



**PFMA
2021-22**

2021-22 audit outcomes Small Business Portfolio

11 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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

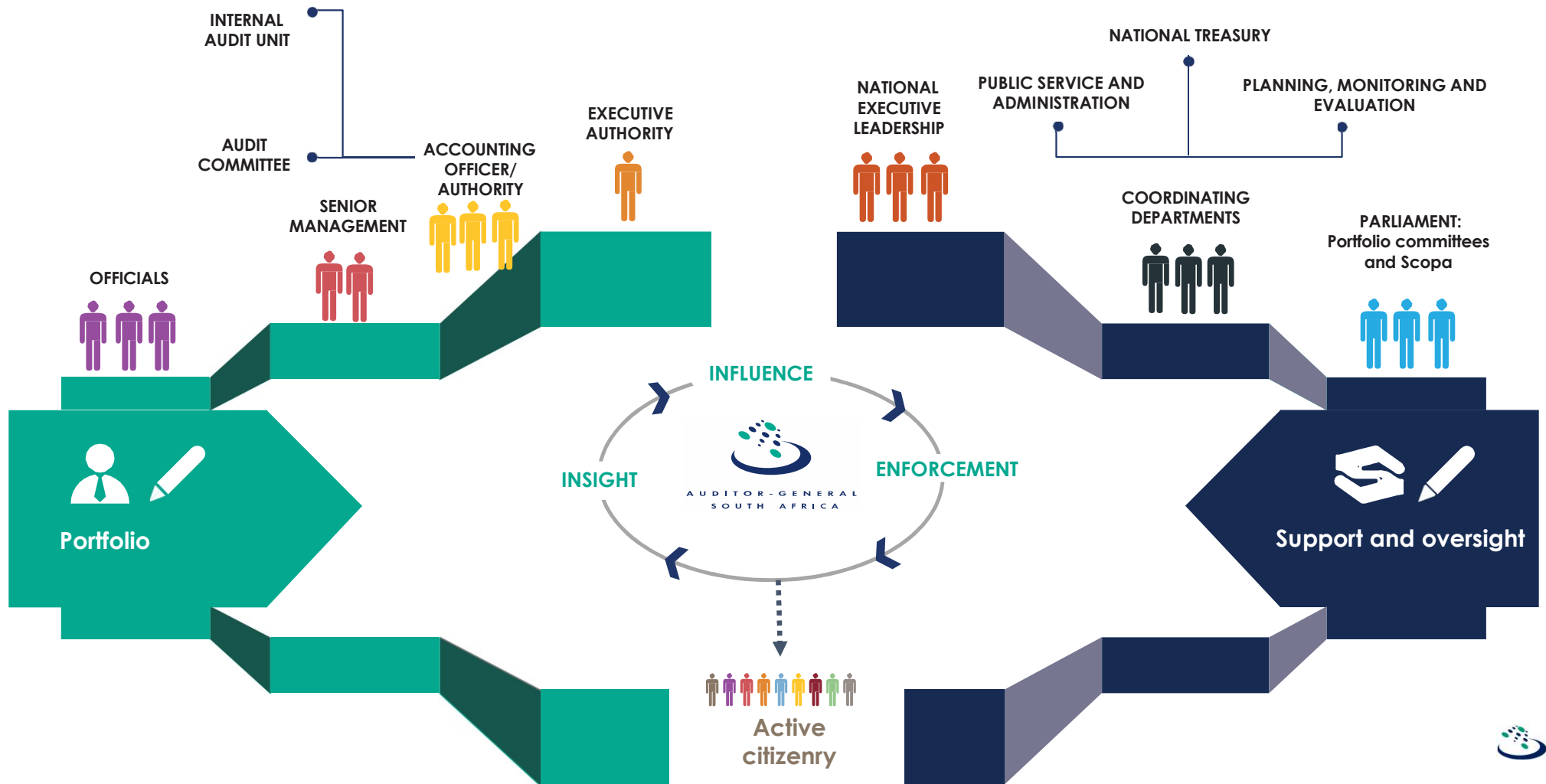


VISION

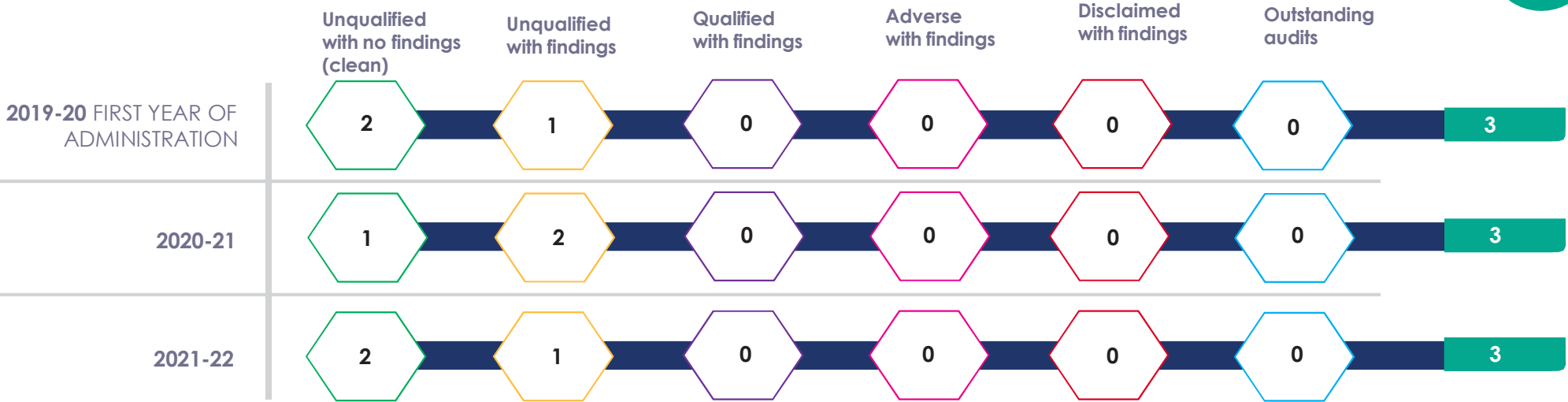
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



All have a role to play in national government accountability ecosystem



No change over administration term



MOVEMENTS FROM PREVIOUS YEAR:
 DSBD 1 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
 DSBD 1 ↑ 1 ↓ SEDA

Department of Small Business Development (DSBD)

