



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Department of Small Business Development (DSBD)

10 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

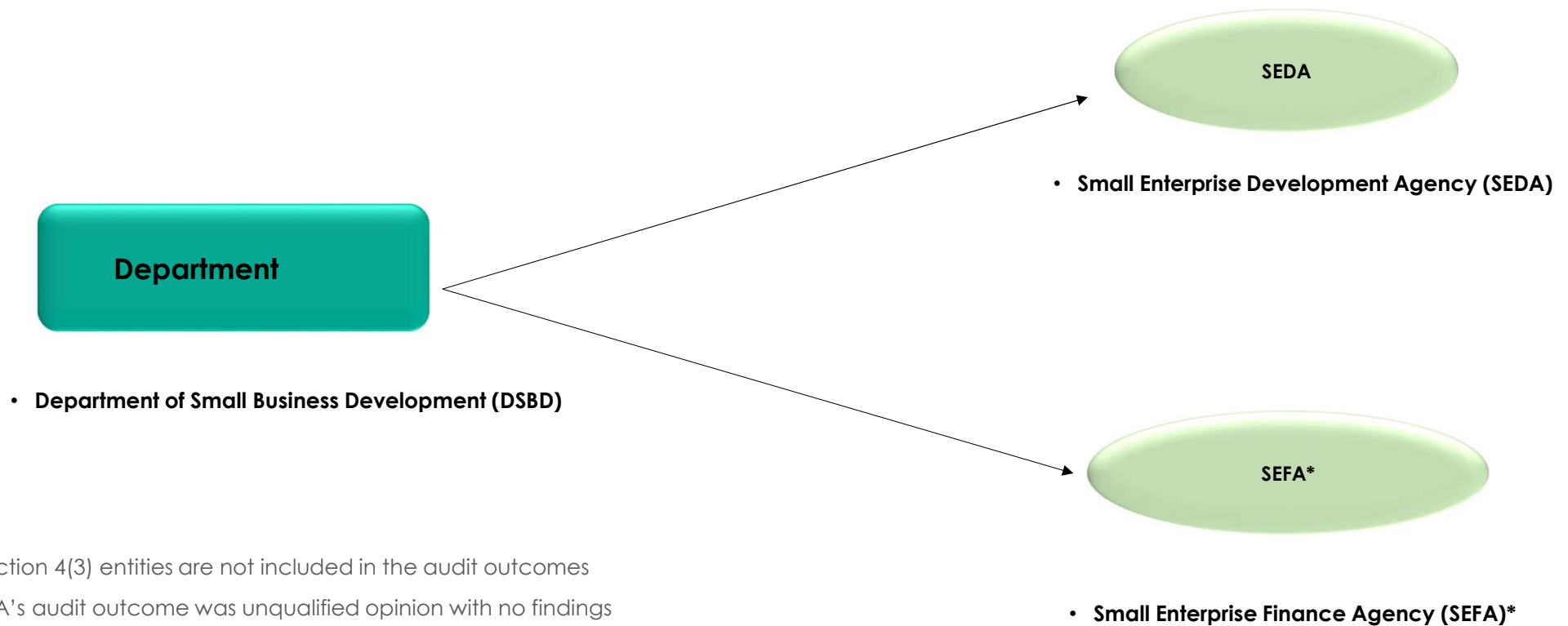
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



