Budgetary review and recommendations report (BRRR)

Portfolio Committee on Trade, Industry & Competition

11 October 2022

AUDITOR-GENERAL
SOUTH AFRICA

Mission and vision

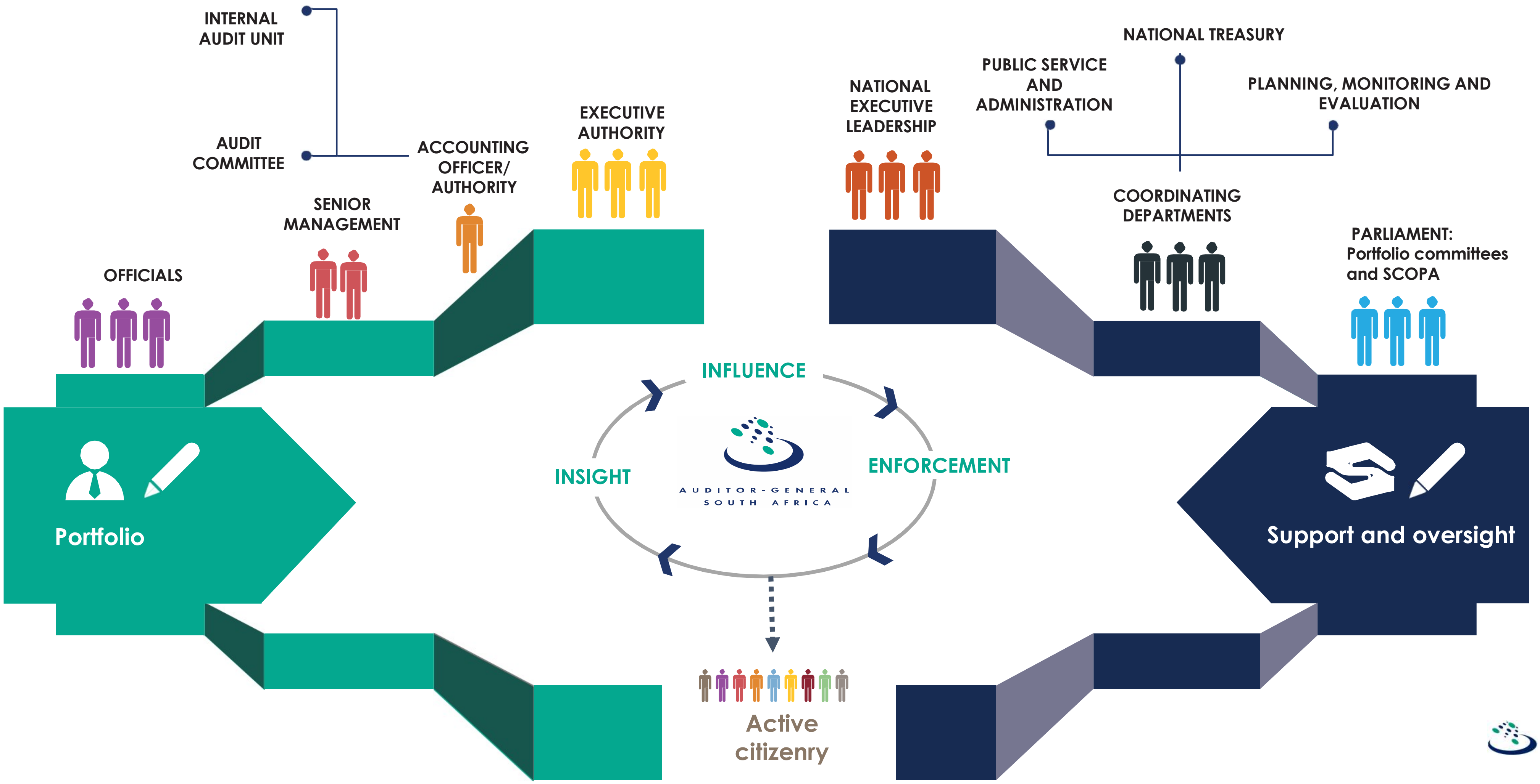
MISSION

"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."

