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REPUBLIC OF SOUTH AFRICA
REPUBLIEK VAN SUID-AFRIKA

SPECIAL REPORT OF THE AUDITOR-GENERAL
ON THE
SPECIAL DEFENCE ACCOUNT PURSUANT TO
THE FIRST REPORT OF THE JOINT COMMIT-
TEE ON PUBLIC ACCOUNTS, 1990 (C1-90)

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SPECIAL REPORT OF THE AUDITOR-GENERAL ON THE SPECIAL DEFENCE ACCOUNT PURSUANT TO THE FIRST REPORT OF THE JOINT COMMITTEE ON PUBLIC ACCOUNTS, 1990 (C1-90)

Pursuant to the recommendation of the Joint Committee on Public Accounts (hereinafter referred to as the JCPA) as contained in its First Report (C1-90) of 14 March 1990 I beg to report as follows:

A. INTRODUCTION

A.1 With reference to sub-paragraph (a) of the abovementioned recommendation, a thorough re-examination has been made of the auditing of the expenditure of the S.A. Defence Force component : Special Forces (hereinafter referred to as Specforces) during the financial year 1988-89 on four main projects approved in terms of Section 2(2)(a) of the Defence Special Account Act, 1974 (Act No. 6 of 1974). Refer to A.4 to A.8 below.

A.2 Regarding sub-paragraph (b) of the recommendation it has been established that certain papers of the S.A. Defence Force (hereinafter referred to as the SADF) were seized by a member of the South African Police assigned to the Commission of Enquiry into Certain Alleged Murders (hereinafter referred to as the Harms Commission) and that these papers were, in fact, in the possession of the Harms Commission. No documentation was, however, in the possession of the S.A. Police or Attorneys-General.

- A.3 In so far as sub-paragraph (c) of the recommendation is concerned, arrangements were made for my auditors and I, where necessary, to have unrestricted access to any documentation in the Harms Commission's possession as well as to the record of proceedings. In the event use was only once made of this offer, the auditor having to obtain two seized advance registers to compile project lists for two Regions of the Civil Coöperation Bureau (hereinafter referred to as the CCB).
- A.4 It is clear from the JCPA recommendations that the Committee is not satisfied that I was afforded sufficient insight into the workings of the CCB and that the unqualified audit opinion referred to in A.5, below, did not reflect the true situation concerning the Special Defence Account (hereinafter referred to as the SD Acct). Paragraph 13(1), p.124 of my Report for 1988-89 on the Vote : Defence was and is misleading.
- A.5 It has been confirmed, independently of evidence given in the Harms Commission, that, in so far as it concerns the 1988-89, budget of Specforces amounting to R50 319 000 spread over three main projects and three out of four sub-projects of the fourth main project, neither the original nor the present audit of the SD Acct had disclosed any material problems. I THEREFORE HEREBY CONFIRM THAT THE UNQUALIFIED AUDIT OPINION IMPLICIT IN PARAGRAPH 13(1), PAGE 124 (VOTE : DEFENCE) READ WITH PARAGRAPH 4, PAGE 6 OF

MY REPORT ON THE APPROPRIATION AND MISCELLANEOUS ACCOUNTS IN RESPECT OF GENERAL AFFAIRS FOR 1988-89, WAS AND IS JUSTIFIED. SUBJECT TO WHAT FOLLOWS, I ALSO STAND BY MY UNQUALIFIED AUDIT OPINION IN RESPECT OF THE REST OF THE SD ACCT FOR 1988-89.

- A.6 The fourth sub-project ("Triplane") of the fourth main project referred to in paragraph A.5, above, with a budget of R22 093 000 in 1988-89, is the ONLY one within which the front organisation codenamed CCB functioned and was financed.
- A.7 That which follows is a chronicle solely of results of my staff's AUDITING (where we were able to undertake it for the first time) and RE-AUDITING (where previous sampling could be followed up by more intensive investigations). NO RELIANCE WHATSOEVER WAS PLACED ON EVIDENCE GIVEN BEFORE THE HARMS COMMISSION OR MEDIA REPORTAGE/COMMENT.
- A.8 It soon became apparent that the actions alleged to be irregular which were raised in the JCPA on 7 March 1990 had, very largely, taken place during the 1989-90 financial year and not during 1988-89. For this reason auditing of the CCB's budget of R28 717 000 within the SD Acct in respect of the financial year 1989-90 was proceeded with immediately.

B. BACKGROUND TO AUDIT PROBLEMS

B.1 Section 5 of the Defence Special Account Act, 1974, provides for the account to be audited by the Auditor-General. Until 1989 this statutory provision had to be read with section 42(7) of the Exchequer and Audit Act, 1975 (Act No. 66 of 1975) which read as follows:

"42(7) When in view of the confidential nature of an account it appears desirable that such account be excluded from a detailed audit by the Auditor-General, the Minister of Finance may, after consultation with the Auditor-General, determine to what extent the audit thereof shall be carried out and what vouchers shall be made available to the Auditor-General."

B.2 In accordance with this provision the most sensitive portions of the SD Acct were for three financial years entirely excluded from external auditing - a fact which was, however, reported in paragraph 15(3), page 119 of the Report of the Auditor-General for 1984-85 thus:

"15(3) Exemption from Audit.- In terms of section 42(7) of the Exchequer and Audit Act, 1975, the Minister of Finance completely exempted amounts of R3 300 774, R2 530 377 and R2 167 852 from an audit in respect of the financial years 1982-83, 1983-84 and 1984-85 respectively."

