



AUDITOR - GENERAL  
SOUTH AFRICA

## BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR):

Portfolio Committee on  
Defence and Military  
Veterans

*28 September 2022*

*Briefing document on the  
audit outcomes for the  
Defence portfolio:  
2021-22*

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## 1. Introduction

### 1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) 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.

### 1.2 Role of the AGSA

Our role as the 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).

### 1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resource
- Recommendations on the forward use of resources

## 1.4 Mandate of the AGSA and the portfolio committee

### Slide 2

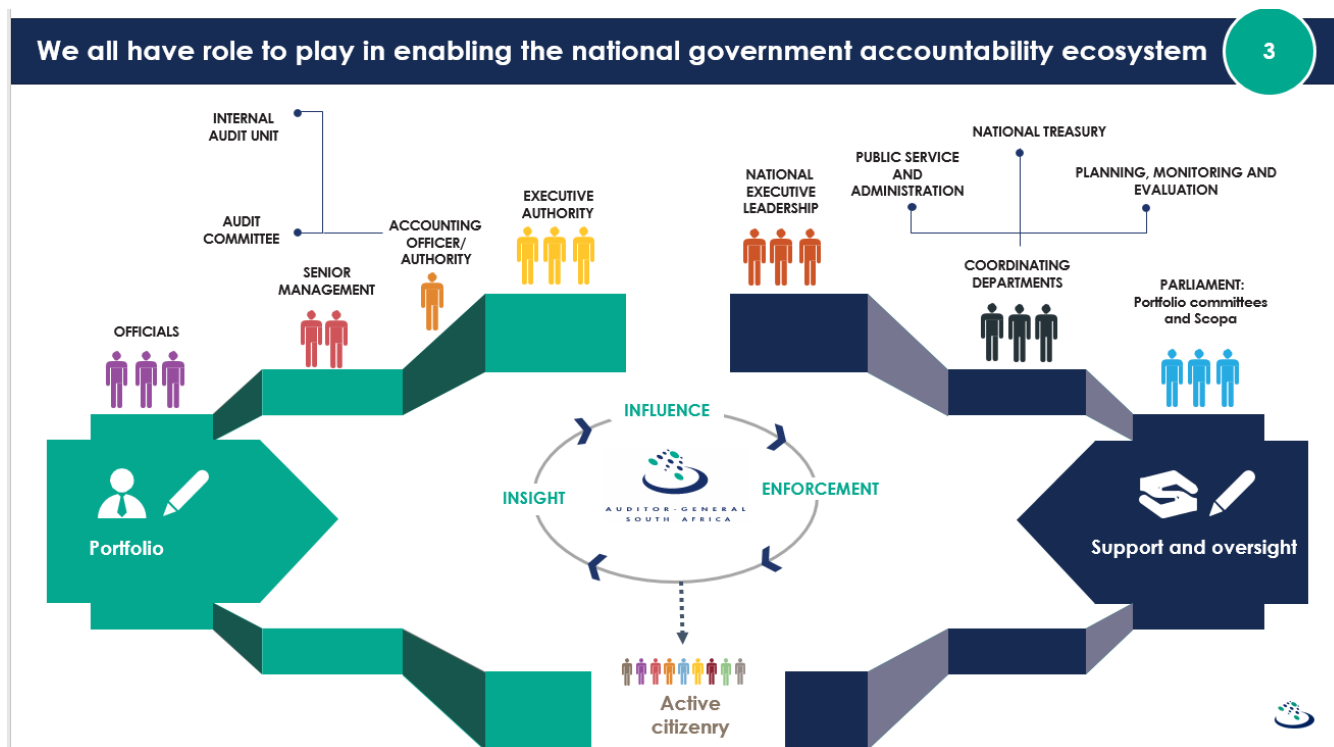
AGSA mandate	Portfolio committee mandate
<p><b>Section 188 of the Constitution</b></p> <p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p> <p><b>Section 20(2) of the Public Audit Act (PAA)</b></p> <ul style="list-style-type: none"> <li>• The AGSA must prepare an audit report containing an opinion/conclusion on the: <ul style="list-style-type: none"> <li>○ fair presentation of the financial statements</li> <li>○ compliance with applicable legislation</li> <li>○ reported performance against predetermined objectives.</li> </ul> </li> <li>• Discretionary audits (including special audits, investigations and performance audits)</li> </ul> <p><b>Section 5(1B) of the PAA</b></p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> <li>• issue a material irregularity</li> <li>• include recommendations in the audit report</li> <li>• take an appropriate remedial action</li> <li>• issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.</li> </ul>	<p><b>National Assembly Rule 227</b></p> <p>Portfolio committees may, amongst other things, perform the following functions:</p> <ul style="list-style-type: none"> <li>• Deal with bills and other matters that fall within their portfolio, as referred to them in terms of the Constitution, legislation or rules, or by resolution of the assembly</li> <li>• Maintain oversight of their portfolios of national executive authority, including implementation of legislation, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio, and any other body or institution in respect of which oversight was assigned to it</li> <li>• Consult and liaise with any executive organ of state or constitutional institution</li> <li>• 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</li> <li>• Consult and liaise with any executive organ of state or constitutional institution</li> <li>• Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.</li> </ul>

## 1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

## 1.6 Shifting the public sector culture through the accountability ecosystem






### Slide 3



- The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.
- Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.

- Given the nature of the AGSA’s mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.
- Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.

### 1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• produced credible and reliable financial statements that are free of material misstatements</li> <li>• reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>• complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> <li>• align performance reports to the predetermined objectives they committed to in APPs</li> <li>• set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>• report reliably on whether they achieved their performance targets</li> <li>• determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>• had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• 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</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• 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</li> </ul>

### 1.8 Material irregularities

**Definition:** A material irregularity (MI’s) 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 PAA 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.



