undue delays in investigation



#### Executive and oversight

**Executive...** monitors progress and supports AO/AA in implementing recommendations and improving controls

**Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes



#### Executive and oversight

**Executive...** monitors progress and supports AO/AA in implementing remedial action and improving controls

**Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes

# Material irregularities identified



## 5 MIs (Department of Defence)

Notified	Type	MI description	Status of MI	Status description
18/07/2019	Procurement non-compliance, resulting in overpricing of procured goods and services	Inventory and asset management contract was not awarded only to the bidder that scored highest points in the evaluation process	Appropriate action not taken – remedial action issued in 2021 not implemented	The AO and the chief of the SANDF did not implement the remedial actions for consequence management of both civilian and military command officials
11/08/2020	Inefficient use of resources – no benefit derived from cost	Lease payments made for unoccupied office buildings	Appropriate action not taken – recommendations issued in 2021 not implemented	The second board of inquiry, convened in December 2021, acknowledged the financial loss but concluded that no officials should be held accountable for the irregularity. We assessed the outcome of the board of inquiry and concluded that its conclusion was not appropriate. Therefore, appropriate actions were not taken to implement the AGSA's recommendations
11/08/2020	Procurement non-compliance, resulting in overpricing of procured goods and services	Unfair award for fuel supply	MI referred and investigation in progress	The MI was referred to the Directorate for Priority Crime Investigations on 15 November 2021 and accepted on 6 December 2021. The investigation is currently in progress





# Material irregularities identified



## 5MIs (Department of Defence)

Notified	Type	MI description	Status of MI	Status description
15/07/2021	Uneconomical procurement resulting in overpricing of goods and services procured	Personal protective equipment (PPE) not procured in a cost-effective manner	Appropriate action not taken - the inquiry into the MI is still pending	A board of inquiry (BOI) was convened on 16 August 2021 to investigate the MI. The BOI had to be reconvened due to the shortcomings identified regarding the first inquiry. As at the date of the audit report, a new board of inquiry had not been convened. We concluded that appropriate action is not being taken to address the MI.
13/08/2021	Inefficient use of resources – no benefit derived from cost	Unregistered drugs imported without approval from the regulating authority	Appropriate action not taken – disciplinary actions and recovery not taken	<p>The ministerial task team investigated the procurement of Heberon drugs, concluded its investigation and made certain recommendations including taking disciplinary action. At the instruction of the South African Health Products Regulatory Authority, the department subsequently repatriated all Heberon drugs to Cuba</p> <p>The AO did not provide any further feedback on actions taken to resolve the MI, including the R33,5 million paid. We therefore concluded that the actions taken were not adequate to fully address the MI</p>





## Observations from MI process

- Further financial losses were prevented on two MIs – inventory and asset management contract (R250,56 million) and importing unregistered Heberon drug (R226,85 million)
- No recoveries have been made on losses incurred. This relates to lease payments of R108 million and payment of R33,5 million for Heberon drugs
- Completing the disciplinary processes against officials responsible was delayed for all DoD MIs. In terms of the Defence Act, the AO (secretary for defence) does not have the authority to take appropriate steps to institute disciplinary action against military officials. However, the AO also did not take disciplinary action against civilian officials under her direct supervision. The chief of the SANDF has also not taken any action against military command officials
- Because of the current DoD structure and accountability framework, and current implementation of the PFMA and the provisions of the Defence Act, the auditor-general had to carefully reconsider the next course of action regarding these MIs

## Recommendations for portfolio committee

- The portfolio committee should continue to actively engage with all the key role players responsible for resolving the MIs and call on them to account for their lack of action
- The portfolio committee should request that these role players provide a plan of action with specific time frames for implementing consequence management and recovering losses, which are critical steps required to address the DoD MIs
- The committee should obtain an assessment of the department's current accountability framework to understand the challenges and possibly provide guidance on how the limitations/challenges can be resolved