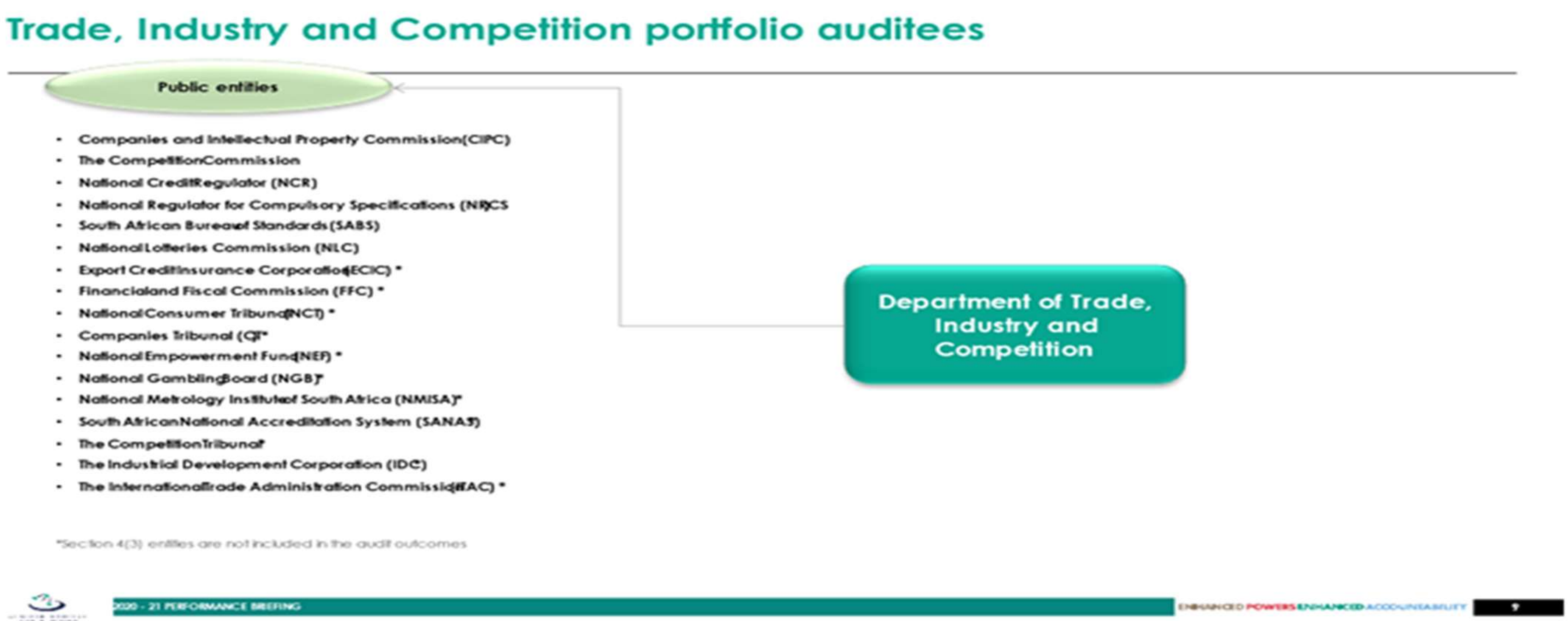
VISION

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

All have role to play in national government accountability eco-system



Auditees in the portfolio



This presentation will focus on audit outcomes of 7 auditees in the portfolio (see next slide) that are for audits that were performed by AGSA.

The rest of the audits that were not audited by the AGSA, will not be included, except for NEF, IDC where there is a message that is elevated in separate slides.

Audit outcomes

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

Outcomes over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2018-19 FIRST YEAR OF ADMINISTRATION	4	0	2	0	0	0	6*
2020-21	3	2	1	0	0	0	7
2021-22	3	3	1	0	0	0	7

MOVEMENTS FROM PREVIOUS YEAR:

1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:

1 ↑ 1 ↓

Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Disclaimed with findings
Department of Trade, Industry and Competition(DTIC) Competition Commission (CC) Companies and Intellectual Property Commission (CIPC)	South African Bureau of Standards (SABS) National Regulator for Compulsory Specifications (NRCS) ↑ National Credit Regulator (NCR)	National Lotteries Commission(NLC)	None)

* For the 2018-19 financial year, the now merged Department of Trade, Industry and Competition (DTIC) was operating as Department of Trade, Industry (DTI) and Economic Development Department (EDD) and both obtained unqualified with no findings (clean) outcomes.

Outstanding audits

None of the audits are outstanding.

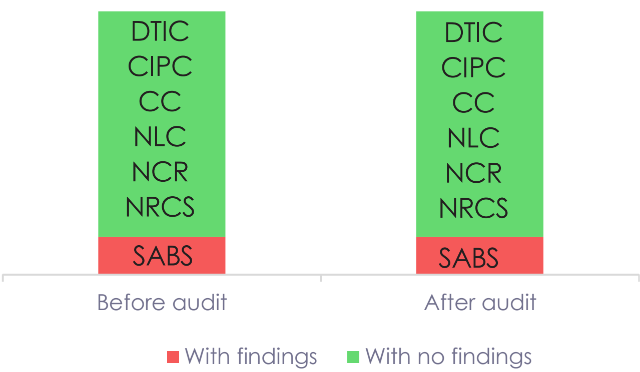
Movement from previous year

Movement / Audit outcome	1 Improved	6 Unchanged	0 Regressed	0 New auditee	0 Outstanding audits
Unqualified with no findings = 3	0	DTIC CC CIPC	0	0	0
Unqualified with findings =3	NRCS	NCR SABS	0	0	0
Qualified with findings = 1	0	NLC	0	0	0
Adverse with findings = 0	0	0	0	0	0
Disclaimed with findings = 0	0	0	0	0	0

Portfolio performance

Performance planning and reporting impacts service delivery

Quality of performance reports before and after audit



Findings: Planning for service delivery

- SABS

The planned performance information (indicators and targets were not clearly defined).

Findings: Reporting

- SABS

As a result of the indicators and targets that were not clearly defined, there was a limitation finding on the audit of reliability of performance information.

Impact

- The impact on service delivery due to the findings raised above for SABS is that the DTIC portfolio will not be able to deliver on its mandate to ensure standardisation in industrial priority sectors.
- Indicators that are not well-defined result in targets that do not fully meet the SMART criteria (not measurable) and therefore the performance against these indicators cannot be adequately monitored, which will ultimately lead to lack of service delivery.
- SABS indicators, namely; "SANS supporting re-imagined industrial priority sectors and "Government, SOE, regulatory and related public sector engagements" were not well defined and, this impacted adversely on service delivery as the entity is not able to report on actual achievements made from the budget utilized.
- For example, for indocator on SANS supporting reimagined industrial priority sectors as defined by the dtic: The source information for measuring the planned indicator was not clearly defined and related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. As management cannot define how to support performance agaainst the indicator and target, they therefore would not be able to know whether they achieved or not, and therefore the monitoring will not be difficult.

