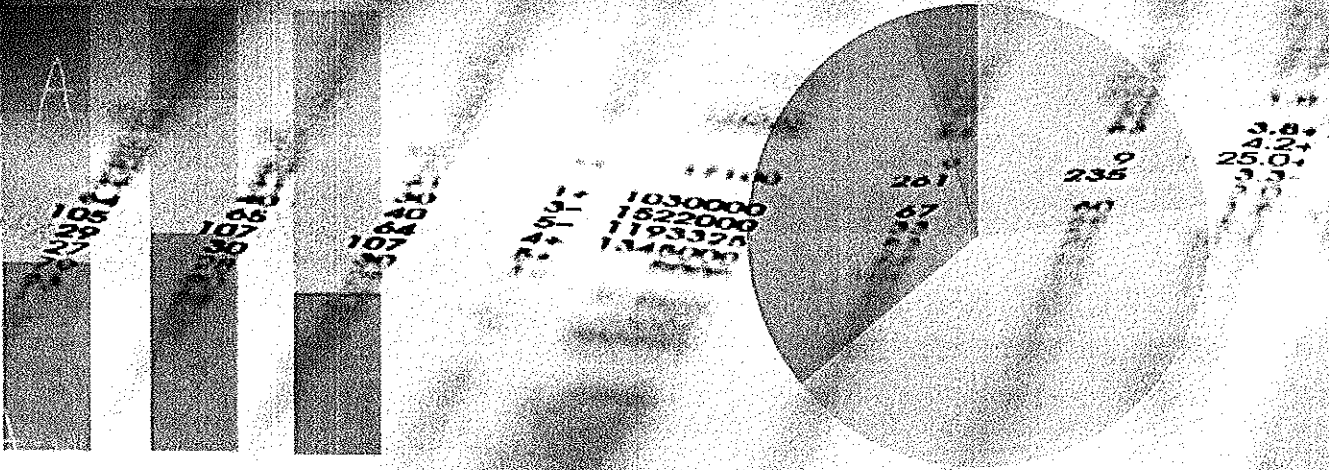


PC Trade 150908

PC BRIEFING NOTE



PFMA audit outcomes of the 2014-15 financial year

Trade and industry portfolio
October 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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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, 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 the Department of Trade and Industry and its entities for the 2014-15 financial year.

1.3 Overview

The Department of Trade and Industry (the dti) is responsible for commercial and industrial policy. The dti and its subsidiary agencies are involved in promoting economic development, black economic empowerment, implementing commercial law (including companies law and intellectual property law), promoting and regulating international trade, and consumer protection.

Vision of the Department of Trade and Industry

"A dynamic industrial, globally competitive South African economy, characterised by inclusive growth and development, decent employment and equity, built on the full potential of all citizens".

Mission and objectives of the Department of Trade and Industry

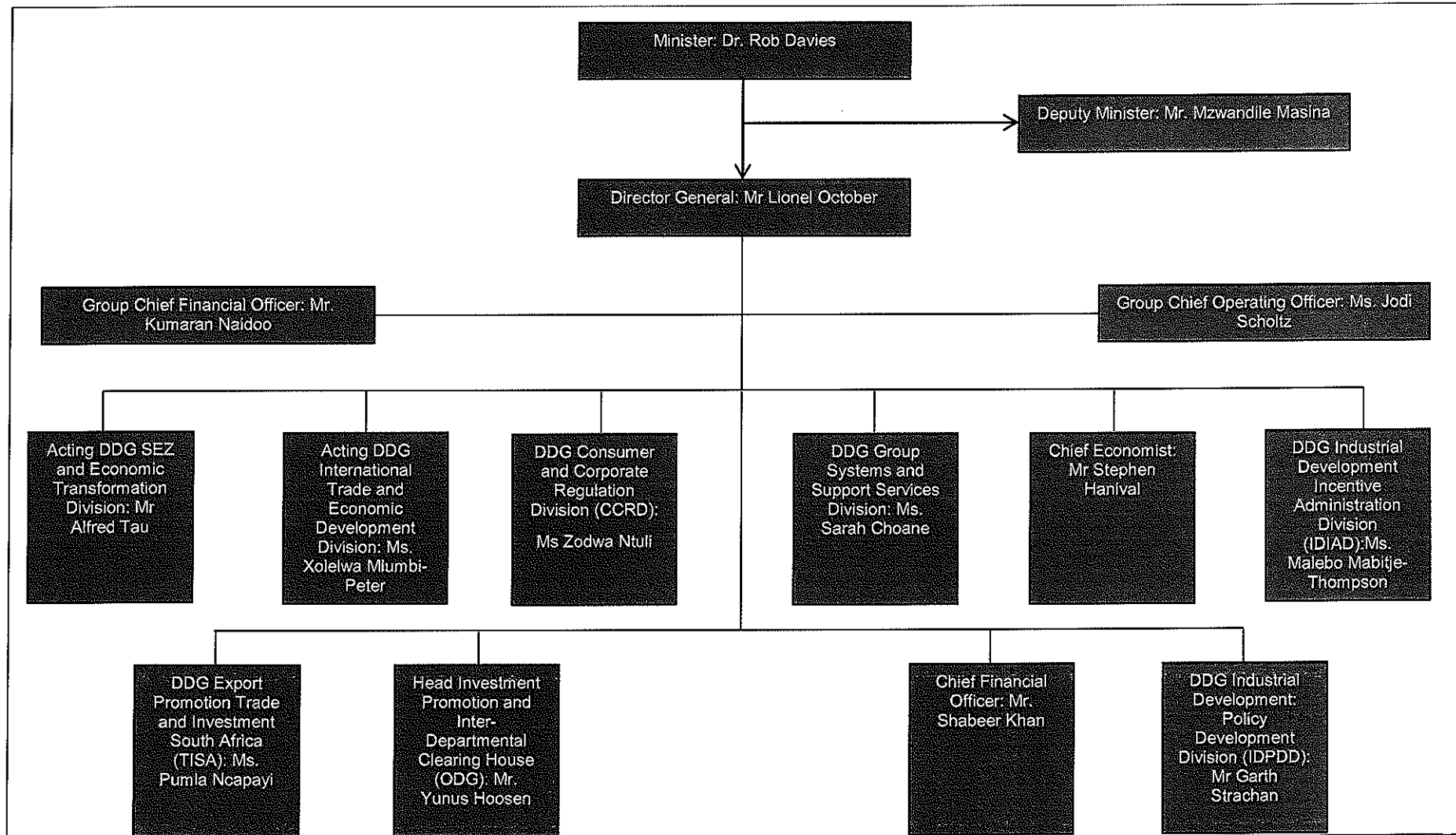
the dti's mission is to:

