

**Portfolio: Defence**

**Date: October**

PC

PFMA audit outcomes of the 2014-15 financial year

CONTENTS

**1. Introduction 3**

**2. Audit opinion history 5**

**3. Key focus areas 8**

**4. Other matters of interest 19**

**5. Drivers of internal control 22**

**6. Other AGSA reports 23**

**7. Combined Assurance on Risk Management in the Public Sector 24**

**8. Minister commitments and progress on these commitments 25**

**9. Commitments from the Portfolio committee 26**

1. **Introduction**

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

The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it 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 Purpose of document**

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of Department of Defence and its entities as well as the Department of Military Veterans for the 2014/15 financial year.

**1.3 Overview**

The portfolio consists of:

* Department of Defence (DOD)
* Department of Military Veterans (DMV)
* One schedule 2A public entity with subsidiaries audited by the AGSA:
	+ Armaments Corporation of South Africa (ARMSCOR)
* One schedule 3B public entity audited by the AGSA:
	+ Castle Control Board (CCB)
* South African National Defence Force Fund (SANDF Fund)
* Special Defence Account (SDA)

**Legislative mandate**

The DOD derives its mandate primarily from Section 200(2) of the Constitution, 1996 (Act No. 108 of 1996). This mandate is given substance by the Defence Act, 2002 (Act No. 42 of 2002), the White Paper on Defence (1996), the Defence Review (1998) and delegated legislation. The DOD comprises of the Defence Secretariat, which is established in terms of section 204 of the Defence Act and the South African National Defence Force established in terms of section 200(2) of the constitution.

**Vision**

“Effective defence for a democratic South Africa”.

**Mission and objectives**

“To provide, manage, prepare and employ defence capabilities commensurate with the needs of South Africa, as regulated by the Constitution, national legislation and Parliamentary and Executive direction. This will be provided through the proper management, provision, preparedness and employment of defence capabilities that are in line with the domestic and global needs of South Africa”.

**1.4 Organisational structure**

1. **Audit opinion history**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| --- | --- | --- | --- | --- | --- |
| **Audit opinions** | **14/15** | **13/14** | **12/13** | **11/12** | **10/11** |
| * Department of Defence (DOD)
 |  |  |  |  |   |
| * Department of Military Veterans (DMV)
 |  |  |  |  |  |
| * Armaments Corporation of South Africa (Armscor) Group
 |  |  |  |  |  |
| * Special Defence Account (SDA)
 |  |  |  |  |  |
| * South African National Defence Force Fund (SANDF Fund)
 |  |  |  |  |  |
| * Castle Control Board (CCB)
 |  |  |  |  |  |
| **Qualification areas** | **14/15** | **13/14** | **12/13** | **11/12** | **10/11** |
| * Department of Defence (DOD)
 |  |  |  |  |  |
| * Tangible Capital Assets
 |  |  | **✓** |  | **✓** |
| * Intangible Capital Assets
 |  | **✓** | **✓** |  | **✓** |
| * Department of Military Veterans (DMV)
 |  |  |  |  |  |
| * Irregular expenditure
 |  | **✓** |  |  |  |
| * Accruals
 |  | **✓** |  |  |  |
| * Goods and Services
 |  | **✓** |  |  |  |
| * Transfers and subsidies
 | **✓** |  |  |  |  |
| * Movable tangible capital assets
 | **✓** | **✓** |  |  |  |
| * Opening balances and comparitive figures
 |  | **✓** |  |  |  |
| * Special Defence Account (SDA)
 |  |  |  |  |  |
| * Financial assets
 | **✓** |  |  |  |  |
| * Operating expenses: Sensitive Projects
 | **✓** |  |  |  |  |
| **Predetermined objectives** | **14/15** | **13/14** | **12/13** | **11/12** | **10/11** |
| * Department of Defence (DOD)
 |  |  | **✓** |  |  |
| * Department of Military Veterans (DMV)
 | **✓** | **✓** |  |  |  |
| * Special Defence Account (SDA)
 | N/A | N/A | N/A | N/A | N/A |
| * Castle Control Board (CCB)
 | **✓** | **✓** | **✓** | **✓** | **✓** |
| * South African National Defence Force Fund (SANDF Fund)
 | **N/A** | **N/A** | **N/A** | **N/A** | **✓** |
| **Compliance with laws and regulations**  | **14/15** | **13/14** | **12/13** | **11/12** | **10/11** |
| * Department of Defence (DOD)
 | **✓** | **✓** | **✓** | **✓** | **✓** |
| * Department of Military Veterans (DMV)
 | **✓** | **✓** |  |  |  |
| * Armaments Corporation of South Africa (Armscor) Group
 |  | **✓** |  |  |  |
| * Special Defence Account (SDA)
 |  | **✓** |  | **✓** | **✓** |
| * South African National Defence Force Fund (SANDF Fund)
 |  | **✓** |  |  | **✓** |
| * Castle Control Board (CCB)
 | **✓** | **✓** | **✓** | **✓** | **✓** |

