RAKOMA
& ASSOCIATES INC.

FINAL MANAGEMENT REPORT

TECHNOLOGY INNOVATION AGENCY

31 March 2023

Communicated to the accounting authority on: 21 July 2023

CONTENTS

INTRODUCTION

1. The purpose of this management report is to communicate the outcomes of the audit for the financial year ended 31 March 2023, as well as the insights and significant matters that require the attention of the accounting authority. The report should be read with the engagement letter, which sets out our responsibilities as well as the standards and processes we apply in performing our audits.

2. The auditor's report is finalised only after the management report has been communicated. All matters included in this report that relate to the auditor's report remain in draft form until the final auditor's report has been signed.

3. We communicated our audit findings and recommendations for improvement to management and obtained their responses throughout the audit. This report is a comprehensive summary of what we shared with management. In **annexure E**, we provide a summary of detailed findings communicated to management.

4. The management report is structured as follows:

- In **section 1** we share the overall audit outcomes and the status of material irregularities. We also summarise the material irregularities in **annexure D**.

- In **section 2** we provide the most significant matters from the audit and their impact, which we detail further in the annexures. Where appropriate, we also include the following:

  - Significant deficiencies in internal control that caused the findings we report. Significant deficiencies occur when internal controls do not exist; are not appropriately designed or implemented; or are not operating as intended to prevent – or to promptly detect and correct – material misstatements, non-compliance or non-performance. In **annexure C** we expand on the state of internal control.

  - Key recommendations and the responses received from management on implementing the recommendations.

- In **section 3** we include observations on the overall internal control environment and the role of the accountability ecosystem. Key recommendations and responses from management are also included.

- In **section 4** we provide our view of the root causes of deficiencies in the overall internal control environment and provide recommendations for the accounting authority to address the root causes.

- We end the report with a **conclusion**.

5. We trust the insights and recommendations in this report will be of value in your pursuit towards building and leading a public entity that is accountable and transparent, has institutional integrity, and performs at a level that has a positive impact on the lives of South Africans.

SECTION 1: AUDIT OUTCOMES AND MATERIAL IRREGULARITIES

OVERALL AUDIT OUTCOMES

1. The overall audit outcome of the entity is unqualified with findings. This is a regression from the previous year's audit outcome.

Audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
Financial statements				
Annual performance report				
• Commercialisation				
• Bio Economy			N/A	N/A
Compliance with legislation				
• Expenditure management				
• Annual financial statements				

	Unqualified / No material findings		Qualified		Adverse		Disclaimed		Material findings

	Improvement		Regression		Unchanged

2. Material misstatements were identified in the financial statements that were submitted for audit resulting in and the public entity having had the following deficiencies identified during the audit.

    - Management submitted financial statements that contained material misstatements and management's review of financial statements was not adequate as it did not detect potential areas of misstatements.
    - Management also made material adjustments after submission of the financial statements to National Treasury on the 31st of May 2023.
    - Management did not adequately implement internal controls designed for the appropriate monitoring of compliance with laws and regulations resulting in findings of non-compliance in the current year.
    - Irregular expenditure was identified during the audit process that was not identified and reported by management with an indication of significant control weakness in the environment.

3. In overall conclusion, there has been regression in the control environment with control deficiencies leading to material adjustments of annual financial statements.

4. We provide further insight into the audit outcomes, the root causes of weaknesses and our recommendations in the rest of this report.

CONTROLLED ENTITIES

5. The audit outcomes of the entities in the portfolio follow:

Entities: audit results per outcome area

Outcome area	Movement	2022-23	2021-22	2020-21
1. Natural Carotenoids South Africa (Pty) Ltd				
Financial statements	N/A	N/A	N/A	N/A
Annual performance report				
• Not applicable	N/A	N/A	N/A	N/A
Compliance with legislation	N/A	N/A	N/A	N/A
2. iThemba Pharmaceuticals (Pty) Ltd				
Financial statements	N/A	N/A	N/A	N/A
Annual performance report				
• Not applicable	N/A	N/A	N/A	N/A
Compliance with legislation	N/A	N/A	N/A	N/A

6. Natural Caretonoids is dormant and in the process of deregistration. During the year, the liquidation of iThemba Pharmaceuticals (Pty)Ltd was finalised and the investment is derecognised. Bio2Biz was deregistered in the prior year.

SECTION 2: SIGNIFICANT MATTERS

FINANCIAL STATEMENTS

Audit results

7. The financial statements were submitted to us for auditing on 31 May 2023.

8. We identified material misstatements in the financial statements submitted for auditing. The material misstatements constitute non-compliance with section 51(1)(b)(ii) of the PFMA and 55(1) (a) and (b) of the PFMA. The non-compliance will be reported as a material finding in the auditor's report.

9. There were no material misstatements not corrected in the current year. Management corrected all material misstatements.

