



**PFMA
2022-23**

Draft Budgetary review and recommendations report (BRRR) Portfolio Committee on Department of Small Business Development portfolio

10 October 2023



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



Lived experiences

Consuming unsafe water



Schools using pit latrines, no basic amenities

Crossing rivers without bridges



CONTINUED MISUSE of state resources and persistent weaknesses in systems of transparency, accountability and performance are of significant concern for citizens of South Africa broadly

THE NEGATIVE IMPACT on the lived reality of South Africa's people is the most important story represented by the numbers, findings and audit outcomes.

Heavy duty goods transported through roads



Learners learning under trees



Overcrowded hospitals



High influx of illegal immigrants



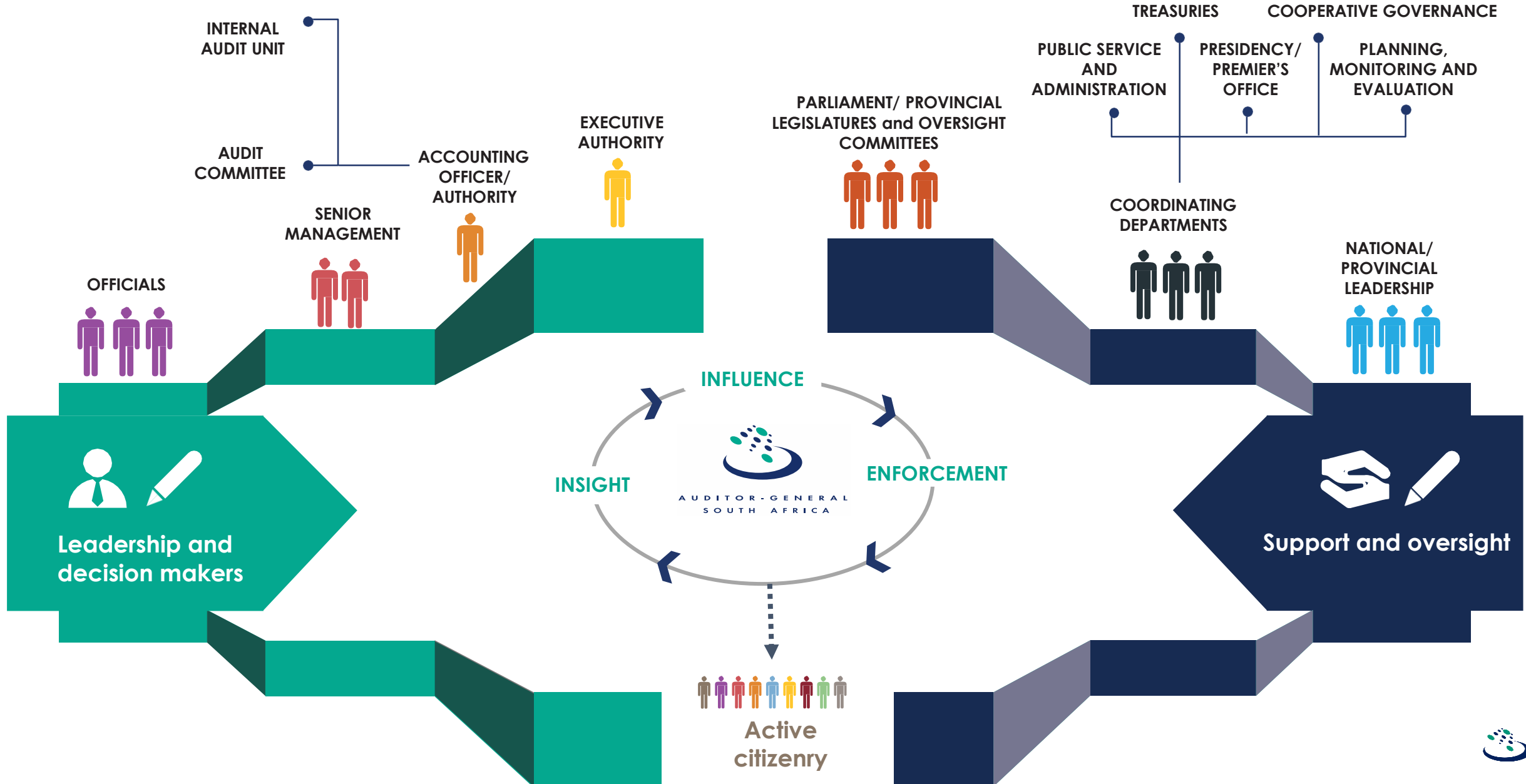
Living in mud houses and shacks



Load shedding



All have a role to play in accountability ecosystem





2021-22 recommendations to accounting officer:

Accounting officer and authorities should ensure there are adequate systems for monitoring performance in entities where department interventions are being implemented

Accounting authority must improve controls relating to proper record keeping and ensure that complete, relevant and accurate information is accessible and available to support performance information

Develop action plan to address shortcomings within performance information processes, and effectively monitor plan to avoid repeat findings

Must ensure key executive positions are filled within reasonable time of becoming vacant



Overall reflections on implementation of recommendations:

- The action plan to address prior year findings was partially effective, the issues identified at SEDA require time and could have not been prevented in one year. There has been progress made on the number of findings identified and the audit outcome on Audit of Predetermined Objectives (AOPO) has improved from a disclaimer.
- Even though SEDA has progressed in terms of the number of findings on performance information, there were still material findings reported in the audit report.
- The department had a material correction on performance information which is an indication that internal processes were not adequate to identify the error in reported information.
- In addition, there was a significant error identified on the financial statements that was subsequently corrected by management. Even though this did not change the audit outcome for the department it is an indication that controls implemented by management are not sufficient to identify errors.
- In the current year, SEFA regressed from a clean audit to an unqualified audit with findings on compliance.
- The moratorium on the filling of vacancies was lifted in the current year. However, National Treasury issued a guide on cost containment that might negatively affect the filling of vacancies by the department.

