



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Department of Trade, Industry and Competition

08 November 2021

Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

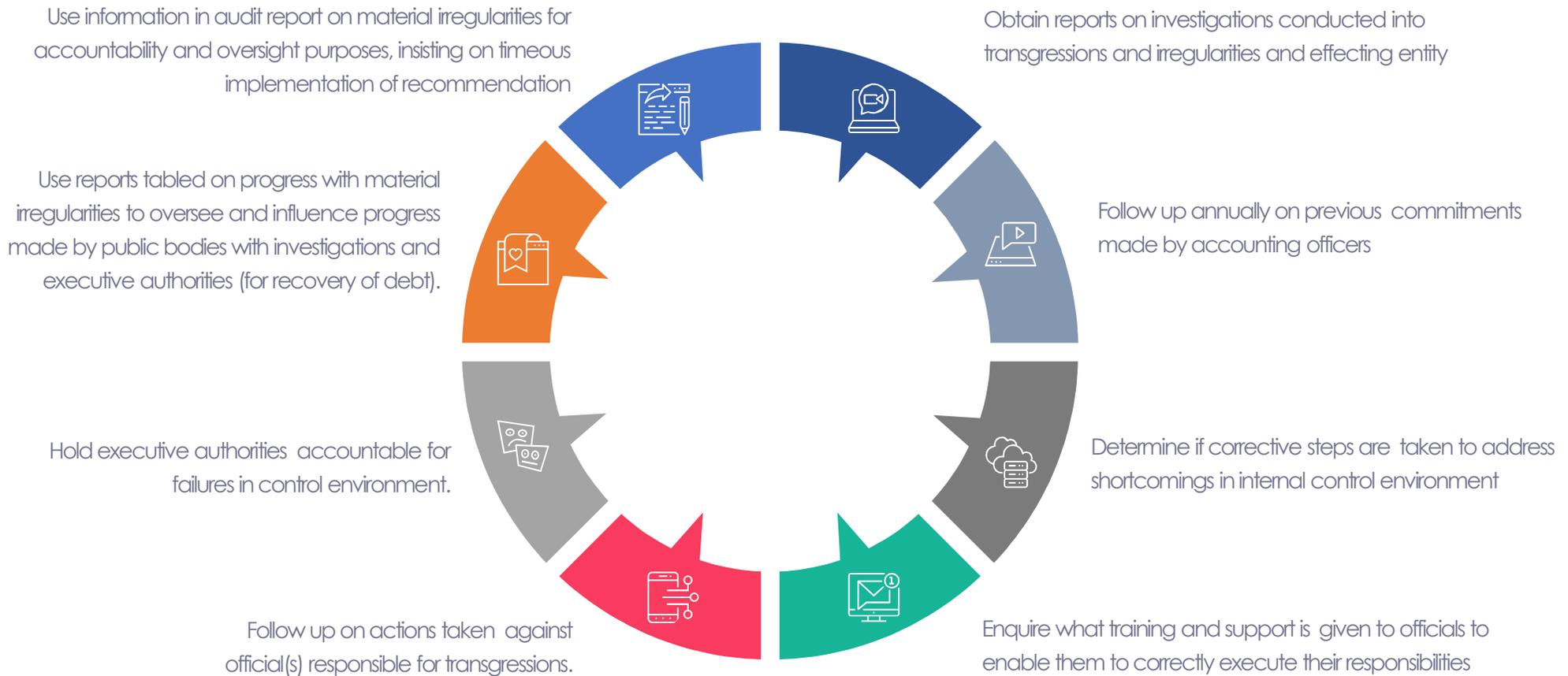
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (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)*.



What we understand as the role of oversight



AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 13 auditees**, unless indicated otherwise.