Material misstatements corrected

Accounting standard / legislation	Nature	Value	Description	Prior-year misstatements	
				2021-22	2020-21
Irregular expenses					
section 55(1) of the Public Finance Management Act (PFMA)	Non-disclosure	R961 021.02	Recognition and payment of expenses incurred by Microalgal Technology Demonstration and Incubation Centre (MTDI) NPO (a TIA Grant recipient) outside of terms of funding agreement by TIA.	R3 395 352.76	
Loans and receivables					
section 55(1) of the Public Finance Management Act (PFMA)	Understatement	R22 000 000	Balancell loan receivable restructuring not recorded in the financial statements of TIA accurately and the resultant recognition of the interest of R11,4million not recognized in prior years.	R22 000 000	
Deferred Conditional Grant					
section 55(1) of the Public Finance Management Act (PFMA)	Overstatement	R5 500 000	Incorrect recognition of Innovation Funding agreement with DSI as conditional grant and Loan advanced to Stone Three Digital (Pty) Ltd incorrectly recognised on the financial statements as a deferred conditional grant.	R 5 000 000	

	Uncorrected		Corrected		No prior-year misstatement

10. These misstatements were identified in the current financial year; however, they resulted in prior year adjustments.

11. The corrected misstatement adjusted by management resulted in the material adjustments after submission of financial statements to National Treasury on the 31st of May 2023 as well as adjustments to prior period amounts.

12. Management was awarded the opportunity to process adjustments at the end of the audit and these were processed and revised financial statements provided to the auditors for final review.

13. We identified significant internal control deficiencies in the financial statement preparation and related business processes, where we identified improvements, we reported these to management.

Key recommendations and responses – financial statements

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Management needs to interrogate the transactions that have occurred and ensure: - Only expenditure that is related to TIA is recognised in the financial statements of TIA. - Review the processes followed in the approval and payment of the MTDI expenses to ensure compliance with TIA policies and DoA approval levels and the determination of the full quantum of irregular expenditure. - The full exposure of the transactions that have been incurred by TIA for MTDI should be quantified and the necessary amendments be proposed on the financial statements. There is an overall need to further review the processes within the organisation around the management of platforms or funded projects that are not profitable and have no possible future commercialisation to ensure the organisation does not continue to inject funds to causes that will not yield any positive outcomes. **Response**: As a result of delays and difficulties in the establishment of the platform, TIA's role to assist in supporting the platform continued and extended to assist with the payment of expenses on behalf of the platform. This was a pragmatic approach to fulfil the TIA mandate in a geographical location with resource limitations. Management notes the finding, and the necessary action will be implemented.	2022-23	Implemented
Recommendation: Management needs to review the terms of the agreement in line with the requirement of the GRAP reporting framework of the entity. The necessary amendments need to be processed in the financial statements to ensure fair and complete presentation of the financial statements. **Response:** Management are off the view that the raising of a financial asset for a royalty arrangement is not in accordance with the substance and intention of the transaction. The intended obligation to pay only arises on the making of a sale, and similarly, the financial asset being the contractual right to receive cash only arises when such sale is made and necessary declaration made in line with the contractual requirements thereto. Accordingly, Management exercised a thorough review of the matter including accounting (GRAP) implications. Given its technical nature, the auditors were of a different view. As the audit finding was raised a short period before the 31st of May, Management was not in a position to finalise the matter and submitted the draft AFS noting that this matter remained to be concluded. The necessary adjustments were processed in the final audited AFS.	2022-23	Implemented
Recommendation: Management will need to review the terms of the agreements with Stone Three Digital (Pty) Ltd and recognise the relevant transactions and balances receivable from them in the financial statements as the currently do not reflects the complete receivables from Stone Three Digital. Furthermore, the expenses treatment should be reviewed as the nature of the relationship between DSI and TIA is that of a principal and agent and the transactions done on behalf of DSI by TIA would not affect the income statement of TIA in line with recognition and accounting requirements of GRAP 109.	2022-23	Implemented

Recommendation and management response	Year originally recommended	Status of implementation
Management needs to reassess terms of the funding agreements with DSI for the consideration of the application of GRAP 109 and prior period errors as well. Another element of the AFS disclosures that will need to be considered is the disclosure of possible contingent assets that are likely to emanate from the projects that have clauses that state that the projects will be required to pay the initial funding provided once they become profitable. Management should also review determine recoverability of the loan and consider prior period impact on accumulated impairment. **Response:** Management notes the finding and have subsequently adjusted the AFS to raise the assets and contingent assets in the subsequent and current years. Based on the feedback from the technical opinion from the Office of the AG, no adjustments/changes were made in line with Grap 109 between TIA and the DSI with reference to the Innovation Fund agreement in place.		

14. There are no prior year recommendations not yet implemented.

Information to be included in auditor's report.

