



02 October 2015

SUMMARY OF THE ECONOMIC DEVELOPMENT DEPARTMENT'S ANNUAL PERFORMANCE IN 2013/14 FINANCIAL YEAR

1. INTRODUCTION

This paper looks at the discussions and recommendations made by the Portfolio Committee on Economic Development when it scrutinised the performance of the Department for the 2013/14 financial year. The information is provided in preparation for the upcoming presentation on the 2014/15 Annual Report.

The release of Economic Development Department's (EDD) 2013/14 Annual Report, among others, coincided with South Africa's twenty years of democracy, as well as the end of the Fourth Administration – during which the Department was established. The Department began with a handful of staff members and a great deal of work was done to recruit staff and put systems in place to ensure that the Department fulfils its mandate. Three major milestones that the Department achieved during the Fourth Administration, included the adoption of the NGP, facilitating the conclusion and signing of the five Social Accords; and drafting the Infrastructure Development Bill which was later passed by the national legislature. The Department, also managed to place job creation at the centre of government activity.

The Department, however, still faced a number of challenges. These included the need for an updated organogram, the recruitment and retention of staff with appropriate skills and experience; and the resolution of issues identified by the Auditor General.

To improve on its performance, the Portfolio Committee on Economic Development urged the Department to take into serious consideration the observations and recommendations made by the Committee. Now that the Fifth Administration has been ushered in, the Committee is looking forward to seeing the Department achieve more milestones.



2. DEPARTMENT'S PRESENTATION

The Committee was briefed by the Minister of Economic Development on the EDD Annual Report for 2013/14. In his briefing the Minister raised a concern about the persistent challenges experienced by the major and emerging economies of Northern and Southern hemisphere. An emphasis was also made to indicate that Europe, United States of America and Asia were experiencing a slower growth path. The Minister added that;

- EDD's support to the Presidential Infrastructure Coordinating Council (PICC) had resulted in the preceding five years witnessing the largest infrastructure spending in history.
- The Industrial Development Corporation (IDC) had provided twice as much financing credit approval and disbursement during 2009 to 2013 than in the five years before that.
- The Small Enterprise Financing Agency (Sefa) had disbursed R362 million to women-owned businesses, and R157 million to youth-owned businesses. The IDC had set aside R1 billion, and Sefa R1.7 billion, for youth empowerment enterprises in the following three to five years.
- The competition authorities had earned nearly ten times as much in remedies and fines, compared to the previous administration. There had been a settlement with Telkom that could save consumers R875 million. The Competition Commission had concluded its investigations into collusive behaviour among the major construction companies.
- A trade policy directive had been issued to the International Trade Administration Commission (ITAC) on the export of scrap metal, which required the introduction of a price preference system.

3. PORTFOLIO COMMITTEE'S FINDINGS IN 2013/14

During the deliberations the Committee:



- Recognised that the economy was facing challenges of unemployment, particularly among youth but also acknowledges that positive development such as the growth in jobs for youth aged 18 to 34 grew by 150 000 during the year under review. The Committee welcomed the Departments efforts to unlock potential in this area through the Youth Employment Accord. The Committee emphasised the need to monitor and evaluate progress in the implementation of the six pillars of the Youth Employment Accord, namely, education and training, work exposure, youth brigades based on existing public employment, programmes set-asides for youth employment in growing industries, youth entrepreneurship and co-operatives; and private-sector initiatives;
- Acknowledges that the Department has played a crucial role in promoting and supporting local procurement and more effect to Public Procurement Policy Framework (PPPFA) act of 2011. However the Committee identified the need to develop a mechanism to verify and ensure that 100 per cent South African goods are indeed produced and manufactured in the country;
- Urged the Department to intensify its efforts to achieve the 2 per cent employment target for people living with disabilities. In addition the Committee emphasises the need to ensure that employment opportunities are created for people living with disabilities. In this regard, the Department in collaboration with the Department of Labour should encourage people living with disabilities to make use of the Sheltered Employment Factories. The factories employ and empower people living with disabilities, with skills that enable them to be mainstreamed into the economy;
- Urged the Department to do more to mainstream gender balance across its programmes so as to build on early successes that have been achieved;
- Noted with concern that the Department had revised down its vacancy target from filling 166 funded posts to 146 for the year under review however 139 posts were filled. The Department had missed its revised target. The Committee was concerned about the high turnover rate, particularly at senior management level and called on the Department to finalise its new structure so as to address the staffing issues and ensure that the Department can function optimally;



- Expressed it's appreciate to the Department for obtaining an unqualified report for the fourth consecutive time. However, the Auditor General's findings on financial misstatement, non-adherence with Supply Chain Management processes on tax clearance needed to be addressed. The Committee noted that the root cause was a lack of monitoring and adequate internal controls to ensure compliance with relevant legislation. In addition some of the audit findings pertaining to Supply Chain Management and Human Resource Management weaknesses had been raised in the previous years and no remedial action was taken to address them. Members were of the view that there should be punitive measures for poor performance in these areas. The Committee urged the Department to ensure that findings from the previous financial years do not reappear in the current financial year;
- Contended that the internal auditing Committee within the Department needed to be strengthened so that it could be more effective, dependable and reliable. In addition, the Committee urged the Department to expedite the filling of audit vacancies, after two contracts expired in 2013/14
- Approved of the improvements in the performance of the Department as indicated in the Key Performance Assessment Tool which shows that departmental governance structures, policies and systems that had been put in place to make sure that the Department achieves its strategic objective goals. However, the Committee was concerned that the tool indicated a regression in the performance of the financial management systems. This raised concerns about the Department's internal audit office capacity to strengthen and improve on its performance;
- Has concerns about signatories who lack the commitment to be active participants in the implementation of the Accords. For the Accords to succeed the Department should ensure that engagements with signatories are done on an on-going basis. Furthermore the Department should monitor and evaluate the implementation of the Accords and also conduct an assessment study to measure its impact;



- Expresses its satisfaction with the improvement in SEFA's disbursement rate during the year under review. Committee believes that this is due to the fact that SEFA is addressing backlogs from its predecessors. In this regard the Committee feels that the establishment of one-stop shops for SMMEs would play a major role in attracting new clients and spreading SEFA's footprint across the country;
- Requests the Department to encourage other state entities to work with SEFA, in providing SMMEs access to economic markets; and
- Urges the Department to consider establishing an SMME development institute that will assist in developing necessary skills for running an SMME.

