



defence

Department:
Defence
REPUBLIC OF SOUTH AFRICA



BRIEFING TO THE PCD ON THE DOD RESPONSE TO THE AGSA'S 2021/2022 AUDIT OUTCOMES

AIM OF PRESENTATION

The aim of the presentation is to brief the Portfolio Committee on Defence and Military Veterans on the DOD's response to the AGSA's 2021/2022 audit outcomes.

BACKGROUND TO THE 2021/2022 AUDIT QUALIFICATIONS

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

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

- The AGSA also raised findings on the usefulness and reliability of performance information

BACKGROUND TO THE 2021/2022 AUDIT QUALIFICATIONS

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



defence

Department:
Defence
REPUBLIC OF SOUTH AFRICA

DETAILS OF THE FOUR AUDIT QUALIFICATIONS

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

Goods and services and investments within the Special Defence Account

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

Irregular Expenditure

- ❖ *The Department has 75 procurement units across the country. There are inadequate systems to detect, record and appropriately disclose all irregular expenditure in the financial records of the Department, which results in not all non-compliances with SCM regulations being identified and recorded.*

Movable Tangible Assets

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

Employee Leave Benefits

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



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

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

- ❖ The sensitive environment of the SDA makes up 11% of the spending within the Special Defence Account allocation and 0.67% of the entire R48.8 billion of actual expenditure for the year under review. The Auditor-General has full access to 99.3% of the Department's spending.
- Discussions are being held within the Portfolio Committee on Intelligence on how to manage the possible risk of completeness and accountability within the Covert space, which includes Crime Intelligence and State Security.
- These interactions between the three agencies involved will be to find a common approach on accountability.
- A set date is not yet determined

Action Plan COMPLETENESS OF IRREGULAR EXPENDITURE

- ❖ The AGSA indicated that the Department does not have adequate systems to identify, detect and record irregular expenditure.
- ❖ The Department incurred Irregular Expenditure of R3.1 billion for the year under review.
- ❖ Included in this was the underfunding of the Compensation of Employees (CoE) valued at R2.7 billion, 86% of the Irregular Expenditure incurred.

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

- **The Department is in the process of implementing the Mobility Exit Mechanism (MEM) within the SANDF during the 2022 MTEF to reduce the underfunding burden on the COE.**



Action Plan COMPLETENESS OF IRREGULAR EXPENDITURE....Cont

- The Internal Audit Division, Inspector General, the Military Police and Service and Divisional Boards of Inquiries are investigating the circumstances surrounding the incurrence of irregularities and recommendations are in the process of being made for implementation, we acknowledge the process is quite slow.
- The Internal Audit Division's investigation is still ongoing, additional Irregular Expenditure of R381 million has been identified for the prior financial years and has been adequately disclosed in the financial records prior to year end.
- The Governance Risk and Compliance Accountability Committee does oversight visits to Procurement Units across the country focusing on high risk areas and findings and instituting corrective measures. Reports and findings from these visits are shared with the Auditor General and the DOD Audit Committee.



defence

Department:
Defence
REPUBLIC OF SOUTH AFRICA

Action Plan MOVABLE TANGIBLE CAPITAL ASSETS

FINDINGS

- Existence of assets could not be verified
- No supporting documents for assets acquired

STATUS OF IMPLEMENTATION

- Controls, via monitoring of the stock take process are in place to ensure that the possibility of a repeat of this finding is minimised.
- 52% of the Current assets have been physically verified for existence, it is envisaged to be completed by 31 March 2023.
- The Dept Identified Potential 91 167 items for disposal to minimize risk which are currently unserviceable and assists in the integrity of the asset register
- An audit team from Directorate Asset management has been established to source all supporting documents from the Procurement Centers on the additions that the department was qualified on for rectification, by March 2023, an update will be furnished.
- Risk mitigation: Directorate Asset management has issued an instruction to Services and Divisions wrt to Log/Fin monthly reviews, and random spot check will be done to monitor record keeping of all assets acquired in the current year.

