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# Briefing to Portfolio Committee on Small Business Development

**PFMA**  
2019-20

*11 November 2020*



AUDITOR - GENERAL  
SOUTH AFRICA

## Reputation promise

The Auditor-General of South Africa (AGSA) 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.



## Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



# The 2019-20 audit outcomes



# Our annual audit examines three areas

THE AG'S  
ANNUAL  
AUDITS  
EXAMINE

3

AREAS:



**1** FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

**2** RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

**3** COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS



# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

## Disclaimed opinion



Auditee:





- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements






# Important to note

The percentages in this presentation are calculated based on the **completed audits of two auditees**, unless indicated otherwise.

**Audit outcomes are indicated as follows:**

 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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**Movement over the previous year is depicted as follows:**

 Improved	 Unchanged	 Regressed
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## Abbreviations

<b>DSBD</b>	Department of Small Business Development	
<b>SEDA</b>	Small Enterprise Development Agency	

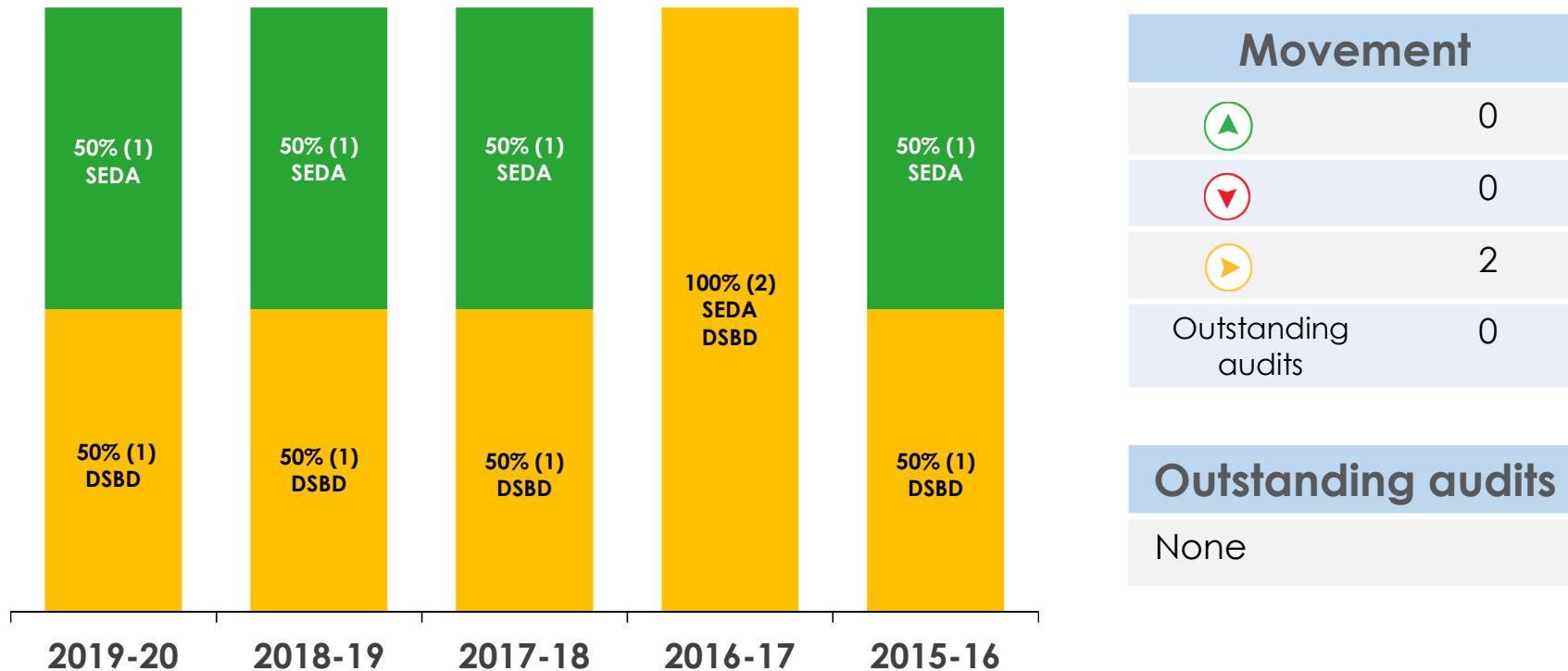


# ACCOUNTABILITY = PLAN + DO + CHECK + ACT



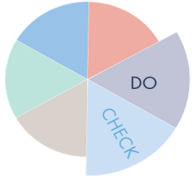


# Audit outcomes of portfolio over five years (DSBD)



- We commend **SEDA** for retaining its clean audit. The quality of the financial statements has been maintained at both auditees and no material adjustments have been identified through the audit process at both auditees.
- The processes relating to the crafting of targets and indicators that allow for achievements to reported on accurately and the necessary supporting evidence to be consistently collected remains the stumbling block for the department.
- In previous years material non compliance with the various incentive guidelines has been reported. While this material finding was not included in the 2019-20 audit report there remains instances where the guidelines were not fully adhered to.