B.3 In terms of section 45(1A) of the Exchequer and Audit Act, as it was then worded, the Minister of Finance could, after consultation with the State President and the Auditor-General, forbid publication by the Auditor-General in his Report of certain aspects relating to secret accounts:

"45(1A) The Auditor-General shall for the purposes of subsection (1) report on an account established by the Foreign Affairs Special Account Act, 1967 (Act No. 38 of 1967), the Security Services Special Account Act, 1969 (Act No. 81 of 1969), the Defence Special Account Act, 1974 (Act No. 6 of 1974), the Secret Services Account Act, 1978 (Act No. 56 of 1978), the Information Service of South Africa Special Account Act, 1979 (Act No. 108 of 1979), or the South African Police Special Account Act, 1985 (Act No. 74 of 1985), with due regard to the special nature of the account, and shall limit such report to the extent that the Minister of Finance, after consultation with the State President and the Auditor-General, may determine."

B.4 These provisions notwithstanding, all interested parties sought a way to limit or, preferably, entirely to obviate use of sections 42(7) and 45(1A) of the Exchequer and Audit Act. The "need-to-know" principle constituted, however, a serious stumbling block: Auditing of small segments of the whole by specially selected members of the Auditor-General's staff to prevent any one outsider gaining an overall picture, was acceptable to the SADF but the Audit Office simply lacked the necessary manpower. By way of compromise the then Auditor-General during 1981 agreed to the contractual appointment on his establishment of a retired SADF General who, without disclosure to the Auditor-General of the content of projects (a stipulation later disputed by the SADF), would issue an audit certificate ON BEHALF OF THE AUDITOR-GENERAL. Partly because this arrangement was probably ultra vires and partly because of personality clashes between the Auditor-General and the retired General, it soon collapsed and a new solution had to be sought.

The then Minister of Finance wrote as follows in a letter G2(TB1/1/1UG) dated 5 July 1983 to the Minister of Defence:

(Translation)

"At the outset I wish to refer you to the discussion which took place during September 1981 between the then Auditor-General, the Chief of the South African Defence Force, the Director-General of Finance and other senior personnel of our respective departments, at which it was unanimously decided that the ultra sensitive portions of the SD Acct would indeed be audited and that the audit would be undertaken by the Auditor-General. It was also agreed that great care would be exercised in the choice of the member of the Auditor-General's staff to satisfy both the Auditor-General and the Chief of the SADF."

B.5 Quite apart from the auditing aspect per se, the quoted letter of the Minister of Finance is also important from another point of view - for the first time separate provision was made for the financing of a particular Specforces project concerned with "Reconnaissance and Special Operations" in the financial years 1982-83 and 1983-84 and which was the forerunner of "Triplane". The project fell into the category of the most sensitive portions of the SD Acct referred to in paragraph B.2, above. I shall return to this later.

B.6 Following the Minister of Finance's letter referred to in paragraph B.4, the search for a mutually acceptable way to audit the most sensitive portions of the SD Acct continued for more than two years until the arrival of a new Auditor-General - Dr Joop de Loor. Daylong discussions in Cape Town on 20 January 1986 between the Auditor-General,

the Chief of Staff : Finance (CSF), the Chief of Staff : Intelligence, Staff officers (excluding the Chief : SADF) and the Secretary to the Treasury (at that time myself) were marked by the following:

- (a) SADF maintained that insight into OPERATIONAL FILES (ALSO KNOWN AS PROJECT FILES) by even specially selected auditors was unacceptable. It could reveal:
 - (i) modi operandi
 - (ii) special equipment
 - (iii) clandestine channels
 - (iv) special training
 - (v) existence and location of opsbases
 - (vi) actions which, if known, would cause great national embarrassment or disadvantages
 - (vii) privately registered clandestine vehicles
 - (viii) identity of host organisations and associates.
- (b) The SADF rejected the Auditor-General's counter-argument that, whilstsoever details of the foregoing are, despite the "need-to-know" requirements, known to many subordinate SADF personnel, risks would hardly be increased if a few auditors with high security clearances also became privy to the information.
- (c) After he had apprised himself of the contents of a combined financial/operational file relating to a

certain sub-project with a quantum of R23 million in 1983-84, the Auditor-General reluctantly yielded. The SADF assured him, however, that he himself would at all times be granted absolute and unfettered access to ANY papers.

B.7 Later on 20 January 1986, during a report-back meeting, the Auditor-General told the Minister of Finance of the foregoing and, SUBJECT TO ACCESSIBILITY TO ALL PAPERS BY THE AUDITOR-GENERAL IN PERSON, the separation of financial and operational files for auditing purposes was accepted as from 1985-86.

B.8 As from 1985-86, therefore, specially selected members of my staff audited the ultra sensitive portions of the SD Acct in terms of the 1986-agreement with insight into only the financial and not the operational files. This, of course, also applied to Specforces and the CCB. With the passage of time better understandings developed and the auditors concerned gradually gained access to operational files - also those of Specforces with the exception of the CCB in whose case access to operational files was, until the last two phases of the audit, consistently denied by the Managing Director of the CCB (hereinafter referred to as MD: CCB).

B.9 Because the entire SD Acct was and is "open" for auditing, no use was again made of sections 42(7) or 45(1A) of the Exchequer and Audit Act during the financial years 1985-86 to 1988-89. Both sections were repealed by the Auditor-General Act, 1989 (Act No. 52 of 1989) and

replaced by section 6(3) of the latter Act as from 26 May 1989.