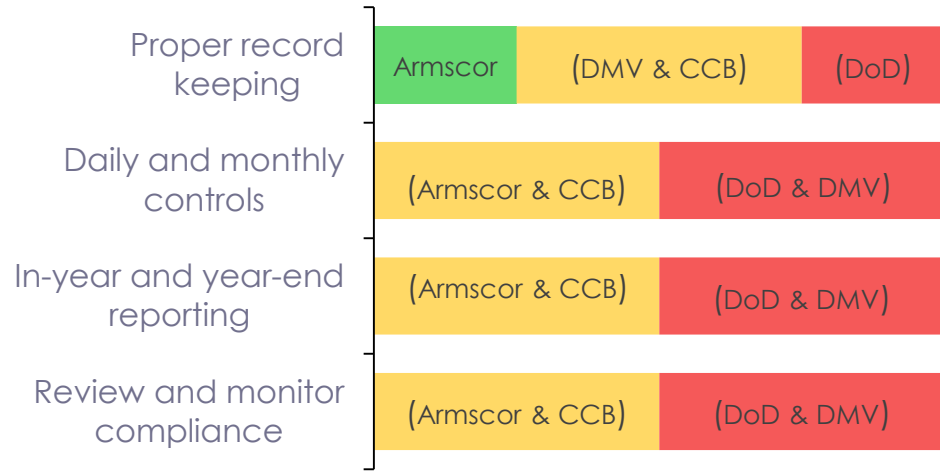


# Financial management and compliance

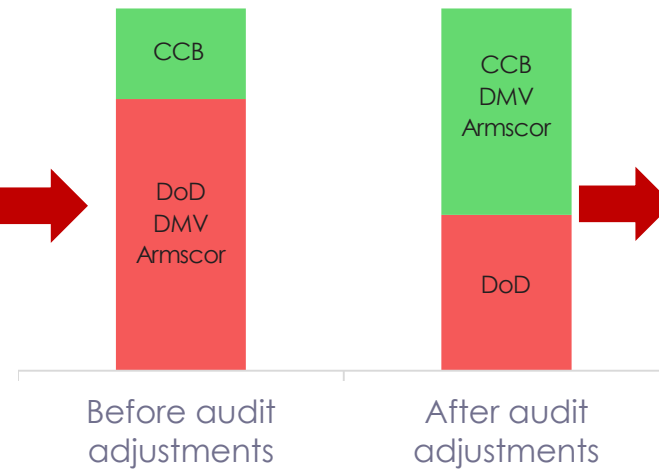


## Impact on quality of financial statements submitted for auditing

### Financial management controls



■ Good   
 ■ Of concern   
 ■ Intervention required



■ Unmodified   
 ■ Modified

### DoD qualification areas

- Inherent limitation of scope on goods, services and investments
- Irregular expenditure reported is incomplete
- Movable tangible capital assets not accurately and completely recorded
- Employee benefits – opening balance overstated

### Impact

- The full extent of irregular expenditure remains unknown, thus the control environment is not strengthened to ensure full compliance with applicable legislation
- Misappropriation of assets due to lack of proper record keeping and monitoring controls
- Leave transactions are captured late, resulting in incorrect leave payouts and misuse of leave
- Inadequate controls and quality assurance processes around financial reporting result in material misstatements in the financial statements. Financial reports are therefore not reliable and credible to support decisions made by management



## Revenue



## Expenditure



Debt-collection period > 90 days at **DoD**  
Average debt-collection period = **105 days (DoD)**  
More than 10% of debt irrecoverable at **DoD (30,7%)**

**R11,3 million (DoD)** of expenditure was **fruitless and wasteful**  
**Creditor-payment period > 30 days at 109 days (DMV) auditees**  
**Creditors greater than available cash** at year-end at **2 (DMV & DoD) auditees**  
**Average creditor-payment period = 12,5 days (DoD)**

## Impact



**50% (DoD & DMV) auditee ended year in deficit** (expenditure more than revenue)  
**Next year's budget will pay for expenditure of previous year(s)** – at **(DoD & DMV) auditees** it will be **more than half of their budgets**