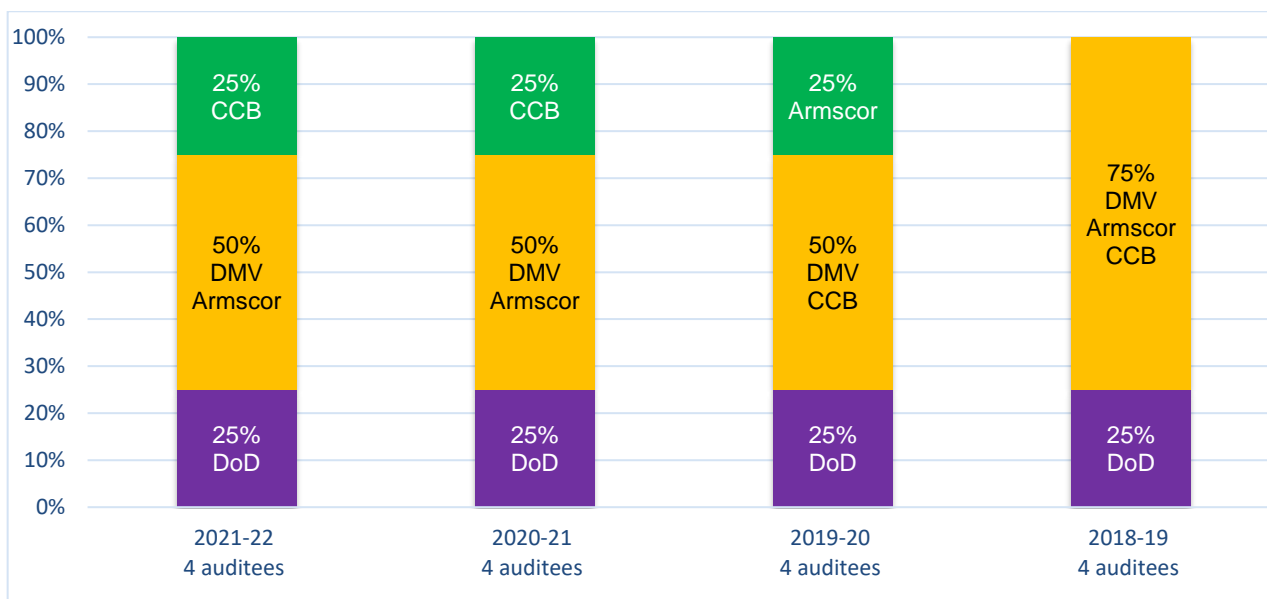
*Auditees in the portfolio scoped in for the material irregularity process*

	2021-22	2022-23
<u>Auditees</u>	Department of Defence Department of Military Veterans Arm Scor	Department of Defence Department of Military Veterans Arm Scor Castle Control Board

**2. Initial improvement and thereafter stagnation in audit outcomes over administration term**

**Slides 4**

*Four-year audit outcomes*



**Overview**

Overall, the audit outcomes for the Defence portfolio remained similar to the previous year. The Castle Control Board (CCB) audit outcome remained a commendable unqualified with no findings (clean audit). The outcome for the Armaments Corporation of South Africa SOC Limited (Arm Scor) was also consistent with the previous year, as an unqualified opinion with findings.



The audit outcome for the Department of Defence (DoD) remained qualified with findings on compliance with laws and regulations and performance reporting, similar to the previous year. The DMV remained unqualified with findings, as in the previous year, as material findings were reported on performance reporting and compliance with legislation.

## 2.1 Department of Defence

### 2.1.1 Findings on the audit of the annual performance report

#### Slides 6 – 8

#### *Programme 2 – force employment*

Material misstatements were reported in the audit report due to the following:

#### ***Percentage of compliance with combat-ready capabilities available to the South African National Defence Force (SANDF)***

Material misstatements were identified in the annual performance report submitted for auditing by DoD. As some of these misstatements could not be corrected, a material finding on the reliability of the reported performance information was reported in the 2021/22 audit report.

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 and therefore the AGSA could not confirm the achievements for these capabilities included in the reported performance of the department. Consequently, the combined indicator under the force employment programme was misstated. These limitation misstatements mainly relate to the South African Medical Health Service (SAMHS) environment. A similar finding was reported in the prior year.

#### ***Achieving key performance targets – summarised information from performance report***

#### Slides 8

A total of 21 targets out of 35 planned targets were achieved for 2021-22, which represents a 60% achievement based on the annual performance report.





**Key targets not achieved**

Performance indicator	Target	Actual performance	Reason for non-achievement
Percentage compliance with Joint Force Employment requirements as resourced	<i>Information classified.</i>	<i>Information classified.</i>	<i>Information classified.</i>
Percentage combat-ready capabilities available for the SANDF	<i>Information classified.</i>	<i>Information classified.</i>	<i>Information classified.</i>
Percentage compliance with serviceability of main equipment	<i>Information classified.</i>	<i>Information classified.</i>	<i>Information classified.</i>
Percentage of compliance with self-sustainment of personnel	<i>Information classified.</i>	<i>Information classified.</i>	<i>Information classified.</i>
Percentage of the value of reimbursement by the UN/AU recognised.	70%	47%	UN funding is reliant on contributions from donor countries. Departmental processes and procedures are in place to ensure maximum reimbursement.

**Impact of targets not achieved**

The main impact of the non-achievement of the targets is as follows:

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

## 2.1.2 Value for money audit

### Slides 10

#### Project Thusano

#### Appropriateness of the continued services provided by the Cuban supplier

- The department used supplementary agreements to the initial contracts to directly procure additional or extend existing technical and professional services resulting in the contracts being open-ended in nature. As a result, the department approved payments amounting to R151 654 265, 06 between October 2019 and March 2022 that were not supported by signed supplementary agreements. In response to the AGSA enquiries and limitation of scope findings, most of these agreements were subsequently requested from Cuba and submitted to auditors. This further supports that they were not available at the time of payment.

#### Economical, efficient and effective provision of professional services for tank and transport technique

a) The department did not provide all requested information and prohibited access to facilities resulting in the auditors being unable to comprehensively evaluate the following services:

- Repairs and maintenance of the department's military vehicles by Cuban officials in South Africa as provided for in contract TI 17-001 SUDAFRICA.
- Professional / vocational training provided to the department's tank and transport military personnel in Cuba as provided for in contract TI 17-002 SUDAFRICA.

The efficiency and effectiveness of the repairs and maintenance as well as vocational training could not be assessed.

b) Due to the non-submission of information (refer par a above) and late submission of the outstanding contractual supplements in July 2022, alternative procedures were performed on the assessment of technical and professional services relating to tank and transport technique. This resulted in the auditors reporting on a best estimate of the uneconomical procurement, and not the full extent and cost of the services. 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.



