

130306 REFERENCE

**PRESENTATION TO PCDD ON
THE AGSA PERFORMANCE
AUDIT ON CONSULTANTS IN
THE DOD**

By

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AIM

The aim of this presentation is to inform the PCD members of the AGSA's findings and the DOD's rectification plans on its management of consultants.

SCOPE

- **Summary of Consultants**
- **Findings**
- **Comments**
- **Corrective Measures**
- **Conclusion**

SUMMARY OF CONSULTANTS

	NAME	SERVICE DELIVERED	AMOUNT
1	AMG	To supplement the shortage of skills within the SAAF (1 Apr 07 to 31 Mar 10)	Rm 859.9
2	Origin Exchange	Clearance of unexploded ordnance (22 Jun 09 to 25 Feb 12)	Rm 146.4
3	Sanabo Demil	Breach of contract concluded for the demilitarisation of redundant DOD ammunition	Rm 29.9 (Claim)

SUMMARY OF CONSULTANTS (CONT)

	NAME	SERVICE DELIVERED	AMOUNT
4	KPMG/ SAB&T	To clear the DOD's audit qualifications (10 Dec 08 to 31 May 11)	Rm 76.7
5	Simon's Outsourcing	Supply of general labour services as well as skilled labourers such as artisans and electricians	Rm 2.4
6	NEW HEIGHTS 66	Maintenance of the Limpopo border fence (1 Nov 05 to 31 Jul 10)	Rm 17.8

SUMMARY OF CONSULTANTS (CONT)

	NAME	SERVICE DELIVERED	AMOUNT
7	Pronto Kleen	Cleaning and maintenance services at 3 Mil Hospital (1 Jan 09 to 31 Mar 10)	Rm 2.9
8	Khukula Cleaning Services	Cleaning and laundry services at 1 Mil Hospital (1 Sep 08 to 31 Aug 09)	Rm 4.3
9	Drs Herbst & Mostert	Appointment of session doctors in rural areas to support military patients (1 Apr 07 to 31 Mar 09)	Rm 0.92

AMG CONTRACT RENEWAL

FINDING	COMMENTS
<p>The contract was open ended and a cost/ benefit analysis was not done since 1986.</p>	<p>At the time of the start of the contract, a different governance regime existed which is different from the current one, post 1999.</p> <p>The DOD has subsequently conducted a feasibility study to consider whether it was still cost effective to continue with it in its current form and/or to renew it and possible legal implications thereof. It was decided not to renew the contract.</p>

CORRECTIVE MEASURES

- The DOD has since been in consultation with National Treasury to ensure that the necessary disclosures and condonement of relevant expenditure are in line and adjusted into the current governance regime.
- Notice of termination has been given with closure date 31 March 13.
- The DOD has finalised alternative ways to close the gap that may affect the service delivery through the service agreement between the DOD and Denel that will be compliant with relevant legislative prescripts

LACK OF CAPACITY – AMG CONTRACT

FINDING	COMMENTS
Lack of internal capacity.	The DOD is not able to pay market-related salaries to attract and retain skilled staff for these services (technical, engineering and aviation) as a result the skills were not transferred effectively.
<p><u>CORRECTIVE MEASURES</u></p> <p>The short term skills gap is addressed through the Skilled Service Agreement with Denel, which will ensure the availability of 139 scarce and essential personnel.</p> <p>The department has developed plans for the medium and long term. The plan however is hindered by both current funding levels as well as the limitations of current dispensation.</p> <p>The progress is also monitored at the level of MCC in Finance, OCA and AMC, where SAAF is presenting status reports on a monthly basis.</p>	

DEFICIENCIES IN MANAGING AND MONITORING THE AMG CONTRACT

FINDING	COMMENTS
<ul style="list-style-type: none"> • Deficiencies in managing and monitoring of the AMG contract. 	<p>As this was open ended contract it was an oversight in the payment process that more supporting documentation were necessary, as it was operated under a different governance regime.</p>
<p><u>CORRECTIVE MEASURES</u></p>	
<ul style="list-style-type: none"> • All the monitoring processes were corrected in accordance with the Operation Clean Audit and AGSA recommendations. • Members were trained in reconciliation and contract performance monitoring. • The submission of invoices is now also monitored and non-compliance reports are submitted to the consultant, if any delays are experienced. • All irregularities with regards to payments on the AMG contract were ceased and credits for the pre-payments were received. • Change management plans are in place and will be ongoing through the newly established internal audit (both assurance and consulting) to improve risk management, internal control, compliance and governance processes across the DOD. • KPMG also transferred relevant skills relating to the accounting requirements for the AMG account. 	

COST BENEFIT ANALYSIS – ORIGIN EXCHANGE

FINDING	COMMENT
<p>A cost/benefit analysis for the Origin Exchange Consulting was not provided.</p>	<p>The issue regarding land restitution was regarded as a high priority and the clearance of unexploded ordinance had to be completed as a matter of urgency to finalise the land claim and transfer ownership to the claimants. Based on this urgency, a comprehensive cost-benefit analysis was not conducted. After implementation of the contract, an appreciation of the cost was done which proved that it was more cost-effective to outsource than to in-source.</p>

CORRECTIVE MEASURES

For all contracts, the documenting and formulation of the cost/benefit analysis will in future be formalised and filed to ensure that it is available as part of the contracting documentation.

The newly established internal audit Division (which is currently being resourced) has included the review of contracts as one of its priority. This will assist in comprehensively identifying more gaps (if any) than the ones identified by AGSA and proactively closing them.

It will also offer training on the issues of internal control, governance and risk management to the department.

