



AUDITOR - GENERAL  
SOUTH AFRICA

## BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR):

Portfolio Committee on  
Trade, Industry &  
Competition

October 2022

*Briefing document on the  
audit outcomes for the  
Trade, Industry &  
Competition portfolio:  
2021-22*

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## 1. Introduction

### 1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa (AGSA) 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.

### 1.2 Role of the AGSA

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a budgetary review and recommendations report (BRRR).

### 1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resource
- Recommendations on the forward use of resources

### 1.4 Mandate of the AGSA and the portfolio committee

#### Slide 2

AGSA mandate	Portfolio committee mandate
Section 188 of the Constitution	National Assembly Rule 227



AGSA mandate	Portfolio committee mandate
<p>The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.</p> <p><b>Section 20(2) of the Public Audit Act (PAA)</b></p> <ul style="list-style-type: none"> <li>The AGSA must prepare an audit report containing an opinion/conclusion on the: <ul style="list-style-type: none"> <li>fair presentation of the financial statements</li> <li>compliance with applicable legislation</li> <li>reported performance against predetermined objectives.</li> </ul> </li> <li>Discretionary audits (including special audits, investigations and performance audits)</li> </ul> <p><b>Section 5(1B) of the PAA</b></p> <p>The auditor-general has the power to:</p> <ul style="list-style-type: none"> <li>issue a material irregularity</li> <li>include recommendations in the audit report</li> <li>take an appropriate remedial action</li> <li>issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.</li> </ul>	<p>Portfolio committees may, amongst other things, perform the following functions:</p> <ul style="list-style-type: none"> <li>Deal with bills and other matters falling within their portfolio, as referred to them in terms of the Constitution, legislation or rules, or by resolution of the assembly</li> <li>Maintain oversight of their portfolios of national executive authority, including implementation of legislation, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio, and any other body or institution in respect of which oversight was assigned to it</li> <li>Consult and liaise with any executive organ of state or constitutional institution</li> <li>Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution</li> <li>Consult and liaise with any executive organ of state or constitutional institution</li> <li>Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.</li> </ul>

## 1.5 Purpose of this document

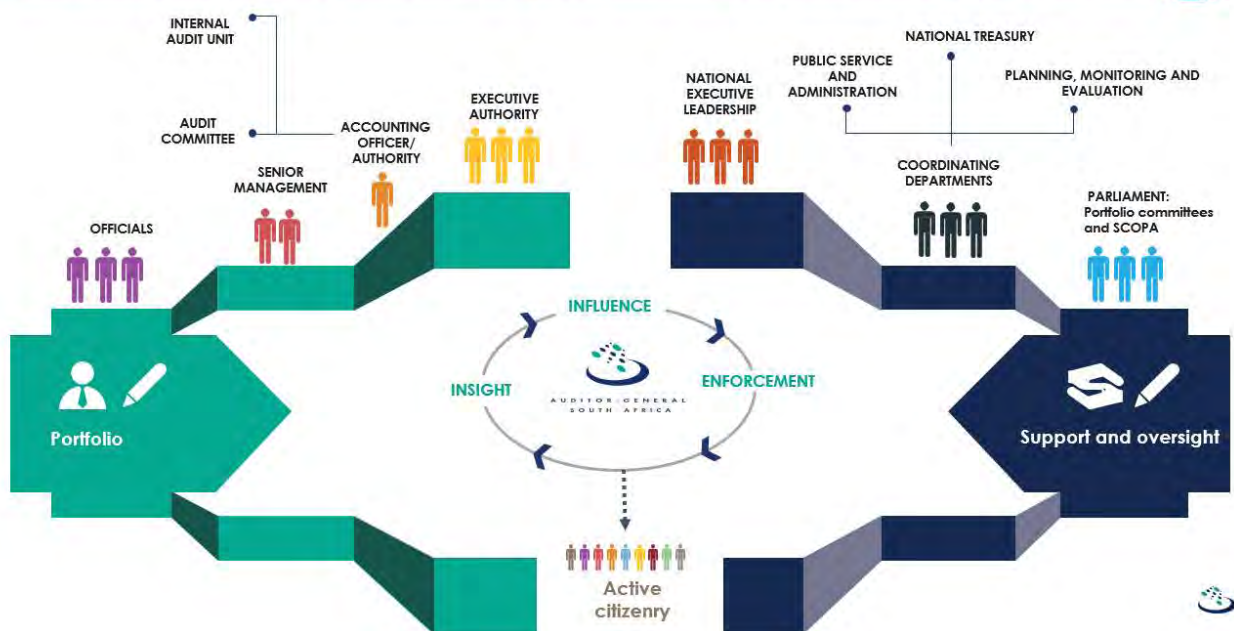
The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the objective of the committee to produce a BRRR.