C. THE FURTHER INVESTIGATION OF CCB EXPENDITURE

C.1 Scope of investigations

Having regard to the small number (four) of specially selected auditors available for the task, the simultaneous Harms Commission hearings and the rapidly approaching end of the 1990 Parliamentary session, I decided that, notwithstanding the apparently wider scope of the JCPA recommendation of 14 March 1990, to direct the requisite auditing/re-auditing solely at 1988-89 (the financial year under consideration) and, as far as possible, 1989-90 (the immediately past financial year). As already stated in paragraph A.6, above, this auditing/re-auditing was limited to the sub-project "Triplane" of Specforces, in other words the CCB. Towards the end of the audit, as will be explained later, the need arose to look at certain CCB transactions in the financial year 1990-91.

C.2 Statutory test of authorisation

C.2.1 Because all expenditure on the CCB was defrayed from the SD Acct, the primary test of authorisation or otherwise is section 2(2)(a) of the Defence Special Account Act, 1974 which reads as follows:

"2(2) The moneys in the account shall-
 (a) with the approval of the Minister of Finance be utilized to defray the expenditure incurred in connection with such special defence activities and purchases of the South African Defence Force and the Corporation as the Minister of Defence may from time to time approve;"

The Minister of Defence must, firstly, have approved the project or sub-project within which the CCB operated as a special defence activity/purchase. Secondly, the Minister of Finance must, in response to a formal request by his colleague, have approved the utilisation of funds for the defrayment of expenditure on the project or sub-project concerned.

Precisely herein lay one of the difficulties which complicated the original auditing of Specforces in respect of the financial year 1988-89. The SADF was, upon being queried, unable to produce EXPLICIT ministerial approvals within the context of section 2(2)(a). In respect of earlier years the Department relied on the 1983 approval of the particular project referred to in paragraph B.5 above and which had also been accepted by my auditors BUT WHICH, SHORTLY AFTER MY ASSUMPTION OF DUTY AS AUDITOR-GENERAL IN SEPTEMBER 1989, WHEN IT CAME TO MY ATTENTION, I SIGNIFIED WAS INADEQUATE.

The initial reaction of the SADF to my intimation was that I was being unnecessarily fussy and that the 1983 approval of expenditure on "Triplane's" forerunner should be regarded as having been regularly renewed when the

Ministers subsequently annually exchanged global ex-ante and ex-post-facto approvals in terms of section 2(2)(a) of the Defence Special Account Act.

Having regard, however, to the very global nature of these budgetary approvals (totalling thousands of millions of Rands) and the total absence of accurate definitions of, inter alia, Specforces' projects - in particular those concerning the CCB which only came into being under that front name for the first time during 1986-87 - I, DURING THE LAST QUARTER OF 1989, INSISTED UPON SPECIFIC PERFORMANCE, BY BOTH MINISTERS, OF THEIR DUTY UNDER SECTION 2(2)(a) BEFORE ANY EXPENDITURE BY SPECFORCES COULD PASS THE TEST OF AUTHORISATION.

C.2.2 As a direct consequence, the Commanding General : Specforces, (hereinafter referred to as CG : Specforces), at the time Major-General E. Webb, wrote to the Chief : SADF on 23 February 1990 (under reference BGSM/UG/302/6/B) and, with full motivation, annual cash flow table and tabulated project definitions, for the first time properly sought the double ministerial approvals required by section 2(2)(a) in respect of the financial years 1986-87, 1987-88, 1988-89 and 1989-90 - all under the heading, NB, "RE-EVALUATION OF PROJECTS : SPECFORCES.". This was clearly intended to meet my objections by defining more closely Specforces' clandestine projects/operations which had been conducted since 1986 (when the agreement was concluded with Audit)

under the forerunner to "Triplane" and the global SD Acct approvals.

Both the Chief : SADF and Minister of Defence signed and approved the submission on the same day (23 February 1990). The Minister of Finance furnished his approval on 25 February 1990. It covers EXPLICITLY the fourth sub-project ("Triplane") to which reference is made in paragraph A.6, above, as being the sole source of the CCB's funds. This approval is thus retrospective to 1986-87 which, having regard to the perennial nature of the SD Acct, I accepted as intra vires.

The project definition thereby approved reads:

(Translation)

"The gathering of target detail concerning hostile organisations and targets to launch authorised actions outside the country."

It was accordingly possible for me to give evidence during the JCPA session of 28 February 1990 (and later) to the effect that, in so far as expenditure by Specforces was concerned - which, as can be seen, includes the CCB - the requirements of section 2(2)(a) of the Defence Special Account Act had been met.

C.3 Further test of authorisation

C.3.1 When, on 25 February 1990, the Audit Office for the first time saw an accurate project definition there arose

FIRSTLY a new geographical test i.e. authorised actions (of the CCB) could only be launched "outside the country.". Prior to that i.e. in the financial years 1986-87, 1987-88, 1988-89 and 1989-90, the auditor would have displayed no particular interest in the PLACE at which expenditure had been incurred BUT NOW THIS RETROSPECTIVE PROJECT DEFINITION MADE INSIGHT INTO THE OPERATIONAL FILES ESSENTIAL NOTWITHSTANDING THE 1986 AUDIT AGREEMENT. If for no other reason, this would have necessitated a re-auditing of CCB expenditure in respect of the 1988-89 financial year.

