



DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

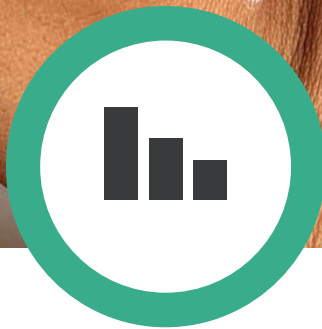
INVESTIGATION FEEDBACK

11 October 2022



AUDITOR - GENERAL
SOUTH AFRICA

REPUTATION PROMISE



The Auditor-General of South Africa 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.

MISSION



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

VISION



BACKGROUND

- The Auditor-General approved the investigation at the Department of Small Business Development in 2018. A letter of engagement in respect of the investigation was signed on 23 March 2018 with the former DG of the department.
- The investigation focussed on the **2015-16** and **2016-17** financial years.
- The scope of the investigation included:
 - Compliance of the DSBD to the guidelines and standard operating procedures (SOP) of the Black Business Supplier Development Programme (BBSDP) and Co-operative Incentive Scheme (CIS);
 - The validity of the processes followed in awarding incentives to grant applicants;
 - Confirmation of the authenticity of suppliers and quotations;
 - Verification that goods and services were actually delivered/received; and
 - Monitoring and reporting processes followed by the DSBD subsequent to the approval and payment of the incentives to the beneficiaries.





FINDINGS - BBSDP

Non-compliance to incentive schemes guidelines and SOPs

The findings are predominantly due to non-adherence to the BBSDP guidelines and SOP in processing, evaluating, adjudicating and recommending grant applicants for approval of the incentive schemes.

The findings also point to inadequate internal controls, monitoring and oversight in the awarding of incentives to grant applicants.

The Non-compliances related to:

- Application files contained no evidence that inspections had been performed before submission of the applications to the adjudication committee for approval, in contravention of the BBSDP guidelines.
- Applications were accepted and approved despite the application amounts exceeding 30% of the applicant's previous year turnover (according to the financial statements) or there was no evidence to substantiate the 30% previous year turnover requirement, in contravention of the BBSDP guidelines/SOP.





FINDINGS - BBSDP

Non-compliance to incentive schemes guidelines and SOPs

The Non-compliances related to (continue):

- Application did not contain the required documentation relating to the requirement for copies of Identity documents (IDs) of key managers, directors, shareholders and list of employees of the entity, in contravention of the guidelines. Officials submitted these applications to the adjudication committee and they were approved without the required documentation.

- Applications did not have the financial capacity to fund 50% of the total cost of equipment applied for as their current liabilities greatly exceeded current assets. Furthermore, the diagnostic reports prepared by NFs in most instances did not indicate how the applicant's 50% contribution will be funded.

- Claims were paid without the requisite documentation.





FINDINGS - BBSDP

Validity of awarding BBSDP incentives

- Grant applicants - turnover above R1 million, however these applicants were not registered for VAT.
- We noted multiple instances where preferred service providers that quoted above R1 000 000 did not include VAT in their quotations. They also failed to provide their VAT registration number on their quotations. These quotations, were accepted by the BDOs.
- One supplier was registered for VAT according to the SARS website but did not charge VAT on their invoice.
- During the investigation we identified that directors of multiple companies applied for and received grants exceeding the R1 million threshold.





FINDINGS - BBSDP

Verification that goods and services were delivered/received by the BBSDP grant applicant

- The AGSA was unable to locate or verify the existence certain premises and/or assets for which the grant funding was provided.
- One instance was noted where a grant applicant applied for and was paid an incentive for equipment amounting to R800 000. The inspection report contained photos of a digital packing machine reflecting the serial number of the equipment. During the AGSA inspection an old analogue machine was found on site, with a serial number which corresponded to the pictures on file. However, the equipment differed.
- In three instances, grant applicants received incentives for weighbridges amounting to R2 400 000. The inspection reports indicated that equipment had been delivered to the applicants. The AGSA visited the premises and determined that the weighbridges belonged to other third parties and not the applicants.





FINDINGS - CIS

Non-compliance to incentive schemes guidelines and SOPs

The findings in respect of the CIS are predominately attributable to the non-adherence to the CIS guidelines and SOP in processing, evaluating, adjudicating and recommending grant applicants for approval of the incentive schemes.

The findings also point to inadequate internal controls, monitoring and oversight by the DSBD in the awarding of incentives to grant applicants.

The Non-compliances related to:

- Trade and Industry Advisor (TIA) did not perform site visits prior to submitting applications to adjudication committee.
- Applications investigated were processed and approved without the required documentation.
- TIAs did not confirmed that three quotations were submitted for each activity applied for.
- Lowest quotation was not accepted in all instances, without documenting reasons for not accepting the lowest quotation.
- Applications were approved by the adjudication committee with less than three quotations however the motivation for deviations were not approved by the AO.





FINDINGS - Monitoring

Monitoring and reporting processes followed by DSBD subsequent to the approval of the grant applicants

- It was confirmed by the BBSDP Director and BBSDP Deputy Director that no post-approval site visits were conducted for the BBSDP applications approved and paid.
- It was also confirmed by the CIS Deputy Director that the DSBD does not conduct post investment site visits on funded co-operatives.





REPORTING AND SUBSEQUENT EVENTS

- A draft management report was compiled and issued to the Accounting Officer (AO) on 22 February 2019 and discussed with the AO and Executive Authority on 28 February 2019.
- On 28 February 2019, the AGSA discussed the investigation and findings with former Minister Zulu.
- DSBD management provided responses on our findings and recommendations on 19 and 25 March 2019.
- A final management report (incorporating management responses) was issued to the AO on 25 April 2019.





REPORTING AND SUBSEQUENT EVENTS

- AGSA agreed to provide assistance with evidence, documentation and testimony at disciplinary hearings on 29 April 2019.
- AGSA subsequently provided the DSBD with relevant information/ evidence as well as input on the disciplinary charges, this process continued until December 2019.
- Disciplinary processes were scheduled to take place beginning 2020 but was halted due to Covid-19. Disciplinary hearings were subsequently finalised November 2020.
- AGSA assisted with testimony at CCMA during July 2022 and September 2022.
- Recommendation from AGSA to not issue public report given the lapse in time.



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