## 1.6 Shifting the public sector culture through the accountability ecosystem

### Slide 3

#### All have role to play in national government accountability eco-system

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- The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.
- Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.
- Given the nature of the AGSA's mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.
- Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the



*auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

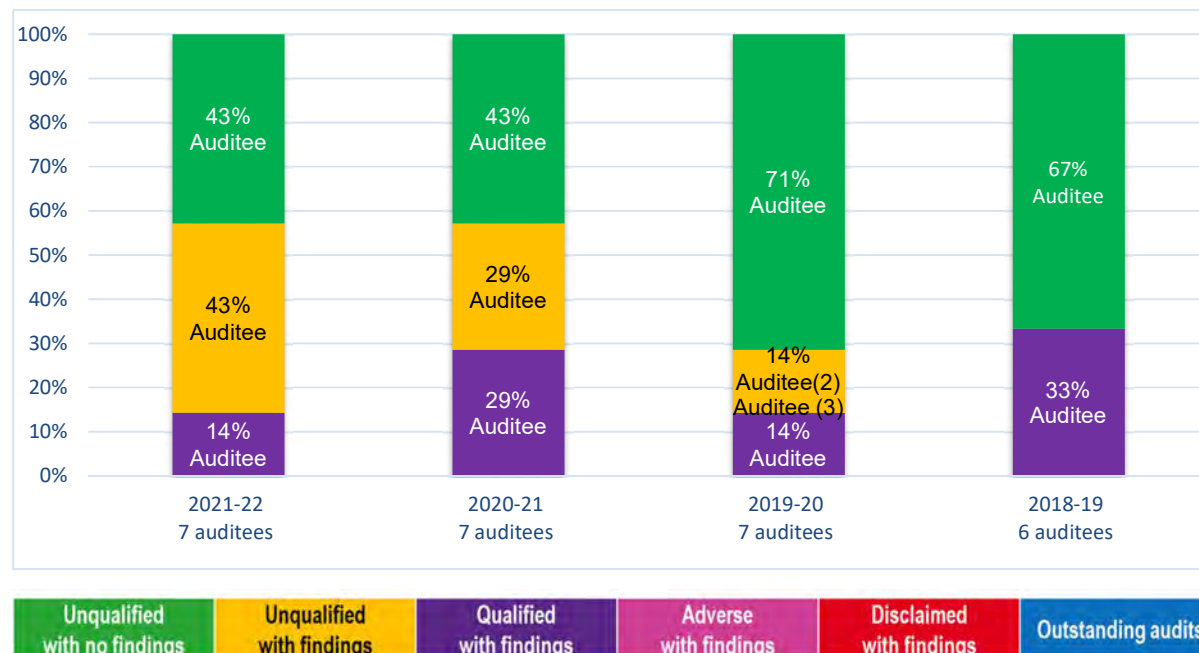
## 1.7 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
				
<p>Auditee:</p> <ul style="list-style-type: none"> <li>produced credible and reliable financial statements that are free of material misstatements</li> <li>reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	<p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> <li>align performance reports to the predetermined objectives they committed to in APPs</li> <li>set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>report reliably on whether they achieved their performance targets</li> <li>determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements</li> </ul>	<p>Auditee:</p> <ul style="list-style-type: none"> <li>had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements</li> </ul>

## 2. Audit outcomes over administration term

### Slides 6 & 7

#### Four-year audit outcomes



### 2.1 Overview

This document focuses on audit outcomes of seven auditees in the portfolio that are for audits that were performed by AGSA. The rest of the audits that were not audited by the AGSA are not included.

There is an improvement from the previous year with NRCS moving from qualified opinion to unqualified with findings. However, overall in the MTSF period, there percentage of clean audits have regressed from 67% to 43%. NLC is the contributor in the regression in audit outcomes.