- Promote structural transformation, towards a dynamic industrial and globally competitive economy;
- Provide a predictable, competitive, equitable and socially responsible environment, conducive to investment, trade and enterprise development;
- Broaden participation in the economy to strengthen economic development; and
- Continually improve the skills and capabilities of the dti to effectively deliver on its mandate and respond to the needs of South Africa's economic citizens.

the dti's strategic objectives are to:

1. Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation;
2. Build mutually beneficial regional and global relations to advance South Africa's trade, industrial policy and economic development objectives;
3. Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth;
4. Create a fair regulatory environment that enables investment, trade and enterprise development in an equitable and socially responsible manner; and
5. Promote a professional, ethical, dynamic, competitive and customer-focused working environment that ensures effective and efficient service delivery.

1.4 Organisational structure



1.5 Funding

Department	Budget R '000	Actual Expenditure R '000	Under spending R '000	Variance %
Programme 1: Administration	790 876	727 080	63 796	8.0
Programme 2: International Trade and Economic Development	146 462	142 792	3 670	2.5
Programme 3: Broadening Participation	946 330	938 622	7 708	0.8
Programme 4: Industrial Development	1 795 004	1 787 719	7 285	0.4
Programme 5: Consumer and Corporate Regulation	283 075	281 122	1 953	0.6
Programme 6: Incentive Development and Administration	5 591 858	5 551 358	40 500	0.7
Programme 7: Trade and Investment South Africa	365 124	356 606	8 518	2.3

2. Audit opinion history








Audit opinions	2014-15	2013-14	2012-13	2011-12	2010-11
Department of Trade and Industry (the dti)					
Companies Intellectual Property Commission (CIPC)					
Companies Tribunal (CT)					
National Consumer Commission (NCC)					
National Credit Regulator (NCR)					
National Consumer Tribunal (NCT)					
National Gambling Board (NGB)					
National Lotteries Board (NLB) and National Lottery Distribution Trust Fund (NLDTF)					
National Regulator for Compulsory specification (NRCS)					
South African Bureau of Standards (SABS)					
Small Enterprise Development Agency (SEDA)					

Qualification areas	2014-15	2013-14	2012-13	2011-12	2010-11
CIPC					
• Revenue and receivables				✓	✓
• Other liabilities				✓	
NCC					
• Operating expenditure			✓		
• Irregular expenditure – supply chain management			✓		
NRCS					
• Property, plant and equipment				✓	
• Revenue				✓	
• Revenue and receivables	✓	✓			
• Employee cost		✓			
• Payables		✓			

Predetermined objectives	2014-15	2013-14	2012-13	2011-12	2010-11
• the dti					✓
• CIPC	✓	✓	✓	✓	✓
• CT		✓	✓		
• NCC	✓				
• NCT				✓	✓
• NGB		✓		✓	✓
• NLB and NLDTF		✓			
• NRCS	✓		✓	✓	

Compliance with legislation	2014-15	2013-14	2012-13	2011-12	2010-11
• the dti		✓	✓	✓	✓
• CIPC		✓	✓	✓	✓
• CT	✓	✓			
• NCC	✓	✓	✓	✓	
• NCR		✓	✓	✓	
• NCT					✓
• NGB	✓	✓	✓		✓
• NLB and NLDTF	✓	✓	✓	✓	✓
• NRCS	✓	✓	✓	✓	✓
• SEDA	✓	✓	✓		