4. AUDITOR GENERAL'S FINDINGS IN 2013/14

Since the first audit by the Auditor General (AG) in the 2010/11 financial year, the Economic Development Department has been receiving **unqualified reports**. During deliberations with the Committee, the office of the AG indicated that overall the Department performance was satisfactory however there were gaps in the internal control environment. It was pointed out that it is imperative to continually monitor the Department and entities to determine progress on remedial actions taken to address audit findings.

For the third time in a row, the AG reported that financial statements submitted for auditing were not prepared in accordance with PFMA requirements. Misstatements are a risk factor because they make the Department vulnerable to fraud. Like it did in the previous two years, the Department received an unqualified report after making corrections.

The AG also identified that employees were appointed without following relevant Public Service Regulation processes. The AG reported that the contravention of Public Service Regulations could have been avoided if there was proper monitoring of controls.

Regarding Human Resource matters, the AG noted that the Department contravened the Public Service Regulations in two areas;

- Employees were appointed without verifying claims made in the applications, and



- Employees received overtime in excess of the 30% of their monthly salary.

The AG also noted inconsistencies in between the Human Resource Management report in the Annual Report and the one which was supported for audit.

For the year under review, irregular expenditure increased by more than 9 times from R61 000 in the previous year to R593 000 in 2013/14. The AG reported 23 incidents of irregular expenditure. Among others, the irregular expenditure included R190 000 for an acting allowance that was paid beyond the permitted timeframes; R191 000 for engaging a consultant who was in possession of a certified copy of instead of the original tax clearance certificate. Another example is R83 000 for a consultant who was contracted without a tax certificate for particular periods and an amount of R12 000 which relates to overtime worked without prior approval. An amount of R27 000 in irregular expenditure relating to travelling without approval (R10 000) and engaging a service provider without following Supply Chain Management processes (R17 000) was condoned.

The management report issued by the Auditor-General for the 2013/14 financial reflected 41 findings:-

- 46 per cent (i.e. 19) of the findings relate to Human Resources Management; and
- 27 per cent (i.e. 11) of these findings relate to Financial Accounting (7) and Supply Chain Management (4)

The remaining 27 per cent (i.e. 11) relate to Planning (3), Information Technology (2), Management Accounting (1), and Internal Audit (1), Financial Accounting and Management (1), Financial Accounting and Human Resources (2), Office of the Chief Financial Officer and Financial Accounting (1).

4.2.1 Auditor General's Recommendations

The Auditor General made the following recommendations;

- Management should ensure that annual financial statements are prepared regularly. It is critical that a full and proper set of financial statements (including all disclosure notes) are prepared on a monthly basis.



- These annual financial statements should be reviewed by the governance structures i.e. management, internal audit and audit committee.
- The annual financial statements prepared should be adequately supported by substantiating evidence to corroborate validity, accuracy and completeness thereof.
- Annual financial statements which are submitted must be the final set approved by the leadership and supported as referred to above.
- Management should ensure that procedures and processes in place are adequate to ensure that all Human Resource expenditure are in compliance with relevant legislation.

Corrective measures that the Department committed to undertaking include that;

- Only original tax clearance certificates are accepted from potential service providers
- Tax clearance certificates are verified before payments are effected
- All procurement should be initiated at Supply Chain Management (SCM) unit
- Senior Management Service (SMS) members acting longer than 6 months will not be paid
- Transactions will not be processed for overtime not pre-approved.

5. COMMITTEE'S 2013/14 RECOMMENDATIONS

The Committee recommended that the House request the Minister of Economic Development to:

- Speed up the finalisation of the organogram which will take the PICC needs into account;
- Work in collaboration with the Minister of Labour, to encourage people living with disabilities to make use of the Sheltered Employment Factories so as to acquire skills that could make them economically active;
- Consider establishing one-stop shops for SMMEs to attract new clients and spreading SEFA's footprint across the country;
- Do more to ensure that gender balance is mainstreamed across its programmes so as to build on early successes;



- Encourage other state entities to work with SEFA, in providing SMMEs with access to economic markets;
- Based on observations made, the Committee recommends that an SMME Development Institute be established by government to help develop the necessary skills for the SMME sector;
- Help fast track the process of aligning and integrating the work related to economic development at all spheres of government and report on the outcomes on a quarterly basis to the Committee;
- Submit a response plan on the AGSA audit outcomes before the Parliament rises for the end of the year recess; and
- Work on a strategy to collate information related to the country's performance on the jobs led growth; income distribution and poverty alleviation (this should be outside normal country reports received from relevant authorities), and report to the committee on a quarterly basis.

6. CONCLUSION

In the 2013/14 EDD Annual Report, the Department faced challenges in respect to the filling of vacancies, misstatements in financial reporting and human resource management. These are just some of the issues that the Department should show improvements on and continually improve its performance in the period 2014/15.

REFERENCES

Economic Development Department (2014) Annual Report 2013/14.

Parliamentary Portfolio Committee on Economic Development (2014) Budgetary Review and Recommendation Report of the Portfolio Committee on Economic Development, dated 24 October 2014.