Small Enterprise Financing Agency (SEFA)

Small Enterprise Development Agency (SEDA)

Outstanding audits
 2021-22: No outstanding audits 2020-21: No outstanding audits 2019-20: No Outstanding audits





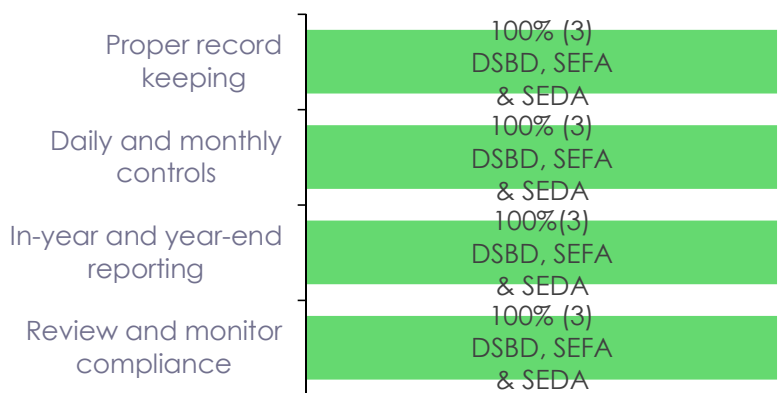
Financial management and compliance



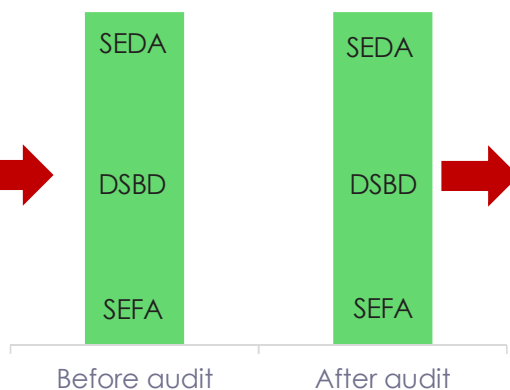
Quality of financial reporting

Impact on quality or financial statements submitted for audit

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Impact

Implementation of prior year action plans resulted in all institutions submitting the financial statements that were free from material misstatements.