 Implemented

 In progress

 Not implemented



Regression over administration term

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits	
2019-20 FIRST YEAR OF ADMINISTRATION	2	1	0	0	0	0	3
2021-22	2	1	0	0	0	0	3
2022-23	1	2	0	0	0	0	3

MOVEMENTS FROM PREVIOUS YEAR:
0 ↑ 1 ↓

FROM FIRST YEAR OF ADMINISTRATION:
0 ↑ 1 ↓

Department of Small Business Development (DSBD)

Small Enterprise Development Agency (SEDA)
Small Enterprise Financing Agency (SEFA)

Submission of financial statements by legislated date for portfolio remained stagnant (100%)





Overall message



- Overall outcomes for portfolio regressed from previous year – two auditees (**DSBD and SEFA**) obtained an unqualified audit opinion with no findings (clean) last year, but only DSBD was able to maintain this outcome, while **SEFA** regressed to an unqualified audit outcome with findings on compliance. We commend management, the accounting officer and the executive authority for maintaining the department's clean audit outcome.

Clean audit outcomes

- The department maintained its outcome due to a strong leadership culture, sound financial management and effective governance structures that are supported by adequately resourced and skilled officials. However, we identified a material finding on the reported performance of the department that management later corrected. This resulted in a paragraph included in the audit report for material corrections on performance information, but did not affect the overall outcome. The root cause of the finding was inadequate controls relating to the collation of data for performance reporting, which resulted in errors on the reported achievements for the indicator *Number of women-owned businesses supported to register on international platforms*. To prevent similar findings from reoccurring in the next year, management should implement processes to ensure that reported information is supported by reliable and credible information.

Regression in audit outcomes

- SEFA has regressed from a clean audit to an unqualified audit outcome with findings on compliance. The non-compliance reported relates to the submission of financial statements that did not meet the requirements of the prescribed financial reporting framework. This was due to errors identified on the disclosure items such as the valuation of insurance technical reserves in KCG (Khula Credit Guarantee (KCG) (impairment) and valuation of expected credit loss in terms of IFRS 9 (Provisions). The root cause of the findings was a revised methodology on the conditional probabilities that were used to calculate the Incurred but not yet reported (IBNR) reserves. We also identified another material non-compliance finding on asset management relating to intercompany loans that were approved without a special resolution. The credit function of the entity needs to be entity needs to be enhanced through strengthening the credit granting process and credit collection process.