## 2.2 Detail on outcomes

### Overview

Out of the 7 auditees, only 1 auditee had material findings on the annual performance plans which resulted into material findings in annual performance report.

#### 2.2.1 Findings on the audit of the annual performance report and achievement of targets

##### Slides 9 – 10

Auditee	Material findings	Number of targets achieved against number of targets planned for 2021-22 (%)	Impact of targets not achieved
Department of Trade, Industry and Competition(DTIC)	None identified	64 out of 70 (91%)	At 91% the department has still performed well in achieving targets. However, the few targets not achieved might have overall negative impact to the portfolio.
Companies and Intellectual	None identified	29 out of 36 (81%)	Most of the targets not achieved are in Programme 1, which does





Auditee	Material findings	Number of targets achieved against number of targets planned for 2021-22 (%)	Impact of targets not achieved
Property Commission (CIPC)			not directly influence service delivery in terms of the entities mandate.
Competition Commission (CC)	None identified	32 out of 44 (73%)	
South African Bureau of Standards (SABS)	<p>Strategic objective 1 – Creation of knowledge for dissemination of new technologies and innovative practices, that facilitates fair trade, supports policy, regulatory and industrialisation objectives</p> <p>Indicators, namely; “SANS supporting re-imagined industrial priority sectors and “Government, SOE, regulatory and related public sector engagements” were not well defined. As a result of the indicators and targets that were not clearly defined, there was a limitation finding on the audit of reliability of performance information.</p>	6 out of 11 (55%)	The entity has underperformed and there is a risk that planned outcomes and outputs of service delivery will not be met, causing less impact to the citizens.
National Regulator for Compulsory Specifications (NRCS)	None identified	8 out of 10 (80%)	Only 2 targets were not achieved. The impact is minimal.



Auditee	Material findings	Number of targets achieved against number of targets planned for 2021-22 (%)	Impact of targets not achieved
National Credit Regulator (NCR)	None identified	11 out of 12 (92%)	Only 1 target was not achieved. The impact is minimal.
National Lotteries Commission(NLC)	None identified	15 out of 16 (94 %)	Only 1 target was not achieved. The impact is minimal.

### 2.2.2 Material irregularities

#### Slides 19 - 20

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



*Auditees in the portfolio scoped in*

	2021-22	2022-23
Auditees	National Lotteries Commission	TBC

*There were no material irregularities identified in the DTIC portfolio.*

## 2.2.3 Findings on the audit of financial statements

### Slide 22

Auditee	Outcome	Details on qualification areas
Department of Trade, Industry and Competition(DTIC)	Unqualified	N/A
Companies and Intellectual Property Commission (CIPC)	Unqualified	N/A
Competition Commission (CC)	Unqualified	N/A



South African Bureau of Standards (SABS)	Unqualified	N/A
National Regulator for Compulsory Specifications (NRCS)	Unqualified	N/A
National Credit Regulator (NCR)	Unqualified	N/A
National Lotteries Commission(NLC)	Qualified	

## 2.2.4 Financial health risk

### Slide 23

#### Revenue



Debt- collection period >90 days at **2** auditees  
 Average debt- collection period = **47 days**  
 More than 10% of debt irrecoverable at **3** auditees  
 The entities with the debt collection of > 90 days are **NCRS** and **SABS**. **SABS** collection period is attributed to inadequate controls around revenue management.  
 Irrecoverable debt of more than 10% at **NCRS**, **NCR** and **SABS**.

#### Expenditure



**R3,8 million** of expenditure was **fruitless and wasteful** (5 auditees)  
**Creditor- payment period > 30 days** at **7 auditees**  
**Creditors greater than available cash** at year-end at **none** of the auditees.  
**Average creditor-payment period = 62 days**  
 The fruitless and wasteful expenditure was incurred at **CC**, **NCRS**, **NCR**, **NLC** and **SABS**. The majority of the expenditure relates to SARS interest and penalties as well as municipal services owed.  
 Credit payment period across the portfolio indicates non-compliance with 30 day payment or an emerging risk on non-compliance therewith.