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"> produced credible and reliable financial statements that are free of material misstatements reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP) complied with key legislation in conducting their day-to-day operations to achieve their mandate 	 <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"> align performance reports to the predetermined objectives they committed to in APPs set clear performance indicators and targets to measure their performance against their predetermined objectives report reliably on whether they achieved their performance targets determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance 	 <p>Auditee:</p> <ul style="list-style-type: none"> had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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

The AG's annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

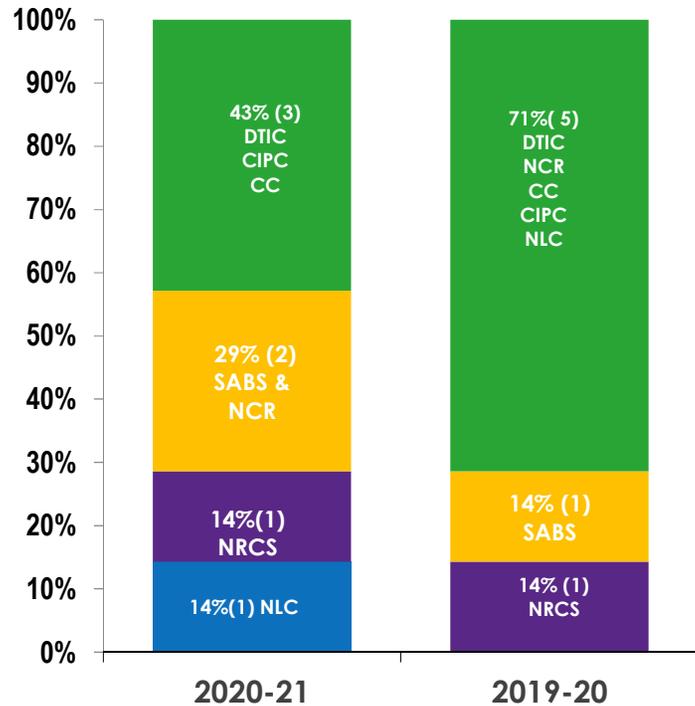
-  Improved
-  Unchanged
-  Regressed



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Portfolio outcome

Audit outcomes of the Trade, Industry and Competition portfolio over 2 years



Movement	
▲ (Green)	0
▼ (Red)	1
▶ (Yellow)	5

Outstanding audits
1 (National Lottery Commission)

- The overall outcomes in the portfolio have slightly regressed when compared to the prior year, with most audits on unqualified with findings.
- The number of entities with audit outcomes that are financially unqualified with NO findings on performance reporting and compliance with legislation has reduced from the prior year. **NCR** regressed from a clean audit outcome in the prior year to an unqualified audit with compliance findings.
- The reason for the qualification on NRCS, revenue was not recorded in the correct financial period

Audit outcomes are depicted as follows:	Unqualified with no findings	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
	■	■	■	■	■	■

Portfolio overall message

The objective of this document is to brief the Trade, Industry and Competition portfolio committee on the audit outcomes of the Trade, Industry and Competition Portfolio for the period ended 31 March 2021. This presentation highlights recommendations to improve audit outcomes for the portfolio.

The overall outcomes in the portfolio have slightly regressed when compared to the prior year, with one auditee receiving unqualified audit opinions with findings on compliance with legislation compared to a clean audit opinion in prior year (NCR)

Three auditees (**DTIC, CIPC, and CC**), representing 50% of the audits in the portfolio, have achieved an unqualified audit opinion with no findings (clean). This is a slight regression from 66% (4 audits) in the prior year. **NCR** regressed from clean to an to unqualified audit opinion with findings on compliance.

Two auditees (**SABS and NCR**), representing 33% of the portfolio, received financially unqualified audit opinions with findings on compliance with legislation. NRCS remained stagnant with a qualified audit opinion with findings on compliance.

There were instances of non-compliance are in the areas of expenditure management, and material misstatements identified in the financial statements submitted for auditing.

In most instances, findings raised are reoccurring, indicating that audit action plans and a culture of consequence management are not exercised effectively.

Portfolio overall message (cont.)

We commend management and the executive authority for the auditees that achieved and continue to maintain clean audit outcomes. These institutions have ensured that they maintain the positive audit outcomes from the prior year.

The entities that managed to maintain their clean audit outcomes have a **strong leadership culture**, **good financial** and **performance management**, and **effective governance**.

These entities have **effective governance structures** and **stable leadership** that ensures that actions are taken to address audit findings.

As these entities have been able to achieve clean audit outcomes, it is important that they focus on ensuring that this also translates into service delivery to citizens.

The remaining entities within the portfolio should look at the good practices implemented by these entities, such as:

- a leadership culture that is committed to taking action to address any findings identified, supported by adequately resourced and skilled staff
- leadership oversight that is entrenched in the organisation
- continuously implementing and monitoring internal controls over financial and performance reporting
- an internal audit function that effectively executes its mandate with the thorough follow-up of audit action plans
- a board, through the audit committee, that plays an active oversight role in monitoring the implementation of action plans to address prior year audit findings.