Stagnation in audit outcomes

- SEDA's outcomes remained stagnant as it achieved an unqualified audit outcome with material findings on performance information. We identified material findings on usefulness for the following indicators: *Number of SMMEs and cooperatives reached through awareness sessions*, *Number of township and rural businesses supported*, and *Ecosystem development plan implementation*. We also identified reliability findings on the indicators for *Number of township and rural businesses supported*, and *Number of new incubation centres established*. This is a slight improvement from the prior year where the performance information was disclaimed due to a lack of a process to collate information for reporting. SEDA is in the process of implementing a performance reporting system to eliminate manual intervention, which is prone to errors. The system was not fully implemented at the time of reporting this year, which contributed to the material errors identified.



Performance over the MTSF period

- The department has performed well on the achievement of the MFST indicators over the administrative term. In the 2021-22 financial year three (50%) out of the six indicators where the department is the lead on the MTSF were already achieved and in the current year, four (67%) out of the six indicators were met.
- The remaining indicators that have not yet been met relates strengthening development finance for SMME and Cooperatives where funding policy that was supposed to be approved in March 2022. Cabinet approved the draft SMMEs and Co-operatives Funding Policy to be published in the government gazette for public comments at the end April 2023.
- The target to *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* is not yet due. We have confirmed that the achievement of this target is on track as a cumulative achievement of 807 has been reported in 2023. However, we do note that there were changes in legislation in the prior year that might negatively impact the achievement of the remaining 193 designated local products by March 2024.

Achievement of performance targets

- The achievement of performance targets remains a concern for the DSBD and SEDA in the current year, the department did not achieve 44% of its indicators on the APP while SEDA and SEFA did not achieve 40% its indicators.
- The reason for the non-achievement of targets were stated as vacancies in key positions for the department, the low uptake of the department's initiatives and the quality of submissions received from the applicants.

Oversight visit to the North West by the Portfolio Committee (PC)

- The PC conducted an oversight visit in the North West in March 2023 where a number concerns were raised on governance issues such as loan origination, monitoring the performance of intermediaries and high interest rates charged by intermediaries not in accordance with the National Credit Act (NCA). SEFA has developed an action plan to respond to the findings identified by the PC. As part of our interim reporting, we will monitor the action plan and provide feedback to management on whether it is achieving the desired outcome.

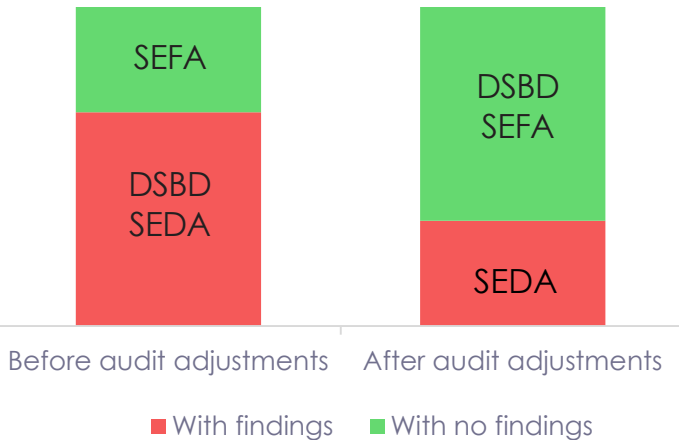




Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

- SEDA: Adequate systems and processes were not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.

Findings: Reporting

- DSBD and SEDA: Supporting evidence provided materially differed from the reported achievement, while in other instances management was unable to provide sufficient and appropriate audit evidence.

Impact

- The users of the annual performance report may be negatively affected by the inadequate reporting on performance information as the decision making by the oversight structures might be based on inaccurate information that is misleading to users of the report. For example, the performance report for SEDA states that 21 802 township- and rural-based businesses were supported, which is an overachievement when compared to the target of 16 000, but the audit team could not independently verify the reliability of the number reported. This could negatively affect the level of effort being placed on the township or rural support as the reported achievement creates an impression that this indicator has been exceeded.



