**Report of the Standing Committee on Finance on the Oversight Visit to the Financial Intelligence Centre, dated 02 May 2023.**

1. **INTRODUCTION**
   1. The Standing Committee on Finance (the Committee) undertook an oversight visit to the Financial Intelligence Centre (FIC)on 30 March 2023 in Gauteng.
   2. The main purpose of the visit to the FIC was to get a briefing on its audit action plan for 2021/22 financial year audit outcomes. The FIC regressed from a clean opinion in the prior year to an unqualified audit opinion with findings. The challenge with the FIC relates to findings on supply chain management.
   3. The Auditor General of South Africa (AGSA) briefed the Standing Committee on Finance (SCOF) on 21 February 2023 about the audit outcomes of the finance portfolio. A decision was taken by the Committee to conduct an oversight visit to the National Treasury and all entities that had negative audit outcomes for 2021/22. The Committee conducted the same exercise last year with regards to the audit outcomes of 2020/21 financial year.
   4. The entities visited on 29 and 30 March 2023 were the National Treasury, Cooperative Banks Development Agency (CBDA), FAIS Ombud, Financial and Fiscal Commission (FFC), Financial Intelligence Centre (FIC), the Office of the Pension Funds Adjudicator (OPFA), Government Technical Advisory Centre (GTAC), Government Pensions Administration Agency (GPAA) and Public Investment Corporation (PIC).
2. **DELEGATION**

Parliamentary Delegation

* 1. The Committee delegation comprised of the following members: Mr MJ Maswanganyi (Chairperson of the Committee, ANC), Ms P Abraham (ANC), Ms D Mabiletsa (ANC), Mr G Skosana (ANC), Ms W Alexander (DA), Mr F Shivambu (EFF) and Mr W Wessels (FF+). The delegation was accompanied by the following parliamentary officials: Mr A Wicomb (Committee Secretary), Ms Cele-Ntshinka (Committee Assistant), Dr Z Hlophe (Content Advisor), and Ms A Manamela (Researcher).

National Treasury and FIC Delegation

* 1. The NT delegation comprised of: Mr E Godongwana (Minister of Finance), Ms L Mseme (Acting Chief Operations Officer), Mr L Batwa (Parliamentary Officer), Ms N Mahori (Parliamentary Officer), Mr K Bosoga (IT Support), and Mr M Khan (Director).
  2. The FIC delegation comprised of: Mr M Maboka (Executive Manager: Corporate Services), Mr C Malan (Executive Manager: Compliance and Prevention), Mr P Mashapa (Head: Planning), and Ms V Marsh Smit (Chief Finance Officer).

Auditor-General Delegation

2.3 The Auditor-General of South Africa (AGSA) delegation comprised of: Ms M Madondo (Senior Manager), Mr L Kuse (Senior Manager), Ms N Matanzima (Business Unit Leader), Ms K Naicker (Deputy Business Unit Leader), Ms A Whitfield (Senior Manager), and Mr M Jimmy (Acting Product Champion).

1. **OVERVIEW OF FIC AUDIT OUTCOMES FOR 2021/22**
   1. AGSA identified irregular expenditure on two cases which did not comply with applicable procurement legislation. It said that there was non-compliance relating to the evaluation of a competitive bid which caused material findings on compliance with specific legislation. Some contracts were awarded to bidders based on preference points while others were awarded to bidders that did not score the highest points.
2. **FIC ACTION PLAN FOR 2021/22 AUDIT OUTCOMES**

Procurement and contract management

* 1. The FIC explained that it incurred irregular expenditure of R793 265 in 2021/22. The balance of this contract will be disclosed as irregular expenditure over the next two financial years as the costs are realised. The FIC explained that no loss was suffered, and no criminal action was intended.
  2. Another audit finding related to a contract valued at R4 326 691, renewable for subsequent years based on performance. This agreement was varied through an extension of scope of the original contract for additional 319 hours, to the value of R733 700. The variation of this contract by 17% of the original contract price required prior written approval by NT. This resulted in the variation raised as irregular expenditure, as the expansion was not compliant with applicable prescript.
  3. The FIC explained that it was implementing or strengthening preventive controls to prevent recurrence of similar incidents in the future.

1. **COMMITTEE OBSERVATIONS AND RECOMMENDATIONS**
   1. The Committee is concerned by the regression of the FIC on procurement and contract management, caused by non-compliance with legislation. This non-compliance resulted in the FIC incurring irregular expenditure of R1,5 million emanating from two incidents. The first one was an award of software licenses for a period of 3 years without complying with the requirements of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its regulations. The second incident was a result of a contract variation without the approval of the delegated official. As the variation amounted to R733 700, it exceeded the delegated authority’s delegation by R80 684 and had to be approved by NT.
   2. The Committee appreciates the assurance that the FIC is taking steps to remediate the irregular expenditure incurred in 2021/22. However, the Public Finance Management Act framework requires irregular expenditure to be resolved through condonation or recovery. In its presentation of the audit action plan to the Committee, the FIC made no mention of such processes being undertaken. This is disturbing given that in one of the cases, irregular expenditure will be declared for the next two years because of non-compliance with the PPPFA and its regulations. The Committee requires the Accounting Officer to explain to it in writing, as soon as this report is adopted by the National Assembly, on how the FIC plans to resolve both the reported incidents of irregular expenditure.
   3. Following the grey-listing of South Africa by FATF in February 2023, the Committee will, in the third quarter, invite the FIC and NT, together with other relevant law enforcement agencies and regulators, to brief it jointly with other relevant Portfolio Committees on the action plan to get South Africa out of the Financial Action Task Force grey-list.

The Standing Committee on Finance asks the National Assembly to adopt this Oversight Report.

Report to be considered.

The DA reserves its position.