Revenue



Expenditure



The Department does not provide services for which fees are charged and **no negative indicators** were noted under **revenue management**

No negative financial health indicators on revenue management in SEDA.

There was **no negative indicators** relating to the **expenditure management** across the Portfolio, however the irregular expenditure of R5,4 million from SEDA as result of non-compliance with SCM processes. Included on the current year amount is an amount of R4 979 849 paid in 2015 that was investigated and concluded in 2022.

Impact



The issue of irregular expenditure does not indicate that there is a doubt on whether the auditees can continue as a going concern.

There is no doubt that any of the entities will continue as a going concern however the incorporation of SEFA into SEDA is expected to be concluded by 2022/23 FY.



Compliance with key legislation



2021-22

DSBD, SEDA, SEFA

None

2 ↑ 0 ↓

● No material findings ● Material findings

Most common areas of non-compliance	DSBD	SEDA	SEFA
Procurement and contract management	-	-	-
Quality of financial statements	-	-	-
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	-	-	-
Effecting consequences	-	-	-



Procurement and payments

Status of compliance with legislation on procurement and contract management

2021-22



0 ↑ 0 ↓

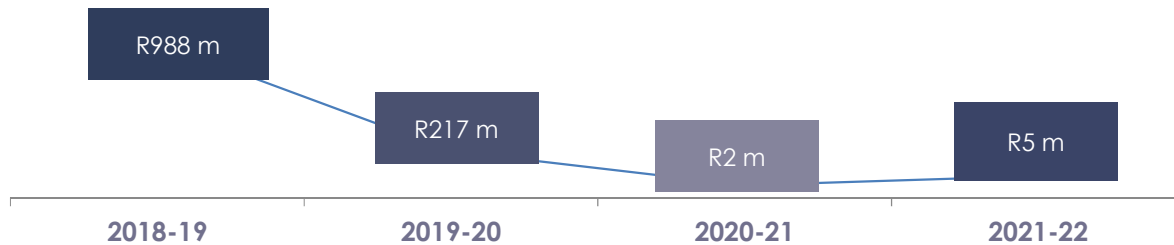
● With no findings ● With findings ● With material findings

Details of procurement findings	DSBD	SEDA	SEFA
Uncompetitive and unfair procurement processes	-	-	-
Prohibited awards to employees	-	-	-
Prohibited awards to other state officials	-	-	-
Limitations on audit of awards selected for testing	-	-	-



Irregular expenditure

Annual irregular expenditure



Top contributors



Impact assessment of irregular expenditure incurred

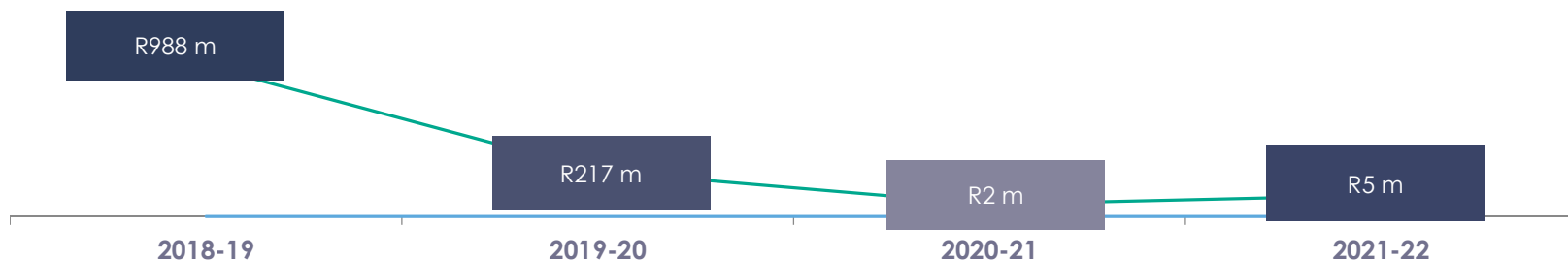
Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness: 99% (SEDA) R5 m.