Key targets in medium-term strategic framework for portfolio

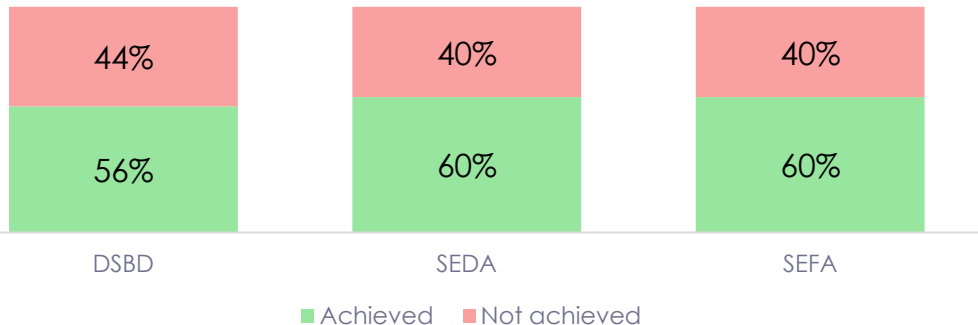
Indicator	Target	Achievement at 31 March 2023
Number of competitive small businesses and cooperatives supported.	100 000 competitive small businesses and cooperatives supported by 2024	Achieved - 132 572 supported through SEDA and Sefa non-financial and financial instruments.
Improved access to affordable 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.	Not achieved - Cabinet approved that the draft SMMEs and Co-operatives Funding Policy be published in the government gazette for public comments. It is expected that the Funding Policy will be gazetted for public comments by the end April 2023
Number of incubation centres and digital hubs established	100 established by 2024	Achieved - 121
Localisation policy framework and Implementation Programme on SMMEs and Cooperatives developed and adopted.	Localisation policy framework and implementation programme on SMMEs and Co-operatives development and adopted by March 2021/22	Achieved - Cabinet approved the SMMEs-focused Localisation Policy Framework and Implementation Programme in 2021-22.
Products/services to be procured from SMMEs and Cooperatives	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	In progress - 807 on track.
Number of youth start-up businesses supported.	10 000 youth business startups supported per annum	Achieved - 22 357

The portfolio has achieved 67% of its targets over the MTSF period. The Executive authority should monitor and ensure that the remaining two targets are also met. We are concerned about the target for localisation because of the changes in legislation that were implemented in the prior year that might impact the achievement of this target.



Performance against targets

Achievement of annual targets as reported in annual performance report (all indicators) – 2022-23



Key targets not achieved include:

DSBD

- Number of women-owned businesses supported to register on international platform
- Number of SMMEs and cooperatives linked to global market opportunities
- Number of business infrastructure for SMMEs and cooperatives refurbished or built
- Number of township and rural enterprises supported financially and/or non-financially
- Number of crafters supported through craft customised sector programme

SEDA

- Number of new SEDA access points
- Ecosystem development plan implementation
- Number of SMMEs and cooperatives supported through the TTA programme.

SEFA

- Enhanced access to finance by SMMEs & cooperatives
- Total approvals (R'000)
- Number of SMMEs and cooperatives financed
- Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)
- Facilities disbursed to people with disabilities (R'000)

Impact of targets not achieved

The non-achievement of indicators on the APP negatively impacts the stimulation of economic growth of the country and job stimulation and creation.