15. We will include an 'emphasis of matter' paragraph in the auditor's report to draw the attention of users of the financial statements to the following matter which we deem to be fundamental to their understanding of the financial statements:

- As disclosed in note 33 to the financial statements, the corresponding figures for 31 March 2022 were restated as a result of an error in the financial statements of the public entity at, and for the year ended, 31 March 2023

Matters affecting future financial statements.

16. The public entity should ensure that systems and controls are in place to implement the following upcoming changes in the accounting standards, pronouncements or legislation that will have an impact on the financial statements:

Changes – accounting standards, pronouncements or legislation

Description	Effective date
GRAP 25 on Employee benefits (revised)	To be determined
GRAP 104 on Financial instruments (revised)	1 April 2025
IGRAP 7 on The limit on a defined benefit asset, minimum funding requirements and their interaction (revised	To be determined
IGRAP 21 on The effect of past decisions on materiality	1 April 2023
Guideline on Accounting for landfill sites	1 April 2023

FINANCIAL MANAGEMENT AND PERFORMANCE

Going concern

17. Our audit included an evaluation of the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether any material uncertainties exist about the public entity's ability to continue as a going concern.

18. We did not identify any events or conditions that cast significant doubt on the public entity's ability to continue as a going concern.

Budget management

19. We tested compliance with the legislative requirements for budget management and performed tests to identify budget overspending or budgets not spent for their intended purpose. We did not identify findings to highlight in this area of financial management.

Financial assessment and compliance

20. Our audit included a high-level assessment of the financial position and key financial ratios of the public entity based on its financial results to assess its going concern (as detailed earlier) and also to highlight to management those issues that may require corrective action to maintain financial stability. The assessment is intended to complement, rather than substitute, management's own financial assessment.

21. The detailed assessment is included in **annexure A**. We used the amounts and information in the financial statements to perform the assessment.

22. Next, we summarise key matters from the assessment.

Financial assessment – key matters

Area – Not applicable
There were no key matters identified.

23. We concluded that the financial status of the public entity is good, which is the same as the previous year.

24. We identified material non-compliance with legislation on financial management for reporting in the auditor's report.

Financial management – material non-compliance

Finding	Prior years reported	
	2022-23	2021-22
Irregular expenditure was identified during the audit process that was not identified and reported by management and also impacting prior periods giving an indication of control weakness in the environment.	√	

25. Management did not implement adequate internal controls to ensure compliance with laws and regulations as the financial statements submitted for audit purposes were not free from material misstatements as misstatements were identified that were adjusted by management in the financial statements.

Losses

26. It is crucial for the public entity to implement the necessary disciplines to ensure that value is derived from money spent and that assets and resources are safeguarded. We did not identify findings to highlight in this area of financial management.

Grant management

27. The department received grants totalling R458 370 000 to fund its programmes and projects in the current year. We audited compliance with the Division of Revenue Act and the utilisation of the [Medium-Term Expenditure Framework (METF) allocation.

28. We did not identify findings to highlight in this area of financial management.

Internal control and recommendations

29. We did not identify significant internal control deficiencies in the financial management processes. Where we identified possible improvements, we reported these to management.

PERFORMANCE PLANNING, MANAGEMENT AND REPORTING

Overall performance planning and management

30. We tested whether the Agency's performance planning and management processes, strategic plan and annual performance plan complied with the key requirements from legislation and the revised framework for strategic and annual performance plans.

31. We did not identify findings.

Audit of annual performance report

32. The annual performance plan and report were submitted to us for auditing on 31 May 2023.

33. As detailed in the engagement letter, we undertook a reasonable engagement on specific programmes selected for auditing. We will report only the material findings in the auditor's report and not the audit opinion included in **section 1**.

34. We selected the following programmes for auditing:

- Programme 2 - Commercialisation
- Programme 3 – Bio Economy

35. We selected programmes that measure the Agency's performance on its primary mandate functions and that are of significant national, community or public interest.

36. We evaluated the reported performance information for the selected programmes against the criteria developed from the performance management and reporting framework. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users of the report on the public entity's planning and delivery on its mandate and objectives.

37. We performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the Agency's mandate and the achievement of its planned objectives.
- the indicators are well defined and verifiable to ensure that they are easy to understand and consistently applied, and that we can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance, as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as what were committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets.

38. We also performed procedures to test whether:

    - the overall presentation of the performance information in the annual performance report is comparable and understandable.
    - the indicators used for planning and reporting are complete by considering the core functions of the Agency as defined by its mandate, the prioritisation for delivery on those core functions and any applicable standardised indicators.

    We will not report material findings on these matters in the current year's auditor's report as there were no findings identified.

Programme: Bio-economy

39. We did not identify findings on the completeness of indicators.
40. We did not identify material misstatements in the reported performance information in the annual performance report submitted for auditing.
41. In our opinion, the reported performance information for Bio-Economy programme is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Programme: Commercialisation

42. We did not identify findings on the completeness of indicators.
43. We did not identify material misstatements in the reported performance information in the annual performance report submitted for auditing.
44. In our opinion, the reported performance information for commercialisation programme is useful and reliable, in accordance with the applicable criteria as developed from the performance management and reporting framework as set out in annexure D to this report.