**AUDIT OPINION LEGEND** |
|   | CLEAN AUDIT OPINION: No findings on PDO and Compliance |
|  | UNQUALIFIED with findings on PDO and Compliance |
|   | QUALIFIED AUDIT OPINION (with/without findings) |
|  | DISCLAIMER/ADVERSE AUDIT OPINION |
|  | ENTITY NOT YET ESTABLISHED |
| **✓** | DEPARTMENT/ENTITY HAD FINDINGS (in the related matter) |

**2.1 Significant emphasis of matters**

|  |  |
| --- | --- |
| **Department/Entity** | **Emphasis of matter raised**  |
| Department of Defence (DOD) | **Financial reporting framework**As disclosed in accounting policy note 13 to the financial statements, the National Treasury gave the department departures from the MCS. In terms of these departures, the department can value minor assets acquired up to 31 March 2013 at R1 and subsequently at cost, and can also include capital spares as part of inventory for the 2014-15 year.**Restatement of corresponding figures**As disclosed in the notes to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the year ended 31 March 2015 in the financial statements of the Department of Defence at, and for the year ended, 31 March 2014.**Payables**Payables which exceed the payment term of 30 days as required in Treasury Regulation 8.2.3 amounted to R209 981 317. This amount, in turn, exceeds the voted funds to be surrendered of R14 498 000 as per the statement of financial performance by R195 483 317. The amount of R195 483 317 would therefore have constituted unauthorised expenditure had the amounts due been paid in a timely manner. |
| Department of Military Veterans (DMV) | **Restatement of corresponding figures** As disclosed in note 44 to the financial statements, the corresponding figures for 31 March 2014 have been restated as a result of errors discovered during the year ended 31 March 2015 in the financial statements of the Department of Military Veterans at, and for the year ended, 31 March 2014**Material underspending of the budget**As disclosed in the appropriation statement, the department has materially underspent the budget on current payments and payments for capital expenditure for all three programmes. |
| Armscor Group | None. |

|  |  |
| --- | --- |
| Special Defence Account (SDA) | **Financial reporting framework**As disclosed in note 1.6.1 to the financial statements, the Minister of Finance has exempted the SDA from applying GRAP 6 (consolidations) and to instead apply GRAP 104 (financial instruments) regarding some Special Defence Activities due to the sensitive nature of the activities involved. **Significant uncertainties**With reference to note 18 to the financial statements, the SDA through the Department of Defence is a defendant in a certain lawsuit. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements. |
| SANDF Fund | None. |
| Castle Control Board  | None. |

**3. Key focus areas**



**3.1 Material errors/omissions in submitted annual financial statements**

| **Department/****Entity** | **Finding**  | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| Department of Defence (DOD) | The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA.Material misstatements on tangible capital assets and goods and services identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion. | Fair value calculation included assets with a contractual delivery date after 31 March 2015.Lack of proper review to ensure that the financial statements comply with the Modified Cash Standards (MCS).  | Fair value calculations should take into account inventory, repairs and maintenance, and other items which are not capital in nature and they should be appropriately excluded.Fair value calculations should take into account financial year-ends. A formal policy should be drafted indicating what should be included and excluded in a fair value calculation.Before any valuation of projects are performed Armscor finance personnel, Armscor project managers and the department’s project managers should meet together and discuss how the relevant project is going to be valued taking into account the above recommendations.Management should ensure that goods and services transactions are classified in accordance with MCS requirements. Controls should be implemented to ensure that adequate review of the classification of transactions takes place. |
| Department of Military Veterans (DMV) | The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1) (a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently which resulted in the financial statements receiving a qualified audit opinion. | Financial Statements were not adequately reviewed to ensure that they comply with the accounting framework requirements.Management did not review the financial statements to ensure that the supporting information agrees to reported information.The CFO was on special leave for an extended period during the financial year.Management did not have documented policies and procedures to guide the operations of the department. A number of finance related policies which include payment of goods and services, petty cash management, irregular expenditure, preparation of financial statements and related parties were not developed and communicated. | Controls should be implemented to ensure that adequate review of the financial statements takes place.Documented policies and procedures to guide the operations of the department should be developed and implemented.  |
| Armscor Group | None. | None. | None. |
| Special Defence Account (SDA) | None. | None. | None. |
| SANDF Fund | None. | None. | None. |
| Castle Control Board  | None. | None. | None. |

