



The Chairperson of the Portfolio Committee on Small Business
Ms. NR Bhengu
PO Box 15
Cape Town
8000

6 March 2019

Dear Hon. NR Bhengu, MP

Brief to the Portfolio Committee on Small Business Development on the progress with the forensic investigation report referred to by the Department of Small Business Development (DSBD)

Your letter dated 27 February 2019, requesting the Auditor-General of South Africa (AGSA) to brief the portfolio committee on the progress made with the forensic investigation, as well as subsequent communication on 5 March 2019, refers.

In the letter dated 5 March 2019 the AGSA is specifically requested to provide a briefing on the following:

- Terms of references the AGSA was working on;
- Progress made so far;
- Processes that were followed with investigation;
- Processes that are still outstanding, engagements that has to be done;
- Findings and processes to be followed.

We are unfortunately not available to brief the committee on Wednesday 6 March 2019 and would like to as an alternative, provide the committee with the following written feedback.

The former DG expressed a concern that issues identified by the regularity audit team during the 2016-2017 audit, warranted an investigation to determine the full extent of the irregularities noted relating to two incentive schemes of the DSBD.

In terms of the AGSA delegations the Auditor-General approved the request for investigation and a letter of engagement in respect of the investigation was signed on 23 March 2018 with the former DG of the Department.

The scope of the investigation as per the letter of engagement is as follows:

- 1.1 The objective of the investigation is to determine whether there is evidence of mismanagement of the following DSBD incentive schemes:
 - 1.1.1 Black business supplier development programme (BBSDP);
 - 1.1.2 Co-operatives incentive scheme (CIS);
- 1.2 The investigation focused on the following for the 2015-16 and 2016-17 financial years:
 - 1.2.1 Compliance to the guidelines and standard operating procedures;
 - 1.2.2 The validity of the awarding of incentives to grant applicants;

- 1.2.3 Confirmation of the authenticity of suppliers and quotations;
- 1.2.4 Verification that goods and services were actually delivered/received; and
- 1.2.5 Monitoring and reporting processes followed by the DSBD subsequent to the approval of the incentive to the grant applicant.

The investigation fieldwork was executed during the period April 2018 to February 2019. The fieldwork consisted amongst others of the following procedures:

- 1.1 Analysed beneficiary payments during the 2015-16 and 2016-2017 period in order to identify the transactions for further testing. 155 grant applications were selected consisting of:
 - 1.1.1 BBSDP sample size of 88 grant applications; and
 - 1.1.2 CIS sample size of 67 (included in this were 9 applications which no information was provided for by the DSBD and is therefore included as a limitation)
- 1.2 We compared the grant applications and claims to the prescriptions per the programme guidelines and standard operating procedures to identify non-compliance or possible irregularities.
- 1.3 Based on the results of procedure 1.2 above we initially selected 30 applications to perform site visits. However due to the results of the 30 site visits performed, we agreed with the previous DG to extend the sample for site visits to 60. We also performed additional procedures in an attempt to contact grant applicants and verify existence of goods purchased.

A draft management report was compiled and issued to the Accounting officer on 22 February 2019 and discussed with the accounting officer and executive authority on 28 February 2019.

On request of Minister Zulu, it has been agreed that DSBD management has until 31 March 2019 to provide responses on our findings and recommendations. The engagement letter signed between the AGSA and the department state that the management report is a confidential document between the DSBD and the AGSA. Section 29(3) of the Public Audit Act, however require that a report be compiled on receipt of management comments where after the report will become a public document for tabling in Parliament.

We are therefore unable to share with you the draft management report issued to the DSBD on 22 February 2019 until management comments have been assessed and the report finalised.

We discussed the delays experienced during the course of the investigation with Minister Zulu during the meeting of 28 February 2019.

It should further be noted that the DSBD's IT system was offline for nearly a month and as a result the beneficiaries' application files could not be provided to the investigation team. It was confirmed by the Former DG and the Acting DG in their respective letters to the AGSA on 27 September 2018 and 14 January 2019.

The extension of the sample size for site visits from 30 to 60 and the subsequent additional procedures to confirm existence of grant applicants and goods purchased, also further contributed to the delay in completing the fieldwork of the investigation.

I trust that the above provide more insight on the scope and process followed as well as the processes required before findings can be discussed and shared with the committee.

Yours sincerely



Aletta Van Tromp

Business Executive: Investigations

Telephone: 012 422 9859

Email: ALETTAV@agsa.co.za