Information to be included in auditor's report

45. We may communicate matters about the audit, the auditor's responsibilities and the auditor's report in the auditor's report that are important for users of the annual performance report to know about. We will include information on the corrections to the material misstatements in the submitted annual performance report in the 'other matters' section in the auditor's report.

Internal control and recommendations

46. We did not identify significant internal control deficiencies in the performance planning, management and reporting processes. Where we identified possible improvements, we reported these to management.

ACHIEVEMENT OF PLANNED TARGETS

47. As disclosed in the annual performance report, all of the planned targets were achieved for the programmes we selected for auditing.

OTHER INFORMATION IN ANNUAL REPORT

48. We did not audit the information in the annual report except for the financial statements, the programmes in the annual performance report selected for auditing and the information on irregular and fruitless and wasteful expenditure.

49. However, the auditing standards require us to read the unaudited information and consider whether it is materially inconsistent with the information we audited, the knowledge we obtained during the audit or otherwise appears to be materially misstated. We did not identify material findings to report in the auditor's report.

KEY PROJECTS FUNDED BY GRANTS

50. We selected, tested and reported on key projects funded by the grants, over the project life cycle of the projects. We tested timelines, budget spending, compliance with procurement processes, recording of transactions in the financial statements, and the quality of the goods and services delivered against the initial requirements.

51. We did not identity significant findings on the key projects

Internal control and recommendations

52. We did not identify significant deficiencies in the project management controls. Where we identified possible improvements, we reported these to management.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

53. Our audit included confirming whether the public entity complied with selected reporting requirements in the B-BBEE Act and Regulations. We did not identify non-compliance with the selected requirements tested.

Findings on B-BBEE

Finding	Prior years reported	
	2021-22	2020-21
There were no findings identified in the current year	[√]	[√]

PROCUREMENT AND CONTRACT MANAGEMENT

54. Section 217(1) of the Constitution envisages supply chain management systems that are fair, equitable, transparent, competitive and cost effective to achieve optimal value for public money spent and ensure equitable opportunities for suppliers to participate in government business. Meticulous contract management and rigorous payment control mechanisms should be in place to ensure that payments are made only upon the supplier's timely delivery, adherence to agreed-upon pricing, and compliance with specified quality standards.

We continued to focus on procurement and contract management processes, recognising that public procurement is the area at greatest risk of fraud, financial loss and irregular practices. We identified findings. The findings on material non-compliance with legislation will be reported in the auditor's report.

Findings on procurement and contract management

Area	Findings		
	2022-23	2021-22	2020-21
Audit limitations			
Deviations			
Conflict of interest			
Non-compliance: competitive bidding process			
Non-compliance: quotation process			
Contract management			

	Material non-compliance with legislation		Findings		No findings

IRREGULAR EXPENDITURE

55. Non-compliance with legislation resulted in irregular expenditure of R4 500 000. The irregular expenditure incurred constitutes non-compliance with section 51(1)(b)(ii) of the PFMA. The non-compliance will be reported as a material finding in the auditor's report.

56. The irregular expenditure incurred was disclosed in the financial statements and annual report as required. As detailed in the section on financial statements, the material misstatement in the financial statements will be reported in the auditor's report.

57. Material irregular expenditure was incurred as a result of expenditure that was incurred on behalf of an externally funded platform without the appropriate approval together with one instance where a contract was signed by party outside of the Delegation of Authority.

CONSEQUENCE MANAGEMENT

58. Legislation stipulates that matters such as incurring unauthorised, irregular, and fruitless and wasteful expenditure; the possible abuse of the supply chain management system (including fraud and improper conduct); and allegations of financial misconduct should be investigated. Disciplinary steps should be taken based on the results of these investigations. Our audit included an assessment of the public entity's management of consequences.

59. We did not identify findings.

FRAUD RISK

60. Our auditing standards define fraud as an intentional act by one or more individuals who are employees, management, those charged with governance or third parties, and that involves the use of deception to obtain an unjust or illegal advantage. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or that provide an opportunity to commit fraud. We identified the following fraud risk factors.

Fraud risk factors

Event or condition	Prior years reported	
	2021-22	2020-21
There is a presumed fraud risk factor related to the recognition of revenue in terms of ISA240.	[√]	[√]
There is a fraud risk factor related to procurement and contract management as there are	[√]	[√]
Management override of controls - Journal entries - Estimates and judgements - Significant transactions outside the normal course of business	[√]	[√]

SECTION 3: CONTROL ENVIRONMENT

OVERALL CONTROL ENVIRONMENT

61. The significant internal control deficiencies as reported in **section 2** were caused by weaknesses in the overall control environment, for responsible.