The portfolio committee should enhance in-year monitoring processes to ensure that the good practices as indicated above are implemented and maintained by all entities in the portfolio.

Portfolio overall message (cont.)

Key root causes in internal control environment

- Inadequate controls to prevent non-compliance with procurement legislation.
- Management did not implement adequate review and monitoring controls over preparation of financial statements
- Management did not effectively develop and monitor implementation of action plans

Recommendations:

- Accounting officers/ authorities should strengthen preventative controls to identify non-compliance
- Accounting officers/authorities must continue to do their work through audit committees to ensure management implements and enhances review processes for financial statements
- Effective monitoring and oversight by audit committee to prevent errors in financial statements
- Accounting officers/ authorities must thoroughly review developed action plans to ensure they address root cause



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Quality of financial and performance reporting

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

100% (7)

100% (7)

42% (3)

71% (5)

83% (5)

83% (5)

Root cause analysis

- Material misstatements to disclosure notes was due to inadequate review of financial statements by the accounting authority, and material misstatement on revenue is due to lack of controls in place to collect all revenue due to the entity concerned.
- The findings raised are recurring for SABS and NRCS and this is despite discussions held with the auditees on the implementation of preventive control measures.

Recommendations

- Internal audit should scope in the review of the disclosure notes of the financial statements as well as submitted performance information.
- Accounting officers/ authorities must thoroughly review the implementation of developed actions plans on prior year audit findings
- Effective monitoring and oversight by the audit committee is critical to ensure that repeat findings are prevented in the next financial year

Second focus area: credible performance reporting

Performance report



- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability
- Reliable reporting of achievements
- Usefulness of performance indicators and targets

Movement



	2020-21	2019-20
Performance report submitted without errors	33% (1)	66% (4)
Performance report adjusted for material misstatements to improve reliability	66% (4)	15% (2)
Reliable reporting of achievements	6	6
Usefulness of performance indicators and targets	6	6

Root cause analysis

- There were recurring challenges identified with performance reports of the NRCS, SABS, NCR this resulted in these entities having to make material adjustments on performance information reported.

Recommendations

- Standard operating procedure/policies should be designed that contain processes to record information and store supporting evidence for measuring whether the planned indicator was clearly defined
- Management should develop an action plan to address findings raised, and internal audit should monitor the action plan developed by management
- Internal audit should adequately review both AFS and performance information prior to submission to AGSA.



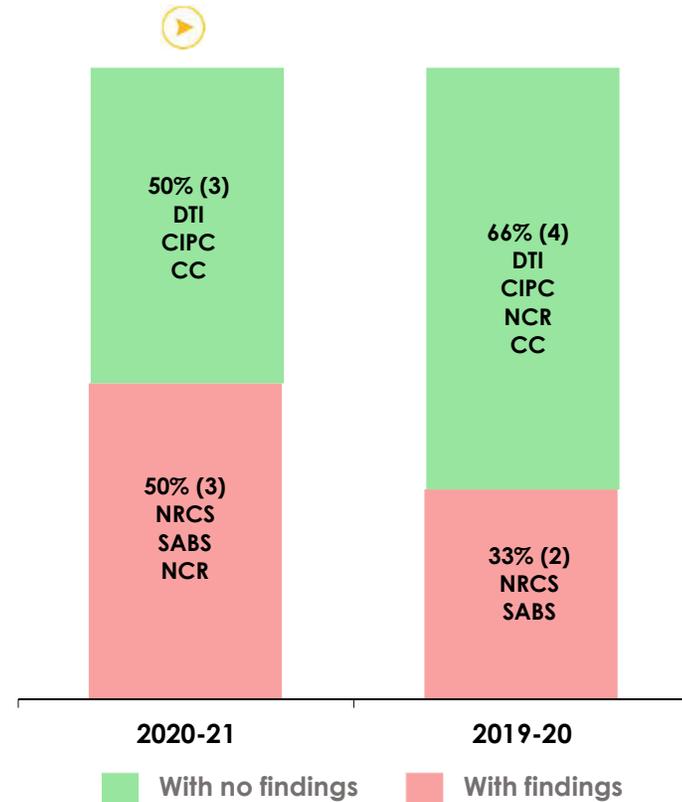
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Compliance with legislation