Budget utilisation

Programme	Budget R'000	Actual R'000	Percentage usage
DSBD	2 532 889	2 513 921	99.2%



DSBD

Performance indicator	Target	Actual performance	Reason for non-achievement
MTSF			
Products/services to be procured from SMMEs and cooperatives	Implement SMME-focused localisation policy and ensure 100% compliance by public sector in procuring 1 000 designated local products and services from SMMEs by 31 March 2024	The department has recorded an achievement of 807 designated local products and services by SMME as at 31 March 2023.	On track
Improved access to affordable finance for SMMEs and cooperatives	At least 50% of national and provincial DFI financing dedicated to SMMEs and cooperatives through establishment of SMMEs and cooperatives funding policy by March 2021-22	Funding policy was approved by Cabinet in March 2023 and was gazetted on 28 April 2023 for public comments, for a period of 30 days	Awaiting parliamentary processes – funding policy approval process is being fast-tracked, working with ministry, to ensure alignment on priorities and context as per policy objectives

2022-23 annual performance plan (APP)

Number of women-owned businesses supported to register on international platforms	2 500	1 202	Despite support provided to women-owned businesses, they unfortunately did not follow through to the events.
Number of SMMEs and cooperatives linked to global market opportunities	250	68	Lack of suitable global events to link SMMEs and cooperatives
Number of business infrastructure for SMMEs and cooperatives refurbished or built	6	2	Four projects could not be finalised because of construction delays, mainly due to unfavourable weather conditions.
Number of monitoring reports on incubation programme improvement plan approved by exco	2	0	Monitoring report on ISP improvement plan was not produced because evaluation study was not finalised.
Number of crafters supported through craft customised sector programme	900	659	There was low uptake on the Craft Customised Sector Programme.

Achieving key performance targets – summarised information from

SEDA and SEFA

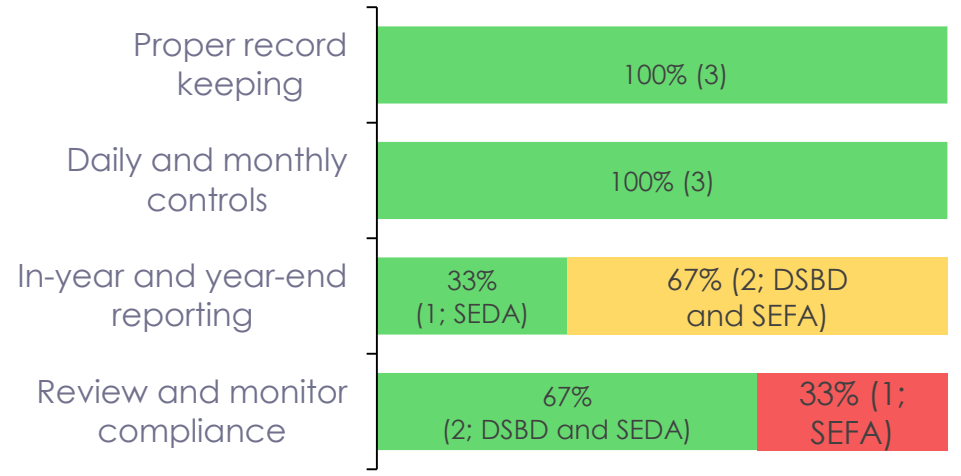
Performance indicator	Target	Actual performance	Reason for non-achievement
SEDA – 2022-23 APP			
Number of new SEDA access points	80	40	40 access points in township and rural areas were signed by all parties
Ecosystem development plan implementation	40%	6%	Organisation will improve monitoring and reporting of ecosystem plan implementation
Number of SMMEs and cooperatives supported through the TTA programme	70	32	Under achievement due to budgetary constraints.
SEFA – 2022-23 APP			
Enhanced access to finance by SMMEs and cooperatives – total approvals (R'000)	2 233 333	1 706 706	<ul style="list-style-type: none"> TREP – experienced inadequate staffing and high staff turnover challenges, coupled with low-quality applications Uptake of programme funds in informal and microfinance programme – slow uptake of funds from microfinance intermediaries after covid-19; MFIs are struggling to recover loan books partly because of high impairments/bad debts and challenges relating to achieving operational and financial sustainability; lack of MFI institutional diversity across country to lend to informal microenterprises SME wholesale – lack of quality business proposals received from intermediary institutions
Number of SMMEs and cooperatives financed	84 831	74 762	
Facilities disbursed to youth-owned (18-35 years old) enterprises (R'000)	601 139	551 415	
Facilities to people with disabilities (R'000)	140 266	36 678	