Audit opinion legend

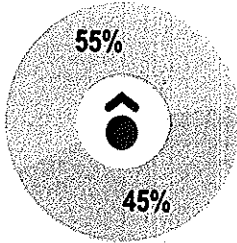
	Clean audit opinion: No findings on predetermined objectives and compliance
	Unqualified with findings on predetermined objectives and compliance
	Qualified audit opinion (with/without findings)
	Disclaimer/adverse audit opinion
	Entity not yet established
	Department/entity had findings (in the related matter)
	Department/entity had no findings (in the related matter)

2.1 Significant emphasis of matters

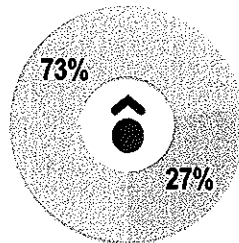
Department or entity	Emphasis of matter raised
the dti	<p>Significant uncertainties</p> <p>The department disclosed contingent liabilities in respect of lawsuits and incentive grants approved by the department but not paid.</p> <p>Restatement of corresponding figures</p> <p>The corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 31 March 2015 for the year ended 31 March 2014.</p> <p>Material impairments and losses</p> <p>An impairment loss to the amount of R45 million was incurred as a result of debts outstanding for longer than 12 months.</p>
NCC	<p>Significant uncertainties</p> <p>The entity disclosed an accumulated surplus of R3 474 422 which was retained by the entity without approval from the National Treasury.</p>
NGB	<p>Restatement of corresponding figures</p> <p>The corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 31 March 2015 for the year ended 31 March 2014.</p>
NLB	<p>Restatement of corresponding figures</p> <p>The corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 31 March 2015 for the year ended 31 March 2014.</p>
NRCS	<p>Restatement of corresponding figures</p> <p>The corresponding figures for 31 March 2014 have been restated as a result of an error discovered during 31 March 2015 for the year ended 31 March 2014.</p> <p>Material impairments</p> <p>Material impairments to the amount of R4 855 706 were incurred as a result of irrecoverable trade debtors.</p>

3. Key focus areas

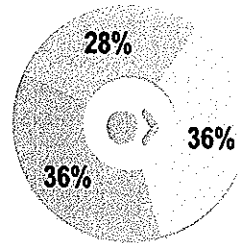
Quality of submitted financial statements



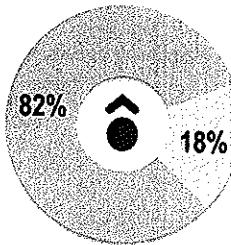
Quality of submitted performance reports



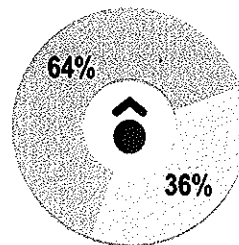
Compliance with legislation



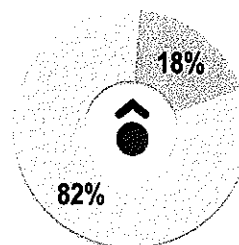
Financial health



Human resource management



Information technology



2014-15 PFMA

- Good
- Concerning
- Intervention required
- Improvement
- Stagnant or limited progress
- Regressed

AUDITOR-GENERAL SOUTH AFRICA

3.1 Material errors or omissions in submitted annual financial statements

Entity	Finding	Root cause	Recommendation
CT	Overstatement of cost and accumulated depreciation of donated assets received.	The recording of the donated assets in the asset register and the accounting records was not done in accordance with the GRAP standards.	The asset register and accounting records should be reviewed annually to ensure that all assets are recorded in terms of the GRAP standard.
	Misstatements in the cash flows from operations.	Management did not adequately review the cash flow statement.	Management must adequately review and recalculate the amounts disclosed in the cash flow statement.
NGB	Incorrect classification of deferred rental between current and non-current liabilities.	There was inadequate supervision and review of annual financial statements to ensure that they were accurate.	Oversight of the financial reporting processes must be strengthened, including detailed reviews of the financial statements.
	Contingent liability disclosure was not complete.	Management was not aware of the requirement to disclose surplus funds as a contingent liability.	Staff responsible for financial reporting should attend GRAP training. The chief financial officer should review the financial statements for completeness and accuracy.
	The annual financial statements of the National Gambling Trust were not consolidated with the annual financial statements of the NGB.	Not applicable The AGSA consulted to determine if the annual financial statements should be consolidated. Based on the nature of the trust, we determined that the annual financial statements should have be consolidated.	The National Gambling Trust and the NGB should have consolidated financial statements.
NLB and NLDTF	Provision for doubtful debt for long-outstanding receivables from non-exchange transactions (grants).	Management did not implement controls over daily and monthly processing and reconciling of transactions. The grant policy is not specific in terms of the recovery of grants from entities which did not fulfil the conditions under which the grants were transferred.	Management should review the grant and debt collection policies to enhance the debt collection.