### 2.1.3 Service delivery

#### Slide 10

- As part of the AGSA audit work performed, due consideration was given to the current impact of the losses and other aspects (e.g. fruitless and wasteful expenditure and uneconomical procurement) on the lived experiences of citizens. If the funds allocated to the department are not utilised optimally, it impacts negatively on our citizens since the funds could have been used for either improving the services of the defence force or for other government priorities such as health and education.
- In performing the evaluation, we took into consideration the fact that the department is also experiencing budget reductions which could further negatively impact on its ability to ensure effective service delivery. Therefore, the fruitless and wasteful expenditure and other losses incurred by the department places additional pressure on the availability of funding to be utilised in the operational and service delivery environment.
- A number of cases have been identified where the effective use of resources were negatively impacted by elements such as losses incurred due material irregularities, fruitless and wasteful expenditure, non-adherence to procurement processes, prolonged suspensions as well as the lack of timely consequence management.
- The amounts of losses incurred in this regard is estimated at approximately R3 billion. This amount could have been used effectively in other service delivery initiatives by the department if it was not incurred.

#### *Impact of the above on service delivery*

- From an assessment of the performance of the department it is evident that the performance of the department has been impacted by funding constraints, as specifically identified from inspection of debrief reports, in relation to the following performance indicators:
  - number of landward sub-units deployed on border safeguarding per year
  - percentage compliance with external peace missions, rescue operations and humanitarian assistance operations.
- Even though the department was able to perform these operational requirements, these operations are however experiencing a number of challenges and risks which could be attributed to insufficient funding. Below are some examples:
  - unavailability of operational vehicles in some units.



- vacancies, shortage of key items (e.g. bullet proof vests)
  - morale of members deployed (e.g. unavailability of social workers to support)
  - lack of sufficient operational budget and operational equipment
- With the current budget constraints the department may not be in a position to successfully deploy the 22 sub-units (15 currently) as planned for 2023/24 in the Medium Term Strategic Framework (MTSF).

## 2.1.4 Material irregularities

### Slides 13 - 17

#### *Material irregularities identified during current year audit*

##### Importation of unregistered drugs without approval from regulating authority

- The department imported an unregistered drug Heberon® Alfa R (Heberon) into the country between 27 April 2020 and 17 August 2020 without approval from the South African Health Products Regulatory Authority (Sahpra). This resulted in non-compliance with the General Regulations (R859 of 2017) to the Medicines and Controlled substances Act 101 of 1965 which states that a person shall only import a medicine or scheduled substance if such person in the case of unregistered medicines, is authorised by the authority to import such unregistered medicines. The department procured 970 695 vials of Heberon at a cost of US\$15 048 872, 50 (approximately R260, 59 million). Of this amount, only R33, 5 million had been paid to the supplier as at 31 March 2022. This non-compliance was likely to result in a material financial loss of R260 342 813 for the Department of Defence, as Sahpra had authorised the department to use only 10 of the 970 695 vials imported.
- We notified the accounting officer of the material irregularity on 13 August 2021 and invited the accounting officer to make a written submission on the actions that will be taken to address the matter. The initial response from the accounting officer dated 28 September 2021 did not appropriately indicate all the required actions to address the matter. We therefore requested additional information to enable us to conclude on appropriateness of the actions being taken. This information was not provided.
- The Ministerial Task Team (MTT) was subsequently commissioned to investigate the procurement of Heberon drugs. They concluded their investigation during October 2021 and submitted the report to the executive authority. The MTT made certain recommendations on this matter which included the return of some Heberon drugs as requested by the Cuban authorities and taking disciplinary actions against officers who caused the irregularity.

- At the instruction of Sahpra dated 3 November 2021, the department repatriated all the Heberon drugs to Cuba. The Cuban representatives acknowledged receipt of the two Heberon drugs shipments on 20 January 2022 and 17 February 2022, respectively.
- We did not receive any further response from the accounting officer on actions taken to resolve the material irregularity, including the R33, 5 million paid, and have concluded that the actions taken are not adequate to fully address the material irregularity.

### ***Status of previously reported material irregularities***

#### **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 requirement of the Preferential Procurement Policy Framework Act when awarding this contract. The non-compliance was 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.
- The accounting officer did not adequately implement the audit report recommendations issued during 2019/20 audit. Subsequently, the Auditor-General issued remedial actions and a directive for implementation by 17 November 2021 to fully address the material irregularity (MI). The latest submission by the accounting officer dated 1 June 2022 confirmed the lack of progress in the quantification of the financial loss and implementation of remedial actions with regards to consequence management for both civilian and military command officials.

#### **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.
- The AO did not adequately implement the audit report recommendations issued on 12 August 2021. The second board of inquiry (BOI) which concluded its investigation in December 2021, acknowledged the fruitless and wasteful expenditure but concluded that no officials should be held accountable for the irregularity. We assessed the outcome of the board of inquiry and found that its conclusion was not appropriate, and that appropriate action was not taken to implement the AGSA's recommendations.

**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 an 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.
- The accounting officer completed the investigation into this material irregularity on 27 November 2020 and disagreed that there was a non-compliance with legislation in awarding the contract. We assessed the investigation report and concluded that the AO did not take appropriate steps to address the MI.
- The MI was referred to the Directorate for Priority Crime Investigation (DPCI/Hawks) on 19 November 2021 for investigation. The referral was accepted by the DPCI on 6 December 2021. The investigation is still in progress.

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

- The department procured 1 000 infra-red (IR) thermometers at a price of R3 984,75 each, which is above the recommended price of R2 727,86 per IR thermometer, as indicated in National Treasury instruction note 8 of 2019-20 (annexure A, table 2), issued on 19 March 2020. The procurement of IR thermometers at a higher price resulted in non-compliance with paragraph 3.7.6(ii) of the same instruction note.
- 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 finalise by 20 September 2021. The AO provided feedback on 30 May 2022 indicating that the board of inquiry had to be reconvened due to the shortcomings identified regarding the first inquiry. As at the date of this report, a new board of inquiry has not been convened.
- We have concluded that appropriate action is not being taken to address the material irregularity and we are in the process of determining the most suitable course of action.