- The DoD continued to be affected by the budget cuts in the year under review, which resulted in overspending on compensation of employees
- More than one third of the DoD's next three years' budget is already committed to pay for obligations that are already incurred as opposed to future period obligations. Claims against the state are 43% of next year's budget, excluding compensation of employees and transfers and subsidies. Should these claims realise, the DoD's available funding would be severely affected and service delivery may be negatively affected

- Claims against the DMV and accruals constitute a significant proportion of next year's budget at 63,5% and 47% respectively. Should the claims become payable, the department may be unable to achieve all planned service delivery requirements for the next year

- Armscor's financial position as at 31 March 2022 is assessed as good because the public entity received a favourable assessment for the majority of the financial indicators





2021-22



● No material findings    ● Material findings



Most common areas of non-compliance	DoD	DMV	Armscor	CCB
Procurement and contract management	X			
Quality of financial statements	X	X	X	
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	X		X	
Effecting consequences	X	X		

X Previous year's finding addressed    X New finding identified in 2021-22    X Repeat finding



## Status of compliance with legislation on procurement and contract management



2021-22

CCB

DMV, Armscor

DoD

MOVEMENTS FROM PREVIOUS YEAR:

0 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:

0 ↑ 0 ↓

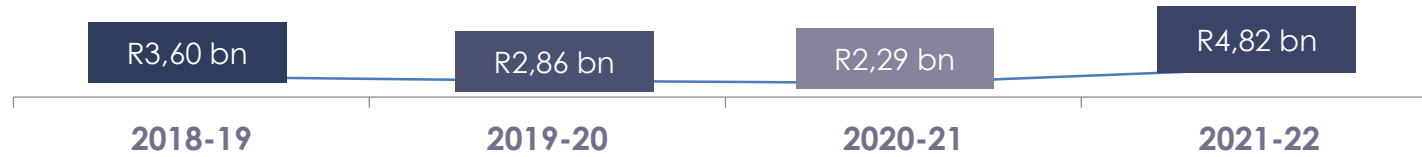
● With no findings   ● With findings   ● With material findings

Details of procurement findings	DOD	DMV	ARMSCOR	CCB
Uncompetitive and unfair procurement processes	X			
Prohibited awards to employees	X			
Prohibited awards to family members, partners or associates	X			
Limitations on audit of awards selected for testing	X			
<b>Value of limitations (DOD)</b> <b>R190 416 969.56</b>				

X Previous year's finding addressed   X New finding identified in 2021-22   X Repeat finding



## Annual irregular expenditure



## Top contributors

R4,77 bn DoD

R38,54 m DMV



### Irregular expenditure is not complete

Qualifications = DoD

The Department of Defence has been qualified on completeness of irregular expenditure in the current and the previous three financial years.

## Impact assessment of irregular expenditure incurred

### Breach of five pillars of procurement – equitable, fairness, cost effectiveness, transparency and competitiveness:

**DoD - R430,9 million** – South African procurement laws were not followed under Project Thusano, which emanates from the bilateral agreement with the Cuban government. The same contract was used to procure Heberon drugs, which were not authorised by the regulating authority and could not be used in the country. The drugs were later returned to Cuba. This matter resulted in an MI that has not been resolved. (competitiveness)

**DoD - R273,5 million** – The department did not specify the local content minimum thresholds for the procurement of PPE to support local production. The instances relate to prior year irregular expenditure that was not previously disclosed. No further irregularities were identified. (equitability)

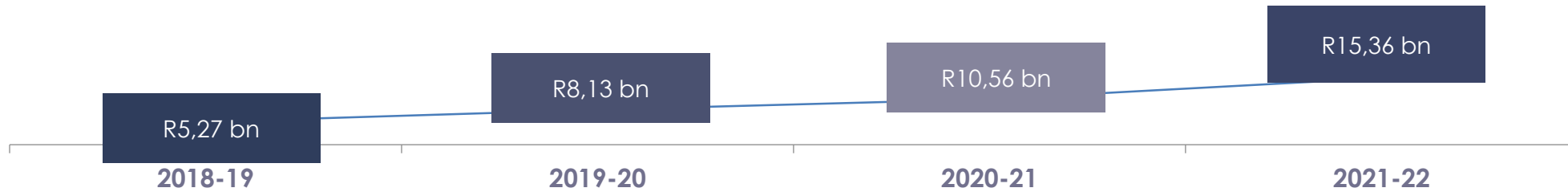
**DMV - R30,3 million** – South African procurement laws were not followed when procuring goods in prior years. (competitiveness) An estimated R7 million included as part of the irregular expenditure relates to expenditure that could have been avoided had due diligence been performed prior to approving the emergency housing to military veterans. The full extent of the potential financial loss as a result of the emergency accommodation is still being quantified. (cost effectiveness)