C.3.2 SECONDLY the authorisation in question stipulated that the foundations of the projects consist of operations in respect of each of which the prior approval of the CG : Specforces, or of higher authority, depending on existing delegations, must be obtained through separate operational orders, which must include detailed budgets. THIS CREATED, ALSO AS FROM THE 1986-87 FINANCIAL YEAR, A NEW DIMENSION TO APPROVALS WHICH FURTHER INCREASED THE NEED FOR ACCESS TO THE OPERATIONAL FILES.

C.3.3 THIRDLY paragraph 5(a)(vii) of the general delegations of the Chief : SADF (reference HSF/B/501/2/2 dated 29 March 1988) stipulates that:

(Translation)

"All ultra sensitive projects must be submitted to me for approval, before they are started and I shall, in every such case and at my discretion, impose further limitations upon your freedom of action."

This delegation is explicitly also applicable to the CG : Specforces.

It proved virtually impossible to test the validity of approvals of expenditure filed on financial files against this delegation because only from the operational files could the nature of the project or operation, and thus its sensitivity, be determined. This information was and is essential to gauge whether the approval should not, perhaps, have been given at a higher level. AUTHORISATION OR OTHERWISE HAS, THEREFORE, UNDOUBTEDLY ALSO A DELEGATION DIMENSION.

C.3.4 In respect of 1988-89 and 1989-90 access to the operational files was and is, therefore, a sine qua non - the 1986-De Loor/SADF agreement notwithstanding. If this could not/cannot be arranged no meaningful audit in respect of Specforces and thus the CCB as recommended by the JCPA was/is possible. The same applies to 1990-91 concerning which, as envisaged in C.1, above, more later.

C.3.5 There is, furthermore, another reason for a closer look at the CCB's expenditure. The CCB initially and without Treasury approval applied financial instructions which, to the extent that they were at all explicit, departed radically from the Treasury's Financial Handbook. In other areas they were silent. After continual pressure from my auditors, the SADF approached the Treasury for approval of the CCB's instructions (under reference

HSF/505/19 of 16 June 1988). After consultation with my office the Treasury under reference TB1/1/1UG of 12 September 1988, and subject to many provisos, approved the instructions with retrospective effect from 1 April 1988. The provisos were only disposed of finally on 20 January 1989. Up to that date meaningful regularity auditing was, therefore, hardly feasible.

C.4 Unqualified audit opinion in respect of the SD Acct 1988-89

In view of the problems listed in paragraphs C.1 to C.3.5 the question may justifiably be asked why my audit opinion in respect of the sensitive portions of the SD Acct for 1988-89 was in no way qualified. It is a fair question which I myself put to my Directorate : Special Accounts and Investigations. I subjoin the reply which I received (my insertions in brackets):

(Translation)

"...Because crucial matters such as the [section 2(2)(a)] ministerial approvals are still outstanding (since obtained, as seen above) the audit of the CCB has not yet been disposed of.

The audit of other projects of Specforces has, in fact, been completed... We will... keep up the pressure for replies to our questions...

From the foregoing it is apparent that as a result of all the stated problems the audit is dealt with on a cyclical basis and that some audits roll over to subsequent years. Hitherto we have not regarded this as critical because we are dealing here with accounts and not Votes and there are no balances surrendered at the close of financial years...

Consequently we have up to now stated in our Annual Report audits have been disposed of even though certain projects were not completely disposed of...

The other aspect we wish finally to raise is the question of non-reporting of the problems .

The Office gained access to all covert projects only with great difficulty and handles the auditing thereof with great circumspection. The policy is accordingly to deal with unsatisfactory aspects to finality with the auditee rather than to report them."

This reply accurately reflects the traditionally accommodative attitude of the Audit Office which for the sake of cordial working relationships entailed perennial query procedures which certain departmental functionaries doubtless exploited to the full. Had the Audit staff complained earlier to me or the Deputy Auditor-General it is possible that remedial action could have been taken by both the Chief : SADF and my predecessor or me. For the reasons explained, my staff unfortunately did not do so. By the time, in the present case, that I became personally aware of the endless problems with the CCB audits, my report RP89/1989 had already been printed and further qualification of the audit opinion in my report for 1988-89 was, therefore, impossible.

D. PROBLEMS ENCOUNTERED DURING THE FURTHER INVESTIGATION OF CCB EXPENDITURE

D.1 Notwithstanding the 1986-De Loor/SADF accord and repeated assurances to me by the Department, accessibility to relevant financial and operational files as well as vouchers was, throughout, problematic.

The First Report of the JCPA embodies an unequivocal Parliamentary directive to the SADF to afford me absolutely unimpeded access to all relevant archives. My staff and I at all times had that statutory right anyway - refer to section 5(8)(a) of the Auditor-General Act - but, in practice, at the working face, Specforces raised so many barriers that EFFECTIVE as against purely NOMINAL auditing was not possible. I was given to understand that this state of affairs obtained despite the personal intervention of the Chief : SADF, the Chief of Staff : SADF, CSF and his Deputy.

Whatever the reason, auditing had repeatedly to be suspended and was completed in the following four phases:

- (1) In compliance with the JCPA recommendation of 14 March 1990 and after assurances by CSF that every co-operation would be given, my auditor commenced his audit on 22 March 1990 but was, on the same day, denied continued access by the acting CG : Specforces.
- (2) The audit was resumed on 29 March 1990 after I had intervened personally but it had, once again, to be suspended on 12 April 1990 as a result of a lack of co-operation. On 30 April 1990 I set out my difficulties, in great detail, in a letter to the Minister of Finance enclosing an unsigned and extremely negative draft report which, I told him, I would be

compelled to produce if the situation persisted.