	Current liabilities were incorrectly included in commitments.	Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.	Management must implement controls over financial reporting to ensure that reported information is supported by valid, accurate and complete supporting documentation. The commitments list should be reviewed and updated to include commitments only.
NRCS	Levies from compulsory specifications were not complete and/or were included in the incorrect reporting period.	Management did not implement a system or database to appropriately record information in a timely manner and ensure the completeness of revenue.	The current levy model implies that the levy revenue arises when commodities or products are manufactured, built or imported, or services provided, that are subject to a compulsory specification. NRCS should perform a gap analysis on the adequacy of the current systems and processes to reliably measure, or to make a reliable estimate of, the fee revenue. This would entail looking into current processes in place to assess whether the processes in place support the current levy model. The results of the gap analysis should inform changes to processes or the current levy model.
	Misstatements of property, plant and equipment, intangible assets, investment property, accruals, cash and cash equivalents, employee costs, impairment of trade receivables, interest received and disclosure notes were identified by the auditors in the submitted financial statements and were subsequently corrected.	Controls over daily and monthly processing and reconciling of transactions were not implemented and there was inadequate review by management.	Management should adhere to documented internal control procedures by ensuring detailed daily and monthly review of all transactions.
SEDA	Prior period error in respect of related parties was not disclosed.	Adequate controls and measures were not implemented to prepare accurate and complete financial reports that are supported and evidenced by reliable information.	It is recommended that management take steps to improve controls over the preparation and review of the financial statements.

3.1.1 Comments on additional AGSA interactions to help improve financial outcomes

Entity	Additional interaction or add service	Impact or outcome
NCR	In the previous year the entity did not have a chief financial officer. Through interactions with the new chief financial officer, the recommendations of the previous year were successfully implemented.	The annual financial statements submitted for auditing were not materially misstated.

3.2 Predetermined objectives

Entity	Finding	Root cause	Recommendation
CIPC	<p>Reliability of reported performance information</p> <p>The entity could not provide sufficient appropriate evidence on certain critical data fields in support of the reported performance information and the entity's records did not permit the application of alternative audit procedures.</p>	<p>The ERMS database is not configured to facilitate performance reporting. The CIPC is carrying legacy systems that were developed as far back as 1984 and, at that time, the systems were designed to process transactions and not to be used for reporting purposes.</p> <p>A fully integrated performance management system that matches CIPC's performance reporting requirements was not implemented. This resulted in management being unable to provide reports and supporting schedules which were free from data integrity issues to support the reported achievements.</p> <p>Management did not timeously perform data validation processes and implement corrective action for the information contained in the database to ensure that reported performance information is accurate.</p>	<p>Management should assess the feasibility of procuring and implementing new systems that will adequately support business processes and performance reporting with minimal human intervention. Replacing legacy systems will be costly but the investment gains will compare favourably to investment costs.</p> <p>Management should timeously perform data validation processes and implement corrective action to ensure that the database provides reliable information for performance reporting purposes.</p> <p>Adequate programmed controls should be implemented at the data capturing stage to ensure that valid, accurate and complete information is recorded, i.e. alphanumeric and date verification controls.</p>

<p>NCC</p>	<p>Reliability of reported performance information</p> <p>Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of adequate and reliable evidence to confirm the date of registration of registered complaints.</p>	<p>The registration process did not include evidence of registration on case file.</p>	<p>The divisional head should ensure that the registration process includes evidence of registration on case files.</p> <p>Management should consider a database system for registration and complaints handling processes.</p>
<p>NRCS</p>	<p>Usefulness of reported performance information</p> <p>The required performance for 24% of the targets could not be measured.</p>	<p>Management did not implement appropriate controls to ensure that approval dates for applications are clearly documented.</p>	<p>Management should implement controls over the approval process of letter of authorities issued. The controls should ensure that once the manager has completed reviewing the information supporting the application, they should sign as evidence of their review and approval indicating the date when the application was approved.</p>
	<p>Reliability of reported performance information</p> <p>Overall, 35% of the significantly important targets were not reliable because sufficient appropriate audit evidence for significantly important targets could not be obtained.</p>	<p>Management did not implement appropriate controls to ensure that approval dates for applications are clearly documented.</p>	<p>Management should make sure that they document the dates when the projects are closed to ensure that the reporting on predetermined objectives is accurate and complete.</p>

3.2.1 Comments on additional AGSA interactions to help improve Audit of Predetermined Objectives outcomes

Department or entity	Additional interaction or add service	Impact or outcome
the dti	<p>The current year (2014-15) annual performance plan was reviewed during the 2013-14 audit cycle before approval and implementation.</p> <p>All recommendations from the 2013-14 audit and review of the 2014-15 annual performance plan were implemented by management before the approval of the 2014-15 annual performance report.</p>	<p>There were no material misstatements in the submitted annual performance report.</p>
CT	<p>Through interactions and recommendations, management was assisted to have a better understanding on the design of indicators and targets for them to be well-defined and specific.</p>	<p>The indicators and targets in the annual performance plan were useful.</p>
NGB	<p>Through engagement with management, the importance of implementing the previous audit recommendations was emphasised and management acted thereon.</p>	<p>The reported indicators and targets were consistent with the planned indicators.</p>
NLB	<p>Through engagements and audit recommendations, management understood how to design indicators and targets which were useful.</p>	<p>The indicators and targets in the annual performance plan were useful.</p>