Financial management and compliance

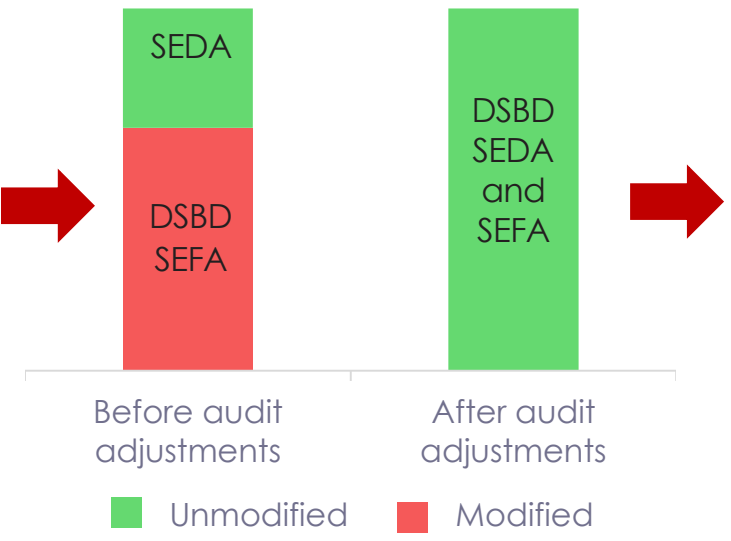


Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required

Impact on quality of financial statements submitted for auditing



■ Unmodified
 ■ Modified

Main qualification areas

- None, all material misstatements identified by the auditors were corrected by management

Impact

- The review processes implemented by management at DSBD and SEFA were not sufficient to prevent, identify and correct errors on the financial statements before submission to the auditors.
- These misstatements were identified as part of the audit process and were subsequently corrected by management. The misstatements identified would have resulted in a modified audit opinion if not corrected by management.
- There were no material misstatements identified or corrected on the financial statements of SEDA.



Revenue



Expenditure



Debt-collection period > 90 days at **0** auditees
Average debt-collection period = **10,5 days (SEDA) and 0 days (DSBD)**
More than 10% of debt irrecoverable at **0** auditees
Debt impairment at SEDA is currently at 3,9%

The overall **SEFA** impairment rate has increased from **35.4% (FY2022) to 45.5% (FY2023)**.

R0,16k of expenditure was **fruitless and wasteful** (SEDA auditees)
Creditor-payment period > 30 days at **0** auditees
Creditors greater than available cash at year-end at **0** auditees
Average creditor-payment period = 10 days (DSBD; 3.1 days SEDA)

Impact



33% (SEFA) auditees **ended year in deficit** (expenditure more than revenue)
No auditees (**0%**) incurred **unauthorised expenditure**
No auditees (**0%**) disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as going concern** in foreseeable future

Doubt whether auditees can continue as going concern

None:
No events identified



Compliance with key legislation



2022-23



● No material findings ● Material findings



Most common areas of non-compliance	DSBD	SEDA	SEFA
Quality of financial statements			X
Asset management			X

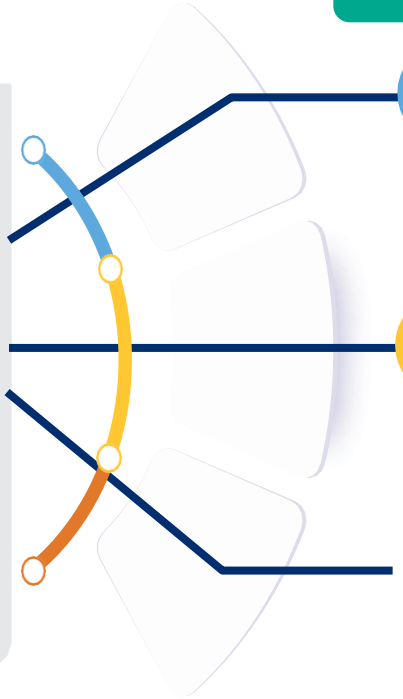


National Treasury Instruction Note 4 of 2022-23: **PFMA Compliance and Reporting Framework** (instruction), which came into effect on **3 January 2023**, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA

Public objective of instruction note is to prescribe **principles and compliance reporting requirements** for PFMA institutions to Public Finance Management Act 1 of 1999 on **unauthorised, irregular and fruitless and wasteful expenditure** (UIFWE)

Framework

The new framework brought **significant changes** in relation to the disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE). These changes are as follows:



- 1** **Movement** in the disclosure note of IFWE from the annual financial statements to the annual report
- 2** **PFMA institutions** will only disclose IFWE incurred in the current year, with a one-year comparative analysis
- 3** **Historical balances (i.e. opening balances)** have been completely removed from the annual financial statements

Message to portfolio committee

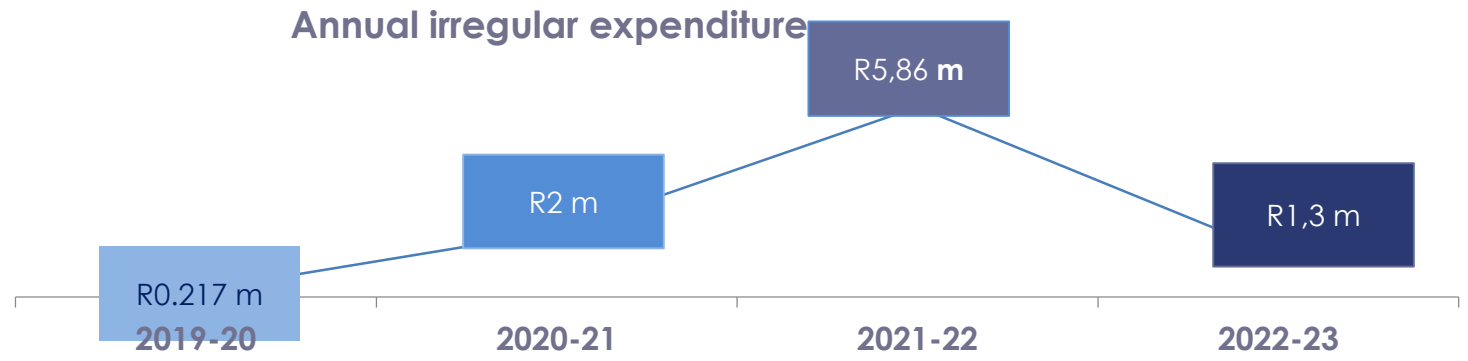
The change to **remove the disclosure of historical balances for IFWE** means that **oversight structures may not be able to fully exercise their oversight roles**. Furthermore, **no audit assurance** will be provided on the additional disclosures that have been moved from the annual financial statements.

AGSA refined its audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report

There is a clear messaging in the audit report on reliability of the IFWE disclosure in the annual report

The objective was to ensure that we could still be in a position to report to users of the annual financial statements in cases where these historical IFWE balances are not complete and accurate. This had no impact on the **audit opinion**.





Top contributors

R0,655 m	50% (DSBD)
R0,552 m	42% (SEDA)
R0,151 m	8% (SEFA)

Impact of irregular expenditure incurred

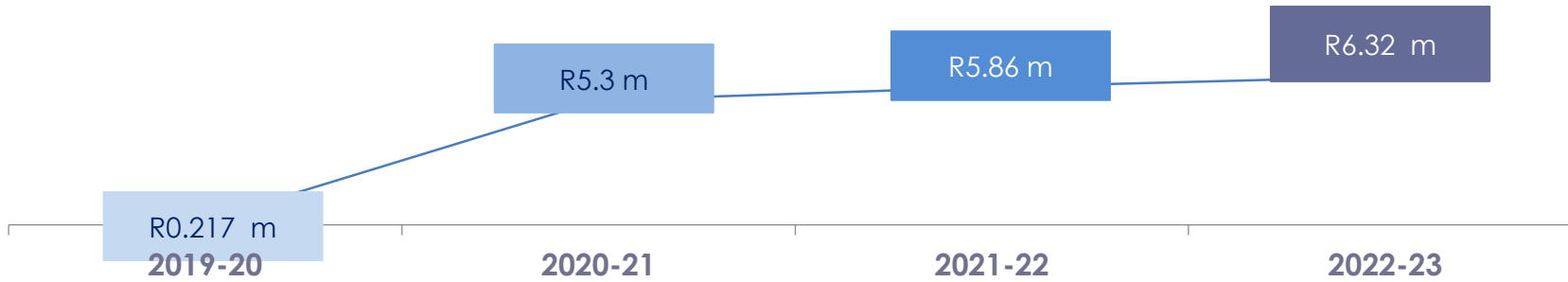
Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive:
The irregular expenditure at DSBD and SEDA relates to the payment of service rendered on irregularly awarded bid and where an employee misrepresented information that was used to obtain quotations.