**Other:** DoD - R2,707 billion – Compensation of employees (COE) expenditure was above the COE budget. No wastage of resources has been identified as a result of this overspending. The shortfall was covered by shifting funds/savings under goods and services from different programmes, mainly from Landward Defence, Air Defence, Maritime Defence and Military Health Support

DMV – R7,8 million – Compensation of employees, the appointment processes were not followed as the employee was appointed in a position that was not on the approved establishment



## Closing balance of irregular expenditure continues to increase



**Top two contributors (R15,33 billion) to irregular expenditure not dealt with constitute 99% of R15,36 billion**

- R15,18 bn DoD
- R156,16 m DMV
- R26,83 m Armscor
- R0,08 m CCB



## How have auditees dealt with irregular expenditure



## Reasons for IE not dealt with:

- Delays in completing investigations into irregular expenditure
- Lack of effective consequence management to ensure that for finalised investigations, disciplinary actions are taken against officials who made and/or permitted irregular expenditure





# Conclusions and recommendations



## Overall root causes of significant findings

- Slow implementation of action plans to address audit findings (DoD & DMV), and deficiencies in IT systems (Armcor)
- Consequence management was not adequately implemented for poor performance and transgressions (DoD & DMV)

## Key recommendations to, and commitments by, accounting officers and authorities

- The AO/board, with the support of the audit committee, should monitor the implementation of action plans to address audit findings and root causes in a timely manner
- The AO should conduct proper and timely investigations into all instances of irregular and fruitless and wasteful expenditure to determine whether any official is liable for the expenditure and institute corrective or disciplinary action. Once investigations are concluded, disciplinary action and recovery, where applicable, should be instituted without delay. This includes taking appropriate actions to fully address the material irregularities

### Commitments

- **DoD AO:** Committed to reduce procurement centres to ensure that they are manageable and to continue engagements with the executive authority and chief of the SANDF on implementing consequence management
- **DMV AO:** the DMV will formulate a turnaround strategy in the form of an action plan to ensure improvement in outcomes. The legal unit will be capacitated to assist in addressing the issues of consequence management
- **Armcor CEO:** Review SCM structures and provide training in sole and single sourcing. Ensure that the internal audit unit is adequately capacitated

## Commitments by executive authority

- Instructions regarding implementation of consequence management were issued to the AO and C SANDF. These include specific instructions to the C SANDF regarding the Heberon MI.
- The contract for Project Thusano will be reviewed by the department's legal unit to ensure that the DOD mutually benefits from it.



## In 2020-21, we recommended the following:

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

- implementing action plans and preventative controls
- implementing 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



## Overall reflections:

The Portfolio committee exercised oversight by calling on the executive authority and accounting officers to account on action plans and consequence management

## Key messages going forward: Portfolio committee

- 1 Obtain and actively track commitments made, specifically in relation to the AO/AA implementing action plans and other corrective measures to ensure improvement in the portfolio audit outcomes
- 2 The portfolio committee should continue to actively engage with all role players within the accountability ecosystem to ensure that appropriate measures to resolve the MIs are effectively implemented and that consequence management is taken against identified officials
- 3 The portfolio committee should request regular feedback on finalising long outstanding cases of implementing consequence management and steps taken to address material irregularities within the portfolio
- 4 The portfolio committee should monitor the accountability ecosystem to ensure that all role players/assurance providers effectively exercise their roles to improve audit outcomes and ensure service delivery is provided by the portfolio
- 5 The portfolio committee should assess departments and public entities strategic and annual performance plans to effectively fulfil their oversight role



# THANK YOU



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