

DEPARTMENT OF DEFENCE

3

05/01/19
p code defence

AUDIT REPORT HISTORY

The audit opinions of the Auditor-General on the accounts of the DoD have been qualified over the last number of years. (Unfortunately the annual report containing the 2004-05 report has not yet been tabled, and we are not aware of an explanation in terms of section 65 of the PFMA providing reasons for the delay.) The reported items (in sequence of importance) over the last few years are listed below:

VOTE ACCOUNT	01/02	02/03	03/04	COM-MENTS
<i>Qualification items</i>				
Contingent liability: Leave (Leave credits and administration)	EOM	EOM	Q	D
Physical and intangible asset movement schedules	N/A	EOM	Q	D
Departmental income	EOM	EOM	Q	D
Purchases and payables (Accruals)	EOM	EOM	Q	D
Irregularities and losses	-	-	Q	C
<i>Emphasis of matter items</i>				
Management of inventory, machinery and equipment	EOM	Q	EOM	A; C
Land and buildings	EOM	EOM	EOM	C
Gifts, donations and sponsorships	-	-	EOM	C
Personnel expenditure: Commuted overtime	EOM	N/A	EOM	C
Revenue and receivables: Foreign aid assistance received in kind	EOM	EOM	EOM	D
National Conventional Arms Control Committee (NCACC)	-	EOM	EOM	D
Information systems audit	-	-	EOM	D
Intellectual properties	-	-	EOM	B

SPECIAL DEFENCE ACCOUNT	01/02	02/03	03/04	COM-MENTS
<i>Emphasis of matter items</i>				
Bank account	EOM	EOM	-	B
Going concern	EOM	EOM	-	B
Accounting for foreign exchange differences	EOM	-	-	B
Compliance programme	EOM	EOM	EOM	D
Strategic defence procurement packages	EOM	EOM	EOM	D
Commission paid during sale of Puma helicopters	EOM	EOM	EOM	D
Purchasing of training aircraft	EOM	EOM	EOM	D

Legend:

EOM: Emphasis of Matter

Q: Qualification

A: Changes in disclosure requirements

B: Improving

C: Deteriorating

D: Constant

The following four principal root causes attributed to the qualification:

- Non-compliance with policies and procedures (internal controls);
- The lack of an appropriate integrated computerised system, which if implemented, will enable the DOD to be more efficient in the management of the department. In addition, an integrated computerised system will ensure compliance with the requirements set by Treasury. Refer to DOD Annual report, CFO report, page 46 and Management report, paragraph 10 and 12, page 141 – 142.
- Lack of independent review and reconciliations (internal controls); and
- Lack of skilled, competent and trained staff.

[Note: During the audit of 2003/04 financial year, the AG issued a management letter of 357 pages. This information enabled management to use the management letter as a tool to address weaknesses identified and financial management maturity levels in the DOD.

The Audit Committee should monitor the adequacy of Accounting Officer and his management's responses to the external audit findings (as well as internal audit findings).]

SUMMARY OF ROOT CAUSES AS REPORTED IN 2003-04 REPORT

1. *Contingent liabilities: Leave* [R1 064 343 000]

Audit report: Paragraph 3.1, page 143;
Financial Statements: Note 4, page 197;
Detailed Part 3: Page 16

Finding:

Validity, completeness and accuracy of leave liability could not be verified.

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation;
Lack of appropriate integrated system.

Physical and intangible asset movement schedules

Audit report: Paragraph 3.2, page 144;
Financial statements Annexures 4 and 5, page 205 and 206;
Detailed Part 3: Page 23

Finding:

No information could be submitted.

Root causes:

Lack of appropriate integrated system (values);
Non-compliance with policies and procedures;
Lack of independent review and reconciliation; and
Lack of skilled, competent and trained staff.

Departmental income [R266 342 000]

Audit report: Paragraph 3.3, page 144;
Financial statements Note 2, page 181;
Detailed Part 3: Page 24

Finding:

Completeness of income could not be verified.

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation.

Purchases and payables: Accruals [R3 873 000]

Audit report: Paragraph 3.4, page 144;
Financial statements Note 26, page 197;
Detailed Part 3: Page 25

Finding:

Completeness of accruals could not be verified.

Root cause:

Lack of appropriate integrated system.

Irregularities and losses [R18 501 000]

Audit report: Paragraph 3.5, page 144;
Financial statements Note 11.3, page 188;
Detailed Part 3: Page 25

Finding:

Accuracy and completeness could not be verified.

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation.

***Management of inventories, machinery and equipment
[R 42 801 727 324 not disclosed in financial statements]***

Audit report: Paragraph 5.1, page 144 - 146;
Detailed Part 3: Page 19

Finding:

Various weaknesses in internal control.