Impact not yet assessed: DSBD: R336 000 is still under assessment.

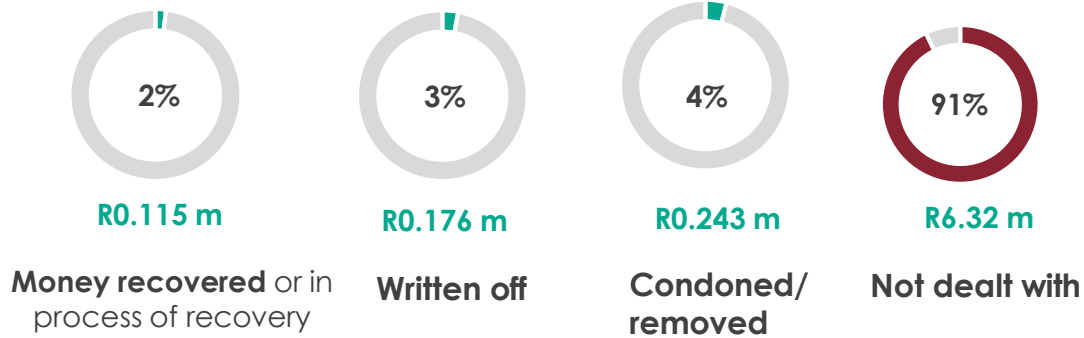


Consequence management – dealing with irregular expenditure

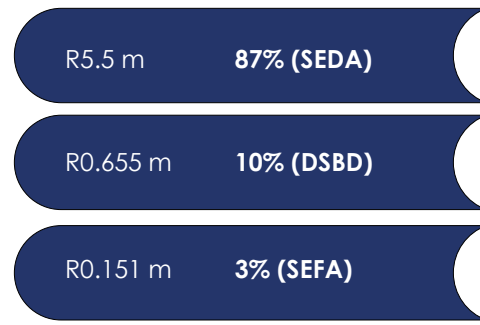
Closing balance of irregular expenditure continues to increase



How have auditees dealt with irregular expenditure



Top contributors (R6.32 million) to irregular expenditure not dealt with



Reasons for IE not dealt with:

- Investigated and awaiting condonement
 - R0,552 m (SEDA) (CY)
 - R4.9 m (SEDA) (PY)
- Investigation in progress
 - R319k (DSBD)
 - R151k (SEFA)
- Not yet investigated
 - R336k (DSBD)



Conclusions and recommendations



Root causes

Significant vacancies that has negatively impacted the achievement of targets.

1

- Inadequate review of financial statements and performance reports submitted for audit.
- Inadequate controls with regards to collation of data for performance reporting.

2

The action plan to address prior year findings was not fully effective.

3

The credit function at SEFA is not appropriately capacitated.

4

Delays in the finalisation of the evaluation study due to procurement processes that took longer than expected.

5

Call to action

Implement the recruitment plan to fill vacancies in key positions to the extent possible.

Management should implement processes to ensure that reported information is supported by reliable and credible information.

Monitor the action plan to improve the achievement of planned targets on the APP.

Monitor the processes to ensure that the remaining two targets on the MTSF has been met.

Sefa - Strengthen the credit granting process and collection process.

Finalise the monitoring reports for incubation programme.



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