(3) On 21 May 1990, after renewed personal assurances to me by the Chief : SADF and CSF, the audit was resumed but had, perforce, and for substantially the same reasons as before, again to be suspended on 25 July 1990. I advised the Chief : SADF that 31 August 1990 was my final deadline after which I would take action in accordance with section 6(3) of the Auditor-General Act.

(4) At the request of the Chief : SADF the deadline was extended to permit of finalisation of the audit with sight of new vouchers between 12 and 20 September 1990.

D.2 Although the auditing of the CCB's expenditure was limited to the 1988-89 and 1989-90 financial years, it was observed that an amount of R9 million had, during the period 1 April 1990 to 23 July 1990 (four months), been paid over to the CCB in cash. That represented 40 per cent of the total budget of R22,386 million which had, on 23 May 1990, been approved by the two Ministers for 1990-91 in terms of section 2(2)(a) of the Defence Special Account Act.

The payments appeared inordinately high especially when viewed against the earlier statement by the Minister of Defence that all CCB operations had been suspended.

After consultation with CSF I decided to conduct a spot audit on 30 August 1990, mainly to determine whether new projects/operations had been approved and how much of the money had been spent.

This very limited spot audit revealed that the CCB had received R9 588 728 (R9 million in cash as indicated above plus R588 728 which Specforces had transferred to the CCB's foreign bank accounts). As at 29 August 1990 advances totalling R9 925 418,43 had been drawn by the 14 Regional Offices. The heaviest spending was, however, done by the Personnel Section, viz. R8 260 106,25. It was also found that the acting CG : Specforces had approved a new "project" codenamed "Samoesa" the purpose of which was the payment to stillserving members of the CCB of provisional resettlement costs by way of encashment of 50 per cent of their accumulated leave plus 10 per cent of an anticipated pension gratuity (maximum R15 000). Individual payments seen varied between R33 301 and R39 962. The budget which had been approved by the acting CG : Specforces amounted to R3 926 000.

The leader of the audit team immediately reported these payments to me and CSF. CSF NOTIFIED ME THE NEXT DAY THAT THE APPROVAL WAS UNAUTHORISED, THAT HE HIMSELF HAD HAD NO KNOWLEDGE THEREOF AND THAT HE HAD ORDERED THE IMMEDIATE DISALLOWANCE AND RECOVERY OF PAYMENTS MADE.

E. AUDIT FINDINGS AND OPINION

E.1 Scope, nature and level of approval of expenditure

	1988-89 R	1989-90 R	TOTAL R
Estimates as approved by Ministers	<u>22 093 000</u>	<u>28 717 000</u>	<u>50 810 000</u>
(a) Expenditure incurred on establishing an infrastructure*	9 932 760,38	16 645 530,39	26 578 290,77
(b) Expenditure on projects/operations:			
- approved by CG: Specforces	9 123 694,14	4 739 944,10	13 863 638,24
- approved by MD: CCB	<u>5 299 813,99</u>	<u>6 746 167,76</u>	<u>12 045 981,75</u>
Total expenditure on projects/operations (b)	<u>14 423 508,13</u>	<u>11 486 111,86</u>	<u>25 909 619,99</u>
Total expenditure (a) and (b)	<u>R24 356 268,51</u>	<u>28 131 642,25</u>	<u>52 487 910,76</u>

* Staff expenditure, accommodation and motor transport to support (b).

E.2 During the audit between 21 May 1990 and 25 July 1990 (paragraph D.1(3) above) the leader of the audit team addressed a written query dated 2 July 1990 to the Chief : SADF in which he expressed the opinion that 4 operations were so sensitive that the Chief : SADF should, in terms of his delegation HSF/B/501/2/2 dated 29 March 1988 referred to in paragraph C.3.2, above, himself have furnished the necessary approvals.

The reaction of the SADF was that Chief : SADF had given a global approval for project "Triplane" (the CCB) and that the SADF did not regard the projects in question as

being projects requiring-

(Translation)

"Chief : SADF's specific approval in terms of his financial delegations. It is inherent to the whole project that this should be a prerequisite for the conduct of operations."

In spite of this, according to CSF, three of the four projects had, during a general presentation to the Chief : SADF secured the latter's verbal approval whilst the acting Chief : SADF had similarly approved the fourth.

On 9 July 1990 the leader of the audit team wrote to the Chief : SADF in regard to the reply furnished over the four ultra sensitive projects which had been approved verbally. Audit pointed out that such verbal approvals were unacceptable because they cannot be confirmed by Audit. The Chief : SADF's reaction dated 12 July 1990 reads:

(Translation)

"I regret having to inform you that that is how the Defence Force conducts operations. A subordinate commander makes a presentation to his superior and secures the latter's verbal comments and approval - particularly for security reasons and because of the time factor. Please also note that the financial delegation to which you refer (HSF/B/501/2/2 of 29 March 1988) does not stipulate written approvals."

E.3 Unauthorised expenditure

E.3.1 On the information then available this Office on 9 August 1990 wrote to the Chief : SADF and expressed the opinion

that amounts of R5 768 989,31 in respect of 1988-89 and R6 760 697,83 in respect of 1989-90 (in total thus R12 529 687,14) were, in terms of section 31 of Exchequer Act, 1975, unauthorised.