## Impact

**0%** auditees **ended year in deficit** (expenditure more than revenue).  
**Next year's budget will pay for expenditure of previous year(s)** – at **0%** auditees it will be **more than half of their budgets**  
**None of the** auditees incurred **unauthorised expenditure**; **R0 million (0%)** was non-cash items (includes outstanding audits)  
**None (0%)** auditees disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as a going concern** in foreseeable future



### 2.2.5 Irregular expenditure analysis

#### Slide 25

During the year under review, auditees incurred irregular expenditure amounting to R78, 7million, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure increased by 239% compared to the prior year. The expenditure is broken down below:

Auditee	Description	Amount (R)	Root cause	Impact
NLC	Majority is from appointments of service providers for media services without following competitive bidding process.	68 088 000,00	<p>Slow response by management on prior audit findings resulted in significant findings in the portfolio.</p> <p>Lack of consequence management, which was also as result of slow response.</p>	<p>This resulted in material non-compliance with key legislation.</p> <p>Procurement without following competitive bidding process results in procurement is not fair (contracts not awarded to appropriate bidders) and lack of competitiveness</p>





				(which can result in high contract amounts).
NRCS	<p>Payments contravening treasury regulations.</p> <p>Payments effected on expired contracts.</p> <p>Tender advertised for less than 21 days</p>	6 431 158,00	Slow response by management in addressing compliance issues.	This was reported as material non-compliance with key legislation and resulted in breach of transparency and competitiveness pillars of procurement.
SABS	<p>Majority of irregular expenditure relates to Non-compliance to policies and legislation when procuring goods and services.</p> <p>Some was due to Open ended contracts</p>	3 654 000,00	<p>Governance issues, due to the board that is not fully constituted.</p> <p>Instability or vacancies in key positions: loss of critical skills, long-standing critical vacancies</p>	Procuring without following policies causes the procurement that is not fair.
CC	The SCM contravention relate to an oversight in allocating points to a service provider who	498 000,00	Inadequate monitoring of compliance with key legislation	This resulted to unfair appointment.



	submitted an invalid BBBEE certificate.			
NCR	RFQ did not include the National Treasury Instruction note 5 of 2020/2021 on Local Content	68 095,00	Slow response management in non-compliance with key legislation.	The amount was clearly trivial and did not have significant impact.
<b>Total IE disclosed</b>		<b>78 739 253,00</b>		

### 2.2.6 Fruitless and wasteful expenditure analysis

During the year under review, the auditees incurred fruitless and wasteful expenditure amounting to R3, 8 million, which was disclosed in the financial statements. The analysis of fruitless and wasteful expenditure shows a significant increase when compared to the prior year. The expenditure is broken down below:

Auditee	Description	Amount (R)	Root cause	Impact
NRCS	Municipal services in the PE office owned building	2 785 895,00	This was caused by breakdown in internal controls.	There is still determination to determine the overall impact.



SABS	Interest and penalties incurred due to late payments to suppliers.	917 000,00	This was caused by breakdown in internal controls.	This results to losses to the entity.
CC	Traffic fines as a result of various road offences for R70 195 and a transaction relating to publication of SASA exemption which was published with wrong information for R1 765.	72 000,00	This was caused by breakdown in internal controls.	The balance of R65 733 has been investigated and is recommended for write off as the nature of the transactions do not qualify as fruitless expenditure.
NLC	The expenditure relate to interest on Government Employees Pension Funds (GEPF) liability	53 000,00	This was caused by breakdown in internal controls.	The impact due to the value.
NCR	Overpayment of basic salary due to inclusion of Employer contribution: Pension Fund.	26 187,00	This was caused by breakdown in internal controls.	22 152 already recovered and disciplinary steps taken against employees



Total FWE disclosed		3 854 082		
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## 2.2.7 Findings on compliance with legislation

### Slides 24

The following material non-compliance issues were identified and reported:

Auditee	Description	Root cause
NLC	Quality of financial statements Procurement and contract management Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	Slow to no response by management in addressing audit findings and audit action plan
NCRS	Quality of financial statements Procurement and contract management Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	Slow by management in addressing audit findings and audit action plan



NCR	Quality of financial statements	Inadequate reviews of the financial statements
SABS	Quality of financial statements	Inadequate process of preparation of financial statements due to staff capacity and vacancies.

## 2.2.8 Consequence management

### Slide 24

The following material non-compliance issues relating to consequence management were identified and reported:

Auditee	Description	Root cause
NLC	Unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA.	Slow response by management in addressing in effecting consequences.