# Credible financial reporting



## Financial statements

Movement	2019-20	2018-19
Submission of financial statements by legislated date	2	2
Financial statements submitted without errors ( <b>DSBD, SEDA</b> )	2	2
Quality of final submission after audit ( <b>DSBD, SEDA</b> )	2	2

**2 auditees** achieved unqualified opinions because the quality of the financial statements has been maintained and no material adjustments have been identified through the audit process

Detailed and timely reviews of the financial statements by competent staff and other role players including the audit committees has ensured that potential misstatements are identified and addressed prior to submission for audit.





# Credible performance reporting



## Performance report

Performance report submitted without errors

Quality of final submission after audit  
**(SEDA)**

### Movement



	2019-20	2018-19
	0	0
	1	1

↓

*1 had no material findings only because they corrected all misstatements identified during the audit*

Reliable reporting of achievements (**DSBD and SEDA**)



Usefulness of performance indicators and targets  
**(SEDA)**



2

2

1

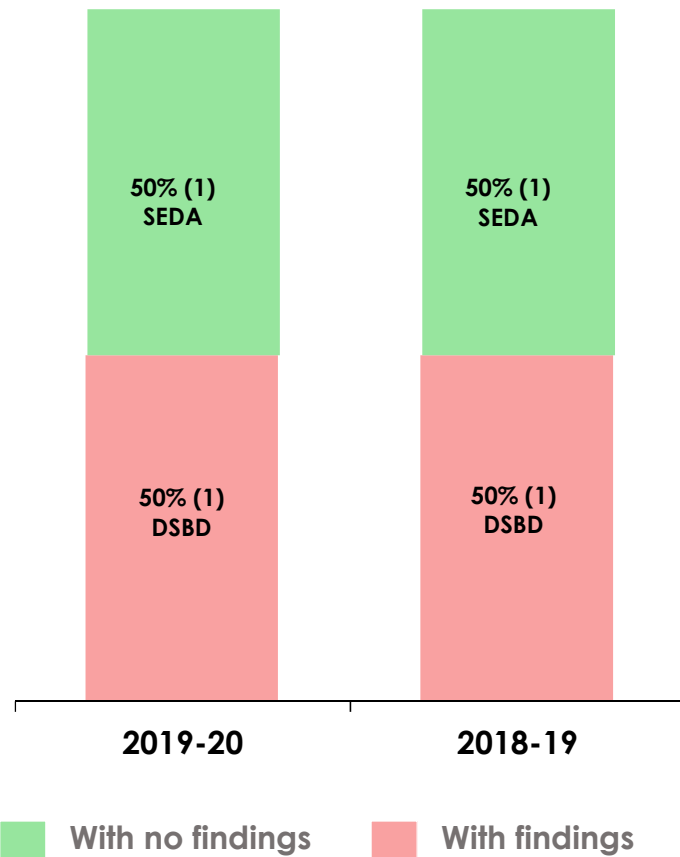
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# Disregard for compliance with legislation