Deterioration of vehicles: South African Air Force Gym; South African Air Force College; 10 Air depot; 43 SA Brigade; Group 15; Group 18; General Support Basis (GSB) PE; DOD Main Ordnance Depot; GSB Potchefstroom; 35 Engineering Formation; Merebank Military Base)

Root causes:

Non-compliance with policies and procedures;
Lack of independent review and reconciliation;
Lack of appropriate integrated system; and
Lack of skilled, competent and trained staff.

Land and buildings

Audit report: Paragraph 5.2, page 146;
Detailed Part 3: Page 22

Finding:

Various weaknesses in internal control and inability to sustain buildings.
Deteriorated buildings: 10 Air Depot; South African Air Force Gym; South African Air Force College; Group 16

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation.

Gifts, donations and sponsorships [Note 2.1: R96 000; Note 10.2: R NIL; Note 32: Nothing disclosed]

Audit report: Paragraph 5.3, page 146;
Financial statements: Note 2.1, page 182; Note 10.2, page 187; Note 32, page 200;
Detailed Part 3: Page 26

Finding:

Completeness, accuracy and validity could not be verified.

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation.

Personnel expenditure: Commuted overtime [R36 531 363]

Audit report: Paragraph 5.4, page 146;
Financial statements: Included in Note 4, page 183;
Detailed Part 3: Page 17

Finding:

Internal control weaknesses identified.

Root causes:

Non-compliance with policies and procedures; and
Lack of independent review and reconciliation.

Revenue and receivables: Foreign aid assistance received in kind [R75 058 000]

Audit report: Paragraph 5.5, page 146;
Financial statements: Note 3, page 182;
Detailed Part 3: Page 24

Finding:

Completeness and accuracy could not be verified.

Root cause:

No documented policy and procedures.

NCACC

Audit report: Paragraph 5.6, page 146 - 147;
Detailed Part 3: Page 27

Finding:

No approved constitution, policy and operating procedures; and
No inspectorate division established.

Root cause:

No documented policy and procedures.

Information systems audit

Audit report: Paragraph 5.7 page 147;
Detailed Part 3: Page 28

Finding:

Internal control weaknesses identified in Operational Support Information System (OSIS) and
Computer Aided Logistic Management Information System (CALMIS).

Root cause:

No documented procedures.

Intellectual property

Audit report: Paragraph 5.8 page 148;
Detailed Part 3: Page 24

Finding:

No approved and implemented policy and procedure.

Root cause:

No documented policy and procedure.

The detail regarding the background, audit finding, root cause, expected outcome and
recommendation is recorded in Part 3.

For information: Personnel expenditure by programme

Number of personnel	2002/03	2003/04
Administration	3 648	3 781
Landward Defence	33 793	33 645
Air Defence	10 621	10 389
Maritime Defence	6 053	6 740
Military Health Support	6 599	7 480
Defence Intelligence	676	667
Joint Support	12 252	11 891
Command and Control	1 264	1 320
Special Defence Account	0	0
Total filled positions	74 906	75 913
Total compensation of employees (R thousand)	6 642 036	7 209 335
Unit cost (R'000's)	88.7	95.0

The DOD works towards an establishment of 70 000 employees. However, the establishment increased from 81 992 in 2002/2003 to 95 958 in 2003/2004. This increase was mainly due to the inflow of Military Skills Development System (MSDS) members, which was necessary to rejuvenate the SANDF's ageing HR component. The actual number of employees (filled positions) increased by 1 007 to 75 913 as at 31 March 2004.

Possible focus areas for the Portfolio Committee to consider following up

- Audit Committee and Internal Audit – what information from the Audit Committee could benefit the PC, e.g:
 - Succinct quarterly reports on from the A/Committee on adequacy of management's responsiveness to external and internal auditors' findings.
 - Reports (twice a year) from the Internal Auditors' regarding their work done on performance issues.
- Progress by the DoD regarding its long terms strategy for improved financial management. Especially determine how the following four areas of concern are being addressed:
 1. Non-compliance with policies and procedures (internal controls).
 2. The lack of an appropriate integrated computerised system.
 3. Lack of independent review and reconciliations (internal controls); and
 4. Lack of skilled, competent/trained staff.
- SCOPA areas of concern – progress by DoD in fixing the weaknesses, e.g.:
 - Leave administration – internal control system over leave & leave administration still lacking.
 - Personnel expenditure: Commuted overtime – controls over commuted overtime still insufficient.
 - Local & foreign aid – seems that there is no approved policy, nor control system, in place.
 - Medical benefit overpayments – little if any action taken.