3.3 Compliance with legislation

Department or entity	Finding	Root cause	Recommendation
NCC	The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).	The leadership at the entity did not exercise adequate oversight as sufficient monitoring controls were not in place to ensure compliance with laws and regulations, which resulted in expenditure incurred which was not in line with supply chain management legislation.	The accounting authority should compile an action plan to ensure that non-compliance with legislation is timeously detected and prevented.
NGB	The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.	Management did not implement sufficient monitoring controls to ensure adherence to legislation.	<p>Management must enhance its monitoring and review procedures to ensure that treasury and preferential procurement regulations are adhered to.</p> <p>Management must enhance detective procedures to ensure that all irregular expenditure incurred is identified and disclosed.</p>
	Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by treasury regulation 16A6.1.	<p>The board or accounting authority did not exercise oversight responsibility to ensure compliance.</p> <p>Although policies and procedures were in place there was a lack of oversight from senior management to ensure compliance.</p>	<p>Management should implement controls to ensure compliance with procurement regulations are enforced.</p> <p>Consequences for not adhering to legislation should be communicated to staff and be enforced.</p> <p>It is critical that all the issues of non-compliance which result in irregular expenditure be identified and the total amount of irregular expenditure be disclosed. Non-disclosure could result in a material misstatement to the financial statements. All supporting schedules and batches should be maintained to ensure that an audit trail exists.</p>

<p>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.</p>	<p>Management did not adequately review and monitor compliance with applicable procurement legislation.</p>	<p>Management should implement controls to ensure compliance with procurement regulations.</p> <p>Consequences for not adhering to legislation should be communicated to staff and be enforced.</p> <p>It is critical that all the issues of non-compliance which result in irregular expenditure be identified and the total amount of irregular expenditure be disclosed. Non-disclosure could result in a material misstatement to the financial statements. All supporting schedules and batches should be maintained to ensure that an audit trail exists.</p>
<p>Contracts were awarded to suppliers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by treasury regulation 16A9.1 (d) and the <i>Preferential procurement regulations</i>.</p>		
<p>Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, which is prescribed in order to comply with treasury regulation 16A8.3.</p>		
<p>Contracts were extended or modified without the approval of a properly delegated official, as required by section 44 of the PFMA.</p>	<p>There was a lack of monitoring to ensure compliance with regulations.</p>	<p>Management must monitor all payments made with regard to contracts.</p> <p>Management must, at least six months before the expiry date of a contract that relates to a continued need, begin the procurement process to appoint a new provider.</p>
<p>Contrary to section 67 of the National Gambling Act, 2004 (Act No. 7 of 2004), some of the former board members continued to serve on the board without the appropriate approval.</p>	<p>The accounting authority did not implement sufficient monitoring controls to ensure adherence to regulations.</p>	<p>Oversight of compliance with legislation should be enhanced from both the Accounting authority and senior management.</p>

	<p>The NGB failed to discharge its duties in terms of section 16(4) of the National Gambling Act. Upon receipt of winnings that were confiscated through the banks, the former board did not investigate the circumstance of the relevant gambling activity or either deliver the winnings to the person who won them or apply to the High Court for an order declaring the winnings be forfeited to the state.</p>	<p>The board or accounting authority did not exercise oversight responsibility of the mandate of the NGB. No actions were taken to ensure that the entire mandate is covered in the strategic plan.</p>	<p>The annual performance plan of the NGB should include indicators and targets relating to this key responsibility of the NGB. (To date management has implemented processes to ensure that confiscated winnings are being investigated.)</p>
NLB and NLDTF	<p>Effective and appropriate steps were not always taken to collect all money from entities that did not fulfil the conditions under which grants were transferred to them, as required by section 51(1)(b)(i) of the PFMA and treasury regulation 31.1.2(a) and 31.1.2(e).</p>	<p>Management did not, in all instances, implement controls over daily and monthly processing and reconciling of transactions.</p>	<p>Management should review its grant and debt-collection policies to enhance the debt collection.</p>
NRCS	<p>The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p>	<p>Contracts coming to an end were not renewed in a timely manner due to management not having an adequate contract register to perform proper contract management. Further, we noted that the required number of quotations was not received or the tender process was not followed.</p>	<p>NRCS management should implement a contract register which will assist in identifying when contracts are coming to an end. This will ensure that new contracts or renewals are negotiated well in advance. Management should ensure that SCM legislation is adhered to.</p>