## Findings on compliance with key legislation



## Non-compliance areas

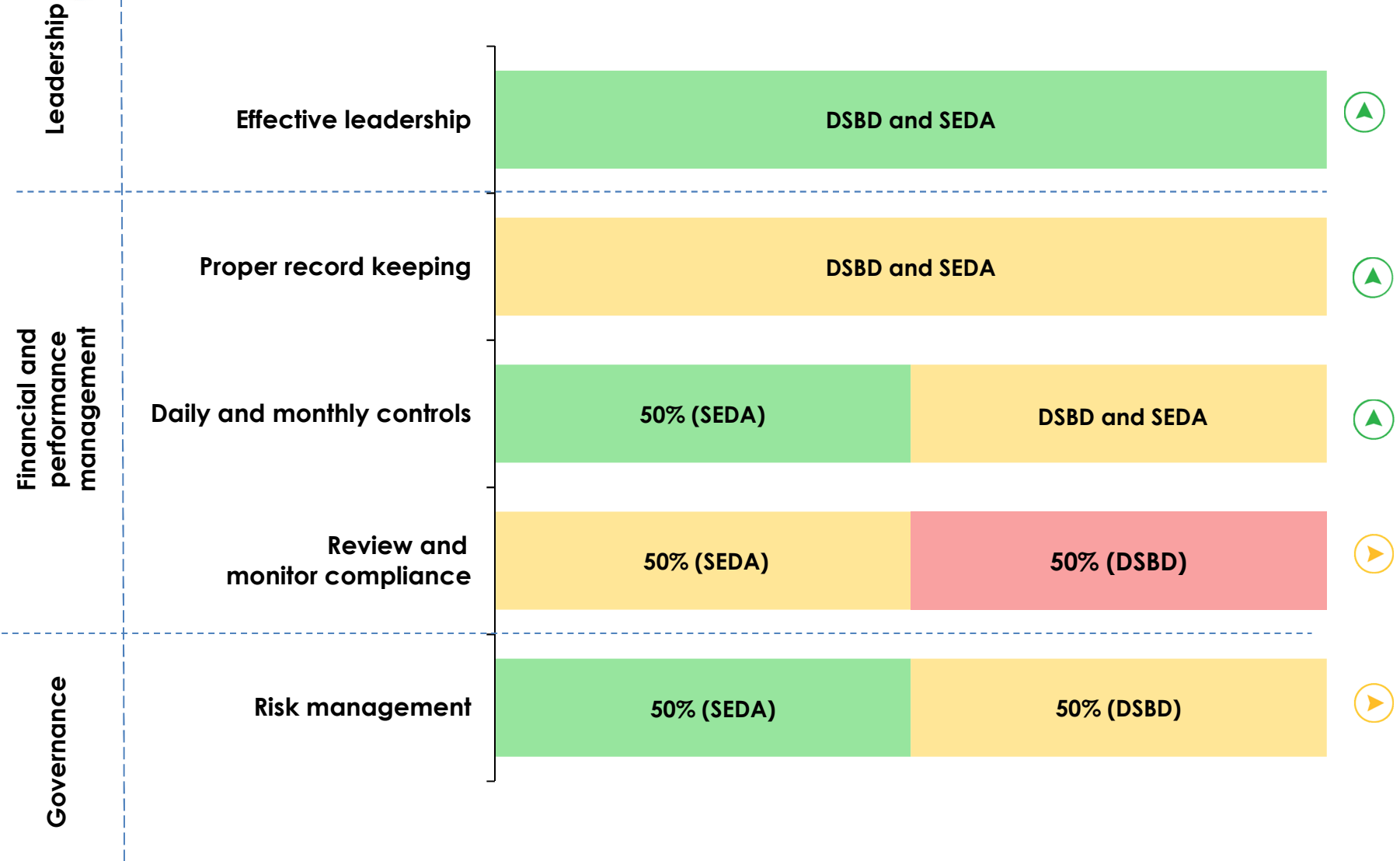
- Strategic planning and performance management (**DSBD**):

Specific information systems were not implemented to enable the monitoring of progress made towards achieving targets, core objectives and service delivery as required by the public service regulation