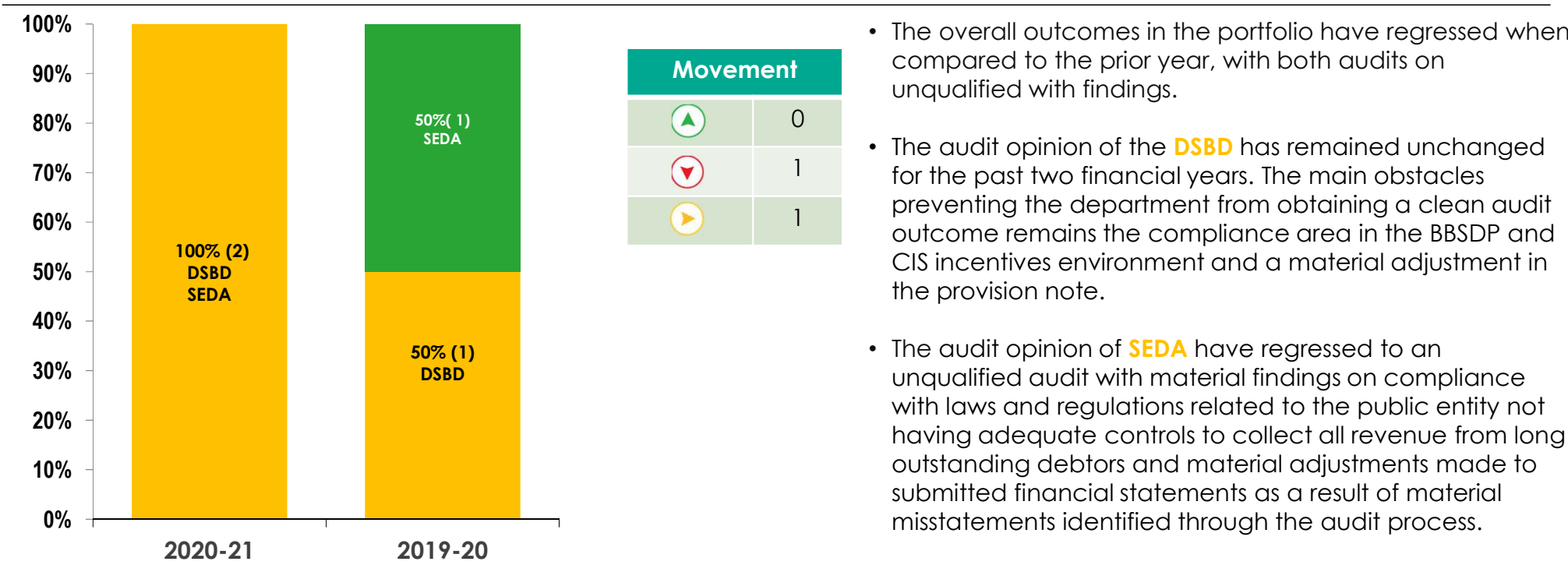
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Portfolio outcome

Small Business Development portfolio auditees



Audit outcomes of the DSBD portfolio over 2 years



Audit outcomes are depicted as follows:

Unqualified with no findings

Unqualified with findings

Unqualified with findings

Adverse with findings

Disclaimed with findings

Outstanding audits



Portfolio overall message (cont.)

Key root causes in internal control environment

Accounting officer/authority and senior management do not respond with the required urgency to our messages about addressing risk and improving internal controls.

DSBD: Slow response by management in addressing compliance related matters pertaining to: Inadequate implementation and monitoring of action plans by these role players to address key audit matters have been identified as a root cause for the repeat findings. This is particularly relevant to the compliance monitoring environment of the department.

SEDA: Slow response improving key controls and addressing risk areas pertaining to: Inadequate implementation and monitoring of action plans by these roles players to address key audit matters have been identified as a root cause for the repeat findings.

Recommendations:

The accounting officer/authority should :

- Design and Implement appropriate preventative controls.
- Develop and closely monitor an action plan that will address the key root causes that are preventing the audits from attaining a clean audit outcomes.
- Fill key vacant positions timeously.
- Post site visits should be undertaken in the BBSDP and CIS environment to ensure that the funds transferred are being used for the intended purposes by the department. There should be a signed checklist for each site verified by the department and SEDA.
- Management at SEDA should implement processes to ensure that critical security updates, Disaster Recovery Plan and frequent backup restoration tests are performed.



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Quality of financial and performance reporting

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

100% (2)

0% (2)

100% (2)

2019-20

100% (2)

100% (2)

100% (2)

Root cause analysis

- DSBD & SEDA - Material misstatements to disclosure notes was due to inadequate review of financial statements by the accounting officer.
- The findings at the DSBD were recurring and this is despite discussions held with the auditee on the implementation of preventive control measures.
- SEDA – Inadequate oversight over the preparation of the AFS resulted in the unused bonus provision amount being materially overstated due to casting errors.