**Observations and recommendations****Slide 17**

<b>Observations</b>	<b>Recommendations</b>
<ul style="list-style-type: none"> <li>• Further financial losses were prevented on the two MI's, i.e. inventory and asset management contract (R250, 56 million) and the importation of unregistered Heberon drugs (R226, 85 million)</li> <li>• No recoveries have taken place for losses incurred. This relates to lease payments of R108 million and payment of R33,5 million for Heberon drugs.</li> <li>• There are delays in completing disciplinary processes against responsible officials for all DoD MI's. 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 South African National Defence Force (C SANDF) has also not taken any actions against military command officials.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• The portfolio committee should continue to actively engage with all key role-players responsible for resolving the MI's, and call on them to account for the lack of action in this regard.</li> <li>• The portfolio committee should request these role players to provide a plan of action with specific timeframes regarding the implementation of consequence management and recovery of losses, which are critical steps required to address material irregularities in the DoD.</li> <li>• The committee should obtain an assessment of the unique accountability framework of the department with a view to understand the challenges and possibly provide guidance on how the limitations/challenges can be resolved.</li> </ul>



## 2.1.5 Findings on the audit of financial statements

### Slide 19

#### *Qualified opinion*

The department is qualified on the fair presentation of the financial statements due to the following:

#### *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 which could not be resolved through alternative means.

#### *Irregular expenditure*

During the audit, we identified instances of irregular expenditure due to non-compliance with procurement legislation. The department has not revisited the population to establish the extent of the irregular expenditure amount and effect the required adjustments. Consequently we could not confirm the completeness of irregular expenditure disclosed in the notes to the financial statements. The same finding was reported in the last three financial years.

The Internal Audit Division (IAD) was tasked by the CFO to evaluate all contracts to assist the Finance Division in updating the irregular expenditure. Due to capacity constraints the IAD was only able to perform work at 11 out of the 73 procurement centres, thereby not being able to fully address the completeness concerns raised. In addition, based on our audit work done, we concluded that the internal controls are not yet effective to prevent irregular expenditure.

#### *Movable tangible capital assets*

- During the audit we were unable to verify existence of 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. The same matter was also reported in the prior year.
- The department did not recognise all items of movable tangible capital assets. We identified items of movable tangible capital assets belonging to the department that were not included in the underlying accounting records, thus assets reported are not complete.

- We identified a significant number of assets that were acquired after 1 April 2002 and recorded at R 1 value which do not conform with the requirements of the applicable accounting standard (modified cash standard). The department was also not able to provide supporting documents for the disclosed tangible capital assets additions which resulted in a limitation of scope as we could not confirm the existence and valuation of these assets purchased during the year.

The above findings are due to a lack of effective communication of policies and procedures to enable and support understanding and execution of internal controls relating to the safeguarding and monitoring of the movement of assets at the units.

### *Employee benefits*

In the prior year, 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 overstated. The correction of the prior period error and restatement of the opening balance was not disclosed in the current year. Because of the possible effect of this matter on the comparability of the leave entitlement provision for the current period, the current year financial statements were qualified.

## 2.1.6 Financial health risk

### **Slide 20**

- The department continued to be affected by budget cuts in the year under review, which resulted in overspending on compensation of employees. Despite the department requesting the National Treasury to increase the ceiling, this was disapproved which resulted in the over expenditure of R2,7 billion as disclosed under irregular expenditure, Note 24 to the financial statements. The department should monitor the implementation of Human Resource (HR) cost savings as per Ministerial Directive dated 31 March 2021 issued to implement interventions in order to reduce HR cost pressures for the 2021 Medium Term Expenditure Framework (MTEF).
- The amounts payable in future periods as a percentage of the budget for the next three years, excluding compensation of employees and transfers and subsidies is 34, 5%. This indicates that more than one third of the department's next three years' budget is already committed to be utilised to pay the obligations that the auditee has already incurred as opposed to future period obligations. Additionally, the expected amounts to be settled in claims against the state in the future as a percentage of next year's budget excluding compensation of employees and transfers and subsidies is 43, 2%. Therefore, if these claims were to realise, the department's available funding would be severely affected, and service delivery may be negatively affected.

- The debtor-collection period (after impairment) for the department is 105 days. Furthermore, the impairment provision significantly increased by more than three times from R15 million to R48 million. As a result, the debtors' impairment provisions as a percentage of accrued departmental revenue increased from 9, 2% to 30, and 7%. This indicates that the department's credit control and collection policies might not be effective to ensure that all debtors are collected timely.

### 2.1.7 Irregular expenditure analysis

#### Slide 23

During the year under review, the department incurred irregular expenditure amounting to R4, 77 billion, which was disclosed in the financial statements (Note 24). The analysis of irregular expenditure shows that irregular expenditure increased by 96% compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Compensation of employee budget exceeded	2 707 834 000	The department exceeded the compensation of employees' budget without necessary approval from the minister of Finance.	Resources that were allocated for other needs of the department were reprioritised. 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.
Various non-compliance with procurement legislation	445 404 000	<ul style="list-style-type: none"> <li>• Lack of compliance review and monitoring by management.</li> <li>• Ineffective review and monitoring controls by relevant committees over compliance with laws and regulations, which fail to detect and prevent non-compliance.</li> </ul>	Goods & services were delivered however, one or more of the five pillars of procurement in terms of section 217(1) of the Constitution were compromised namely equity, cost effectiveness, transparency, and Competitiveness.

Description	Amount (R)	Root cause	Impact
Irregular expenditure identified in the current year relating to prior years: <ul style="list-style-type: none"> <li>• Project Thusano (R246,35 million)</li> <li>• PPE (R273,5 million)</li> <li>• Other non-compliance with SCM prescripts identified by internal audit division and the department. (R240,24million)</li> </ul>	760 088 000	<ul style="list-style-type: none"> <li>• Lack of oversight and effective reviews when entering into supplementary agreements to procure services without ensuring full compliance with procurement legislation.</li> <li>• Lack of effective reviews and monitoring compliance with NT Instruction Notes on local production and content requirements.</li> <li>• Lack of effective oversight, reviews and monitoring of compliance with procurement laws and regulations, which fails to detect and prevent non-compliance.</li> </ul>	Goods & services were delivered however, one or more of the five pillars of procurement in terms of section 217(1) were compromised namely equity, transparency and competitiveness.
Prior period error restatement <ul style="list-style-type: none"> <li>• Project Thusano (R721,13 million)</li> <li>• Other non-compliance with SCM processes (R140,34 million)</li> </ul>	861 472 000	<ul style="list-style-type: none"> <li>• Lack of oversight and effective reviews when entering into supplementary agreements to procure services without ensuring full compliance with procurement legislation.</li> <li>• Lack of effective oversight, reviews and monitoring of compliance with procurement laws and regulations, which fails to detect and prevent non-compliance.</li> </ul>	Goods & services were delivered however, one or more of the five pillars of procurement in terms of section 217(1) were compromised namely transparency and competitiveness.
<b>Total IE disclosed</b>	<b>4 774 798 000</b>		