# Status of internal control



Good



Of concern

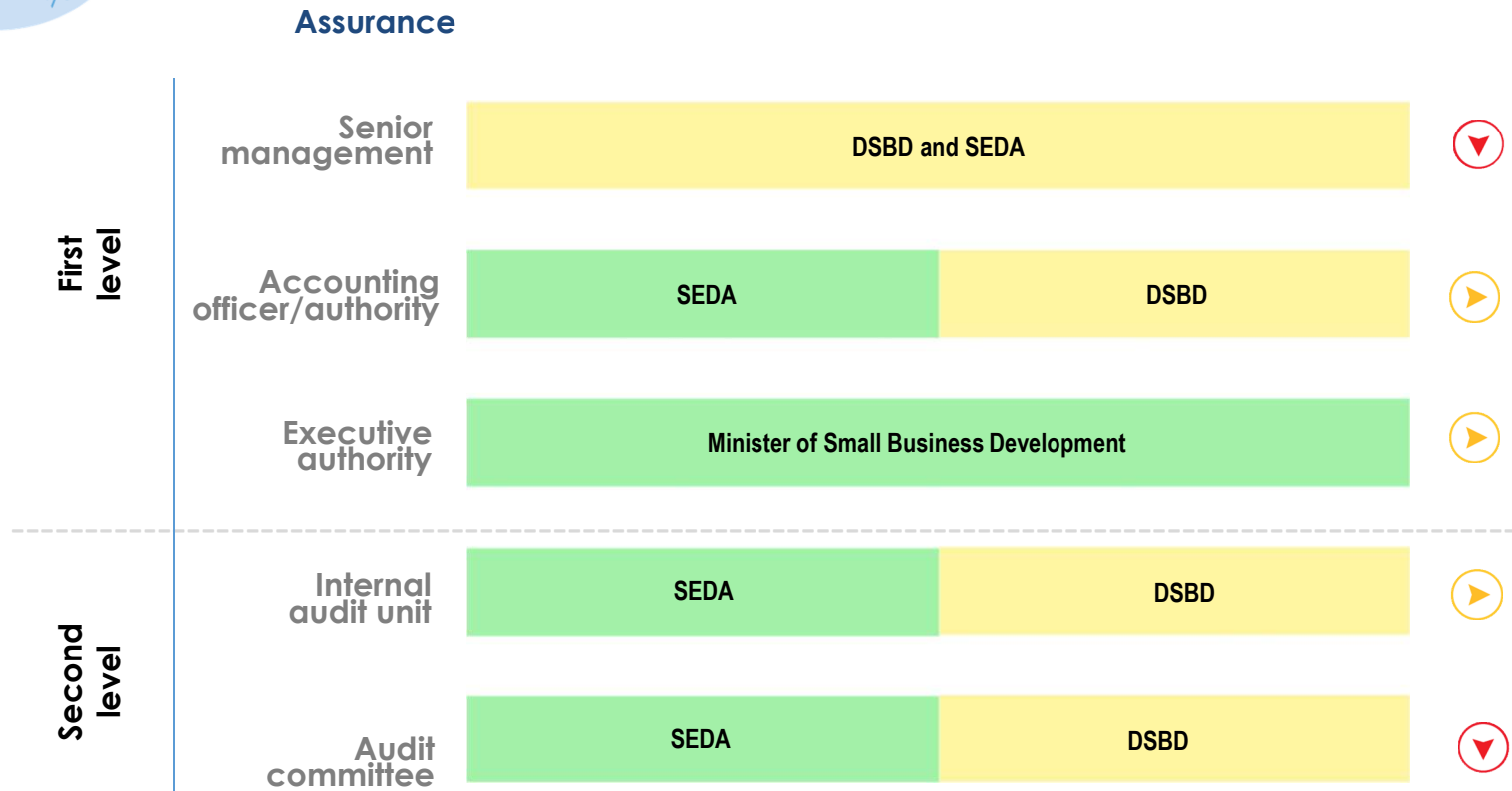


Intervention required

13



# Assurance provided



*The audit committee at DSBD was established until December 2019 but has not been in place since then, the appointment process is ongoing and should be prioritised.*



# Management and delivery of key programmes



# Management and delivery of incentives – spending, performance and reporting

Programme	Budget spent	Achievement of programme	Financial reporting	Reporting on Performance Information	Compliance with scheme guidelines
Black business supplier development programme (BBDP)	88,5%	53,9%	Adjustments required to financial and performance reports	Adjustments required to financial and performance reports	Compliance deviations identified
Cooperatives incentives scheme (CIS)	97,4%	97,4%	Good	Good	Compliance deviations identified
Blended Finance	100% (transferred to SEFA) 13,5% (Spent by SEFA)	80%	Adjustments required to financial and performance reports	Adjustments required to financial and performance reports	Implemented by SEFA
National informal business upliftment strategy (NIBUS)	94,7%	352,4%	Good	Adjustments required to financial and performance reports	Compliance deviations identified

■ Good   
 ■ Adjustments required to financial and performance reports   
 ■ Compliance deviations identified





## Management and delivery of incentives – Compliance with guidelines including pre and post site inspections

### Key incentive findings

- The systems to collect and report on achievements related to these incentives were not adequate to ensure credible information, adjustments were required during audit process on four incentive related achievements. Reported achievements must be reviewed with the necessary due care by senior management. The role of internal audit in this process may also be enhanced.
- No findings of connected beneficiaries and suppliers were identified across both the BBSDP and CIS initiatives in the 2019-20 period
- Reviews by the adjudication committees to ensure that applicants met the requirements/ provided the required documentation as per the BBSDP and CIS guidelines were not always effective. Indicators of potential fictitious beneficiaries such as applicants who are above the thresholds for compulsory VAT registration but are not registered were not identified through the review process.
- There was no evidence that the department performed post approval site visits for the paid applicants for both BBSDP and CIS. While these visits were to some extent impacted by the lockdown, this requirement of the guidelines is pivotal to ensuring the objectives of the incentives are ultimately achieved