Recommendations

- Internal audit should scope in the review of the disclosure notes of the financial statements prior to it being submitted for audit purposes
- Accounting officers/ authorities must thoroughly review the developed actions plans to ensure they address the root cause
- Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors

Performance report adjusted for material misstatements to improve reliability

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

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

Movement



2020-21

50% (DSBD)

50% (SEDA)

2

2

2019-20

50% (SEDA)

100%
(DSBD,SEDA)

2

1 (SEDA)

Root cause analysis

- **DSBD** – We commend the accounting officer and team of the department for submitting the performance report without errors and material adjustments, there were no material findings reported in the audit report relating to the usefulness and reliability of the reported performance information.
- **SEDA** – There were material adjustments required that resulted in the entity receiving an unqualified opinion and the major root cause was not implementing proper record keeping in a timely manner to ensure that complete, relevant, and accurate information is accessible and available to support performance reporting.

Recommendations

- **DSBD** - Effective monitoring and oversight by the accounting officer, internal audit and audit committee is critical in ensuring that the audit outcomes in the performance information environment of the department is maintained in future years.
- **SEDA** – The accounting authority should implement adequate review controls over the support used to report performance in the APR to ensure that supporting information used is reliable and in line with the TID. It is also recommended, that if sufficient support in line with TID and APP is not available, that the achievement reported be adjusted, to avoid any modification of the audit opinion.



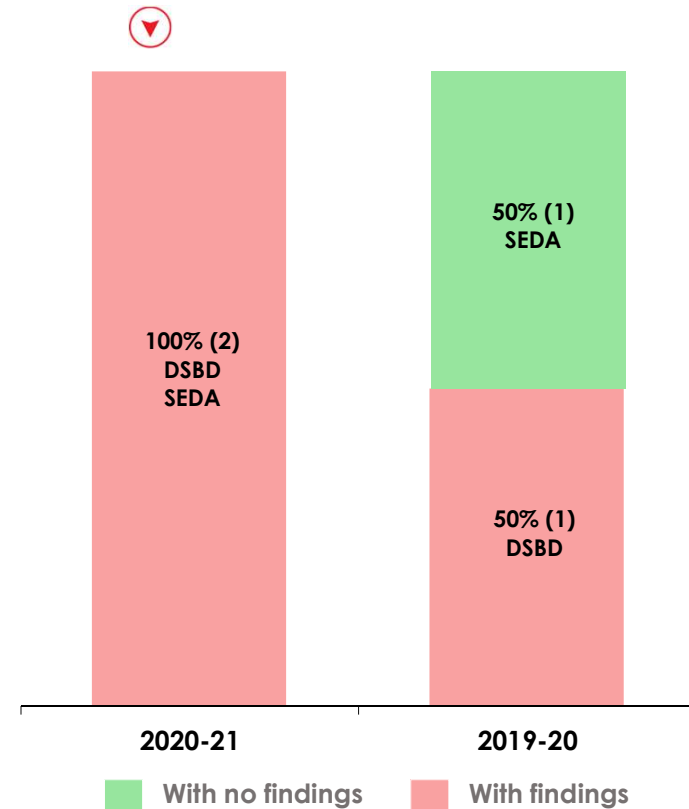
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Compliance with legislation

Third focus area: compliance with legislation

- In the current year there has been a regression in the compliance with legislation
- 2 auditees received an unqualified audit opinion with material findings on compliance.
- The non-compliance identified is similar to that reported in the prior year. **DSBD** did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation
- **DSBD** – The department did not conduct post site visits to confirm whether the funds transferred to private enterprises were used for the intended purposes. There were recurring instances of adjustments made to the provisions disclosure note.
- **SEDA** – There were no adequate controls in place to collect revenue from long outstanding debtors and there were recurring instances of casting errors in the provisions note