## 2.2.9 Other important matters

### *Investigations and allegations of fraud - NLC*

The SIU investigations are still ongoing, the commissioner resigned with immediate effect when media allegations surfaced that she used the lottery money to purchase one of her properties. These allegations were first confirmed by SIU when briefing the audit team. In the 22/23 financial year the audit team is planning to use performance auditors to determine if there is value for money on some of the projects. The CFO also resigned before sign off, of the audit. The reasons for the resignation of the CFO were not disclosed. On 25 August 2022 there were media reports indicating the Chief operating officer (COO) of the NLC has resigned pending disciplinary hearing into allegations of abuse of grant funding to benefit himself and his family members.

### **National Lottery License**

In respect of awarding of the 4th National Lottery License the NLC has submitted the request for proposal to the minister for consideration, but the minister has not gazetted it yet. The license with the current service provider Ithuba Holdings would have expired on 31 May 2023, the minister has however extended it for a further two years. Therefore, it will now be expiring on 31 May 2025.

## 2.2.10 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Auditee	Leadership	Financial and performance management	Governance
NLC	The accounting authority did not effectively oversee financial	Management did not adequately review and monitor financial reporting	N/A





	reporting and compliance as well as related internal controls.	requirements as well as compliance with applicable legislation.	
NRCS	N/A	<p>Management did not prepare regular, accurate and complete financial reports that are adequately supported by relevant information. Material differences which management subsequently corrected were noted between amounts disclosed on the annual financial statements and the underlying schedules. These misstatements were not detected or prevented by the entity's internal control timeously.</p> <p>Management did not review and monitor compliance with applicable legislation. As a result, non-compliance with supply chain management prescripts that could have been prevented occurred.</p>	N/A
SABS	N/A	Management did not ensure that adequate controls were implemented to prepare accurate financial statements and the annual performance report that agree with the supporting schedules and are presented in line with the reporting	N/A



		<p>standards and the FMPPPO. This resulted in material adjustments to the financial statements impacting on compliance with legislation. There were also material adjustments to the APR.</p> <p>Management does not take adequate steps in recovering all monies owed to the entity</p>	
NCR	N/A	<p>Management did not implement adequate internal controls over financial reporting. This was mainly a result of insufficient reviews in specific areas, which resulted in material adjustments affecting non-compliance</p>	N/A

### 3. Main root causes, recommendations and commitments for the portfolio

#### Slide 28

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

#### *Overall root causes of significant findings in trade, industry and competition portfolio*

Root cause	Recommendation	Commitment
Slow response by management on prior audit findings resulted in significant findings in the portfolio.	Adequate controls must be in place to prevent irregular expenditure. Furthermore, the entity must improve controls to identify, report and record irregular expenditure. Proper controls to prepare and review financial statements must be implemented.	The minister will introduce life style audits to assist with improving integrity of the board. Irregularities will be investigated and consequence management implemented.
Lack of consequence management, which was also as result of slow response	Irregular expenditure must be investigated, and disciplinary actions taken.	The minister will introduce life style audits to assist with improving integrity of the board. Irregularities will be investigated and consequence management implemented.
Governance issues due to the board that is not fully constituted	Appointment of a fully functional board to lead and govern the entity.	The process of appointing a fully functional board at SABS will be finalized when candidates with the right competencies are identified.
Instability or vacancies in key positions: loss of critical skills, long-standing critical vacancies	The CFO vacancy at NRCS must be appropriately addressed timeously to avoid risk of regression in the audit outcome.  With the resignation of Commissioner, CFO and COO at NLC, the board must move expeditiously to fill vacancies to ensure control weaknesses are addressed. SABS	No commitments from the minister - The appointments will be done by the respective Accounting authorities.

## 4. Portfolio committee message

### Slide 29

There are still auditees in the portfolio that submit AFS not prepared in accordance with the prescribed financial reporting framework.

The balance of irregular expenditure has increased and some irregular expenditure was not fully dealt with.

Audit action plans at NRCS were effective, but there were slow responses at NLC

#### *Proposed commitments*

Commitment	Date of commitment
In-depth review on the portfolio planned indicators and targets required to increase impact in service delivery.	11 October 2022
NLC – The weaknesses in the Grant funding must be quickly addressed.	11 October 2022
SABS – There's a need to ensure governance structures are established to improve sustainability of the entity.	11 October 2022