**3.1.1 Comments on additional AGSA interactions to help improve financial outcomes**

| **Department/Entity** | **Additional interaction/ add service (eg. Workshops etc)** | **Impact / outcome** |
| --- | --- | --- |
| Department of Defence (DOD) | Weekly meetings were held with the heads of key sections throughout the audit. | Assisted greatly in more effective communication, logistics of the audit, and to clear areas of concern. |
| Weekly meetings held with the CFO during the main audit period. | Ensured effective communication and enabled the CFO to take timely action where required.  |
| Department of Military Veterans (DMV) | Continuous interactions with the acting CFO and senior management. | Assisted to clear more areas of concern. |
| Armscor Group | Continuous interactions with the CFO and senior management. | Assisted to clear more areas of concern. |
| Special Defence Account (SDA) | Monthly meetings held with the CFO during the main audit period. | Ensured effective communication and enabled the CFO to take timely action where required.  |
| SANDF Fund | No specific additional interactions. | No specific additional interactions. |
| Castle Control Board  | No specific improvement on outcomes from the previous year. | No specific improvement on outcomes from the previous year. |

* 1. **Predetermined objectives**

| **Department/Entity** | **Finding** | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| DOD | Material misstatements were identified in the annual performance report submitted for auditing on the reported performance information for the Force Employment programme. As management subsequently corrected the misstatements, we did not identify any material findings on the usefulness and reliability of the reported performance information.  | Insufficient review performed to identify possible inconsistencies/omissions. Monitoring of the implementation of controls over processing and reconciliation of performance information not adequately performed. | Control measures should be implemented to ensure sufficient review and that all reported performance is validated against appropriate supporting documentation to support the actual achievement.Procedures/technical indicator sheets should be developed and communicated at the lower levels to enable and support understanding and execution of internal control objectives, processes and responsibilities. |
| DMV | The material findings in respect of the selected programmes are as follows:Socio-economic Support ServicesUsefulness of reported performance information* A total of 20% of the targets in relation to Socio-Economic Support Services were not specific.
* We could not measure the required performance for 20% of the targets in relation to Socio-Economic Support Services.

Reliability of reported performance information.* Adequate and reliable corroborating evidence could not be provided for 40% of the targets to assess the reliability of the reported performance information. The auditee’s records did not permit the application of alternative audit procedures.

Empowerment and Stakeholder ManagementUsefulness of reported performance information* A total of 33% of the indicators in relation to Empowerment and Stakeholder Management were not verifiable.

The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information.  | Inadequate review of the planning documents to ensure that misalignments in the information recorded is identified and corrected and that performance targets adhere to the SMART criteria.The department did not have sufficient monitoring controls to ensure the proper implementation of the overall process of planning as a result performance indicators and targets did not meet measurability criteria in some instances.Management did not to implement effective controls to ensure that information in the performance report were reliable before submission for audit. This was mainly due to inadequate reviews and lack of proper record management systems. | Monitoring controls should be implemented by management to ensure the proper implementation of the overall performance process. Management should also implement proper record management systems.Internal audit should perform review of the performance process and reporting. |
| Armscor Group | None. | None. | None. |
| Special Defence Account (SDA) | N/A | N/A | N/A |
| SANDF Fund | None. | None. | None. |
| Castle Control Board  | The material findings in respect of the selected programmes are as follows:Programme 2: Preservation, Interpretation and showcasing of the history of the Castle, and Programme 4: Increased public profile and positive perception across all sectors of the community Usefulness of reported performance information * A total of 33% of the targets were not specific.
* A total of 33% of the indicators were not well defined.
 | The accounting authority did not ensure that policies and procedures were in place to ensure that performance indicators were well defined and targets are specific. | Management should ensure that all indicators are well defined to ensure that information will be consistently collected and reported on. Management should also implement and communicate standard operating procedures (SOPs) for all KPIs. |