### 2.1.8 Fruitless and wasteful expenditure analysis

During the year under review, the department identified fruitless and wasteful expenditure amounting to R11,5 million, which was disclosed in the financial statements (Note 25). The analysis of fruitless and wasteful expenditure shows a slight increase when compared to the prior year. The expenditure can be broken down as follows:



Description	Amount (R)	Root cause	Impact
Penalty and interest paid	3 162 000	The department caused delays regarding the delivery of goods. This resulted in penalties being charged by the service provider.	The department did not derive any benefit as the interest and penalties could have been prevented.
Prior period error 1 Military Hospital - non-usage of medical equipment 2 Military Hospital - non-usage of medical equipment	8 204 000	With regards to 1 Military hospital, there was no co-ordination between the implementing agent, the contractors and DOD officials to ensure that medical equipment is procured after completion of the first floor.  The 2 Military Hospital did not have capacity to operate the medical equipment.  Management did not implement audit recommendations to ensure that assets are utilised effectively in the provision of services.	The department did not derive any value for money on unutilised medical equipment.
Various non-compliance with PFMA (storage fees, penalties, interest, funeral benefit, double payment, cash handling fee, overpayment of allowances and payment of allowances not permitted by the State)	160 000	Management did not ensure full compliance with the PFMA and that payments are only made when they are due.	The department did not derive any benefit.
<b>Total FWE disclosed</b>	<b>11 526 000</b>		

## 2.1.9 Findings on compliance with legislation

### Slides 21 & 22

The following material non-compliance issues were identified and reported:

Description	Root cause
Material misstatements were identified during the audit, resulting in non-compliance with section 40(1) (a) & (b) of the PFMA. Some misstatements were subsequently	<ul style="list-style-type: none"> <li>Inadequate reviews of the financial statements and lack of adequate preventative controls for processing and reconciliation of financial records.</li> </ul>

Description	Root cause
corrected by management, but the misstatements not corrected resulted in the qualified opinion.	<ul style="list-style-type: none"> <li>Lack of proper record management systems and insufficient controls over daily and monthly processing and reconciling of transactions</li> </ul>
The department did not take effective and appropriate steps to prevent irregular expenditure, as required by section 38(1) (c) (ii) of the PFMA and treasury regulation 9.1.1.	<ul style="list-style-type: none"> <li>Lack of compliance review and monitoring by management.</li> <li>Ineffective review and monitoring controls by relevant committees over compliance with laws and regulations, which fail to detect and prevent non-compliance.</li> </ul>
In some instances, payments were not made within 30 days or an agreed period after receipt of an invoice, as required by the treasury regulation.	Proper systems to manage payment processing are not in place. The department is using legacy systems that lack built in controls regarding payments resulting in over-reliance on manual processes which are not effective.
Proper control systems were not in place at the department to ensure the safeguarding of assets, as required by the treasury regulation.	Lack of effective communication of policies and procedures to enable and support understanding and execution of internal controls relating to the safeguarding and monitoring of the movement of assets at the units.
Various instances of non-compliance with procurement and contract management legislations, including specific instruction notes issued by National Treasury regarding Covid-19 related procurement.	<ul style="list-style-type: none"> <li>Lack of effective oversight, reviews and monitoring of procurement processes.</li> <li>Regular staff rotation of procurement officials, lack of skills training to capacitate new and existing procurement officials, ineffective review and monitoring controls by relevant committees over compliance with laws and regulations, which fail to detect and prevent non-compliance.</li> </ul>

## 2.1.10 Consequence management

### Slide 24

The following material non-compliance issues relating to consequence management were identified and reported:

Description	Root cause
We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA.	<ul style="list-style-type: none"> <li>Finalised investigations reported to the AO and C SANDF for decision making and implementation of recommendations are not communicated without delay to the relevant heads or line managers to implement recommendations and to finance for the disclosure of irregular or fruitless and wasteful expenditure discovered.</li> <li>Where matters are delegated to relevant heads, feedback including evidence regarding the implementation of disciplinary measures is not sought and further steps not taken where gaps are identified. The meetings used for the purpose of providing feedback on consequence management are not effective.</li> <li>Leadership did not implement adequate internal control measures to ensure that disciplinary actions are taken once recommendation from finalised investigation have been pronounced from the relevant investigation body.</li> </ul>
Disciplinary steps were not taken against some of the officials who permitted irregular expenditure, as required by section 38(1)(h)(iii) of the PFMA.	
I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PFMA.	

## 2.1.11 Other reports/investigations

- The department conducted a forensic audit on the refurbishment and repairs and maintenance project at 1 Military Hospital. The investigation, which was completed in December 2020, has been referred by the department to the DPCI (Hawks) for further investigation (DPCIHQ Inquiry no. 2021/09/02). At the date of our audit report, the investigation was still in progress.
- The Special Investigating Unit (SIU) conducted investigations into the procurement of, or contracting for goods, works or services, including the construction, refurbishment, leasing, occupation and use of immovable property by or on behalf of the state institutions procured during, or in respect of the National State of Disaster. The investigation, which was conducted in terms of Proclamation No. R23 of 2020, covered the period 1 January 2020 to 23 July 2020, or transactions which took place prior to 1 January 2020 or after the date of publication of the Proclamation but



were relevant to or connected with the matters being investigated under authority of the Proclamation. For the department, the investigation focused on the procurement of personal protective equipment. The investigation was concluded in September 2021 and resulted in disciplinary referrals against 11 officials, as well as criminal referrals to the National Prosecuting Authority (NPA) against 15 officials from the department, three external parties and eight companies.

### **2.1.12 Internal controls**

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

#### ***Leadership***

Leadership did not exercise sufficient oversight of financial and performance reporting, compliance with laws and regulations and related internal controls. Action plans developed to address prior year audit matters were not effectively implemented and monitored, resulting in recurring audit findings. Consequence management was not implemented to create a culture of compliance with policies and legislation and to discourage further irregularities.