Performance against target

Key targets in medium term strategic framework for portfolio

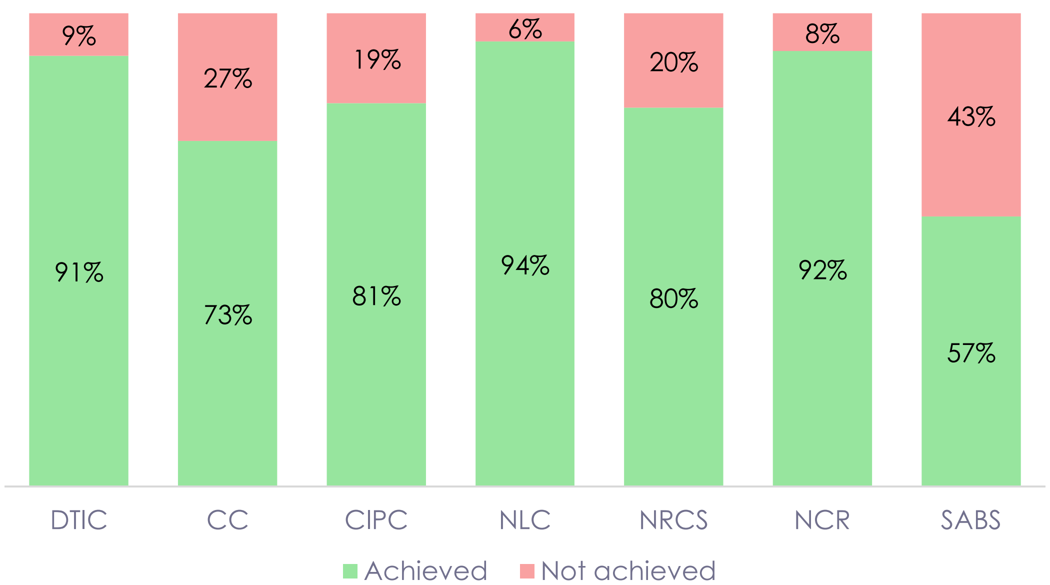
Revised B-BBEE regulations to enhance broad based ownership by designated groups developed by March 2021/22

Initiate one new market inquiry and implementation of recommendations of one concluded market inquiry per annum

Number of films and documentaries produced/ supported telling SA story (2019/20 – 89; 2020/21 – 100; 2021/22 – 110; 2022/23 – 105; 2023/24 – 110 = medium term target = 514)

26 industrial parks revitalised by 2024

Achievement of annual targets as reported in Annual Performance Report (all indicators) : 2021-22



Achieving key performance targets – summarised information from performance report

DTIC

Performance indicator	Target	Actual performance
Annual targets for revitalisation of industrial parks implemented	9 Annual targets for revitalisation of industrial parks implemented	5 Parks in construction, 1 in close-out, 3 completed, 2 in design
Revised B-BBEE regulations to enhance broad based ownership by designated groups developed by March 2021/22	1	1
Value (Rand) of projected investments to be leveraged from projects/enterprises approved	R23 bn	R34.189 bn
A report on infrastructure supported in targeted areas	Report on co-funding support for infrastructure development in targeted areas	A Report on co-funding support for infrastructure development in targeted areas

CC

Performance indicator	Target	Actual performance
No. of market inquiries initiated.	1	1

NLC group

Performance indicator	Target	Actual performance
Percentage investigations on reported and identified lottery schemes	Conduct investigations on 100% of all identified and reported lottery schemes	Achieved. 100% of identified and reported lottery schemes were investigated.
A minimum of 90% allocated to identified priority areas	Allocation of 90% of funds to identified priority areas Achieved.	100% of funds was allocated to identified priority areas
The aligned Grant Funding Model implemented	Implementation of the aligned Grant Funding Model	Achieved. The aligned grant funding model was implemented.

Reflections on the performance of the portfolio

Alignment of MTSF indicators: All the MTSF indicators that the portfolio is primarily responsible for were included in the portfolio's (department's and/or entities) planning documents and no exceptions were noted.

As per the previous slide the average performance against the APP was at 81% for the selected 7 auditees of the portfolio.

The DTIC achieved in the 4 key performance indicators and targets.
The CC and the NLC group also achieved in their indicators.

The message/question that is coming from these 2 slide is the that with the reported overall achievement by the portfolio, and the achievement on key indicators by the departments and the 3 entities, are we comfortable that based on the state of the country and economy that the intended outcomes of these indicators and targets is met?

What can be done more?

key indicators for selected programme.

Quality of key indicators

The programme selected for the annual audit under performance information audit was programme 6: industrial financing, under which the majority of the transfers to private corporations take place. The indicators under this programme were assessed as useful for the current period. However, the department can still do a closer inspection for some of the indicators to see how could these indicators and targets be improved to ***better impact service delivery*** objectives.

We have identified indicators whose performance against targets is measured in form of "***Reports***". There is a room to improve these indicators to enhance service delivery, especially where the indicator is relating to core function, where department is ***not*** performing a monitoring role.

The following indicator serve as an example:

Outcome	Increased accessible industrial finance measures to support investment in priority sectors in line with approved Master Plans
Outputs	Infrastructure development to unlock activities in support of the district model
Output indicator	A report on infrastructure supported in targeted areas
2021-22 Annual Target	A report on Co-funding support for infrastructure development in targeted areas

The indicator measures infrastructure supported in targeted areas, however the department has a programme that specifically fund infrastructure, namely SEZs and the Critical Infrastructure Programme (CIP). The concern is that the achieving in producing a report does not always translate to the outcome/output of the indicator in line with the mandate met. For example, a report on infrastructure in target areas might not necessarily mean the support was adequately given, and therefore service delivery was done and mandate fulfilled.

Recommendations

The executive authority must consider reviewing the indicators and the targets to ensure that they are not just based on the inputs by the department, but rather on the outcomes from the efforts of the department. This is to ensure that the indicators and targets are linked to service delivery in line with the mandate.