Action Plan MOVABLE TANGIBLE CAPITAL ASSETS

FINDINGS

- Completeness of Movable Tangible Assets
- Assets acquired after 1 April 2002 which were recorded at R1
- Structuring fore Asset management is not adequate

STATUS OF IMPLEMENTATION

- Logistics and Finance reconciliations are being monitored on a monthly basis.
- Monitoring of Stock take Discrepancies are managed through Services and Divisions.
- Monthly reviews of the asset register and intervention by Services and Divisions where the supporting documents are located.
- Internal Audit file will be sent to Services and Divisions monthly, prior to Conclusion of AFS.
- The Department is in discussions with the various SETAs to get assistance from a human resource capacity point of view in the interim to assist with verification of assets and also creation of jobs, which will be at no cost to the Department.



Action Plan HUMAN RESOURCES – EMPLOYEE BENEFITS

FINDINGS

Prior period error not corrected in the annual financial statements, leave entitlement balances are misstated.

Root Cause; Inclusion of inactive members, members on suspension accrued capped leave, incorrect notch values and leave credits that were granted after year end.

STATUS OF IMPLEMENTATION

- Correction of errors were done retrospectively (FY2019/20)
- System enhancement to prevent accrual of capped leave for suspended members.
- Separate disclosure for inactive members with outstanding termination of service phases (deceased and resignations)
- Ensured accuracy of the leave balances on the management schedule and the PERSOL system.
- PERSOL system enhancements have been completed.
- The process of correcting prior year errors is in progress (60% complete) i.e. capped leave balances and inactive members. Target date for completion in 30 November 2022



Action Plan Audit of Performance Objectives

FINDINGS

- Misstatement of reported achievement in the annual performance report (SAMHS and Jops)
- Insufficient evidence provided to support reported achievement

STATUS OF IMPLEMENTATION

- The standard operating procedures and the technical indicator descriptions have been updated, which will eradicate future misstatements
- For the misstatements identified by the auditors, it has been corrected and submitted to the auditors. This will be audited during the interim audit cycle.
- Information has been provided to the auditors during end of July 2022 and they have indicated that they will audit it during the interim audit cycle



Way Forward on PROJECT THUSANO

FINDINGS

- Contract is Open ended
- Process of contracting was not fair, equitable and transparent
- The Services were Uneconomically procured as compared to the industry
- Uneconomical / vocational / professional services too high in terms of training of students

STATUS OF IMPLEMENTATION

- The Contract has an end date, which is January 2025, the Department is reconsidering this date based on the concerns raised.
- The contract between the two countries is based on a bilateral agreement, corrective actions are in process
- The Department in the past used the Defence Industry, however, there was no value for money, since adequate work was not done.
- The Cuban cost is approximately R102 000 per student, inclusive of tuition, meals, accommodation, books and transportation, compared with local cost of approximately R90 000 on average only on tuition.



STATUS ON MATERIAL IRREGULARITIES

The AGSA has issued 5 material irregularities to the Department. The following is what the Department has done so far in dealing with these findings from the AGSA.

- **Importation of unregistered drug** – The unused drugs were returned to Cuba. The Minister has instructed the Chief of the SANDF to institute consequence management, based on the MTT report
- **Asset Management contract**, internal investigations have finalized, recommendations have been made, the Department spent R617 million out of the R922 million awarded. The Department is of the view that no financial loss has been incurred.
- **Eco Park Lease**, Accounting Officer instituted an investigation, finalized, recommendations made, the Log Division has finalized a Board of Inquiry, which agrees with the financial loss, but does not hold anyone accountable.
- **Unfair award of fuel contract** – The DOD disagreed with the auditors and the auditors have referred it to the Directorate for Priority Crime investigations.
- **PPE (thermal scanners)** not procured in a cost effective manner – The Department does not agree with the auditors. It was at the heart of Covid-19 and there were no regulated prices provided by National Treasury for Thermal walk through scanners in April 2020.



Thank You



Questions?