Findings on compliance with key legislation

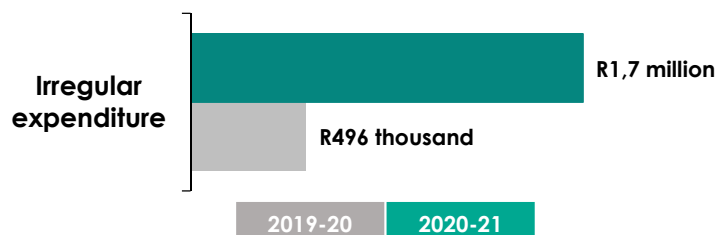


Irregular expenditure over 2 years

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



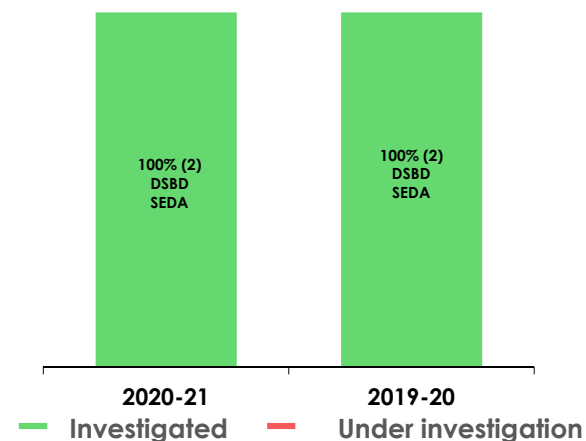
- R1,7 million – non-compliance in 2020-21
- R496 thousand – non-compliance in 2019-20
- Irregular expenditure has increased by 71% compared to prior year

Nature of irregular expenditure

DSBD: Irregular expenditure **increased** from R496 000 to R1 464 000 in the current year, as a result of procurement of vehicles from g-Fleet for the period 1 February 2020 to 31 March 2021 without following the provisions of section 8.5 of Instruction Note 3 of 2016/2017. The irregular expenditure at the department was due to a transversal issue and none was identified during the audit process, the department should continue maintaining the preventative controls to prevent a regression in the audit outcomes.

SEDA: – Irregular expenditure **increased** from R0 to R266 639 in the current year as result of the expired operating lease contract which was not monitored and quotation contract awarded to a supplier that did not achieve the highest score rating.

Previous year irregular expenditure reported for investigation

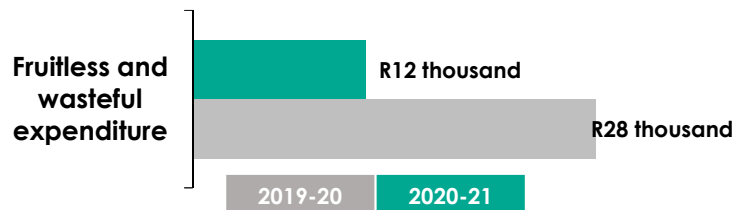


Fruitless and wasteful expenditure over 2 years

Definition

Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by entities in portfolio

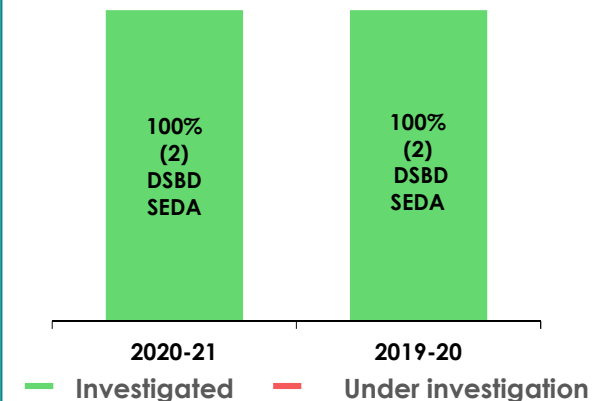


- R12 thousand – non-compliance in 2020-21 financial year
- R28 thousand – non-compliance in 2019-20 financial year
- Previous year – SEDA contributed to 79% of total fruitless and wasteful expenditure
- Current year – SEDA contributed to 92% of total fruitless and wasteful expenditure

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified amounts to R12 thousand as a result of Interest paid by SEDA mainly for telecommunication accounts, rental accounts and municipalities accounts due to Covid lockdown statements processed late.
- DSBD – Fruitless & wasteful expenditure relating no show on travel and accommodation decreased from R6 000 to R1 000, which is recoverable in the current year
- SEDA - Fruitless & wasteful expenditure decreased from R22 582 to R11 464 in the current year which was a result interest paid on telecommunication accounts, rental accounts and municipal accounts due to Covid lockdown statements that were received late.
- We noted that the decrease of fruitless and wasteful expenditure was a result of adequate consequence management processes in place and disciplinary processes regarding action being taken against transgressors.