Five cases of non-compliance with supply chain management that were investigated and recommendations submitted to management for implementation for the amount of R4 979 849 after investigation concluded in 2022.



Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



The irregular expenditure not dealt with is 84K and therefore not significant



How have auditees dealt with irregular expenditure

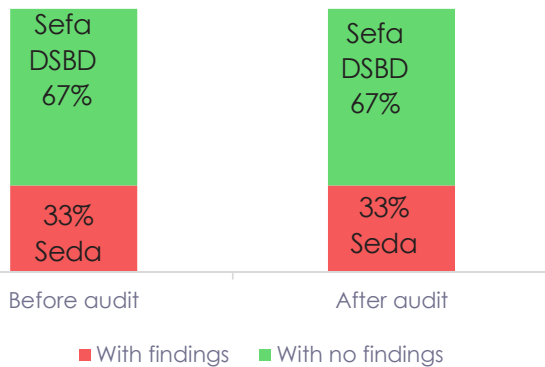
	Money recovered or in process of recovery	R0 m (0%)
	Condoned- DSBD	R1,4 m (88%)
	Written off- DSBD	R 0,106 m (7%)
	Not dealt with- SEDA	R0,84 m (5%)



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

- The **source information** for achieving the planned indicator was not clearly defined for some indicators. **Adequate systems and processes** were not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions as reported in the annual performance report
- SEDA split SMME programme into township, rural and informal businesses vs formal business, but did not update it's processes to take into account this new development. The processes are not consistently understood and applied across all regions.

Findings: Reporting

- Township and rural development - SEDA – the reason for the variances between the planned targets and achievements for the performance indicators as reported in the annual performance report for the indicators not corroborated.
- Some supporting evidence provided for the achievements reported in the annual performance report materially differed from the reported achievements, while in other instances we were unable to obtain sufficient appropriate audit evidence

Impact

Through our visits of a sample of SMMEs and co-operatives, training interventions were found to create significant impact, as beneficiaries confirmed that their businesses underwent significant improvement post Seda's intervention. However, we identified an inability of certain Seda branches to make a meaningful and consistent impact on the community in which they operate, due to the resource constraint such as inadequate number of business advisors. There were concerns raised by beneficiaries that post TREP application support provided by SEDA, there is a lack of follow up and further engagement after the application to SEFA.