At that stage the unauthorised expenditure fell into three groups:

- (i) Inland operations (paragraph C.3.1 above);
- (ii) "Ultra sensitive" projects which, in Audit's opinion, should, in terms of the HSF/B/501/2/2 delegations of 29 March 1988, have been personally approved by the Chief : SADF (Paragraph C.3.3 above); and
- (iii) Paragraph 4 of the Ministerial approval which stipulates that every operation must be submitted, in advance, for approval to the CG : Specforces or higher authority, depending on existing delegations ((ii), above), by way of separate operational orders which are to include detailed budgets. (Paragraph C.3.2 above).

In terms of the foregoing criteria the subjoined expenditure appeared to be unauthorised:

NET EXPENDITURE	<u>1988-89</u>	<u>1989-90</u>	<u>Total</u>
	R	R	R

(i) Inland operations

Project Goldie

"Goldie's" 1989-90 expenditure amounting to R79 837,02 consisted of 34 payments. 25 of the 34 payments were audited on 22 March 1990. Before he could check the remaining nine the auditor was prevented from carrying on with auditing. After the obstructions referred to earlier had been overcome, the audit was resumed on 29 March 1990 but it was discovered that the vouchers for all 34 payments had been intentionally removed. Ten of the payments had been in respect of air tickets between Johannesburg and Cape Town. Eight of these ten payments included payments to unwitting members, inter alia, "Peaches" and "Izak" for services rendered in Johannesburg and Cape Town. These expenditures indicate that "Goldie" was an inland operation. Moreover a project definition found in a reorganisation/re-evaluation document dated 3 and 4 October 1989 showing that "Goldie" was being conducted in the Cape Province, re-inforces the impression of the inland nature of the project.

(b) Rest (10) of Region 6's projects (excluding "Goldie")

Because these files have obviously been intentionally withheld from Audit, there is a presumption that expenditure on the projects is unauthorised because the projects are inland by nature. The burden of proof to the contrary rests on the accounting officer.

INLAND TOTAL #

2 312,84	79 837,02	82 149,86
<u>256 784,65</u>	<u>320 276,11</u>	<u>577 060,76</u>
259 097,49	400 113,13	659 210,62

NET EXPENDITURE		Total
1988-89	1989-90	R
R	R	

(ii) "Ultra sensitive" projects
It was considered that four projects fell into this category which should have been approved by Chief : SADF in terms of delegations HSF/B/501/2/2 dated 29.3.88 three of which were approved by the MD : CCB and one by CG : Specforces.

1 103 089,13 232 317,07 1 335 406,20

(iii) Operations other than those mentioned in (ii) which, in accordance with the Ministerial approval dated 25.2.90 (retrospective to 1986) should have been approved by CG : Specforces or higher authority but which were approved by the MD : CCB.

4 406 802,69 6 128 267,63 10 535 070,32

TOTAL UNAUTHORISED EXPENDITURE (i) + (ii) + (iii) R 5 768 989,31 6 760 697,83 12 529 687,14

It is assumed that these operations were also approved by the MD : CCB. The authorisations were not seen, however, because the operational files were not produced. The burden of proof to the contrary rests on the accounting officer.

E.3.2 After completion of the final audit between 12 September and 20 September 1990 the Chief : SADF on 21 September 1990 responded as follows to this Office's findings of 9 August 1990 as set out in paragraph E.3.1(i), (ii) and (iii) above:

(a) Sub-paragraph (i) (Inland operations) and (iii) (Operations approved by the MD : CCB instead of CG : Specforces as required by Ministerial approval):

(Translation)

"Attached is a certificate signed by both Major-Generals Joubert and Webb in which they certify that all the projects in question were presented to them and were approved before being carried out.

Furthermore the leader of the audit team was provided with quarterly budget authorities for all projects, duly signed by the chairman concerned.

It must be pointed out to you that such authorities are furnished quarterly in advance, before funds are provided for expenditure.

At the meeting with officials of the Auditor-General held at 15:30 on Friday 14 September 1990 the leader of the audit team confirmed that he had seen and was satisfied by the quarterly budgetary approval."

"CERTIFICATE OF AUTHORISATION

It is hereby certified that the projects hereinafter numbered 1 to 94 with details thereof duly specified were approved by me in my capacity as Chairman of the CCB during my term of office as such.

For completion of the record the authorisation procedure is subjoined:

- a. Project authority including project budget during presentation of the project to me before being carried out - verbal.

- b. Updating of projects on an ongoing basis and formally, three times per year - verbal.
- c. Quarterly advance approvals of budgets - written.

Certified correct

A.J.M. JOUBERT
Major-General

E.WEBB
Major-General
20 September 1990."

The Chief : SADF mentioned further:

(Translation)

"Authorisation of projects is handled according to the approved procedure laid down in the Financial Plan authorised by the Treasury (reference TB1/1/1/UG dated 12 September 1988)."

In my communication of 9 August 1990 it was pointed out to the Chief : SADF that projects by which the infrastructure of the CCB had been established and run, had been excluded from the calculation of unauthorised expenditure (see paragraph E.1 above where R9 932 760,38 in respect of 1988-89 and R16 648 530,39 in respect of 1989-90 had been accepted as infrastructural expenditure.) In his response of 21 September 1990 the Chief : SADF maintains that, in addition to these amounts, further amounts which I regarded as unauthorised, are, in fact, also by way of being infrastructural and establishment expenditure:

(Translation)

"Full particulars of amounts included in the listed projects which were expended on establishment and running of the CCB, are furnished in an annexure*. These particulars were, in fact, discussed with the leader of the audit team.

