



AUDITOR-GENERAL
SOUTH AFRICA

Briefing to Portfolio Committee on Small Business Development



01 April 2022





MISSION

“The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”



VISION

“To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.”



Special report



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 necessary corrective actions by management, where necessary.



Support to small businesses

Purpose of initiative and status – 31 March 2021



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

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.

Implementation of SR 2 recommendations

Department of Small Business Development

Small Enterprise Finance Agency

Small Enterprise Development Agency



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



Recommendations



Previous Commitments & Recommendations

Key recommendations in prior years

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.

Status

By department and its entities

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 (This action will be followed up during the BBSDP,CIS audit and project site visit)

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**. (This action will be followed up during the SEDA audit)

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. (This action will be followed up during the minister's meeting)

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. (This action will be followed up during the BBSDP,CIS audit and project site visit)
- 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. (This action will be reviewed when AFS are received at 31 May 2022)
- 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. (The action plan has been developed and Internal audit together with CIS, BBSDP, the Office of the CFO and IMEDP management monitors the action plan on quarterly basis).
- Implement **consequence management** against transgressors (the team is currently completing the consequence management working to determine whether any consequence management was implemented against any official).
- **Fill key vacant positions** timeously (Some key vacancies still not filled as at 31 March 2022)



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.



Guide on Preventative Controls

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Definition of preventative controls

Preventative controls are measures designed and *implemented by management* to *avoid* threats to the objectives of the entity materialising.



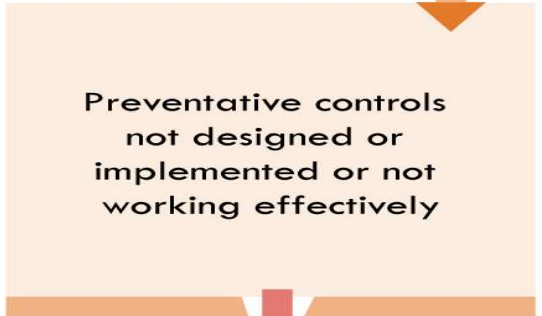
Preventative controls



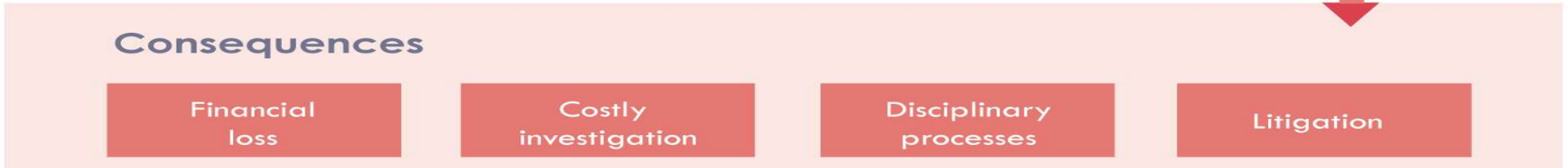
Typical auditee business processes



Preventative controls



Material irregularity and poor audit outcomes



FUNDAMENTALS OF STRONG PREVENTATIVE CONTROLS

Leadership that inspires a **culture of ethical behaviour and commitment** to good governance

Adequate and sufficiently skills officials who instill confidence toward effective and consistently functioning of internal controls

Comprehensive policies and procedures that empowers the employees to perform their day to day duties with ease

Mechanisms for officials to report any pressure or influence directed towards them not to act in line with the set policies and procedures

Regular risk assessment accompanied with **response** measures that are monitored on a regular basis

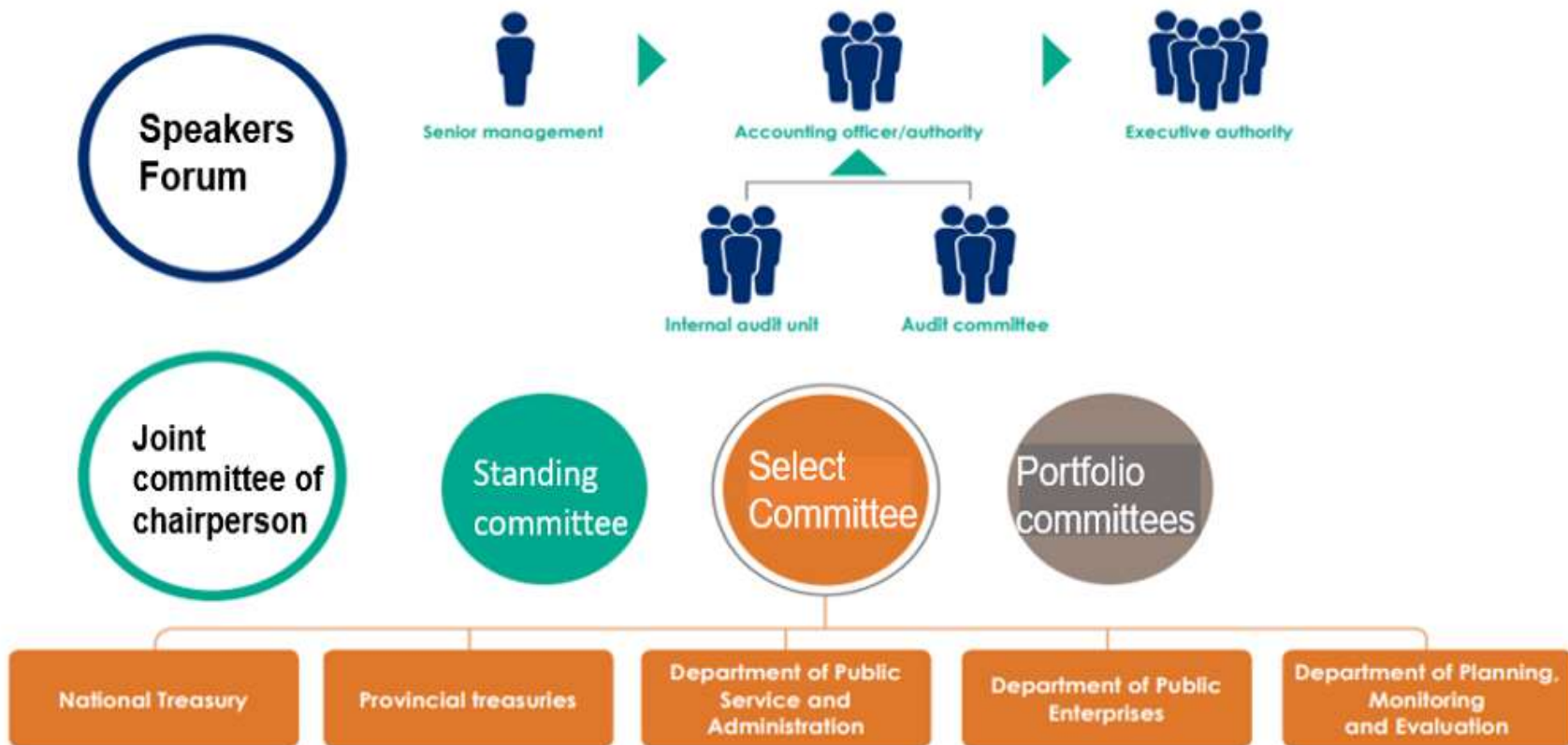
Combined assurance model where all assurance providers; i.e. Senior management, internal audit function and audit committee are working toward the same goal to strengthen controls through monitoring and oversight.



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