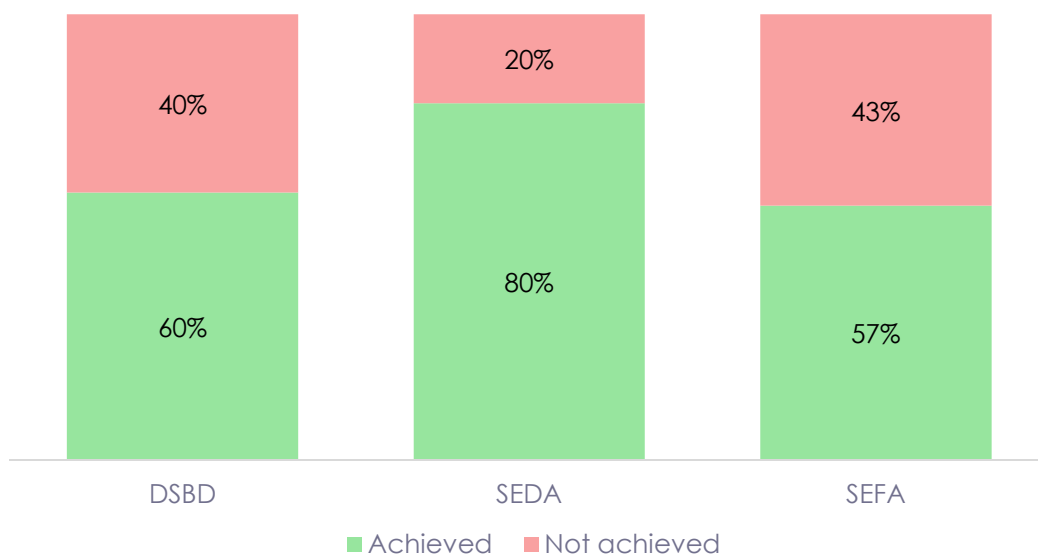


Performance against target

Key targets in medium term strategic framework for portfolio

- The department's annual performance plan has 4 programmes including the administration programme that was excluded from this analysis. The remaining programmes have 16 indicators and overall 60% of the planned targets were achieved/exceeded during the year. Significant key service delivery indicators were therefore not achieved.
- The entity SEDA annual performance plan has 3 programmes including the administration programme that was excluded from this analysis. The remaining programmes have 22 indicators and overall 80% of the planned targets were achieved/exceeded during the year. About 8 out of the 22 indicators received a qualified audit outcome.

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



The reported achievement/non-achievement of targets based on reported performance per annual reports for the overall indicators and not only those that we audited. An analysis of Key Performance Indicators underachieved for each entity is contained in the next slide.



Achieving key performance targets – summarised information from performance report

MTSF Performance indicator	MTSF Target	Actual performance	Reason for non-achievement
Improved access to affordable finance for SMMEs and cooperatives	At least 50% of national and provincial DFI financing dedicated to SMMEs and co-operatives through establishment of the SMMEs and Cooperatives Funding Policy by March 2021/22	<p>The SMMEs and Co-operatives Funding Policy has not yet been established.</p> <p>However, certain policy proposals are already being implemented by some DFIs (Development Finance Institutions).</p>	Target Not Achieved: Further stakeholder consultations with regards to the funding policy to be held prior to the finalization of the policy.
Products/services to be procured from SMMEs and co-operatives.	Implement the SMME focused localisation policy and ensure 100% compliance by public sector in procuring 1000 designated local products and services from SMMEs by 31 March 2024	<p>During the reporting period, a total of 526 products produced and services rendered by SMMEs and co-operatives have been linked to domestic private sector markets.</p> <p>Further, by March 2022, 1 000 locally produced products and services were identified and listed on the DSBD website.</p>	Target achieved

Small Business Portfolio

- The department is the responsible lead for implementation of 6 indicators according to MTSF, all the MTSF indicators were prioritised in the department's planning documents.
- The MTSF targets for 4 of these indicators have been achieved or exceeded as at 2021/22.
- The department achieved 52,6% 2021/22 of the MTSF target on products/services to be procured from SMMEs and Cooperatives.
- The department should consider how the remaining percentage will be driven differently such that the MTSF indicator will be achieved by the end of the cycle.



Achieving key performance targets – summarised information from performance report

16

Impact assessment targets:-

- Annual Report on the contribution to jobs by SMMEs and co-operatives in priority sectors approved by exco.
- Consolidated report on the 25 000 competitive SMMEs and co-operatives supported and approved by exco.
- SMMEs Development Index Survey report approved by exco

Overall impact assessment:-

- The overall impact of the department's initiatives to transform the small medium enterprises and co-operatives is measured through production of reports.
- The reports include valuable information that is critical to all the relevant stakeholders and oversight bodies to reflect on the impact, learn from the insights and put measures in place where there are areas of development.
- However since the department does not publish the contents of these reports , the oversight role players are not empowered with the information to enable accountability and governance.