#### ***Financial and performance management***

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 lack of proper record management systems and insufficient controls over daily and monthly processing and reconciling of transactions. Additionally, reviewing and monitoring controls over compliance with laws and regulations were not effective to detect and prevent non-compliance.

## 2.2 Department of Military Veterans

### *Overview*

The audit outcome for the department remained the same as in the previous year. Some assurance was provided by the accounting officer and executive authority. The quality of the submitted financial statements has regressed due to a number of material misstatements that have been identified in the financial statements that were submitted for audit.

The predetermined objectives significantly regressed as the department had even more material misstatements. The regression is mainly due to lack of adequate reviews of the reported performance achievements. Further, the department lacks quality assurance processes to ensure that the reported achievements are accurate, complete and are supported by the relevant documentation as outlined in the technical indicator description.

### 2.2.1 Findings on the audit of the annual performance report

#### **Slides 7 and 9**

#### *Programme 2 – Socio-economic support*

During the audit of reliability of reported achievements, material misstatements were identified and reported on in the audit report due to the following:

#### ***PPI 201: Number of approved Non-Statutory Forces (NSF) received from the verification panel for inclusion in the database***

The reported achievement of 151 was reported against a planned target of 3000 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence. This was due to lack of relevant evidence to confirm the eligibility of the reported number of military veterans.

#### ***PPI 202: Number of military veterans provided with newly built houses per year***

The reported achievement of 71 was reported against a planned target of 355 in the annual performance report however the supporting documents materially differed from the reported achievement.

### ***PPI 206: Number of bursaries provided to military veterans and their dependants per year***

The achievement of 3711 was reported against a target of 3500 in the annual performance report. However, the supporting evidence provided materially differed from the reported achievement, while in other instances we were unable to obtain sufficient appropriate audit evidence. This was due to insufficient evidence and applicants who were reported in the incorrect financial year.

#### ***Various indicators***

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 indicators listed below:

No	Indicator Description	Target
PPI205	Number of military veterans participating in the subsidised public transport benefit pilot project	200
		Women <5%
		Persons with disabilities <2%
PPI206	Number of bursaries provided to military veterans and their dependants per year	Women <10%
		Youth <30%
		Persons with Disabilities <2%

#### ***Various indicators***

The reason for the variance between the planned target of women youth and/or persons with disabilities and the reported achievement was not reported in the annual performance report for the indicators listed below:

- PPI 202: Number of military veterans provided with newly built houses per year
- PPI 203 : PPI 203: Number of military veterans approved for compensation benefit
- PPI 204: Number of military veterans participating in the pension benefit pilot project
- 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 dependants per year
- PPI 208: Number of military veterans and dependents provided with dedicated counselling.

### ***PPI 204: Number of military veterans participating in the pension benefit pilot project***

The planned target was the number of military veterans participating in the pension benefit pilot project, but the reported achievement referred to policy in draft and awaiting final actuarial report.

### ***Achieving key performance targets – summarised information from performance report***

#### **Slides 9**

A total of 8 out of 19 planned targets were achieved for 2021-22, which represents a 42% achievement based on the annual performance report.

#### ***Key targets not achieved (programme 2)***

Performance indicator	Target	Actual performance	
<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 into the National Military Veterans database.
<b>PPI 202:</b> Number of military veterans provided with newly built houses per year	355	71	Poor delivery of houses by department of Human Settlement due to a variety of challenges such as: <ul style="list-style-type: none"> <li>• delays in SCM processes to appoint contractors,</li> <li>• delays in signing of MoUs with HDA,</li> <li>• lack of serviceable sites to build houses,</li> <li>• illegal invasions and</li> </ul>

Performance indicator	Target	Actual performance	
			<ul style="list-style-type: none"> <li>unavailability of recent geotechnical investigation reports in different provinces.</li> </ul> <p>National DMV database verification still in progress across provinces which is also impacting on those who may qualify should they be registered in the database.</p>
<b>PPI 204:</b> Number of military veterans participating in the pension benefit pilot project	200	Policy in draft and awaiting final actuarial report	Policy in draft pending final actuarial report from 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 and due to complexity of the public transport sector in the country, extensive data and information collection with stakeholder engagement is still required to assist in policy development and implementation thereof.

### *Impact of targets not achieved*

The main impact of the non-achievement of the targets is as follows:

- Delayed service delivery to the military veterans

### **2.2.2 Service delivery**

#### **Slide 11**

- The Military Veterans Act 18 of 2011 paragraph 6(b) states that, without derogating from its general powers and duties as a national department of the state, the department collect and keep data and

information regarding all existing benefits of military veterans and their dependents and establish a database of military veterans and military veterans affairs, which must be regularly updated.

- The Military Veterans Regulation 2 (1) (a) and (b) state that “A military veteran qualifies for one or more benefits provided for in these regulations if he or she:

*(a) meets the criteria prescribed in these regulations for the benefit applied for and*

*(b) Is listed on the national military veterans database*

- The database is core to the activities of the department of Military Veterans.
- During the audit process, it was noted that in some instances it takes the department longer than 12 months to register individuals onto the database. There was also an instance noted where a military veteran was approved for inclusion onto the database in the 2014-15 financial year but was only included in the database in the 2021-22 financial year.
- In other instances, the department provided benefits to persons or individuals who were not confirmed to be registered on the national military veteran’s database, as in certain instances we could not trace the individuals or persons that received the benefits to the military veteran’s database. For example:
  - SITA provided the Digital Literacy Programme to 95 people (amounting to R461 269) who could not be traced to the database.
  - The department paid for houses for five military veterans who could not be traced to the database.
- We also could not confirm for some of the NSF members that have been registered in the database whether they were eligible for registration as some of the documents required in terms of the department’s standard operating procedures could not be provided.
- The department is in the process of performing data cleansing where the dataset is being re-looked at to ensure that all persons eligible to register are included, and the information is accurate and complete. During the audit we could not confirm the number of military veterans that were added to the database, however from the achievement reported by the department, we noted that the department only achieved 151 out of 3000 (5% achievement). Therefore, it will take the department much longer to ensure that they have a credible and complete database to enable military veterans to access benefits.