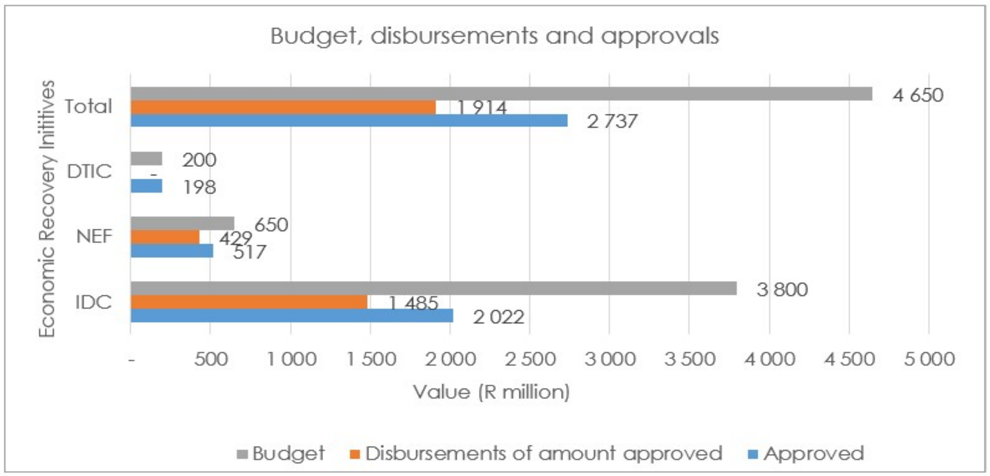
The achievement of the indicators and targets in line with the mandate must be aligned with everyday experience of the citizens. For example, it is contradictory for the department or the portfolio to be said is overall achieving against their full mandate, yet the environment is not competitive which is the mandate of the department.

Post Unrest Economic Recovery Support by DTIC Portfolio

During July 2021, Kwa-Zulu Natal and Gauteng provinces experienced riots, looting and destruction of infrastructure that had an impact on the economy. This was followed by an announcement by the president of the Republic on 25 July 2021 of measures to support the recovery of the economy and provide relief to the impacted sectors. Within the portfolio a total amount of R4, 650 billion was allocated to respond to the impact of the looting.

The table below depicts the **budget, spending and approvals** as at **31 March 2022:**

- **Industrial Development Corporation** of South Africa Limited had disbursed 73% of approved funding by 31 March 2022.
- The **National Empowerment Fund** has been responsive in identifying the applicants and allocating the funds to offer support to businesses that were adversely affected by the unrest in Kwa-Zulu Natal and Gauteng province. It has disbursed 83 % of the fund.
- The **DTIC** had approved 99% of the allocated funds but had not yet disbursed funds allocated. These funds were transferred to IDC after year end for further handling of the disbursements to the applicants.



Audit observations

- We did not identify any significant weaknesses in the design and implementation of documented policies and procedures for the economic recovery support programmes as well as the approval and disbursements funds.
- The rate of disbursements t of funds across the programme was high and the department is commended for the improvement in this area as this will have the intended impact on businesses supported.

Recommendation

- Programme guidelines and directives should be consistently be updated and changes thereto should be communicated in writing to avoid misalignment and lack of consistency in implementation by strategic partners (NEF & IDC).

National Lotteries Commission group (NLC and NLDTF)

1. Control weaknesses in Grant funding

Control environment assessment in grant funding:

- There **are control weaknesses** identified in the entities grant funding process which confirms allegations levelled against the NLC that includes the modus operandi used to siphon money from NLC through various NPOs and NPCs based on collusive relationships between NLC officials and NPOs and NPCs as well as ineffective monitoring of projects and maladministration in the approval of grants.

Examples of issues raised

The following projects that were audited serves as examples of where some of the control weaknesses were identified:

1. **Project 106184 (Ubusu NPC)** - It was approved as follows:
Initial approval of **R23 mil** on 27 September 2017.
Additional approvals of **R3,6 mil** on 19 February 2019, **R250k** on 12 March 2020 and **R13 mil** on 1 July 2021.
The total variations now amount to **R16,9 mil** which is about **73,35%** of the original cost. The project has been ongoing for **more than 5 years**.
Furthermore, we noted that the additional amount of **R13 mil** has not been spent as at 31 March 2022.

2. Project M33064 (Motheo Sports Complex) we noted the following:
That the project was allocated **R9 mil** and 2 tranches were paid.
The progress report states that the fence costing approximately **R1,5 mil** was bought but we couldn't observe it during the site visit as only an invoice was provided. The second tranche was paid without satisfactory progress, we were unable to obtain sufficient appropriate audit evidence that the resources of the NLDTF were utilised economically.

Recommendation

Management need to review existing policies and develop an infrastructure policy which will address the processes related to funding for infrastructure.

Further details of weaknesses that were identified and corresponding specific recommendations are in the **Annexure attached** at the end of this presentation.

National Lotteries Commission (NLC and NLDTF)