**3.2.1 Comments on additional AGSA interactions to help improve AOPO outcomes**

| **Department/Entity** | **Additional interaction/ add service (eg. Workshops etc)** | **Impact / outcome** |
| --- | --- | --- |
| DoDDMVArmscor CCB | Additional interactions were held throughout the audit process with all levels of management involved in the predetermined objectives process. | Despite additional interactions held at all the departments/entities certain outcomes remained. |

* 1. **Compliance with legislation**

|  |  |  |  |
| --- | --- | --- | --- |
| **Department/Entity** | **Finding**  | **Root cause** | **Recommendation** |
| DOD | Annual financial statements, performance and annual reportThe financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(b) of the PFMA. Material misstatements on tangible capital assets and goods and services identified by the auditors in the submitted financial statements were subsequently corrected. | Annual financial statements, performance and annual reportInsufficient standard operating procedures (SOPs) and controls to ensure accurate and complete reporting. | Annual financial statements, performance and annual reportA comprehensive SOP should be developed and implemented to ensure accurate and complete financial performance reporting. |
| Expenditure managementThe accounting officer did not take effective steps to prevent irregular expenditure, as required by section 38(1)(c)(ii) of the PFMA, and Treasury Regulation 16A6.1. | Expenditure managementIn some instances there are still inadequate review and monitoring to prevent irregular expenditure. | Expenditure managementControl measures should strengthened to ensure adquate monitoring. |
| DMV | Annual financial statements, performance and annual reportThe financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 40(1) (a) and (b) of the PFMA.Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently which may resulted in the financial statements receiving a qualified audit opinion.Effective, efficient and transparent systems of risk management and internal control with respect to performance information and management were not maintained as required by section 38(1)(a)(i) of the PFMA. | Annual financial statements, performance and annual reportInsufficient standard operating procedures (SOPs) and controls to ensure accurate and complete reporting.Management did not review the financial statements to ensure that the supporting information agrees to reported informationThe CFO was on special leave for an extended period during the financial year. | Annual financial statements, performance and annual reportA comprehensive SOP should be developed and implemented to ensure accurate and complete financial performance reporting.The accounting officer should ensure that financial statements and performance report are adequately reviewed and supporting schedules which include an asset register should be compiled timely. |
| BudgetsTransfers and subsidies that were not originally budgeted for were made without the approval of National Treasury, as required by Treasury Regulations 6.3.1(b) and (d). | BudgetsThe prior year budget was not properly compiled considering the service delivery mechanisms of the department.  | BudgetsThe department should identify and obtain approval for all new transfers and subsidies to be introduced during the financial year |
| Expenditure management Effective steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 38(1)(c)(ii) of the PFMA and Treasury regulation 9.1.1.Effective internal controls were not in place for payment approval and processing, as required by Treasury Regulation 8.1.1.Contractual obligations and money owed by the department were not always settled within 30 days or an agreed period, as required by section 38(1)(f) of the PFMA and Treasury regulation 8.2.3.Payments were made in advance of the receipt of goods or services, in contravention of Treasury Regulation 15.10.1.2. | Expenditure management The department does not have appropriate internal controls to ensure compliance with the SCM policies and procedures as well as National Treasury Regulations.The department has not updated the subsistence and travel policy to include the cost containment measures as per National Treasury’s instruction. Management did not prioritise the establishment and implementation of policies that should guide identification and recording of transactions or events relating to irregular expenditure.There are no standard operating procedures which guides the SCM division on required time frames that they need to adhere to when submitting documents to be processed by the finance division.Absence of senior management to approve payments timely. | Expenditure management The accounting officer should develop and implement policies and procedures to guide expenditure management which includes timely processing of payments, identification and reporting of irregular expenditure and alignment of SCM policies with regulations. |
| Procurement and contract managementIn some instances goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations, as required by Treasury Regulation 16A6.1.Some quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1 (d) and the Preferential Procurement Regulations as no valid tax certificate could be provided.Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. | Procurement and contract managementThe department does not have appropriate internal controls to ensure compliance with the SCM policies and procedures as well as National Treasury Regulations. | Procurement and contract managementThe accounting officer should strengthen internal controls in the SCM unit by ensuring the policies and procedures and Treasury regulations are complied with at all times.Deviations from SCM regulations should be adequately investigated and steps should be taken against officials who permitted non-compliance. |