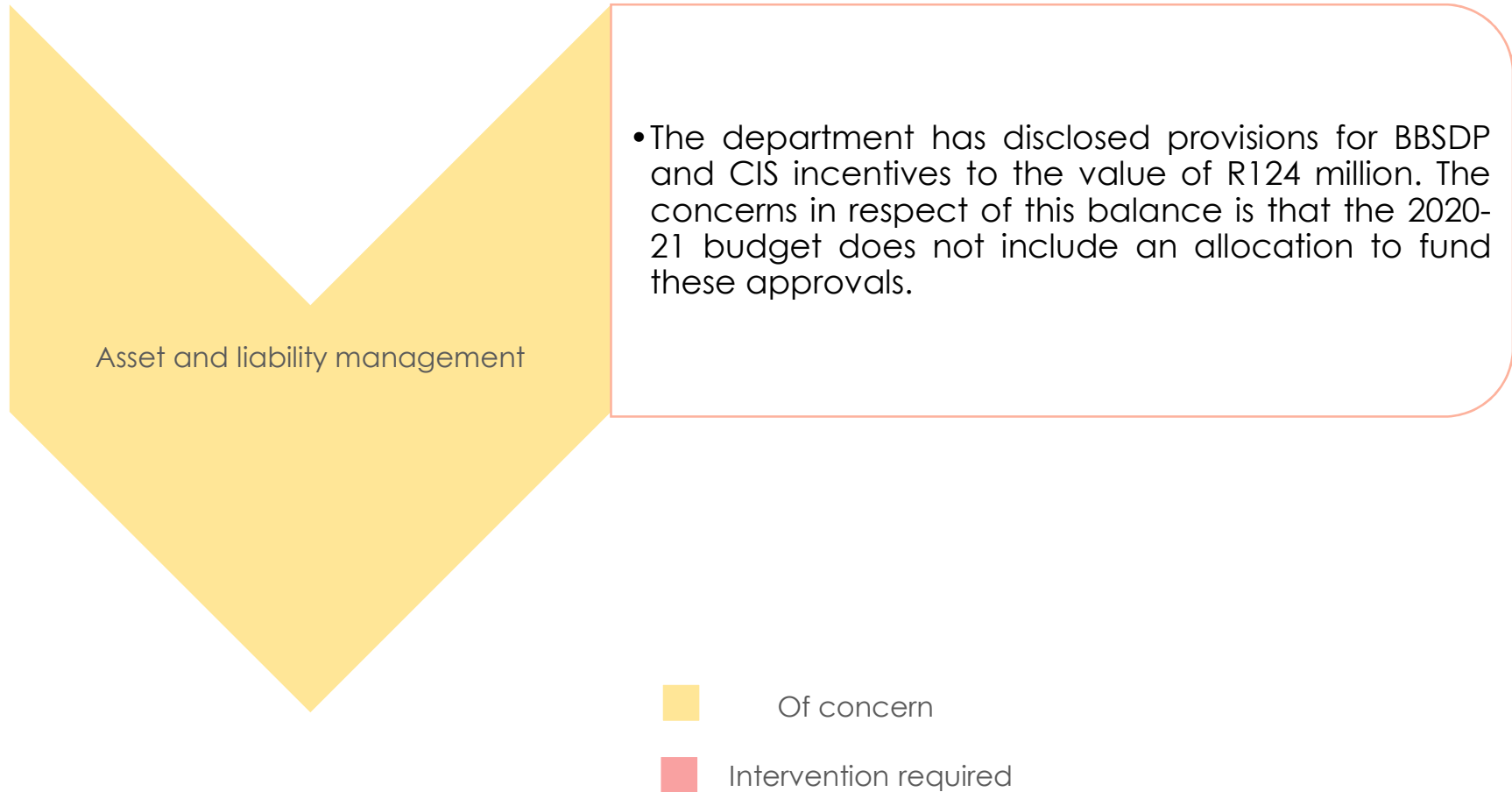


# Financial health and financial management



# Financial health

No Material uncertainty exists as **100%** of the auditees can continue to operate in future

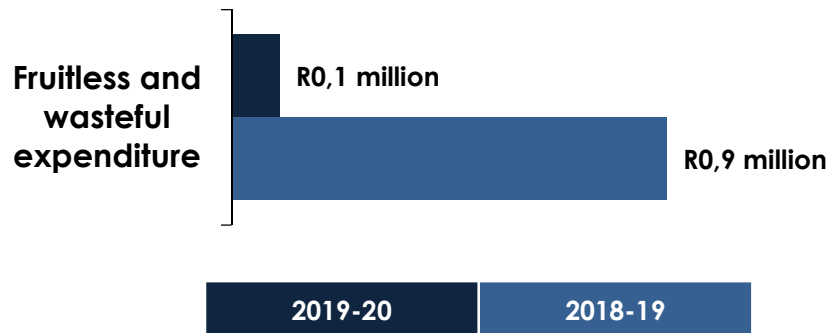


# Fruitless and wasteful expenditure decreased over 2 years

## Definition

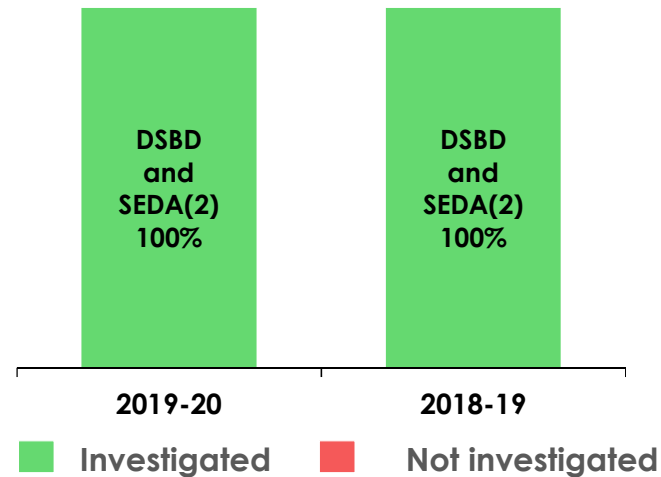
*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