	<p>Effective and appropriate steps were not taken to collect all money due, as required by section 51(1)(b)(i) of the PFMA and treasury regulation 31.1.2(a) and 31.1.2(e).</p>	<p>Management did not implement a system or database to appropriately record information in a timely manner .</p> <p>Furthermore, there was no process to review inspection records to identify new levy payers.</p>	<p>The current levy model implies that the levy revenue arises when commodities or products are manufactured, built or imported, or services provided, that are subject to a compulsory specification.</p> <p>The NRCS should perform a gap analysis on the adequacy of the current systems and processes to reliably measure or to make a reliable estimate of the fee revenue. This would entail looking into current processes in place to assess whether the processes in place support the current levy model.</p> <p>The results of the gap analysis should inform changes to processes or to the current levy model.</p>
	<p>Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management were not maintained, as required by section 51(1)(a)(i) of the PFMA.</p>	<p>Management did not implement appropriate controls to ensure that type approval dates for applications are clearly documented.</p>	<p>Management should ensure that it documents the dates when the projects are closed to ensure that the reporting on predetermined objectives is valid, accurate and complete.</p>

3.4 Financial Health

Department or entity	Finding	Root cause	Recommendation
N/A : No audit report matters			

3.5 Human resource management and consequence management

Department or entity	Finding	Root cause	Recommendation
N/A : No audit report matters			

3.6 Information technology (control environment)

Entity	Finding	Root cause	Recommendation
CIPC	<p>There was a high degree of reliance on the service providers (Waymark and Reagola) to provide critical information technology (IT) functions such as the database administration of Oracle, Informix and SQL.</p> <p>A clause for transfer of skills was not included in the service level agreement with Waymark and Reagola.</p> <p>Over-reliance on a service provider could lead to a risk of the CIPC IT function being unable to continue operations should the service provider fail to provide the services. Furthermore, the CIPC may be paying more for consultants/contractors than they would</p>	<p>Some of the technology used by the CIPC were old legacy systems and as a result, resources were scarce as there were few skilled resources in the industry. Due to the scarcity of the skill, the CIPC was not in a position to attract and retain skilled resources to work on the legacy systems.</p>	<p>The CIPC should develop a long-term recruitment strategy that will ensure that ICT personnel is recruited and adequately trained to meet the demands of the IT function. Furthermore, an employee retention programme should also be in place to protect the interests of the department and ensure the long-term success of the IT function.</p> <p>There should be a plan in place for transfer of skills from consultants to internal resources. This transfer of skills should be included in the service level agreements and be monitored on a regular basis.</p> <p>Alternatively, the strategy of the CIPC should include a review of the replacement of legacy systems to ensure continued and adequate</p>

Entity	Finding	Root cause	Recommendation
	<p>for a permanent employee.</p> <p>The CIPC did not formally document patch management procedures to govern the implementation of security patches. Furthermore, patches were not updated on the CIPC network for the period under review.</p>	<p>The bulk of the resources, time and focus were dedicated to the enterprise architecture (EA) implementation project. This project is further complicated by a lack of the relevant ICT resources or skills. As a result, there were delays in the implementation process of new servers, data backup and archiving and network perimeter solutions to address information system security in the CIPC IT environment.</p> <p>Furthermore, management did not conduct regular vulnerability assessments of the internal environment to identify IT security vulnerabilities.</p>	<p>support.</p> <p>Management should appoint or assign a resource that will be responsible for managing security and implementing policies in the CIPC.</p> <p>This resource, along with management, should develop and design appropriate IT security related procedure documents to include defined processes of administration, monitoring, and reporting. Thereafter, the procedure documents should be distributed to the respective IT support personnel and administrators.</p> <p>The resource should also be adequately skilled to address the weaknesses identified in the IT environment. Furthermore, management should also evaluate the current staff capacity and ensure that the department's IT division is adequately staffed and skilled.</p>
	<p>There was no user account management policy to provide guidelines for granting users access on the network, password reset, change of privileges or rights and termination of users. Consequently, over 50 accounts on the network could not be linked to a specific user.</p>	<p>The lack of formally documented user account management procedure document could be ascribed to insufficient resources available at the entity to design IT security related procedures. The current staff complement was entirely involved in ensuring effective daily IT operations at the entity.</p>	<p>Management should make resources available to ensure that an adequate user access management procedure is documented and implemented. The procedure should include the following at a minimum but not limited to:</p> <ul style="list-style-type: none"> • Procedure for the periodic reviews of user profiles, reviews of system administrator activities and reviews of access and logon violations. • Procedure for assigning user IDs to users.

NLB and NLDTF	There was a lack of deliverables on the implementation of Phase 1 of the DPSA requirements for the corporate governance and governance of ICT environments.	Management did not, in all instances, establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.	The chief information officer should develop and implement the ICT management framework and the portfolio management framework that includes the ICT portfolio and projects.
	Server baseline standards that inform the security settings that should be configured on NLB's operating systems were not documented, approved and implemented.		Server baseline standards should be comprehensively documented for the Windows operating systems which the NLB is currently using. The standards should be signed off by the relevant authority and implemented consistently by IT personnel.
NCC NCR NRCS	There were weaknesses on the user access management, IT security management and IT service continuity.	Formal controls over information systems to ensure the reliability of the systems and the availability, accuracy and protection of information were inadequately designed and implemented.	Management should design and implement policies and procedures that address all IT deficiencies.