Previous year fruitless and wasteful expenditure reported for investigation



Compliance with legislation



Consequence management

Overall, the portfolio has effective consequence management processes in place to investigate and follow up on irregular and fruitless and wasteful expenditure.

There were no non-compliance findings raised relating to the lack of investigation or evidence to support such investigations.

Adequate disciplinary actions are being taken against staff who have caused irregular, fruitless and wasteful expenditure.

Recommendations

The accounting officer/authority should continue ensuring the following

- There must be timely investigations of reported irregular expenditure and disciplinary actions taken against those found responsible for such expenditure.
- Accounting officers/ authorities must continue to ensure that disciplinary actions are taken against staff that transgressed procurement regulations.

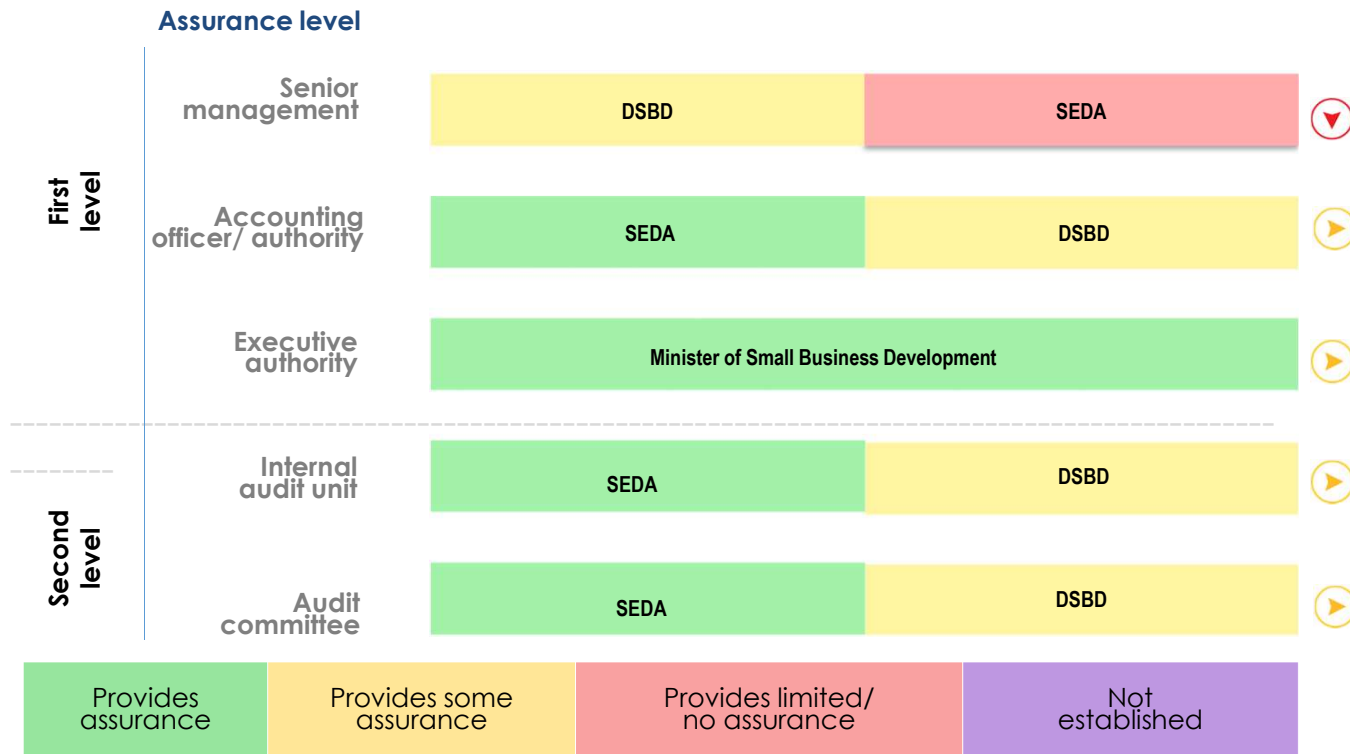
The above will prevent a regression in the audit outcomes relating to consequence management