62. The following are the main weaknesses that need urgent attention to improve the overall control environment:

Significant deficiencies – overall control environment

Deficiency	Prior years reported	
	2022-23	2021-22
Financial and performance management Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	√	
Financial and performance management Management have prepared accurate financial reports that are supported and evidenced by reliable information and there hasn't been adequate controls implemented over the processing and reconciliation of transactions to ensure accurate financial reports.	√	

63. Overall, there has been a slight regression in the control environment with control deficiencies leading to material adjustments of annual financial statements.

64. In **annexure C** we provide a more detailed view of the overall state of internal control.

ACCOUNTABILITY ECOSYSTEM

65. The accountability ecosystem is the collection of role-players that have a part to play in enabling and institutionalising a culture of performance, transparency, accountability and integrity at the public entity.

66. These role-players include the officials, senior management and the accounting authority, supported by the internal audit until and the audit committee.

67. We observed strengths and weaknesses in the contributions to the ecosystem by leadership, management and the governance structures of the public entity. We share our observations with the intention to contribute to strengthening the overall control environment, performance and accountability.

Accounting authority and senior management

68. Material misstatements were identified in the financial statements that were submitted for audit purposes.

69. Material non-compliance with laws and regulations was identified during the audit. One non-compliance matter noted resulted in irregular expenditure.

Audit committee

71. Legislation requires the accounting authority to ensure the establishment of an audit committee.

72. The accounting authority is expected to ensure that the audit committee functions effectively to have a positive impact on the status of key controls.
73. The audit and risk committee is an independent advisory body to the accounting authority and the management and staff of the entity on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; performance evaluation and any other issues.
74. The audit and risk committee is also expected to review the annual financial statements to provide an authoritative and credible view of the public entity, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
75. The public entity had a fully functional audit and risk committee that was independent during the year. Work of the internal audit reported at the audit and risk committee meetings. Furthermore, the non-executive members have suitable qualification and understand the public entity.

Internal audit unit

76. Legislation in South Africa requires the establishment, roles and responsibilities of internal audit units. Internal audit units form part of the internal control and governance structures of the public entity and play an important role in its monitoring activities.
77. The accounting authority should ensure that the internal audit function is adequately resourced to function effectively.
78. Internal audit provides an independent assessment of the public entity's governance, risk management and internal control processes. Internal audit have a significant role to play as an assurance provider due to the assurance skills that they possess and assurance activities that they perform Effective internal audit units are able to have a positive impact on the status of key controls.
79. The auditing standards allow us to use the work of internal audit units for external audit purposes and for direct assistance. We have used internal audit work as follows:
    - Internal Audit: Final Report on the Supply Chain Management Unit for FY2022/23
    - Internal Audit: Final Report on Corporate Governance for the Financial Year 2022/23
    - Internal Audit: Final Report on the Financial Management Function for FY2022/23
    - Internal Audit: Final Report on the Seed Fund Programme Unit for FY2022/23
    - Internal Audit: Final Report on Technology Stations Programme for Financial Year 2022/23
80. We had interactions with internal audit during the audit and from these no reason to not place reliance on their work were noted. Internal audit reports issued during the year have been inspected and the work they performed was used for risk assessment processes. We did not identify any additional findings on the work done by the internal audit and they executed their work in line with the audit plan.

RECOMMENDATIONS AND RESPONSES

81. Next we summarise our key recommendations to senior management and their responses. Some of these recommendations were also made in prior years but have not been implemented or have not been fully implemented yet.

Key recommendations and responses – control environment

Recommendation and management response	Year originally recommended	Status of implementation
Recommendation: Management should ensure the impact of the reassessment of the useful lives for the assets that are recorded at zero	2019-20	Not started

Recommendation and management response	Year originally recommended	Status of implementation
book value but are still in use by the entity are adjusted accordingly in the financial statements. **Response:** Management has reviewed and assessed the finding in line with the accounting standards and the TIA asset Policy. Given that the calculated value by management was not considered material, Management did not consider it to be material to adjust the Asset register / AFS. As management has consistency applied the principles of GRAP 17 in prior periods, in that all available information and relevant facts and circumstances were considered, Management do not view that the outcome of having fully depreciated assets is an error but rather be treated in line with the change in accounting estimate (these assets arose as a result of expectations of how the asset is or will be used having subsequently changed). This is also consistent with the Accounting Standards Board guidance for fully depreciated assets. Management also considered that necessary controls have been implemented in this regard.		
Recommendation: Management needs to review the terms of the agreement in line with the requirement of the GRAP reporting framework of the entity. The necessary amendments need to be processed in the financial statements to ensure fair and complete presentation of the financial statements. **Response:** Management are off the view that the raising of a financial asset for a royalty arrangement is not in accordance with the substance and intention of the transaction. The intended obligation to pay only arises on the making of a sale, and similarly, the financial asset being the contractual right to receive cash only arises when such sale is made and necessary declaration made in line with the contractual requirements thereto. Accordingly, Management exercised a thorough review of the matter including accounting (GRAP) implications. Given its technical nature, the auditors were of a different view. As the audit finding was raised a short period before the 31st of May, Management was not in a position to finalise the matter and submitted the draft AFS noting that this matter remained to be concluded. The necessary adjustments were processed in the final audited AFS.	2022-23	Implemented
Recommendation: Management should ensure that the information disclosed on the annual financial statements is accurate and is supported by relevant schedules. **Response:** Management has ensured that it maintains a robust process of controls in respect of the preparation of its AFS. This includes an independent review by the internal auditors. All information provided to the auditors have been supported by valid, accurate and complete schedules. During the current year audit, various matters were raised in respect of matters previously audited and accepted. Given that these matters were raised a short period before the 31st of May, Management was not in a position to finalise the matters and submitted the draft AFS noting that this matter remained to be concluded. The necessary adjustments were processed in the final audited AFS.	2022-23	Implemented
Recommendation: Management needs to put controls in place to mitigate the delay in the identification of the entity's that are liable to pay royalty income. There are various considerations that may be done which include enhancing the reporting by the Business Unit Heads and making the mandatory submission of financial statements of the funded entities within a stipulated timeframe after their yearend a requirement of the funding	2022-23	Implemented