4. Other matters of interest

(a) Unauthorised expenditure: Expenditure not in accordance with the budget vote

Department or entity	Unauthorised expenditure				
	Movement	Amount R'000 2014-15	Amount R'000 2013-14	Root cause	Recommendation
N/A – No unauthorised expenditure					

(b) Irregular expenditure: Expenditure incurred in contravention of key legislation

Department or entity		Irregular expenditure				
		Movement	Amount R'000 2014-15	Amount R'000 2013-14	Root cause	Recommendation
1	the dti	↓	1 199	6 380	Officials in certain divisions did not have a comprehensive understanding of SCM legislation.	Management must ensure that all officials involved in procurement understand the SCM legislation and requirements.
2	CIPC	↓	501	2 430	Management did not adequately review compliance with the PPPFA and regulations.	Management must enhance oversight and review to ensure compliance with all legislation relating to SCM.
3	CT	↓	111	190	Management did not adequately review compliance with the PPPFA and regulations.	Management must enhance oversight and review to ensure compliance with all legislation relating to SCM.
4	NCC	↑	7 329	6 920	SCM processes were not followed due to a vacancy and management did not delegate the function to another employee.	Management must ensure that the responsibility of the SCM function is allocated to an employee at all times.
5	NGB	↓	3 042	3 910	There was a lack of oversight by management in preventing non-compliance with legislation.	Management must enhance oversight controls to ensure that treasury and preferential procurement regulations are adhered to.
6	NLB and NLDTF	↑	20 757	20 170	Inadequate review by management resulted in previous year irregular expenditure only being identified in the current year. Irregular expenditure incurred relates to procurement entered into in the previous year.	Management must enhance detective controls to ensure complete identification and disclosure of irregular expenditure.
7	NRCS	↑	7 292	5 830	Controls were inadequate to timeously identify contracts coming to an end. Management's review was, in some instances, inadequate to ensure compliance with the required number of quotations or the tender process.	Management should ensure that if they intend to continue leasing any property, the terms and conditions of the new lease agreement should be negotiated well in advance to ensure that by the time the current lease expires a new one is already in place.

(c) Fruitless and wasteful expenditure: *Expenditure that should not have been incurred (incurred in vain that could have been avoided and no value for money received)*

Department or entity		Fruitless and wasteful expenditure				
		Movement	Amount R'000 2014-15	Amount R'000 2013-14	Root cause	Recommendation *
1	the dti	↑	37	20	Lack of staff commitment to training.	Staff should be sensitised on the repercussions of not attending training.
2	CIPC	↓	23	1 390	There were inadequate processes to prevent monthly expenditure or invoices becoming overdue, thereby preventing fruitless expenditure	Management should implement controls to prevent payables falling overdue.
3	NCC	↓	11	30	A planned event was cancelled but catering services which had been procured, had to be paid for.	Management should ensure adequate planning of events before committing funds of the entity.
4	NGB	↓	0,447	30	Management did not properly plan the procurement of services.	Management should ensure that procurement is required prior to committing the entity.
5	NLB and NLDTF	↓	12	20	A planned meeting was cancelled but catering services which had been procured, had to be paid for.	Management should ensure adequate planning of meetings before committing funds of the entity.
6	NRCS	↑	12	Nil	There were inadequate processes to prevent fruitless expenditure resulting from overdue accounts and duplicate payments. Lack of staff commitment to training.	Management should implement controls to prevent payables falling overdue and duplicate payments being made. Staff should be sensitised on the repercussions of not attending training.
7	SABS	↓	47	340	Delayed payments of municipal, telecommunication and other suppliers due to invoices not being timeously forwarded from regional offices, which resulted in interest or penalties being incurred.	Management should implement controls to ensure that invoices are timeously forwarded from regional offices.
8	SEDA	↑	401	360	Key officials lack appropriate competencies.	Officials should be adequately trained for their respective positions.

* - *The process of dealing with fruitless and wasteful expenditure as per the National Treasury Guideline should be followed, which includes the investigation of expenses and instituting consequences against employees responsible for transgressions.*