2. Legal fees

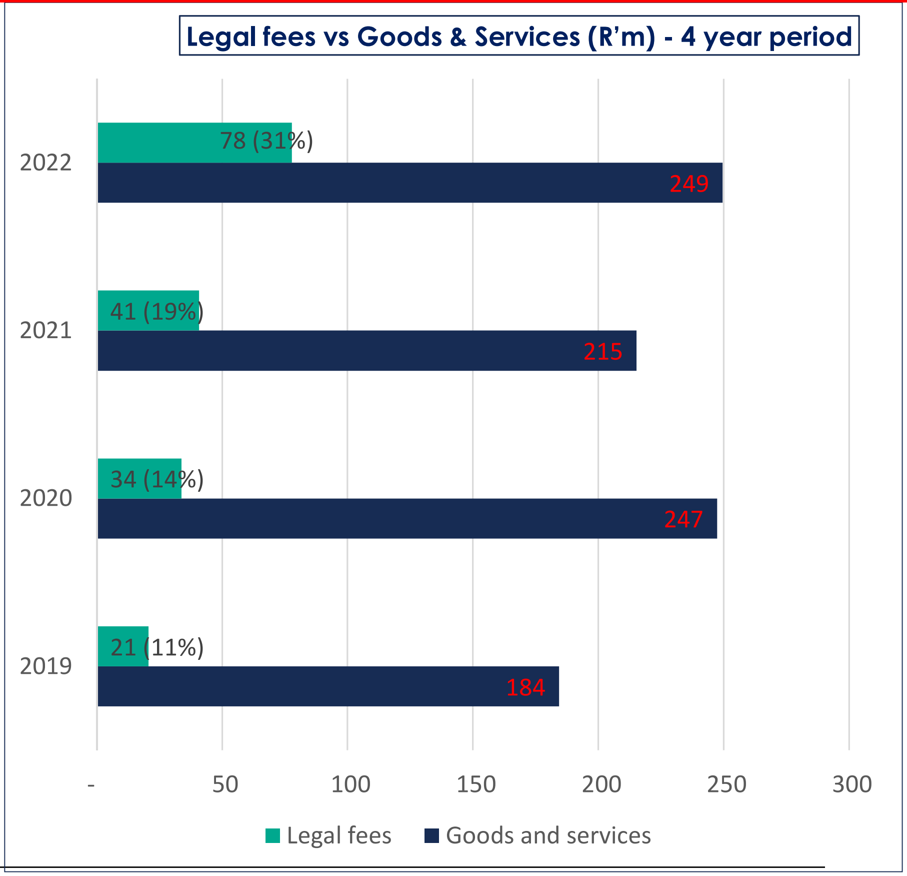
As per the analysis of expenditure for the NLC we noted that legal fees increased by **R37 mil** which represent a **91% increase** from prior year.
31% of goods and services spending at NLC relates to legal fees. Legal fees in the current year amount to **R78 mil**.
Based on the sample selected legal fees are incurred on the following matters:

- Legal opinion on Corporate governance and review of regulations **(30%),**
- Disciplinary hearing **(25%),**
- Advisory services on IVS - Playtronics Lotteries System **(22%),**
- CCMA cases **(12%)**
- and Other **(11%)**

Even though a lot of expenditure is incurred on legal fees, NLC has minimal contingent liabilities. This shows that the bulk of legal fees expenditure is not as a result of NLC defending itself in a court of law, but due activities initiated by management as analysed above. The legal unit has **9** employees of which **one is an advocate, two are attorneys and one is registered with Association of Certified Fraud Examiners (ACFE)**. A total of **R8,9 mil (over and above R78 mil) was spent on salaries within the unit**.

Recommendation

Management needs to review the use of external legal service providers and determine the reasons for this increase in the expenditure. It must be established if it can be avoided and if there is value for money for NLC. Furthermore, consider if the are preventative controls that can be implemented to help avoid the high legal fees.



South African Bureau of Standards (SABS)

The following governance issues have been prevalent at entity for some time now

Governance issues

The public entity is still operating **without a fully constituted and functional board of directors** (Board) as the executive authority has not finalised the appointment of a full time board. This is in contravention of the Standards Act. The entity last had a full board in July 2018 and thus the entity has been operating under administration for the last four years. As reported in the first year of administration, the PFMA does not give authority to the executive authority to appoint administrators since only National Treasury can appoint another authority to perform as a board and this is only allowed in exceptional circumstances.

The entity has operated **without a permanent Chief Executive Officer since 2018**. These circumstances have created instability within the entity which has a negative impact on sound governance principles and provision of oversight responsibility over financial and performance reporting of the entity.

challenges currently experienced by SABS stemming from governance issues;

- **Revenue generation has declined** and was exacerbated by operational inefficiencies which resulted in a significant loss of customers.
- Continued incurrence of **losses by the group** since 2017/18 financial year, for 2021-22 they realised a profit mainly due to an impairment reversal of R100 000 000.
- A Notice of Consultations in terms of Section 189 of the Labour Relations Act No 66 of 1995 was issued as part of **cost saving measure by reducing their staff** complement. The first phase was initiated in July 2021 where by employee were offered Voluntary Severance Packages and Early Retirement Packages, the process was still in progress during 2021-22.
- Human resource challenges due to **loss of critical skills, long-standing critical vacancies and inadequate capacity**.
- Arbitrary shifting of functions and personnel deployment.
- **Instability in leadership** since 2018 and overlapping of roles between executive management and governance and oversight.

Recommendation

It **is recommended** that the Executive Authority expedite the appointment of a full time competent and fully functional board, which must appoint a full time CEO to assist with improving the governance matters, This will ultimately improve the operational effectiveness, profitability and sustainability of the entity.

Industrial Development Corporation (IDC)

Audit outcome: Financially unqualified with findings on Compliance with key legislation.

Findings on compliance:

The **financial statements submitted for auditing** were not prepared in accordance with the prescribed financial reporting framework, However, after corrections of material misstatements identified by the auditor. Material misstatements on the following consolidated financial statements items were as a result of casting errors:

- Reserves; Retained income; Dividends received

Material misstatements on the following consolidated financial statements items were as a result of errors in accounting:

- Deferred tax liability; FV on equity instruments

Root cause: Management did not implement adequate **controls over the review** of financial statements submitted for auditing to ensure that they were fully compliant with the prescribed financial reporting framework.

Presidential Employment Stimulus - Social Employment Fund

Budget	**R800 000 000**	**2021-22 Actual Expenditure**	**0**
Planned job opportunities created	**50 000**	**Actual job opportunities created**	**0**

Objective of initiative

The criteria for Phase Two include promoting 'whole of society' approaches, that involve partnerships with other actors in society to reach our employment goals. The stimulus has initiated a 'social employment' strategy to give effect to this.