Recommendation and management response	Year originally recommended	Status of implementation
agreement. This will allow for the review of the financial information and recognition of the relevant royalty income within the correct period. There are also further added benefits to this as it will enhance monitoring of funded entities to identify those that require assistance at an early stage and intervention may be applied in time. Management should also review the full population to identify the extent of the misstatement in the financial statements before processing adjustments. **Response:** In line with GRAP 9 Para 34, TIA can only raise royalty invoices when the amount can be measured reliable. It is important to note that the raising of royalties is conditional on the receipt of signed AFS so therefore only when this condition is met can TIA raise the invoice. In terms of GRAP, it is only at this time does these criteria are met, and cannot be deemed to be met in years before when information is not available to TIA. TIA therefore also cannot raise accruals until such time that one is able to determine and calculate royalties due. TIA contracts do contain the necessary requirement to submit AFS within a stipulated period. Whilst various efforts do take place to follow through on information, these represent ongoing challenges experienced by SMMEs. Management will continue to ensure that it looks at methods to improve the recording of royalty income.		
Recommendation: Management needs to interrogate the transactions that have occurred and ensure: - Only expenditure that is related to TIA is recognised in the financial statements of TIA. - Review the processes followed in the approval and payment of the MTDI expenses to ensure compliance with TIA policies and DoA approval levels and the determination of the full quantum of irregular expenditure. - The full exposure of the transactions that have been incurred by TIA for MTDI should be quantified and the necessary amendments be proposed on the financial statements. There is an overall need to further review the processes within the organisation around the management of platforms or funded projects that are not profitable and have no possible future commercialisation to ensure the organisation does not continue to inject funds to causes that will not yield any positive outcomes. **Response:** As a result of delays and difficulties in the establishment of the platform, TIA's role to assist in supporting the platform continued and extended to assist with the payment of expenses on behalf of the platform. This was a pragmatic approach to fulfil the TIA mandate in a geographical location with resource limitations. Management notes the finding, and the necessary action will be implemented.	2022-23	Implemented
Recommendation: Management will need to review the terms of the agreements with Stone Three Digital (Pty) Ltd and recognise the relevant transactions and balances receivable from them in the financial statements as the currently do not reflects the complete receivables from Stone Three Digital. Furthermore, the expenses treatment should be reviewed as the nature of the relationship between DSI and TIA is that of a principal and agent and the transactions done on behalf of DSI by TIA would not affect the income statement of TIA in line with recognition and accounting requirements of GRAP 109. Management needs to reassess terms of the funding agreements with DSI for the consideration of the application of GRAP 109 and prior period errors	2022-23	Implemented

Recommendation and management response	Year originally recommended	Status of implementation
as well. Another element of the AFS disclosures that will need to be considered is the disclosure of possible contingent assets that are likely to emanate from the projects that have clauses that state that the projects will be required to pay the initial funding provided once they become profitable. Management should also review determine recoverability of the loan and consider prior period impact on accumulated impairment. **Response:** Management notes the finding and have subsequently adjusted the AFS to raise the assets and contingent assets in the subsequent and current years. Based on the feedback from the technical opinion from the Office of the AG, no adjustments/changes were made in line with Grap 109 between TIA and the DSI with reference to the Innovation Fund agreement in place.		

SECTION 4: OVERALL RECOMMENDATIONS

82. We provided recommendations to senior management to rectify the weaknesses identified in financial management and compliance with legislation. Our recommendation for the Accounting Authority is to focus on addressing the underlying root causes of these weaknesses, which stem from deficiencies in the overall control environment and failures in the accountability ecosystem.

83. In our view the main root causes that need attention are as follows:

    - Management oversight

84. Addressing these root causes requires a focused and systematic approach. We have found that an action plan that is focused on addressing root causes, with SMART targets and disciplined monitoring and implementation, is fundamental to success.