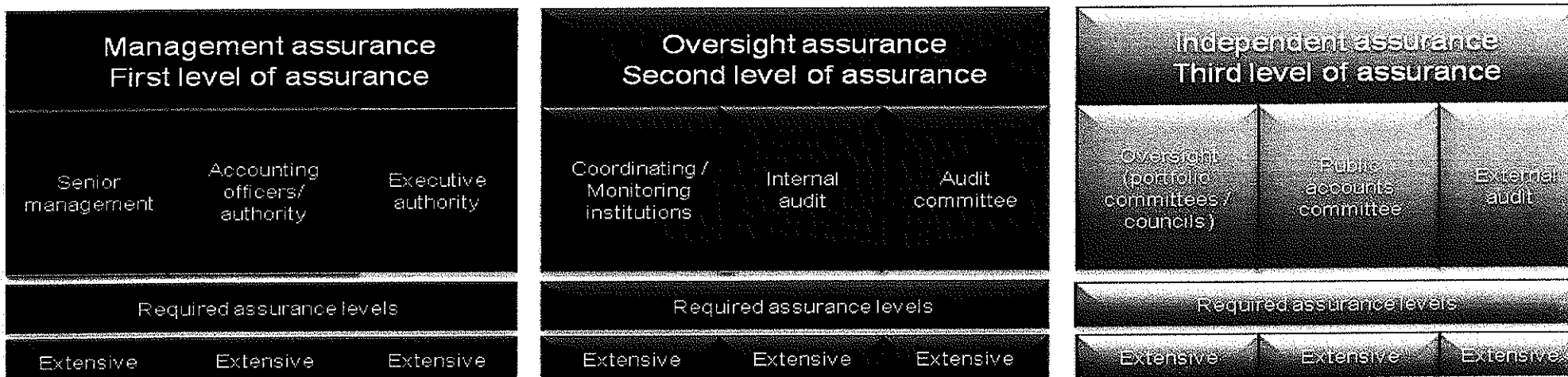
5. Drivers of internal controls

Drivers of internal control														
Department and entities	Leadership						Financial and 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 system controls	Risk management	Internal audit unit	Audit committee
the dti	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
CIPC	Good	Good	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
CT	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NCC	Good	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NCR	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NCT	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NGB	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NLB and NLDTF	Good	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
NRCS	Good	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
SABS	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good
SEDA	Good	Concerning	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good	Good

LEGEND

Good
Concerning
Intervention required

6. Combined assurance on risk management in the public sector



Management’s assurance role

- **Senior management** – take immediate action to address specific recommendations and adhere to financial management and internal control systems
- **Accounting officers/ authority** – hold officials accountable on implementation of internal controls and report progress quarterly and annually
- **Executive authority** – monitor the progress of performance and enforce accountability and consequences

Oversight’s assurance role

- **National Treasury/ DPSA** – monitor compliance with laws and regulations and enforce appropriate action
- **Internal audit** – follow up on management’s actions to address specific recommendations and conduct own audits on the key focus areas in the internal control environment and report on quarterly progress
- **Audit committee** – monitor risks and the implementation of commitments on corrective action made by management as well as quarterly progress on the action plans

Role of independent assurance





- **Oversight (portfolio committees)** – review and monitor quarterly progress on the implementation of action plans to address deficiencies
- **Public accounts committee** – exercise specific oversight on a regular basis
- **External audit** – provide independent assurance on the reliability, accuracy and credibility of reported financial and performance information and identify instances non-compliance

7. Minister’s commitments and progress on these commitments

The following include previous year commitments and new commitments

Focus area	Commitment	Status
Action plan to address audit findings	Development and implementation of an action plan to address all identified audit findings which will be monitored by the accounting officer, internal audit unit and audit committee, and escalated to the executive authority when necessary.	The action plan was developed and implemented.
Review of key controls	To follow up quarterly on key control assessments and the reports from the audit committees on audit-related matters.	The minister is following up on key controls on an ongoing basis.
Action plans to address audit report matters	To obtain action plans for CIPC, NLB, NGB, and the CT to address the audit findings on predetermined objectives, and from NRCS to address the qualified audit opinion. Progress on the action plans will be tracked on a quarterly basis by the chairpersons of the audit committees.	<p>Actions plans were obtained and forwarded to chairpersons of audit committees to track on a quarterly basis.</p> <p>The previous year NGB and CT findings were addressed. Progress on the action plans at the other entities is still being monitored by the audit committees.</p>
Action plan to address issues at NRCS	The NRCS will be assisted by dti in addressing the revenue recognition problem. The dti and NRCS have established a joint team working towards establishing an appropriate revenue model for the NRCS to ensure an improved audit outcome.	New commitment.
Action plan to address issues at NGB	The NGB would be assisted by the dti to address the audit findings.	New commitment.
Action plan to address quality of submitted financial statements	The process of compiling quarterly financial statements for all trade and industry entities will be reinforced. This will assist in having the discipline of accurate capturing or reporting addressing the number of material corrections to financial statements.	New commitment.







STATUS LEGEND

	Commitment has been implemented
	Commitment in progress
	Commitment has not been implemented
	New commitment

8. Entities not audited by the Auditor-General of South Africa (section 4(3) audit entities)

Audit opinions	2014-15	2013-14	2012-13
Export Credit Insurance Corporation of South Africa (ECIC)			
National Empowerment Fund (NEF)			
National Metrology Institute of South Africa (NMISA)			
South African National Accreditation System (SANAS)			
Predetermined objectives	2014-15	2013-14	2012-13
South African National Accreditation System (SANAS)			
• Usefulness	✓		
Compliance with legislation	2014-15	2013-14	2012-13
National Metrology Institute of South Africa (NMISA)			✓
South African National Accreditation System (SANAS)	✓		✓
• Internal audit			

Audit opinion legend

	Clean audit opinion: No findings on predetermined objectives and compliance
	Unqualified with findings on predetermined objectives and compliance
	Qualified audit opinion (with/without findings)
	Disclaimer/adverse audit opinion
	Entity not yet established
	Department/entity had findings (in the related matter)