| HR ManagementFunded vacant posts were not filled within 12 months as required by Public Service Regulation 1/VII/C.1A.2. | HR ManagementAccording to management the posts have been advertised and shortlisted however there are Ministerial administration challenges that are creating a delay in conducting interviews. | HR ManagementThe accounting officer should timely address the challenges that resulted in the delays in the filling of vacant posts. |
| Asset management Proper control systems to maintain assets were not implemented, as required by section 38(1)(d) of the PFMA (Act 1 of 1999) and Treasury regulation 10.1.1(a). | Asset management Proper systems and controls are not in place to ensure the asset register is aligned to the National Treasury Framework requirements. There is no standard operating procedure to ensure that the assets register is updated with all assets purchased before distribution to the end user. Lack of understanding and knowledge of asset management.The Department is not using the LOGIS system to properly monitor management of the department’s assets. This is due to lack of officials trained in the use of LOGIS system. | Asset management The accounting officer should develop and implement an asset management policy that addresses the compilation of a complete and accurate asset register and responsibilities thereof should be isolated.The department should appoint competent officials to deal with asset management. |
| Transfer payments Sufficient appropriate audit evidence could not be obtained that funds were transferred to entities after obtaining written assurance that the entity implements effective, efficient and transparent financial management and internal control systems, as required by section 38(1)(j) of the PFMA.Sufficient appropriate audit evidence could not be obtained that appropriate measures were maintained to ensure that transfers and subsidies to entities were applied for their intended purposes, as required by Treasury Regulation 8.4.1. | Transfer payments Inadequate monitoring activities performed by the department to ensure that the funds transferred to the entities are used for the intended purposes, within the agreed upon time frames. Lack of control activities to ensure that management reviews and monitors progress regarding implementation of the activities per the MOU. | Transfer payments The accounting officer should implement adequate monitoring processes to track progress against the agreed MoU’s to ensure that funds are used for the intended purposes.The department should obtain written assurance from the entities to which funds are transferred confirming that those entities implement effective and efficient internal controls. |
| Internal auditThe internal audit function did not evaluate the effectiveness and efficiency of controls and give recommendations for their enhancement and improvement, as required by Treasury regulation 3.2.11. The internal audit function did not evaluate the reliability and integrity of financial and operational information, as required by Treasury regulation 3.2.11(b).The internal audit function did not evaluate the compliance with laws and regulations, as required by Treasury regulation 3.2.11(e).The internal audit function did not assess the operational procedure and monitoring mechanisms over all transfers made and received, including transfers in terms of the annual Division of Revenue Act, as required by Treasury Regulation 3.2.8. | Internal auditThis is due to lack of capacity within the internal audit unit to appropriately execute the activities per the approved risk based plan. The capacity constraints can also be linked to design of the internal audit organizational structure which does not make provision for sufficient staff at an operational level. | Internal auditThe vacancies in the internal audit unit should be timely filled and issues relating to the organizational structure should also be timely addressed. |
| Consequence managementSufficient appropriate audit evidence could not be obtained that effective and appropriate disciplinary steps were taken against officials who made and or permitted irregular and fruitless and wasteful expenditure, as required by section 38(h) (iii) of the PFMA and Treasury Regulation 9.1.3. | Consequence managementThe department does not have standard operating procedures to identify and, take appropriate steps to address the irregular expenditure that has been incurred. | Consequence managementThe policies and procedures should include steps that should be taken once irregular and fruitless and wasteful expenditure has been identified.The accounting officer should ensure that effective and appropriate steps are taken against officials who permitted irregular expenditure. |
| Armscor Group | None. | None. | None. |
| Special Defence Account (SDA) | None. | None. | None. |
| SANDF Fund | None. | None. | None. |
| CCB  | Internal auditInternal audit did not have a three year rolling strategic internal audit plan in place, as required by Treasury Regulation 27.2.7(a)The internal audit charter was not signed as required by Treasury regulation 27.2.5. | Internal auditSenior management did not develope a three year audit plan as well as an internal audit charter. | Internal auditSenior management should develop a three year audit plan as well as an internal audit charter and effective consequence management should be implemented where laws and regulations are not adhered to. |