MONITORING OF WORK – ORIGIN EXCHANGE CONSULTING

FINDING	COMMENTS
<p>No evidence of monitoring the contract and timeframes being met regarding the Origin Exchange Consulting contract.</p>	<p>Minutes of meetings were taken but not counter-signed by the DOD and there was no evidence that the progress reports had been reviewed by the DOD. The monitoring of the contract was done as evidenced by the minutes which were not individually signed. The minutes were subsequently signed. Progress reports were also prepared for every phase of the contract.</p>

CORRECTIVE MEASURES

Subsequently, after the audit of the project, all minutes and progress reports were co-signed and presented to the approving authorities.

The newly established internal audit Division (which is currently being resourced) has included the review of contracts as one of its priority. This will assist in comprehensively identifying more gaps (if any) than the ones identified by AGSA and proactively closing them.

PROJECT STOPPED – SANABO DEMIL CONTRACT

FINDING	COMMENTS
<p>Project stopped, intended result not achieved.</p>	<p>The projects were stopped in respect of being carried out by SANABO. The negotiating team that was handling the contract was not aware at the time that the contract was formally entered into by the then DG with SANABO. The contracting would ideally have been within the SAAB's DIP obligations. Alternative approach to achieve intended results were explored (Refer to the corrective measures below)</p>
<p><u>CORRECTIVE MEASURES</u></p> <p>The matter is still <i>sub-judice</i> (Claim against the DOD). The DOD still utilises conventional disposal methods to dispose of redundant, obsolete and unserviceable ammunition. The DOD procured inert ammunition deforming equipment to dispose of ammunition. The DOD is in the process of formulating a scope of work for obtaining an ammunition break-down capability.</p>	

EVIDENCE OF FULL COSTING – SANABO DEMIL CONTRACT

FINDING	COMMENTS
<p>Evidence of full costing not provided.</p>	<p>Agreement signed but no funding included. The negotiating team was not aware at the time that the agreement was formally entered into by the then DG with SANABO. The costing would have been done.</p> <p>The terms of the costs are subject of the legal process.</p>
<p><u>CORRECTIVE MEASURES</u></p> <p>The matter is still <i>sub-judice</i>. (Claim against the DOD).</p>	

BIDDING PROCESS – SANABO DEMIL CONTRACT

FINDING	COMMENTS
Competitive bidding process not followed.	The appointment of service provider of SANABO was against the background of SAAB's DIP obligations. (refer to the comments provided in the previous slides)
<p style="text-align: center;"><u>CORRECTIVE MEASURES</u></p> <p>The matter is still <i>sub-judice</i>. (Claim against the DOD).</p>	

INTERNAL EXPERTISE – KPMG/SAB&T/BIG

FINDING	COMMENTS
<p>Internal expertise not created.</p>	<p>It is correct that the relevant functional areas lacked relevant expertise. The lack of skills is as a result of 1. Historical circumstances . 2 change in regulatory framework. 3. complexity of accounting for the defence function. 4. nature of the Defence due to rotation of staff. KPMG was appointed to temporary close the gap. Skills have been transferred to some members of the DOD in various functional areas.</p>

CORRECTIVE MEASURES

Proper deployment of trained members was done.
 Establishment of appropriate structures to support proper accounting.
 The newly established internal audit function is currently in a drive to ensure that the Department is ready for the statutory audit in all areas using a combined assurance model.
 IA is also conducting follow up on implementation of AGSA findings and working hand in hand with Services and Divisions to ensure that skills are transferred into audit process and active involvement by those charged with governance.
 This is also done hand in hand with AGSA and Audit Committee

COST-BENEFIT ANALYSIS – KPMG/SAB&T/BIG

FINDING	COMMENTS
<p>A cost/benefit analysis was not done.</p>	<p>No cost/benefit analysis was performed because the request was regarded as a high priority project as approved by the AMC. The alternative approach would have been to use the Inspector General (IG) DOD to do a follow up and assist in ensuring that the audit queries are cleared and ensure implementation of the AGSA recommendations, however, they did not have the relevant capacity and skills at the time to deal with Financial Statement related findings. Hence, they were also trained by KPMG in the relevant Financial Statements streams. As a result, there was no other alternative for the department except to consider appointing relevant consultants to clear audit queries and to avoid qualification in line with the national drive to obtain clean audits.</p>

CORRECTIVE MEASURES

The establishment of effective internal audit unit staff with relevant expertise will be used as the best alternative in future.

The Department is in the process of resourcing the Division and has already appointed the Head of the Division (Chief Audit Executive) at Deputy Director General level.

CONTRACT NOT EFFECTIVELY MONITORED – SIMON’S OUTSOURCING

FINDING	COMMENTS
<p>The DOD did not monitor the work done on the Simons Outsourcing contract.</p>	<p>Due to the lack of trained DOD members the DOD did not properly monitor the timesheets from the contract for the work done. The nature of Defence in relation to the rotation of members presented a challenge in terms of sustaining expertise. (This contract was for the provision of labour at the naval dockyard at Simon’s Town.)</p>
<p><u>CORRECTIVE MEASURES</u></p> <ul style="list-style-type: none"> • The DOD engaged the company and reviewed the invoices of the work done and confirmed that the work was indeed done, even though there were no timesheets available. • DOD members were sent to be trained on contract management through Palama. • The naval dockyard has since been transferred to Armscor. 	

PAYMENTS WITHOUT PROOF – SIMON’S OUTSOURCING

FINDING	COMMENTS
<p>Payments made without supporting documents.</p>	<p>This was due to a lack of effective monitoring by the DOD. No supporting documentation could be found to substantiate the payments made.</p>
<p><u>CORRECTIVE MEASURES</u></p> <ul style="list-style-type: none"> • DOD members were sent to be trained on contract management through Palama. • Internal audit, once capacitated, in cooperation with IGDOD will play a critical role in conducting fraud awareness campaigns and conducting reviews in relevant risky areas. 	