In summary the projects encompass the following:

Category	1988-89		1989-90	
		R		R
Operations	5	153 437,93	4	17 192,27
Infrastructure/ establishment	43	4 876 772,91	56	6 165 515,54
Pre-study	16	269 603,15	24	563 459,95
TOTALS	64	R 5 299 813,99	84	R6 746 167,76."

(* This annexure was drawn up per project by the CCB and signed by Major-Generals Joubert and Webb).

- (b) In regard to paragraph (ii) of the schedule setting out unauthorised expenditure in my communication of 9 August 1990 and which dealt with "ultra sensitive" projects which, in terms of the delegations HSF/B/501/2/2 of 29 March 1988 should have been approved by the Chief : SADF (E.3.1(ii) of this Report) the Chief : SADF confirms, by way of conclusion, in his reply of 21 September as follows:

(Translation)

"During a meeting the audit teamleader confirmed that he had already received written replies from the Chief : SADF which answer this query."

The replies to which reference is made are quoted in paragraph E.2, above.

E.3.3 Audit opinion in respect of unauthorised expenditure.

- (i) Inland projects/operations, 1988-89 R259 097,49; 1989-90 R400 113,13 : Total R659 210,62.

HAVING REGARD TO THE FACT THAT ALL EFFORTS TO TRACE THESE ELEVEN OPERATIONAL FILES FOR AUDITING FAILED, THERE IS A REBUTTABLE PRESUMPTION THAT THIS

EXPENDITURE IS UNAUTHORISED. This opinion is re-inforced when note is taken of the project definition in the re-organisation/ re-evaluation document referred to in paragraph E.3.1(i)(a) above. Later discussions with CSF confirmed this suspicion.

- (ii) "Ultra sensitive" projects, 1988-89 R1 103 089,13; 1989-90 R232 317,07 : Total R1 335 406,20.

I have pointed out in paragraph C3.3 that Chief : SADF's general delegations (ref. HSF/B/501/2/2 dated 29 March 1988) provide as follows in paragraph 5(a)(vii):

(Translation)

"All ultra sensitive projects must be submitted to me for approval, before they are started, and I shall, in every such case and at my discretion, impose further limitations upon your freedom of action."

This delegation is explicitly also applicable to CG: Specforces.

As indicated in paragraph E.2, above, the Chief : SADF has stated that either he or the acting Chief : SADF had, in fact, verbally approved the four ultra sensitive projects. In the light of this confirmation I do not wish to question the integrity of the Chief : SADF and I AM PREPARED TO WITHDRAW MY OPINION OF 9 AUGUST 1990 TO THE EFFECT THAT THE EXPENDITURE OF R1 335 406,20 IS UNAUTHORISED.

- (iii) Rest of operations which were approved by MD : CCB instead of CG : Specforces, 1988-89 R4 406 802,69; 1989-90 R6 128 267,63 : Total R10 535 070,32.

In contrast to the inland operations under (i), above, it was established from the operational files that all these operations were, by definition, extra-territorial. Only the level of approval is here at issue and this is addressed ex-post-facto by the certificate signed by the two major-generals on 20 September 1990. The quarterly budgets which, according to paragraph c of the certificate were signed in advance, do not carry much weight because neither of the signatures appended to the two examples shown to Audit were dated. AS IN THE CASE OF (ii) - "ULTRA SENSITIVE" PROJECTS - I DO NOT WISH TO CALL INTO QUESTION THE INTEGRITY OF THE TWO GENERALS AND I AM PREPARED TO WITHDRAW MY OPINION OF 9 AUGUST 1990 TO THE EFFECT THAT THE EXPENDITURE OF R10 535 070,32 IS UNAUTHORISED.

- (iv) Notwithstanding my willingness to accept the word of top officers, verbal authorisations remain highly unsatisfactory because they-
- (a) leave no real-time audit trace, are consequently unverifiable and make credible auditing impossible;

(b) are in conflict with Treasury instruction K2.1.4 which reads as follows:

"A verbal approval to incur a financial liability may only be accepted as a provisional authority and shall always be confirmed by a written authority."

Moreover : Whilst it can be accepted that in normal operational situations military efficiency justifies verbal commands, we are, in the cases at issue, almost exclusively dealing with unhurried, carefully planned actions where minuting seems to offer the practitioners more advantages than disadvantages. FROM ALL THAT HAS TRANSPIRED I HAVE, IN ANY CASE, A STRONG SUSPICION THAT VIRTUALLY EVERYTHING MY AUDIT TEAM SOUGHT WAS/IS, IN FACT, AVAILABLE IN WRITING SOMEWHERE BUT THAT THE ARCHIVES HAVE BEEN SELECTIVELY AND PURPOSELY WITHHELD OR DESTROYED. THE JCPA WILL NO DOUBT WISH TO EXPRESS ITSELF ON THE MATTER.