* 1. **Financial Health**

|  |  |  |  |
| --- | --- | --- | --- |
| **Department/Entity** | **Finding**  | **Root cause** | **Recommendation** |
| DoD | PayablesPayables exceeded the payment term of 30 days as required in Treasury Regulation 8.2.3.Payables exceeding the voted funds to be surrendered would therefore have constituted unauthorised expenditure had the amounts been paid in a timely manner. | Payables Creditor payments are not properly monitored. | PayablesCreditor payments should be monitored.Effective budgetary controls should be implemented. |
| DMV | The following financial health indicators were identified in the management report:* Underspent the final appropriation by 8.2%
* Underspent the final appropriation for capital expenditure by 57.4%
* Creditor-payment period is 32.9 days
* An accrual-adjusted net current liability position was realised of R22 356 000.00
* An accrual-adjusted net liability position was realised of R14 237 000.00
* There is a cash shortfall of 1.9% of next year’s total appropriation.
 | Inappropriate budget management and monitoring applied throughout the year. | Implement appropriate budget management and monitoring. |

* 1. **Human resource management and consequence management**

| **Department/Entity** | **Finding**  | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| DMV | Human resource management Funded vacant posts were not filled within 12 months as required by Public Service Regulation 1/VII/C.1A.2. | Human resource management According to management the posts have been advertised and shortlisted however there are Ministerial administration challenges that are creating a delay in conducting interviews. | Human resource management The accounting officer should timely address the challenges that resulted in the delays in the filling of vacant posts |
| Consequence management Sufficient appropriate audit evidence could not be obtained that effective and appropriate disciplinary steps were taken against officials who made and or permitted irregular and fruitless and wasteful expenditure, as required by section 38(h) (iii) of the Public Finance Management Act and Treasury Regulation 9.1.3. | Consequence management The department does not have standard operating procedures to identify and, take appropriate steps to address the irregular expenditure that has been incurred. | Consequence management The policies and procedures should include steps that should be taken once irregular and fruitless and wasteful expenditure has been identified.The accounting officer should ensure that effective and appropriate steps are taken against officials who permitted irregular expenditure. |

* 1. **Information technology (control environment)**

| **Department/Entity** | **Finding**  | **Root cause** | **Recommendation** |
| --- | --- | --- | --- |
| DoD | There is only a draft IT Governance Framework.  | Due to Government Information Technology Officer (GITO) vacancy. | Ensure that the IT Governance Framework is approved and that the relevant staff are appointed. |

1. **Other matters of interest**
2. Unauthorised expenditure: Expenditure not in accordance with the budget vote

No unauthorised expenditure incurred by the portfolio.

1. Irregular expenditure: Expenditure incurred in contravention of key legislation

|  |  |
| --- | --- |
| **Department/ Entity** | **Irregular expenditure** |
| **Movement** | **AmountR2014/15** | **AmountR2013/14** | **Root cause** | **Recommendation** |
| 1 | DOD |  | R558 842 000 | R1 294 496 000 | Insufficient review to ensure compliance with Supply Chain Management Regulations, and cost containment measures. | Control measures should be strengthened to ensure compliance with Supply Chain Management Regulations.Appropriate consequence management measures should be implemented. |
| 2 | DMV |  | R28 973 000 | R21 151 000 | Insufficient controls to ensure compliance with laws and regulations.Policies and procedures not updated to be aligned to legislation. | Policies and procedures should be updated and implemented to guide the operations of the department and to ensure compliance with legislation.Appropriate consequence management measures should be implemented. |
| 3 | Armscor Group |  | R34 456 720 | R68 467 992 | The procurement policy implemented by the entity did not ensure compliance with the Preferential Procurement Policy Framework Act as far as it applies to BBBEE requirements. The policy was subsequently amended, however irregular expenditure had already been incurred on contracts awarded prior to the amendment date. | Policies and procedures should be timely updated to ensure compliance with regulations. |
| 4 | Special Defence Account (SDA) |  | R267 995 000 | R151 179 000 | The procurement policy implemented did not ensure compliance with the Preferential Procurement Policy Framework Act as far as it applies to BBBEE requirements. The policy was subsequently amended, however irregular expenditure had already been incurred on contracts awarded prior to the amendment date. | Policies and procedures should be timely updated to ensure compliance with regulations. |
| 5 | SANDF Fund | N/A | Nil | Nil | N/A | N/A |
| 6 | Castle Control Board |  | R121 000 | R354 374 | Effective preventionand detection control measures not implemented. | Control measures should be strengthened to ensure compliance with legislation.  |
| Total | R890 378 720 | R1 535 648 366 |  |  |