## Fruitless and wasteful expenditure incurred by entities in portfolio



• R0,1 million represents non-compliance in 2019-20

## Previous year fruitless and wasteful expenditure reported for investigation



## Nature of the fruitless and wasteful expenditure

- A Business Advisor manipulated the procurement process by altering quotations sent by Service providers in order to favour the service provider of his choice - R0.02 million (SEDA). This was identified by SEDA's detection controls and appropriately investigated and the necessary consequence management applied
- The remainder of the fruitless expenditure relates to Missed flights, penalties and interest paid – R0,08 million (DSBD and SEDA)

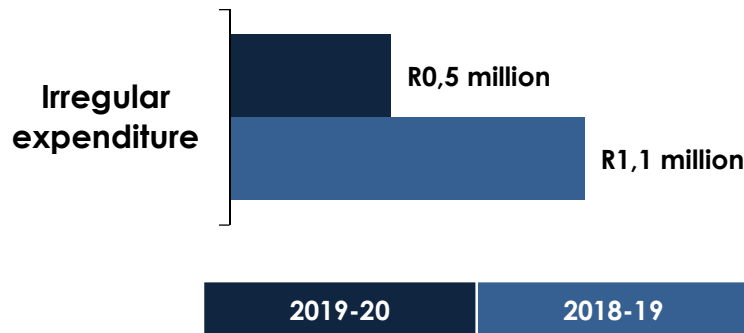


# Irregular expenditure decreased over 2 years

## Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

## Irregular expenditure incurred by entities in portfolio

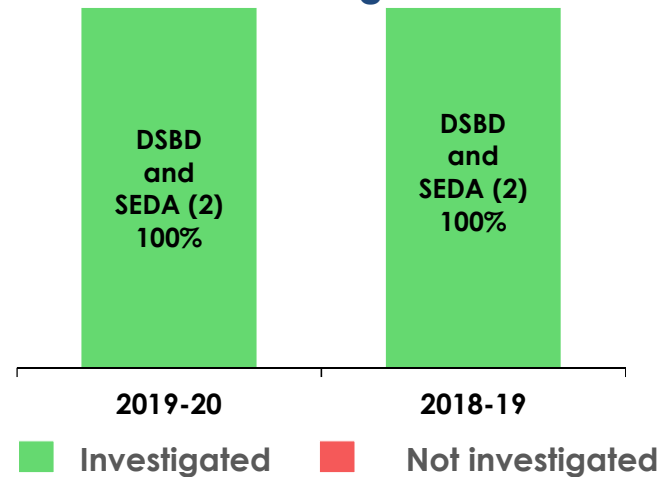


- R0,4 million represents non-compliance in 2019-20
- R0,1 million is expenditure relating to contracts entered into in prior years

## Nature of the irregular expenditure

- Awards were procured without inviting at least the minimum prescribed number of quotations by **DSBD** 0,3 million.
- A contract was amended or extended without the approval by a delegated official by **DSBD** 0,1 million.
- An award did not stipulate the minimum threshold for local production and content by **DSBD** 0,1 million.

## Previous year irregular expenditure reported for investigation



# Supply chain management

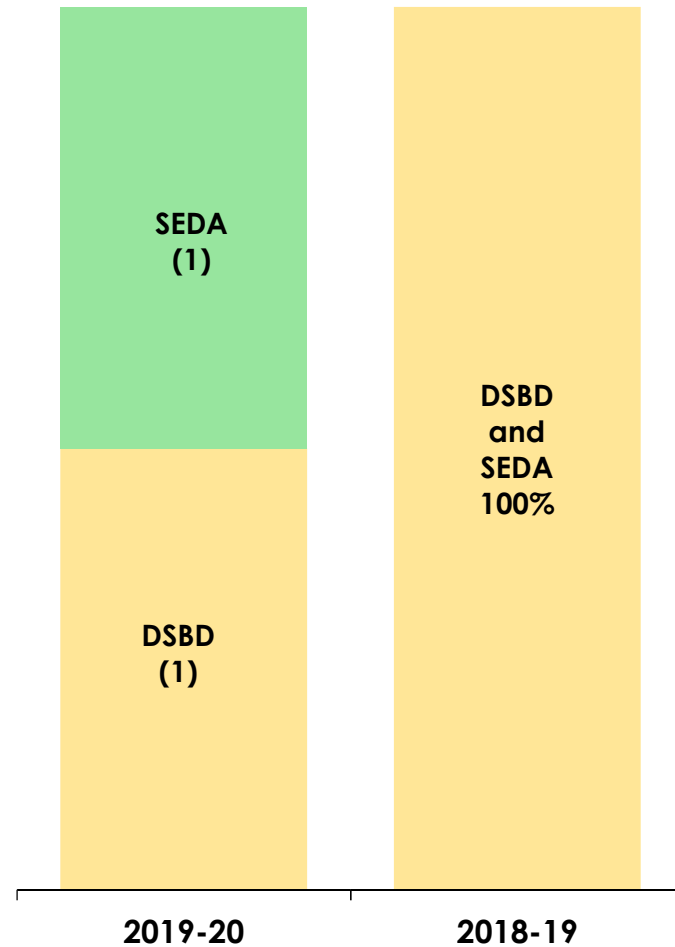


## Improvement in SCM compliance (2018-19: 0 with no findings)

All SCM findings identified during the audit should be investigated.