R800 million for the Social Employment Fund was allocated as part of the adjustments to the 2021 Estimates of National Expenditure. The initial tranche of funds (PESP Phase 1 ca. R800m flowed to IDC from DTIC right at the end of March 2022). As a result no disbursements have yet taken place as at 31 March 2022 and work was yet to commence on Phase 2.

National Empowerment Fund (NEF)

Audit outcome (entity level): Financially unqualified with no findings on PDO and/or Compliance with key legislation.

Audit outcomes (group level): NEF applies for the necessary exemptions from the Minister in order for its subsidiaries to be exempt from applying the PFMA and its regulations. During the audit the engagement team noted, through discussions with management, that the **exemptions have not yet been granted by the Minister** in effect requiring the subsidiaries to comply with the PFMA and its regulations. The subsidiaries did not comply with PFMA**, all the expenditure incurred by subsidiaries constitute irregular expenditure**.

Expenditure management

Effective and appropriate steps were not taken to prevent irregular expenditure amounting to **R244,503,955** as disclosed in note 37 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. The irregular expenditure was caused by the subsidiaries of the National Empowerment Fund Trust not receiving the exemption in respect of Section 92 of the PFMA.

NEF sent the request late to the executive authority, which ultimately meant that DTIC EA request to Minister of Finance was late. NEF is currently awaiting feedback.

Recommendation

It is recommended that:

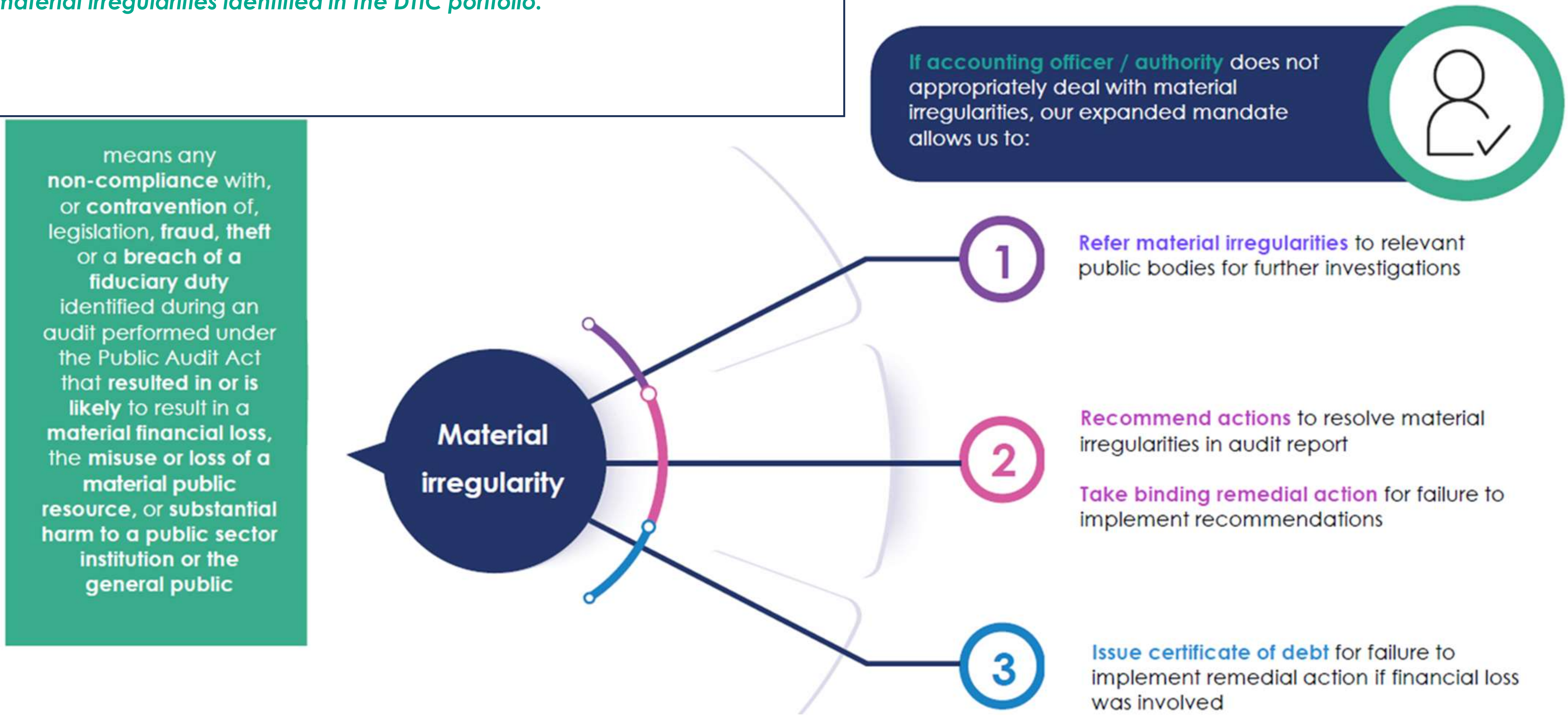
- Management must timeously apply for the exemption to allow processes and approvals to be on time.
- Applications for exemption can be for more than one financial year, e.g. three years, to allow for proper planning.