1. Fruitless and wasteful expenmditure: Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)

|  |  |
| --- | --- |
| **Department/ Entity** | **Fruitless and Wasteful expenditure** |
| **Movement** | **AmountR2014/15** | **AmountR2013/14** | **Root cause** | **Recommendation** |
| 1 | DOD |  | R63 000 | R303 564 000 | In some instances there are still inadequate review and monitoring to prevent fruitless and wasteful expenditure. | Control measures should be strengthened to ensure adequate monitoring. |
| 2 | DMV |  | R802 000 | R770 000 | The department does not have standard operating procedures to identify and report fruitless and wasteful expenditure, also steps to be taken against officials who permitted fruitless and wasteful expenditure are not documented and implemented. As a result the department does not always exercise due care prior to entering into contracts and or making payments. | The policies and procedures should include steps that should be taken once fruitless and wasteful expenditure has been identified.The accounting officer should ensure that effective and appropriate steps are taken against officials who permitted fruitless and wasteful expenditure. |
| 3 | Armscor Group |  | R790 | Nil | No material fruitless and wasteful expenditure. | N/A |
| 4 | Special Defence Account (SDA) |  | R57 242 000 | R4 071 000 | The fruitless and wasteful expenditure occurred due to a contract that was cancelled and re-instated. Investigations revealed that no person is liable for the fruitless and wasteful expenditure. | The accounting officer should deal with the fruitless and wasteful expenditure in terms of Treasury Regulations 9.14 and 12. |
| 5 | SANDF Fund | N/A | Nil | Nil | N/A | N/A |
| 6 | Castle Control Board |  | R3 000 | Nil | No material fruitless and wasteful expenditure. | N/A |
| Total  | R58 110 790 | R308 405 000 |  |  |

1. **Drivers of internal controls**

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| **Drivers of internal control** |
| **Department & Entities** | **Leadership** | **Financial & performance management** | **Governance** |
| **Effective leadership culture** | **Oversight responsibility** | **HR management** | **Policies and procedures** | **Action plans** | **IT governance** | **Proper record keeping** | **Processing and reconciling controls** | **Reporting** | **Compliance** | **IT systems controls** | **Risk management** | **Internal audit** | **Audit committee** |
| DOD |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| DMV |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Armscor Group |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| SDA |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| SANDF Fund |  |  |  |  |  | N/A |  |  |  |  | N/A |  | N/A | N/A |
| Castle Control Board |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

1. **Other AGSA reports**

6.1 Investigations

Department of Defence

Various investigations by the department/investigative units relating to supply chain management as well as procurement and contract management were in progress at the time of the audit report.

6.2 Performance audits

None.

1. **Combined Assurance on Risk Management in the Public Sector**



1. **Minister commitments and progress on these commitments**

The following includes prior year commitments and new commitments made

|  |  |  |  |
| --- | --- | --- | --- |
| **Focus area** | **Commitment** | **Due date** | **Status** |
| Action plan to address internal and external audit findings | To assist in filling vacant positions for the internal audit divisions of the DOD. | 2015/16 | The commitment by the minister to fully capacitate the internal audit function is still in progress. |
| A task team will be established to assist DMV in addressing matters affecting performance of the department. | 2015/16 |  |

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| **STATUS LEGEND** |
|   | Commitment has been implemented |
|  | Commitment in progress |
|  | Commitment has not been implemented |
|  | New commitment made in current year  |

1. **Commitments from the Portfolio committee**

The following commitments are proposed for consideration by the committee:

DMV

* To obtain and review quarterly financial and performance reports of the department.
* To obtain audit action plans from the department and monitor progress on a quarterly basis.
* To request the accounting officer to provide a report on consequence management.

DOD

* To obtain and review quarterly financial and performance reports of the department.