(v) As quoted in paragraph E.3.2(a), above, the Chief : SADF closes his reply to my minute of 9 August 1990 with an analysis of the expenditure of R12 045 981,75 which had been approved by the MD : CCB and which I had regarded as unauthorised. It should be noted that this analysis was drawn up by the CCB and falls into three categories, i.e. Operations,

Infrastructure/Establishment and Pre-studies. THAT OF THE TOTAL EXPENDITURE OF R12 045 981,75 NO MORE THAN R170 630,20 (1988-89 R153 437,93; 1989-90 R17 192,27) WENT ON ACTUAL OPERATIONS, CALLS FOR A VALUE-FOR-MONEY EXPLANATION WHICH HAS NOT BEEN FURNISHED.

E.4 Transfers to foreign bank accounts, R4 253 961,32 : 1988-89, 1989-90 and 1990-91.

E.4.1 In a communication to the Chief : SADF dated 13 August 1990 transfers to foreign accounts by the CCB itself (R2 921 638,32) and by Specforces on behalf of the CCB (R1 332 323) were queried. In so far as the transfers effected by the CCB itself were concerned, the advances were accounted for by certificates in most cases stating simply that the advances had been transferred to foreign bank accounts. No evidence of Reserve Bank approvals of these CCB transfers was submitted. Neither were any bank transfer slips or other documentation as prescribed on pages 17 and 18 of the CCB's own Financial Handbook submitted at the time. THIS OFFICE COULD NOT, THEREFORE, DETERMINE WHETHER THE ADVANCES IN QUESTION WERE, IN FACT, TRANSFERRED OVERSEAS OR HOW THEY WERE APPLIED AND ACCOUNTED FOR IN ACCORDANCE WITH THE HANDBOOK.

The transfers by Specforces on behalf of the CCB were supported by bank transfer slips and had been approved by the Reserve Bank. The accountant of Specforces did not know, however, how the moneys were utilised.

E.4.2 DURING THE AUDIT BETWEEN 12 AND 20 SEPTEMBER 1990 THE FINANCIAL MANAGER OF THE CCB PRODUCED ALL THE REQUISITE AUTHORISATIONS BY CG : SPECFORCES, WITHDRAWALS FROM CASHIER (SUPPORTED BY RECEIPTS) BY REGIONAL MANAGERS OR FINANCIAL MANAGER, RECONCILIATIONS OF ADVANCES AND CERTIFICATES OR VOUCHERS FROM REGIONAL MANAGERS. THESE WERE AUDITED FULLY AND FOUND TO BE IN ORDER. BANK STATEMENTS WERE SUBMITTED SHOWING BALANCES OF ALTOGETHER R856 964,13 WHICH TALLIED WITH THE DIFFERENCE BETWEEN DEPOSITS AND PAYMENTS. EVIDENCE OF RESERVE BANK APPROVALS OF THE TRANSFERS EFFECTED BY THE CCB ITSELF REMAINED OUTSTANDING.

F. GENERAL

F.1 Certificates

During the audit it was observed that use was freely made of certificates signed by members and Regional Managers which indicated no more than that the payments had been made for "services rendered" or "project expenses". ALTHOUGH THE TREASURY HAS APPROVED THE USE OF CERTIFICATES, I REMAIN GREATLY CONCERNED BECAUSE THE CONTENT OF THE TRANSACTIONS IS HIDDEN AND NO REAL AUDIT TRACE EXISTS. THE POTENTIAL FOR MISCHIEF IS THEREFORE GREAT.

F.2 Defaced vouchers

Another aspect which made the present audit more difficult was that where actual vouchers (rather than certificates) were, in fact, submitted, a large percentage were cut up or defaced to an extent making them virtually useless as supporting evidence. CCB members maintained that security reasons demanded that people should not be traceable to particular places on particular dates but the process DESTROYS THE AUDIT TRACE AND, IN REALITY, DEVALUES SUCH VOUCHERS TO THE LEVEL OF CERTIFICATES.

G. SUMMARY AND CONCLUSION

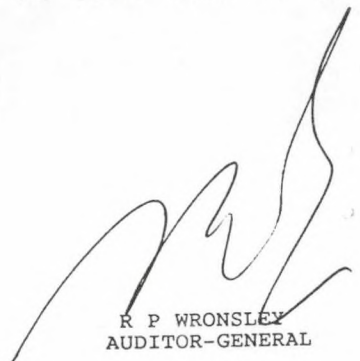
G.1 In the event of the JCPA being satisfied with the ex-post-facto certification by the successive two Commanding Generals : Specforces and the Chief : SADF of their timeous verbal approvals, as described above, the only unauthorised expenditure under "Triplane" will be the R659 210,62 spent by Region 6 of the CCB on 11 apparently inland projects/operations during the financial years 1988-89 and 1989-90.

G.2 Should the JCPA not, however, accept the relevant ex-post-facto certification, R11 870 476,52 spent by the CCB under "Triplane" over the financial years 1988-89 and 1989-90 will be added to the unauthorised expenditure which will then total R12 529 687,14.

G.3 THE QUANTUM OF UNAUTHORISED EXPENDITURE DEPENDS ON THE RESOLUTIONS OF THE JCPA IN RESPECT OF G.1 AND G.2.

G.4 In so far as the 1990-91 financial year is concerned, the attention of the SADF has already, as noted, been drawn to certain unauthorised actions by the acting Commanding General : CCB and the Chief : SADF has, in fact, already taken remedial action. Subject to section 6(3) of the Auditor-General Act this will be dealt with in the appropriate Annual Report.

CAPE TOWN,
6 FEBRUARY 1991



R P WRONSLEY
AUDITOR-GENERAL

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