85. The following are our main recommendations to address the identified root causes. We have shared some of these before and ask for urgent action to ensure their implementation and management have implemented most of these recommendations.

Overall recommendations

	Recommendation	Year originally recommended
1.	Management should ensure the impact of the reassessment of the useful lives for the assets that are recorded at zero book value but are still in use by the entity are adjusted accordingly in the financial statements.	2019-20
2.	Management needs to review the terms of the agreement in line with the requirement of the GRAP reporting framework of the entity. The necessary amendments need to be processed in the financial statements to ensure fair and complete presentation of the financial statements.	2022-23
3.	Management needs to put controls in place to mitigate the delay in the identification of the entity's that are liable to pay royalty income. There are various considerations that may be done which include enhancing the reporting by the Business Unit Heads. This will allow for the review of the financial information and recognition of the relevant royalty income within the correct period. There are also further added benefits to this as it will enhance monitoring of funded entities to identify those that require assistance at an early stage and intervention may be applied in time. Management should also review the full population to identify the extent of the misstatement in the financial statements before processing adjustments.	2022-23
4.	Management needs to interrogate the transactions that have occurred and ensure: - Only expenditure that is related to TIA is recognised in the financial statements of TIA. - Review the processes followed in the approval and payment of the MTDI expenses to ensure compliance with TIA policies and DoA approval levels and the determination of the full quantum of irregular expenditure. - The full exposure of the transactions that have been incurred by TIA for MTDI should be quantified and the necessary amendments be proposed on the financial statements. There is an overall need to further review the processes within the organisation around the management of platforms or funded projects that are not profitable and have no possible future commercialisation to ensure the organisation does not continue to inject funds to causes that will not yield any positive outcomes	2022-23

	Recommendation	Year originally recommended
5.	Management will need to review the terms of the agreements with Stone Three Digital (Pty) Ltd and other contracts with similar clauses and recognise the relevant transactions and balances receivable from them in the financial statements as the AFS are not reflecting the complete receivables from Stone Three Digital. Another element of the AFS disclosures that will need to be considered is the disclosure of possible contingent assets that are likely to emanate from the projects that have clauses that state that the projects will be required to pay the initial funding provided once they become profitable. Management should also review and determine recoverability of the loan and consider prior period impact on accumulated impairment.	2022-23

CONCLUSION

The matters communicated throughout this report relate to the three fundamentals of internal control that should be addressed to achieve sustained clean administration. Our staff remain committed to assist in identifying and communicating good practices to improve governance and accountability and to build public confidence in government's ability to account for public resources in a transparent manner.

ANNEXURE A: FINANCIAL ASSESSMENT

We included a summary of the financial assessment we did as part of the audit in the section on financial performance. This annexure includes the detailed ratios and information used for the assessment.

Financial assessment – entities other than departments

		Current year	Previous year
Expenditure management			
1.1	Creditor-payment period	9 Days	9 Days
Revenue management			
2.1	Debt-collection period (after impairment)	2,5 Days	2,8 Days
2.2	Debtors' impairment provision as percentage of accounts receivable	62,63%	58,78%
	• Amount of debtors' impairment provision • Amount of accounts receivable	R7 096 R11 330	R6 445 R10 964
Asset and liability management			
3.1	Deficit was realised for the year (total expenditure exceeded total revenue)	No	No
	• Amount of surplus/(deficit) for the year	R22 509	R22 592
3.2	Net current liability position was realised (total current liabilities exceeded total current assets)	No	No
	• Amount of net current asset/(liability) position	R90 086	R126 391
3.3	Net liability position was realised (total liabilities exceeded total assets)	No	No
	• Amount of net asset/(liability) position	R125 241	R102 732
Cash management			
4.1	Year-end bank balance was in overdraft	No	No
	• Amount of year-end bank balance (cash and cash equivalents) / (bank overdraft)	R433 85	R436 230
4.2	Net cash flows for the year from operating activities were negative	No	No
	• Amount of net cash [in/(out)flows for the year from operating activities	R14 600	R6 899
4.3	Creditors as percentage of cash and cash equivalents	14,22%	11,28%
	• Amount of creditors (accounts payable)	R61 673 R433 852	R49 185 R436 230

		Current year	Previous year
	• Amount of cash and cash equivalents / (bank overdraft) at year-end		
** These amounts have not been adjusted for uncorrected misstatements that resulted in the modification of the audit opinion and will therefore agree with the financial statement amounts.*			

ANNEXURE B: PROCUREMENT AND CONTRACT MANAGEMENT

87. We included a summary of our findings and their impact in the section on procurement and contract management. This annexure provides the detailed findings.

Audit limitations

88. All information we required to perform our audit of procurement processes, contract management and payments was provided.