### *Impact of the above on service delivery*

- This lengthy period on registration of military veterans in the database deprives military veterans and their dependents of benefits that they could access through the department. Individuals who qualify and are eligible would also not be able to have access to those benefits.
- Benefits could be provided to military veterans that are not eligible to receive them.

### **2.2.3 Findings on the audit of financial statements**

#### **Slide 19**

#### *Unqualified opinion*

The quality of the submitted financial statements has regressed due to a number of material misstatements that have been identified in the financial statements that were submitted for audit. A number of material misstatements were identified on disclosures in the financial statements as the disclosures did not agree to the underlying records or were incomplete. These misstatements were not prevented or detected by the department's system of internal control. Management subsequently corrected all these material misstatements. The department should strengthen its controls around financial reporting and its quality assurance processes in order to obtain clean administration.

### **2.2.4 Financial health risk**

#### **Slide 20**

- The creditors' payment period is 109 which is in excess of 30 days as provided for in the Treasury Regulations.
- The department realised an accrual-adjusted deficit and accrual –adjusted net current and total liability position, this means that in real terms the department may struggle to finance its obligations as they become due.
- Claims against the department and accruals constitute a significant proportion of next year's budget at 63.5% and 47% respectively. This may result in the department being unable to achieve all planned service delivery requirements for the next year, should the claims become payable.



## 2.2.5 Irregular expenditure analysis

### Slide 23

During the year under review, the department incurred irregular expenditure amounting to R38.5 million, which was disclosed in the financial statements (Note 23). The analysis shows that irregular expenditure increased by 2137% compared to the prior year and can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Contracts entered into in prior years where SCM laws and regulations were not adhered to.	30 274 720	Contracts entered into in prior years without control measures being in place to support compliance with laws and regulations at that stage.	<p>Goods &amp; services were delivered however two of the five pillars of procurement in terms of section 217(1) were compromised namely competitiveness and cost effectiveness.</p> <p>An estimated amount of 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</p>
Payments were made to suppliers that were not tax compliant	425 280	This was mainly due to the department not having adequate processes to track payment of suppliers to ensure they are paid on time as the department noted that these suppliers were not tax compliant but decided to continue with payment as the invoices were long outstanding.	Goods or services were received. The irregular expenditure was mainly due to non-compliance with legislation
Employee cost payments that were made for irregular appointments	7 842 000	This was due to HR appointment processes not being followed as the employee was appointed in	The employee rendered services to the department for the position he was appointed for even though HR

Description	Amount (R)	Root cause	Impact
		a position that is not on the approved establishment	appointment processes were not followed
<b>Total IE disclosed</b>	<b>R38 542 000</b>		

### 2.2.6 Fruitless and wasteful expenditure analysis

During the year under review, the department incurred fruitless and wasteful expenditure amounting to R0, 09 million, which was disclosed in the financial statements (Note 24). The analysis of fruitless and wasteful expenditure shows a decrease of 93% when compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Expenditure incurred for booking of travel, where travellers' did not cancel bookings, when unable to travel	78 000	Officials of the department not cancelling bookings when they are unable to travel	Value for money not derived, resulting in inefficient use of the resources of the department
Payment to service provider for the LOGIS mainframe which is not in use	13 000	This was mainly due to lack of capacity within the department	Value for money not derived, resulting in inefficient use of the resources of the department
<b>Total FWE disclosed</b>	<b>R91 000</b>		

### 2.2.7 Findings on compliance with legislation

#### Slides 21 & 22

The following material non-compliance issues were identified and reported:

Description	Root cause
The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA. Material misstatements of contingent liabilities, payables not recognised, irregular expenditure, related parties, and	Inadequate reviews of the financial statements and lack of adequate preventative controls for processing and reconciliation of financial records.

Description	Root cause
movable tangible capital assets under investigation identified by the auditors in the submitted financial statements were corrected subsequently, resulting in the financial statements receiving an unqualified opinion	The lack of an independent quality review process also had an impact on the quality of the financial statements submitted for audit.
Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by public service regulation 25(1)(e)(i) and (iii).  Procedures for the facilitation of effective performance monitoring, evaluation and corrective action through quarterly reports were not established, as required by treasury regulation 5.3.1.	Lack of adequate reviews and implementation of the department's quality review processes as outlined in the department's policies and standard operating procedures.

## 2.2.8 Consequence management

### Slide 24

The following material non-compliance issues relating to consequence management were identified and reported:

Description	Root cause
We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against some officials who had incurred and/or permitted irregular expenditure in prior years as required by section 38(1) (h) (iii) of the PFMA.	The department focused on a top down approach and instituted disciplinary action on four senior management officials that were identified to have incurred and/or permitted the irregular expenditure, but not all officials have been identified in the investigation reports.
We were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 38(1) (h) (iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed.	There is lack of urgency in dealing with fruitless and wasteful expenditure as the department focused on investigation of instances of irregular expenditure.

### **2.2.9 Other reports/investigations**

The DPCI (Hawks) and the SIU are conducting investigations into allegations of non-compliance with procurement and contract management regulations within the department. The investigations are still in progress.

### **2.2.10 Internal controls**

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

#### ***Leadership***

Leadership did not exercise adequate oversight of financial reporting, performance reporting, compliance with applicable legislation and related internal controls. Action plans to address prior year findings were not effective, resulting in repeat findings in the audit of predetermined objectives.

#### ***Financial and performance management***

Management did not implement effective controls to ensure that information contained in performance reports was supported by relevant evidence before submission for audit. This was mainly as a result of a lack of proper performance and record management systems.

## 2.3 Armscor

### Overview

The audit outcome of Armscor remained consistent with previous year as an unqualified opinion with findings. This was due to non-compliance as a result of material adjustments made to the submitted financial statements and not taking effective and appropriate steps to prevent irregular expenditure.

### 2.3.2 Findings on the audit of annual performance report

#### Slides 6

No material findings were reported on the usefulness and reliability of the reported performance information.

#### *Achieving key performance targets – summarised information from performance report*

A total of 12 targets out of 14 planned targets were achieved for the 2021-22, which represents an 86% achievement based on the annual performance report.

### 2.3.1 Findings on the audit of financial statements

#### Slide 19

The material misstatement of a disclosure note identified in the financial statements, which resulted in material adjustments being made to the submitted financial statements received on 31 May 2022, leading to an unqualified opinion.