### Most common findings on supply chain management

- Terms of reference not stipulating threshold for local content at **1 of auditees (DSBD)**
- Awards were procured without obtaining the minimum number of quotations and there were no reasons for the deviation that was approved by a delegated official at **1 of auditees (DSBD)**
- Payments exceeding contract amount, the amended amount was not approved by a delegated official at **1 of auditees (DSBD)**



With no findings



With findings



With material findings 22

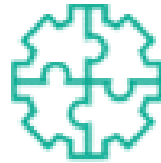
# Portfolio snapshot (2019-20)



**Clean audits: 1**  
(2018-19: 1)



**Financially unqualified financial statements: 2**  
(2018-19: 2)



**No findings on performance reports: 1**  
(2018-19: 1)



**No findings on compliance with legislation: 1**  
(2018-19: 1)



**Irregular expenditure: R0,5m**  
(2018-19: R1m)

# Root causes





# Recommendations

## To department and its entities

- There should be the required urgency by management in responding to risks and control deficiencies identified through the audit process.
- Adequate monitoring and review of evidence supporting the achievements reporting in the annual performance report and that the evidence is thoroughly evaluated and verified.
- Internal audit can provide additional level of assurance in this process in effectively reviewing the processes in place for the collection and collation of information used in the reporting process.
- The weaknesses identified in the incentive environment is the absence of post site visits across all schemes. The department exposes itself to not achieving against its core mandate if the post funding visits are not undertaken to ensure small businesses were positively impacted by the efforts of the department.
- The appointment of the DSBD audit committee should be prioritised

## To the portfolio committee

- The PC should request accounting officers/authorities and the Minister to provide feedback on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.



## Overall message - DSBD

- The audit opinion of the department has remained unchanged for the past four financial years. The main obstacles preventing the department from obtaining a clean audit outcome remains the quality of submitted annual performance reports. The quality of financial statements has been to a large extent maintained, some attention needs to be paid to ensuring the different incentives are correctly classified in the budgeting and reporting processes.
- The processes by the department and public entity to collect and collate information in respect of reported achievements were not always adequately implemented resulting in material adjustments required to some of the achievements. Internal audit can provide an additional level of assurance in this process in effectively reviewing the processes in place for the collection and collation of information used in the reporting process. In crafting indicators management should ensure that processes are simultaneously designed to ensure that evidence as reflected in the technical indicator descriptions is consistent with the objectives and role the department plays in the various initiatives.
- While a significant improvement in adherence to the Black Business Supplier Development Programme (BBSDP), Co-operative Incentive Scheme (CIS) and National Information Business Upliftment Strategy (NIBUS) guidelines were noted in the current year some instances of non-compliance were still noted. The most concerning weakness is the absence of post funding visits across the schemes. The department exposes itself to not achieving against its core mandate if the post funding visits are not undertaken to ensure small businesses were positively impacted by the efforts of the department.



## Overall message - SEDA

- The entity has maintained its outcome of an unqualified audit with no material findings on the reporting on predetermined objectives and compliance with laws and regulations. The sustaining of these outcomes is as a result of management timeously and effectively addressing issues identified by assurance providers