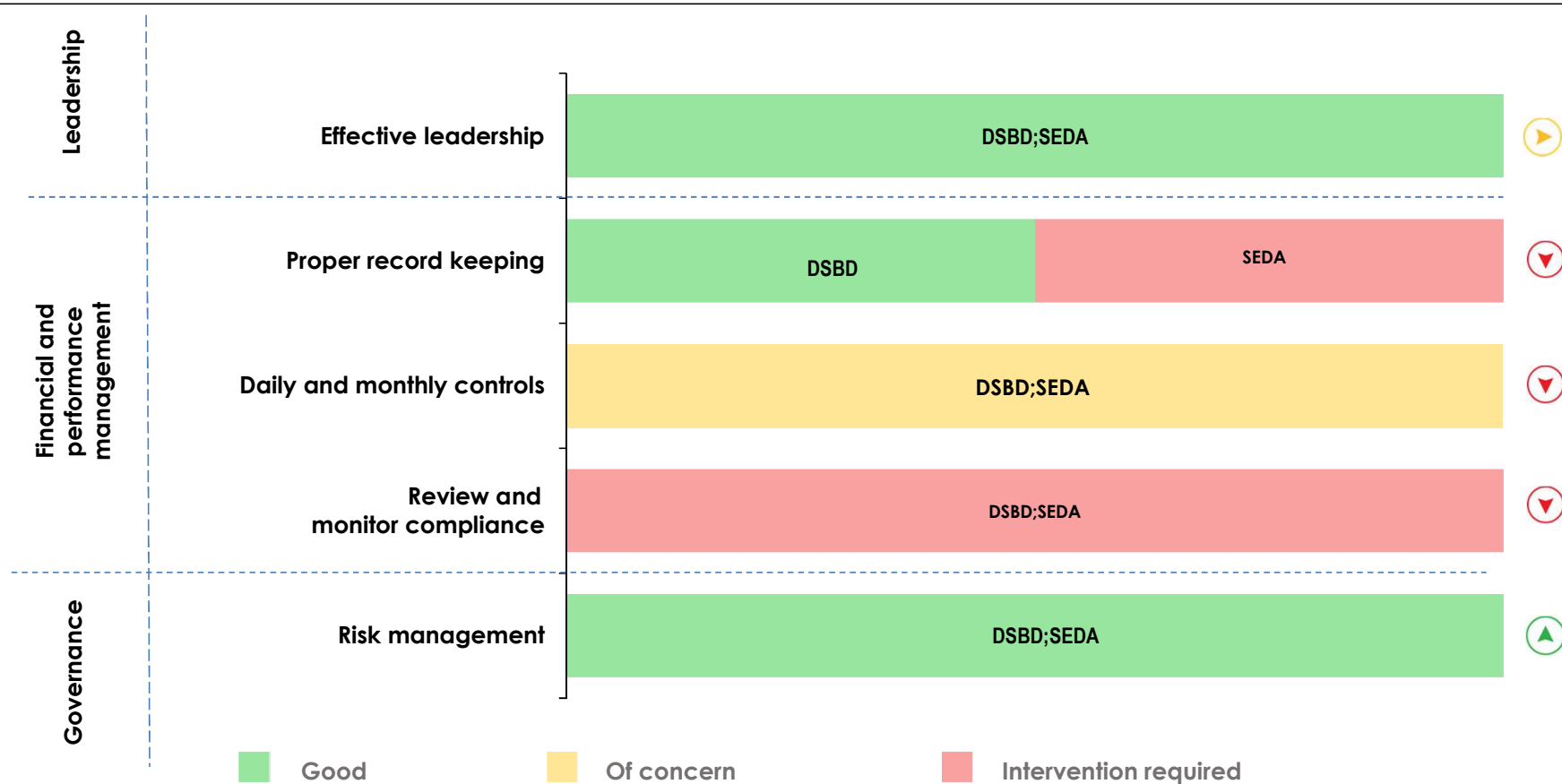
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Governance and internal controls