Deviations

89. Supply chain management legislation and policy prescribe the processes that apply for procuring specific goods and services as well as their threshold values, including competitive bidding, obtaining quotations or participating in transversal contracts. It also defines the requirements for deviating from the prescribed processes. We identified deviations where the stipulated requirements for such deviations were not complied with.

Competitive bidding and quotation processes

90. Supply chain management legislation and policy prescribe the manner in which bidding and quotation processes should be performed to enable fair, competitive and equitable procurement. We did not identified non-compliance with the requirements for [the competitive both processes.

Contract management

91. Supply chain management legislation and policy prescribe the manner in which contracts should be managed to ensure that payments are only made for goods and services that have been received and that have been delivered at the right quality. We did not identified non-compliance with these requirements.

Conflict of interest

92. We assessed the interests of officials and their close family members and/or business partners or associates in suppliers to the public entity as well as the interests of persons in the service of other public sector institutions. Procurement legislation does not prohibit awards to such suppliers, but we performed testing to ensure that conflicts of interest did not result in contracts being unfairly awarded or in unfavourable price quotations being accepted, and to share the information with management as potential risks. We did not identify such interests.

93. The Public Service Act and Regulations prohibit employees of departments from doing business with the state and from performing remunerative work outside their employment in the department, except with the written permission of the executive authority of the department or in an official capacity as a director of a public entity. We identified non-compliance with this legislation.

Internal control and recommendations

94. We did not identify significant internal control deficiencies in the procurement and contract management processes. Where we identified possible improvements, we reported these to management.

ANNEXURE C: ASSESSMENT OF INTERNAL CONTROL

95. This annexure provides our assessment of the main internal controls in the areas of **leadership**, **financial and performance management** and **governance** that should enable credible financial statements and performance reports and compliance with legislation.

96. The assessments are rated as follows:

(green)	The required preventative or detective controls were in place.
(yellow)	Progress was made in implementing preventative or detective controls, but improvement is still required or actions taken were not sustainable.
(red)	Internal controls were not in place, were not properly designed, were not implemented or were not operating effectively. Intervention is required to design and/or implement appropriate controls.

97. Movement from the previous year is shown as follows:

▲	Improvement	▼	Regression	►	Unchanged

Internal control assessment

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Leadership	►		►		►	
Provide effective leadership based on a culture of honesty, ethical business practices and good governance, and protect and enhance the interests of the entity	(green)	(green)	(green)	(green)	(green)	(green)
Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls	(green)	(green)	(green)	(green)	(green)	(green)
Implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored	(green)	(green)	(green)	(green)	(green)	(green)
Establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities	(green)	(green)	(green)	(green)	(green)	(green)
Develop and monitor the implementation of action plans to address internal control deficiencies	(green)	(green)	(green)	(green)	(green)	(green)

	Financial statements		Performance reporting		Compliance with legislation	
	Current	Previous	Current	Previous	Current	Previous
Establish and implement an information technology governance framework that supports and enables the business, delivers value and improves performance						
Financial and performance management						
Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting						
Implement controls over daily and monthly processing and reconciling of transactions						
Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information						
Review and monitor compliance with applicable legislation						
Design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information relating to user access management, programme change control and service continuity						
Governance						
Implement appropriate risk management activities to ensure that regular risk assessments, including the consideration of information technology risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored						
Ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively						
Ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation						

ANNEXURE E: SUMMARY OF DETAILED AUDIT FINDINGS

1. This annexure summarises the findings that were communicated to management during the audit. The detailed findings are available on request.

98. The findings are rated as follows:

(red)	Matters that will be reported in the auditor's report and should be addressed urgently.
(yellow)	Matters that should be addressed to prevent material misstatements in the financial statements or material findings on the annual performance report and compliance with legislation in future. Also includes matters that significantly affected auditee performance.
(blue)	Matters that do not have a direct impact on the audit outcome or a significant impact on auditee performance but were communicated to assist with improving processes and mitigating risks.

Summary of audit findings

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Property, plant and equipment							
No adjustment made to the carrying value of assets with zero balances after the reassessment of useful life	(yellow)	√		√			2
Legal Cost Disclosure							
Contingent liabilities – Disclosed amount do not agree with the legal counsel representation letter.	(yellow)	√			√		0
Loans and Receivables							

Finding	Rating	Classification					Number of times reported in previous two years
		Financial	Performance	Compliance	Internal control	Delivery	
Balancell loan receivable restructuring not recorded in the financial statements of TIA accurately.		√					0
Other Income							
Royalty income recorded in the incorrect period.		√			√		0
Operating Expenses							
Recognition and payment of expenses incurred by Microalgal Technology Demonstration and Incubation Centre (MTDI) NPO (a TIA Grant recipient) outside of terms of funding agreement by TIA.		√		√			0
Deferred Conditional Grants							
Incorrect recognition of Innovation Funding agreement with DSI as conditional grant and Loan advanced to Stone Three Digital (Pty) Ltd incorrectly recognised on the financial statements as a deferred conditional grant.		√					0