# Special Report on Covid-19 Relief Initiatives

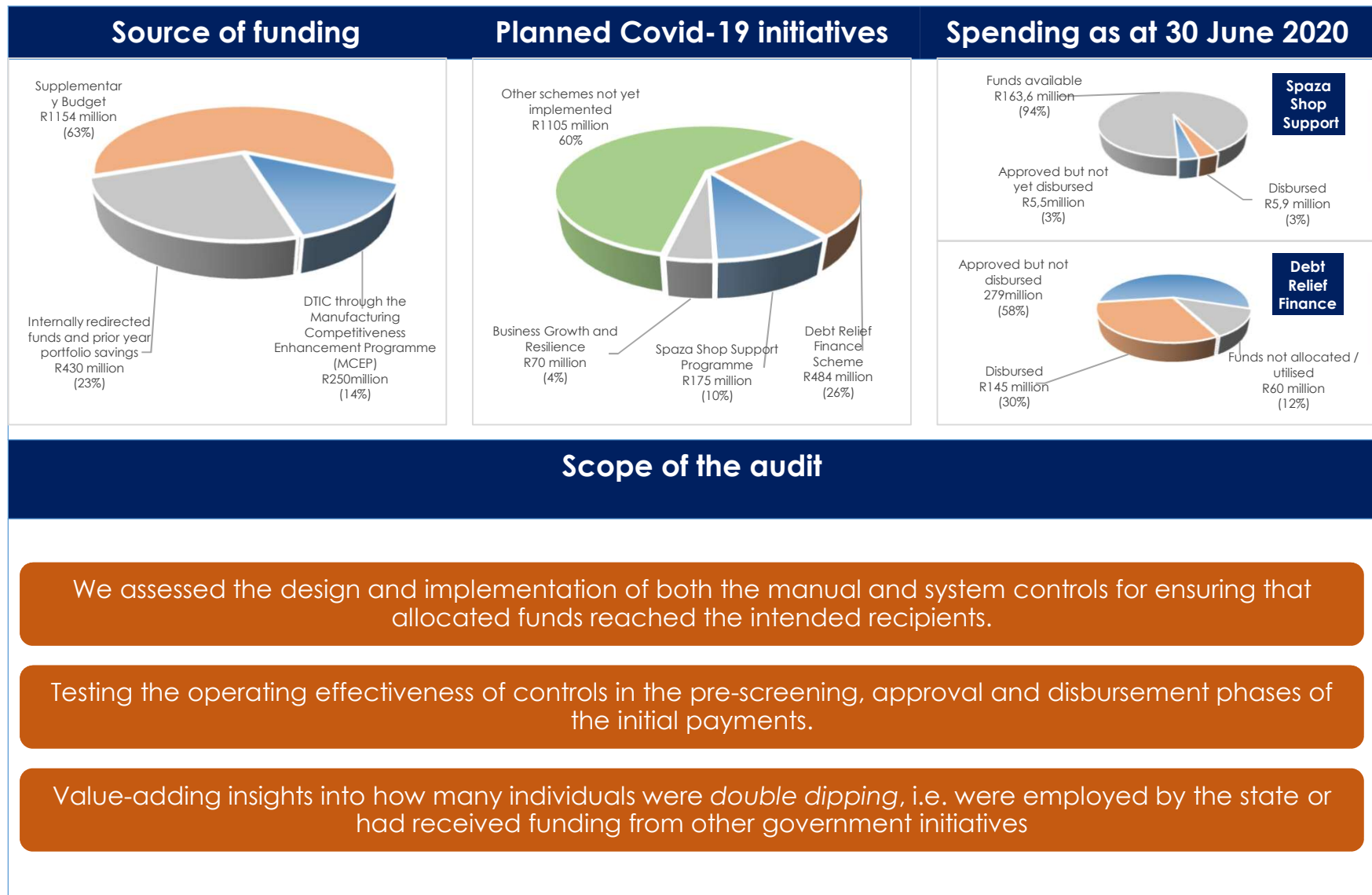


## Purpose of the real time audit



The objective of the real-time audit is to allow for **quick and responsive changes** to the processes and preventative controls to enable enhancements and corrective actions by management, where necessary.

# Focus of the audit



# Observations, recommendations and commitments

## Spaza Shop Support Shop

Observation	Recommendation	Planned Action
<p>The verification forms (referred to in the SSSP SOP) aimed at ensuring all required documents have been received and assessed were not utilized.</p>	<p>SSSP application forms could be enhanced to include an initial assessment by the consultant at the bank as well as space for the DSBD official to sign off on the results of the individual adjudication process</p>	<p>The DSBD has indicated that it will amend and implement the documented operating procedures as soon as the initial backlog is cleared</p> <p>Moving forward, both the department and Seda officials will assess the applications online.</p>
<p>The qualifying criteria for schemes administered by the portfolio does not exclude individuals who receive funding from other government initiatives. We identified 425 people who had received both the R350 social grant from SASSA.</p>	<p>Management should consider amending the application forms to allow for applicants to declare if they have applied for/ received any funds from government initiatives.</p>	<p>SEFA is considering including exclusions on subsequent initiatives where people have benefited from other scheme by enhancing their applications to include space for people to make declarations on other funding sources.</p>
<p>Statistics published on DSBD's website are based on Sefa's initial estimated pay-outs, which are significantly higher than the actual amounts paid out.</p>	<p>The department should ensure that the published statistics are regularly updated to reflect the current status. This initiative could be enhanced by including demographic information for the recipients, as well as a breakdown of the areas where they are located</p>	<p>DSBD management have committed to updating the information published on its website on a monthly basis.</p>



## Overall message

While the **debt relief control environment is sound**, the implementation of upcoming initiatives could be improved through the value-adding recommendations included in the report.

**Commitments made to improving strengthening the controls in the SSSP approval process** will be followed up in the next report

The portfolio should also consider using the various Seda offices to help **perform post-funding site visits, based on risk**, when implementing the remaining initiatives.

The uptake of the SSSP is below anticipated numbers. A reflection on the impact of planned actions by management to create awareness will be included in the next report.





# Thank you



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