Assurance provided



Status of internal control



Status of information technology (IT) environment

- **IT governance** – there to ensure IT is effectively and efficiently used to enable entity to achieve its mandate by specifying decision rights and accountability framework to encourage desirable behavior in using IT
- **IT system controls** – there to ensure entity's IT operates as intended to achieve its mandate
- Effective IT governance and system controls will help ensure entities are not vulnerable to cyberattacks and business continuity concerns

IT audit
focus areas

IT governance

DSBD

SEDA

IT system controls

DSBD

SEDA



Good



Of concern



Intervention required

Areas	Root cause	Recommendations
IT governance	The area of IT governance has a number of deficiencies particularly the lack of an IT governance framework, the ICT strategic plan not being approved, eight (8) incomplete ICT risk treatment plans, the ICT steering committee not being fully functional, the lack of IT training for IT staff, IT skill development plans not being developed, an inadequate IT disaster recovery and service continuity contract, and the lack of monitoring on the performance of service providers.	Management should develop and implement an IT governance policy to guide the development and implementation of necessary IT policies and supporting procedures in the organisation
IT system control	Control weaknesses relating to the following user access areas were identified: Logical Access policy not approved, User access not approved, Required access and functions not specified on completed access request forms, Users sharing one user number and users having more than one user number, Authorisation request forms not completed for password resets, User access rights not reviewed, System administrator activities not reviewed, Lack of monitoring of user logins and failed login attempts, Access for terminated employees not revoked and Inadequate password parameters configured on applications	<p>Management should ensure the entity's firewalls are strengthened to prevent any further cyber security risk and unauthorised access to the entity's systems</p> <p>A Program change management policy and supporting procedures should be developed and implemented.</p>

Summary of 3 key root causes



Management do not respond with the required urgency to our messages about addressing risks and improving internal controls



The instability and prolonged vacancies in key positions can cause a competency gap and affect the rate of an improvement in the audit outcomes, capacity to undertaken post-site visits was not adequate



Management was not effective in developing and monitoring implementation of action plans

Incentives – spending, performance and reporting



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Management and delivery of incentives – spending, performance and reporting

Programme	Budget	Actual	Reasons for the underachievement
Black business supplier development programme (BBSDP)	R 29 697 000	R 27 573 000	Focus was shifted to newly Developed COVID-19 relief programmes that were designed to support SMMEs and Co-operatives to stay afloat.
Cooperatives incentives scheme (CIS)	R 41 454 000	R31 124 000	From the allocated budget of R50.7 million, an amount of R9.3 million was transferred to BBSDP. Delays in submission of supporting documents by grant applicants led to the CIS further being underspend by R10.3 million.

- Grant applicants should be assisted in submitting the supporting documentation in order to ensure that cooperatives do not fail, as this failure may lead to their employees losing their job and put putting pressure on already strained economy of the country.
- Re-allocating the budget might be at the expense of already existing incentive programmes, as this will have an impact on programmes that were established to assist black owned enterprises in improving their competitiveness and sustainability and improve viability, sustainability of co-operatives enterprise.





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Special report

Support to small businesses

Purpose of initiative and status – 31 March 2021



Support to qualifying small, medium and micro enterprises affected by covid-19

Implementation of SR 2 recommendations

Department of Small Business Development ●

Small Enterprise Finance Agency ●

Small Enterprise Development Agency ●

DEBT RELIEF FINANCE SCHEME



* The budget was revised from R484 m to R513 m

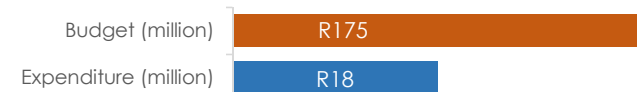
Status

Discontinued (01 October 2020)

35 865 applications were received, 1497 applications were approved and 21 414 applications were incomplete

The department did not have sufficient funds to support all the applications for the debt relief finance scheme, as the balance of the 12 954 completed applications for the scheme required an estimated budget of R4,4 billion. Given that the bulk of these applications required assistance with payment of salaries to the total value of R3,6 billion, the 12 954 applicants were referred to the Department of Labour to apply for the Unemployment Insurance Fund's temporary employee/employer relief scheme.