### 2.3.2 Financial health risk

#### Slide 20

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

### 2.3.3 Irregular expenditure analysis

#### Slide 23

During the year under review, the entity incurred irregular expenditure amounting to R11, 4 which was disclosed in the financial statements (Note 42). The analysis of irregular expenditure shows that

irregular expenditure increased by 65% compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Single source procurement without the required approval from National Treasury.	8 348 000	Lack of reviewing and monitoring compliance with applicable laws and regulations as well as the entity's policies, to ensure that prior approval to deviate was timely requested and obtained from National Treasury for single source procurement.	The procurement process compromised one or more pillars of the section 217 of the Constitution, namely fairness and competitiveness.
Contract extensions above the National Treasury threshold and not following National Treasury processes	2 602 000	Lack of review and monitoring compliance with applicable laws and regulations to ensure that contract extensions are not above the allowable limit	The procurement process compromised one or more pillars of the section 217 of the Constitution, namely competitiveness and transparency.
Services provided by a non-tax complaint service provider.	458 000	Lack of reviewing and monitoring compliance with applicable laws and regulations as well as the entity's policies, to ensure that proof of tax compliance status is obtained from foreign suppliers	The procurement process compromised one or more pillars of the section 217 of the Constitution, namely fairness and competitiveness.
Procurement that occurred without following competitive bidding	70 000	Lack of reviewing and monitoring compliance with applicable laws and regulations as well as the entity's policies to ensure that competitive bidding process is followed.	Procurement process compromised one or more pillars of the section 217 of the Constitution, namely equitable and competitiveness.
<b>Total IE disclosed</b>	<b>11 478 000</b>		

### 2.3.4 Fruitless and wasteful expenditure analysis

The fruitless and wasteful expenditure for Armscor amounted to R125 000 for 2021/22.

### 2.3.5 Findings on compliance with legislation

#### Slides 21 & 22

The following material non-compliance issues were identified and reported:

Description	Root cause
The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by the PFMA. Material misstatement of the commitments disclosure identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.	Senior management did not exercise sufficient oversight responsibility of financial reporting. This was mainly a /result of insufficient reviews by management combined with system-imposed limitations linked to the legacy systems used to compile the financial statements.
Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R11 478 000 as disclosed in notes to the annual financial Statements and as required by PFMA and Treasury Regulations.	Monitoring controls over compliance with laws and regulations were not effective in preventing non-compliance with regard to repeat irregular expenditure.

### 2.3.6 Other reports/investigations

The South African Police Service is investigating allegations of procurement irregularities at the Dockyard division.

### 2.3.7 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

#### *Financial and performance management*

Senior management did not exercise sufficient oversight responsibility of financial reporting. This was mainly a result of insufficient reviews by management combined with system-imposed limitations linked to the legacy systems used to compile the financial statements. This resulted in material adjustments that had an impact on non-compliance. Additionally, monitoring controls over compliance with laws and regulations were not effective to prevent in preventing non-compliance with regard to repeat irregular expenditure.



## 2.4 Castle Control Board

### Overview

The audit outcome for the Castle Control Board (CCB) remained the same as previous year as unqualified without findings (clean audit) in the current year.

### 2.4.1 Findings on the audit of the annual performance report

#### Slides 6 – 7

No material findings identified on the usefulness and reliability of the reported performance information were reported.

#### *Achieving key performance targets – summarised information from performance report*

A total of 15 targets out of 20 planned targets were achieved for 2021-22, which represents a 75% achievement based on the annual performance report.

### 2.4.2 Findings on the audit of financial statements

No material findings were raised on the audit of annual financial statements. The entity received an unqualified audit opinion.

### 2.4.3 Irregular expenditure analysis

#### Slide 23

During the year under review, the entity incurred irregular expenditure amounting to R76 121 which was disclosed in the financial statements. The root cause was insufficient review processes by management to identify and monitor compliance with the applicable laws and regulations.

### 2.4.4 Findings on compliance with legislation

#### Slides 21 & 22

No material findings were raised on compliance with legislation.

### 3. Main root causes, recommendations and commitments for the portfolio

#### Slide 26

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

#### *Overall root causes of significant findings in Defence portfolio*

Root cause	Recommendation	Commitments
Slow implementation of action plans to address previous audit findings (DoD & DMV), and deficiencies in IT systems (Arm Scor).	The accounting officer/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.	<ul style="list-style-type: none"> <li>• <b>DoD AO:</b> Committed to reduce procurement centres to ensure that they are manageable and to continue engagements with the executive authority and C SANDF on implementation of consequence management.</li> <li>• <b>DMV AO:</b> the DMV will formulate a turnaround strategy in a form of an action plan to ensure improvement in outcomes. Legal unit will be capacitated to assist in addressing the issues of consequence management.</li> <li>• <b>Arm Scor CEO:</b> Review SCM structures and provide training in sole and single sourcing. Ensure that internal audit unit is adequately capacitated.</li> </ul>
Consequence management is not adequately implemented against poor performance and transgressions (DoD & DMV).	<p>The accounting officer 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.</p> <p>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.</p>	

**Commitments by executive authority**

Commitment	Status
<ul style="list-style-type: none"> <li>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.</li> </ul>	In progress
<ul style="list-style-type: none"> <li>The contract for Project Thusano will be reviewed by the department's legal unit to ensure that the DoD mutually benefits from it.</li> </ul>	In progress

**4. Portfolio committee message****Slide 27**

The committee regularly meets and provides oversight which promotes accountability as well as provides guidance and advice to departments and entities in the portfolio. However, there is a slow response mainly by the departments in the portfolio, in addressing the recommendations made by the portfolio committee.

**Proposed recommendations/commitments**

Commitment	Date of commitment
Obtain and actively track commitments made specifically in relation to the implementation of action plans by the AO/AA and other corrective measures, in order to ensure improvement of the portfolio audit outcomes.	28 September 2022
The portfolio committee should continue to actively engage with all role players within the accountability ecosystem, to ensure that appropriate measures to resolve the MI's are effectively implemented and that consequence management is taken against identified officials.	28 September 2022
The portfolio committee should request regular feedback on the finalisation of long outstanding cases on the implementation of consequence management in relation to steps taken to address material irregularities within the portfolio.	28 September 2022

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 attainment of service delivery by the portfolio.	28 September 2022
The portfolio committee should assess the strategic and annual performance plans of the departments and public entities to effectively fulfil their oversight role.	28 September 2022