Material irregularities

Implementation of material irregularity process

The material irregularity (MI) process was implemented at the following auditees

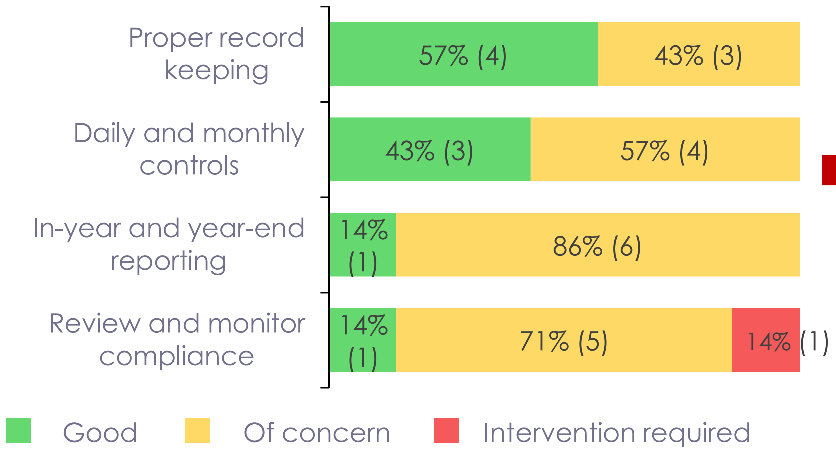
There were no material irregularities identified in the DTIC portfolio.



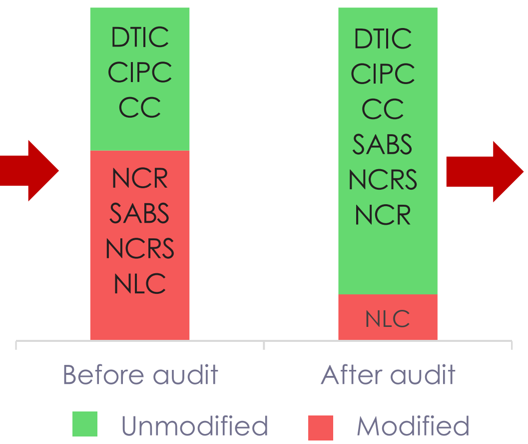
Financial management and compliance

Quality of financial reporting

Financial management controls



Impact on quality or financial statements submitted for audit



Main qualification areas

Irregular Expenditure (NLC)

- Deviations from procurement processes.
- Contracts were awarded based on criteria that differ from the original specifications.
- Specifications for awards did not stipulate the minimum threshold for local production and content.

Impact

- Poor quality financial statements are likely going to impact the ability of the entity to manage it's operations as the decision makers base some decision on the accounting records, therefore inaccurate financial statements will also ultimately lead to poor decisions taken by relevant stakeholders, which may affect the entity's performance against its mandate.
- Having good quality financial statements has a positive impact on the department's and the portfolio's ability to manage its operations and deliver on services or in terms of its mandate. The quality of financial statements is largely dependent on sound control environment which is influenced by leadership willingness to do the right thing. This then sets the tone for the rest of the organisation and provide platform to implement adequate and appropriate financial management controls.
- 3 auditees (SABS, NCR and NCRS) obtained unmodified outcomes after the intervention of the audit processes which indicates weaknesses in the finance control environment that need to be addressed in the next period. Intervention is urgently required in the case of NLC.

Financial health

Revenue

Debt- collection period >90 days at 2 auditees

Average debt- collection period = 47 days

More than 10% of debt irrecoverable at 3 auditees

The entities with the debt collection of > 90 days are **NRCS** and **SABS**. **SABS** collection period is attributed to inadequate controls around revenue management.

Irrecoverable debt of more than 10% at **NCRS, NCR** and **SABS.**

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Expenditure

R3,8 million of expenditure was **fruitless and wasteful** (5 auditees)

Creditor- payment period > 30 days at 7 auditees

Creditors greater than available cash at year-end at none of the auditees.

Average creditor-payment period = 62 days

The fruitless and wasteful expenditure was incurred at **CC, NCRS, NCR, NLC** and **SABS**. The majority of the expenditure relates to SARS interest and penalties as well as municipal services owed.

Credit payment period across the portfolio indicates non-compliance with 30 day payment or an emerging risk on non-compliance therewith.

Impact

0% auditees **ended year in deficit** (expenditure more than revenue).

Next year's budget will pay for expenditure of previous year(s) – at 0% auditees it will be **more than half of their budgets**

None of the auditees incurred **unauthorised expenditure**; **R0 million (0%)** was non-cash items (includes outstanding audits)

None (0%) auditees disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as a going concern** in foreseeable future

Doubt whether auditees can continue as a going concern

None

Compliance with key legislation

2021-22 | DTIC, CIPC &CC | NLC, NRCS, SABS & NCR

0 ↑ 1 ↓ (SABS)

No material findings Material findings

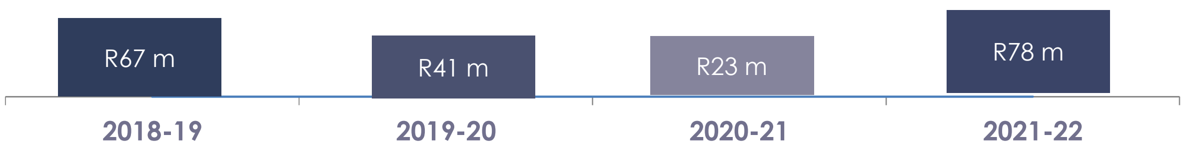
Areas of non-compliance	Affected auditees
Quality of financial statements	NLC NCRS NCR SABS
Procurement and contract management	NLC NCRS
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	NLC NCRS
Effecting consequences	NLC

Quality of financial statements is the most common non-compliance in the portfolio (4 auditees) - The 4 auditees failed to prepare quality financial statements on their own, and needed audit intervention. This signals that there are still some control weaknesses that must be addressed.
For NRCS, the CFO was the biggest driver of the unqualified opinion. With her resignation there is a high risk the entity might regress again.
NLC has the most non-compliance area (4 areas) - The is need to have a closer look at the entity operations to assist with compliance.