SPAZA SHOP SUPPORT PROGRAM



Status

In progress

Only 9317 spaza shops application were received, 5 276 application were approved and 4 041 applications were declined.

Due to the low uptake on the spaza shop support programme, the department was only able to utilise 10% of the available funding to support spaza shops in financial distress



Support to small businesses

Reflection in Covid 19 special reports

Implementation of recommendation

- The department has finalised the online applications process and updated the standard operating procedures. As of 1 October 2021 spaza shops are able to apply for the programme online.
- There was a moderate response to several marketing campaigns that aimed to attract applicants. However, no additional amounts were approved or disbursed.

Remaining risks

There is still a risk of double-dipping in the Sassa social grant and other support initiatives, which could result in government not achieving its objective of poverty alleviation due to limited resources and pressure on already strained government finances.

Achievement

Only ten (10%) of the available funds for spaza shop support was approved and disbursed, resulting in 5 276 cards being issued to spaza shop owners by the end of the financial year. The impact of this initiative was less than envisaged due to low uptake as well as limitations in the approval process and certain compliance requirements. Similar initiatives funded by provinces such as Gauteng could have further reduced the number of applications.

One hundred percent (100%) of available debt relief funds were approved, supporting 1 144 SMMEs and protecting 16 544 jobs. The impact of this initiative was, however, restricted due to limited financial resources as only 3% of the applications received for debt relief could be supported within the available budget.



Implemented



In progress



Behind schedule/ not implemented



Not applicable

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Recommendations

Previous Commitments & Recommendations

Key recommendations in prior years	Status
<p><u>To department and its entities</u></p> <ol style="list-style-type: none"> 1. There should be the required urgency by management in responding to risks and control deficiencies identified through the audit process. 2. Adequate monitoring and review of evidence supporting the achievements reporting in the annual performance report and that the evidence is thoroughly evaluated and verified. 3. 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. 4. 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. 5. Vacancies in key positions should timeously filled with relevant qualified and skilled personnel. 6. Management should track action plans and ensure timely implementation, to prevent recurrence of findings. 	<p><u>By department and its entities</u></p> <ol style="list-style-type: none"> 1. We have reported slow response in DSBD and SEDA audits again in the current financial year, as a result of repeat findings noted during the audit. 2. There are still vacancies in key positions in a number of auditees i.e. For SEDA CFO, CEO, CIO and Head of strategic planning, head of supply chain management are vacant while DSBD the two positions of DDG's and one Chief Director are still vacant. The positions have not filled due to pending parliament approval of the incorporation of Small Enterprise Finance Agency and Cooperative Bank Development Agency into the Small Enterprise Development Agency with effect from 1 April 2022. 3. Although action plans have been developed, they are not adequate to address all internal control deficiencies previously identified. And in certain instances, they are not monitored adequately.



Overall Recommendations

To the DG at the DSBD

The department should ensure that **post site visits** are undertaken in the BBSDP and CIS environment to ensure that the funds transferred are being used for the intended purposes

In cases where various Seda offices assist in conducting post-funding site visits, the DG should ensure that there is a **signed checklist for each site visited**.

To the Minister

The Minister should:

Request the **accounting officer to provide feedback** on the implementation and progress of action plans to ensure improvement in the audit outcomes of the portfolio.

To the Accounting officers/Authorities

The accounting officer/ authorities should:

- Design and Implement **appropriate preventative** controls to better manage and prevent delays, excessive costs and quality failures during project management.
- Effectively **review the internal controls on annual financial statements** that are submitted for audit, the annual performance report and the control environment around supply chain management.
- Develop and closely monitor an **action plan** that will address the key root causes that are preventing the audits from attaining a clean audit outcomes.
- Implement **consequence management** against transgressors.
- **Fill key vacant positions** timeously



Recommendations to the portfolio committee

Monitor and regularly follow up with the executive authority and accounting officer/ authority on:

- progress on audit action plans put in place by the department and entities
- monitor the vacancies to ensure stability of leadership
- monitor compliance with legislation requirements at DSBD and SEDA
- follow up on the status of the mitigation controls in response to the cyber risk at SEDA

The **culture** of **consequence management** should be enforced in the portfolio.

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