Material irregularities



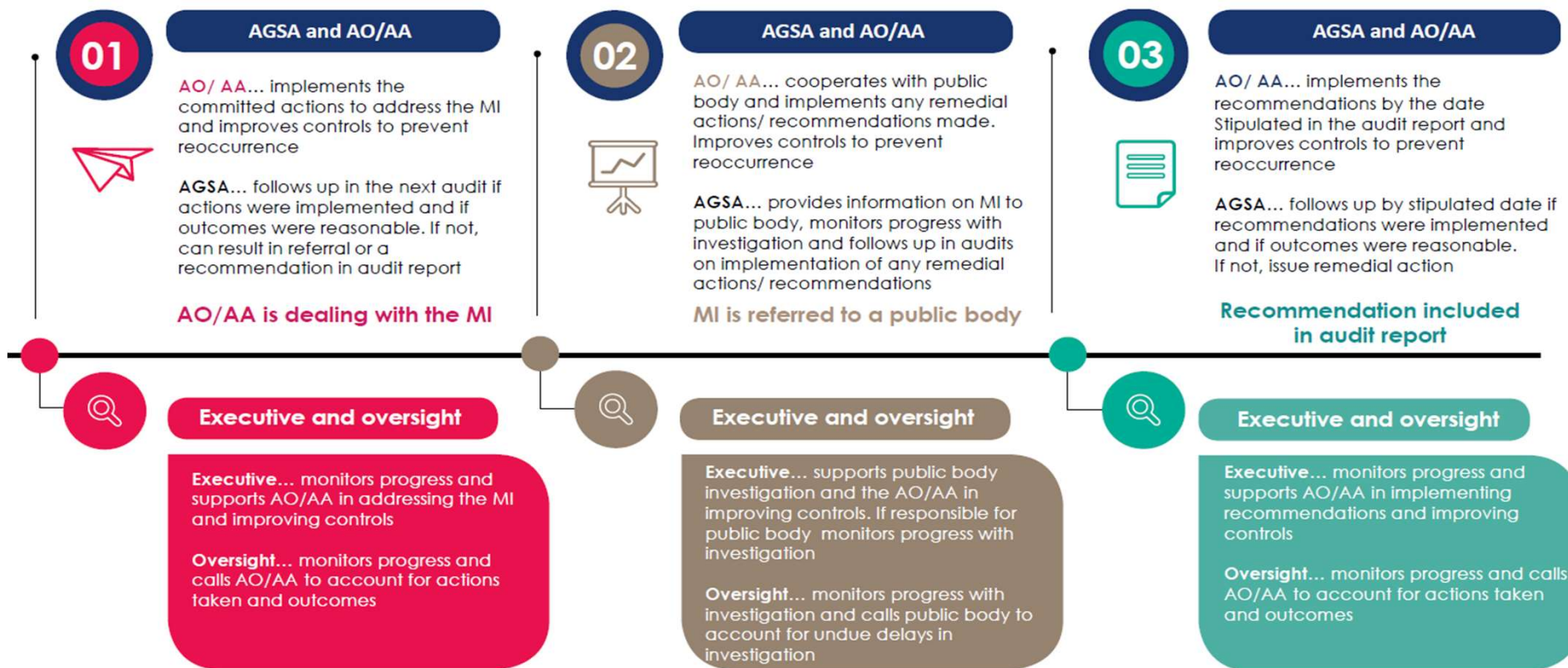
Implementation of material irregularity process

The material irregularity (MI) process was not implemented at the Small Business Portfolio for the current financial year.

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in** or is **likely to result in** a **material financial loss**, the **misuse or loss of a material public resource**, or **substantial harm to a public sector institution or the general public**



IDENTIFIED MIs – NEXT STEPS AND RESPONSIBILITIES





Conclusions and recommendations



Overall root causes of significant findings in portfolio

- There was no good planning, in-year performance management, and monitoring and reporting that is useful and reliable to ensure that the achievement of the intended outcomes of government programmes and service delivery.
- Vacancies due to the establishment of the merger of Small Enterprise Finance Agency and Cooperative Bank Development Agency into the Small Enterprise Development Agency with effect from 1 April 2022.

Key recommendations to and commitments by Accounting officers and authorities

- The accounting officer and accounting authorities should ensure that there is adequate monitoring performance system in the entity's where some of the department interventions are being implemented
- Accounting authority must improve controls in relation to proper record keeping and ensure that complete, relevant, and accurate information is accessible and available to support performance information.
- Develop an action plan that will address the short comings within the performance information processes, and effectively monitored the plan to avoid repeat findings
- Must ensure key executive positions are filled within a reasonable period of becoming vacant
- Commitment to be finalised after the meeting with the DG.

Commitments by Executive Authority

- To be finalised after the meeting with the minister.



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