Procurement and contract management (2 auditees) - Uncompetitive and unfair procurement processes – compliance

Irregular expenditure

Annual irregular expenditure



Top contributors

R68 m **86% (NLC)**

R6,4 m **8% (NRCS)**

Irregular expenditure is not complete

Qualifications/ still investigating to determine full amount = R30 886 (SABS) (100%) (2021-22) (2020-21: R22 156 (100%))

Limitation in auditing procurement = R0 m

NB!! We reported in the audit report that the irregular expenditure reported by NLC is not complete.

Impact assessment of irregular expenditure incurred

No value for money: 0 auditees

Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness: 5 (NLC, CC, NRCS, NCR and SABS) R74,4 m (Majority is from appointments of service providers for media services without following competitive bidding process at NLC)

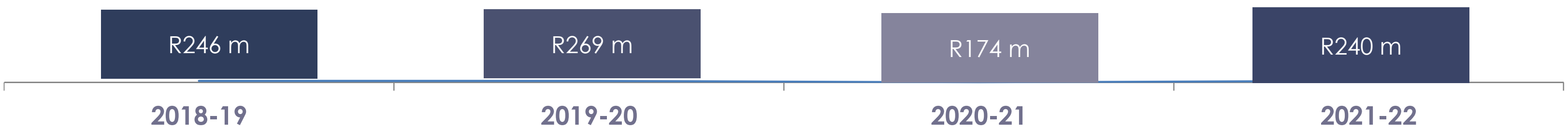
Limitation of scope: None

Other: None

Impact not yet assessed: None

Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



Top 3 contributors (R161 million) to irregular expenditure not dealt with constitute 100% of R161 million

R99 m	**61% (CIPC)**
R31 m	**19% (NRCS)**
R31 m	**20% (SABS)**

How have auditees dealt with irregular expenditure

Money recovered or in process of recovery	**R0 m (0%)**
Condoned	**R13 m (7%)**
Written off	**R0 m (0%)**
Not dealt with	**R161 m (0%)**

Reasons for IE not dealt with:

- Majority of the IE not dealt relates to balances for which entities have applied for condonement through national treasury.
- Some of this IE has been investigated, but was not yet removed at year end.

Conclusions and recommendations

Root causes, recommendations and commitments

Overall root causes of significant findings in portfolio	**NLC** • Slow response by management on prior audit findings resulted in significant findings in the portfolio. • Lack of consequence management, which was also as result of slow response **SABS** • Governance issues due to the board that is not fully consituted • Instability or vacancies in key positions: loss of critical skills, long-standing critical vacancies
Key recommendations to and commitments by Accounting officers and authorities	**NLC** • Adequate controls must be in place to prevent irregular expenditure. Furthermore, the entity must improve controls to identify, report and record irregular expenditure. • Proper controls to prepare and review financial statements must be implemented. • Irregular expenditure must be investigated, and disciplinary actions taken. • With the resignation of Commissioner, CFO and COO the board must move expeditiously to fill vacancies to ensure control weaknesses are addressed. **SABS** • Appointment of a fully functional board to lead and govern the entity. **NRCS** • The CFO vacancy must be appropriately addressed timeously to avoid risk of regression in the audit outcome.
Commitments by executive authority	**Commitments** • The minister promised more engagements with auditors on issue of quality of indicators. • The process of appointing a fully functional board at SABS will be finalized when candidates with the right competencies are identified. • The minister will introduce life style audits to assist with improving integrity of the board. Irregularities will be investigated and consequence management implemented.

Portfolio committee message

In 2020-21, we recommended the following:

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
- follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management

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

Overall reflections on implementation of recommendations:

The balance of irregular expenditure has increased and some irregular expenditure was not fully dealt with.

Audit action plans at NRCS were effective, but the were slow responses at NLC.

Key messages going forward

1. There are still auditees in the portfolio that submit AFS not prepared in accordance with the prescribed financial reporting framework.
2. In-depth review on planned indicators and targets required to increase impact in service delivery.
3. NLC – The weaknesses in the Grant funding must be quickly addressed.
4. SABS – There's a need to ensure governance structures are established to improve sustainability of the entity.

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Annexure: key weaknesses and Recommendations (NLC/NLDTF grants)

Weakness identified	Recommendations
Lack of segregation of duties in identifying the projects to be funded and approving of the grant.	Officials involved in identifying the projects to be funded, must be independent from officials approving the grant.
There is no fair and transparent process in place to appoint implementing organizations for pro-actively funded projects.	NLC must develop and implement policies and procedures that allow for fair and transparent appointments of implementing organizations for pro-actively funded projects
Ability and capacity of the implementing organization is not considered when the appointment is made	The policies and procedures implemented must also fairly consider the ability and capacity of the implementing organization is when the appointment is made
There are no controls in place to ensure that implementing organizations utilize the grants for the intended purpose.	Effective monitoring controls must be put in place to ensure that grants are utilized for the intended purpose.
Inadequate and/or Ineffective controls to monitor the progress of the projects.	Implementing organizations must submit the required (accurate) progress reports within the prescribed timeframes, otherwise they must be held accountable by NLC for late submission in line with the SLAs/MoAs.
Inadequate Site visits conducted by NLC due to capacity constraints faced by the entity.	Effective/adequate/appropriate procedures for site visits must be designed and implemented in line with the NLC's capacity.
There is no documented process for approval of variations.	The approved policies and procedures must outline the process that should be followed in the event the implementing organisations request additional funding for completion of the project.
Grants are paid 100% in advance and this exposes NLDTF to a risk of funds not being used for intended purpose. The change in approach was due to management trying to resolve/avoid prior year audit findings on the valuation and allocation assertion.	Management decisions must be not based on adequate risk assessment to safeguard NLDTF from being exposed to the risks that are linked to this decision.