Third focus area: compliance with legislation

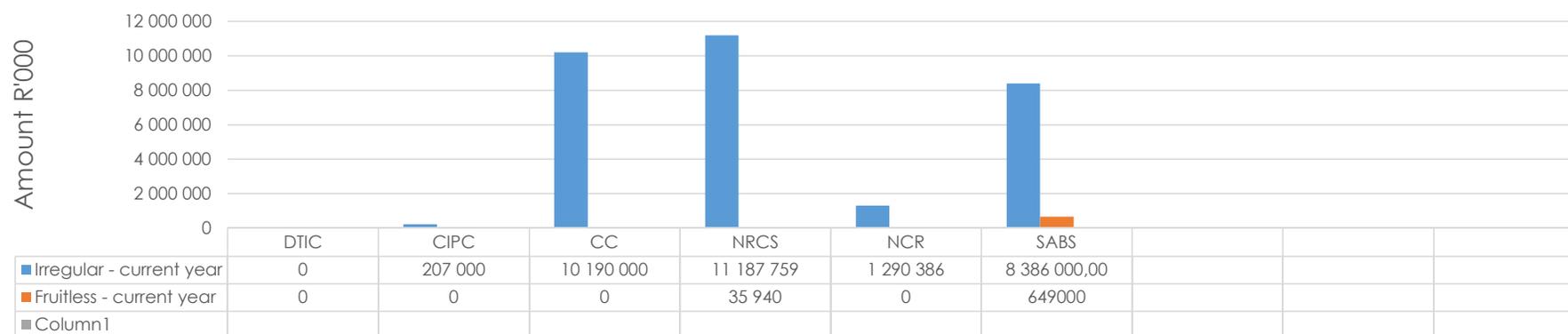
- In the current year there has been a stagnation in compliance with legislation.
- **NRCS** received a qualified audit opinion with findings on compliance and **SABS and NCR** received an unqualified audit opinion with findings on compliance.
- The non-compliance identified is similar to that reported in the prior year. These auditees (**NRCS and SABS**) did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation
- We will further unpack the challenges of compliance in three sections, i.e. **expenditure management, procurement and contract management**

Findings on compliance with key legislation



Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure 2020-21



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure identified – R31 million.
- R30 million (96% of total) was incurred by Com Com, NRCS and SABS

Fruitless and wasteful expenditure

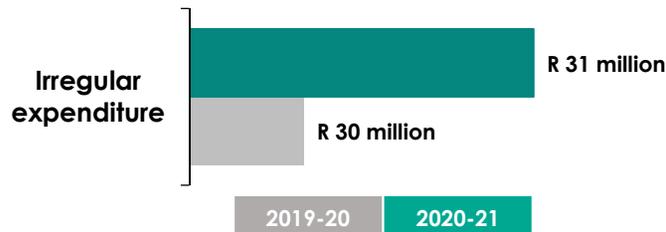
- Total fruitless and wasteful expenditure identified – R685 000.
- R649 000 (94% of total) was incurred by NRCS and SABS mainly due to Interest/penalties charges on late payments .

Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio



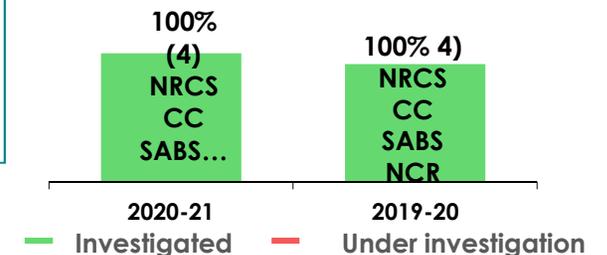
- R31 million – non-compliance in 2020-21
- R30 million – non-compliance in 2019-20
- Irregular expenditure has remained at the same proportion compared to prior year

Nature of irregular expenditure

Highest contributors to irregular expenditure in the portfolio:

- Accounting authority did not implement controls to ensure that contract extensions are duly approved (R1.2 million) at **NCR**.
- Accounting authority did not implement adequate contract management controls to ensure that no payments are made on expired contracts and that tenders are advertised for 21 days (R9 million) at **NRCS**.
- Accounting officer did not implement controls to prevent non-compliance with SCM prescripts and to prevent payments on open ended contracts (R6 million) **at SABS**.
- Accounting authority did not implement controls to prevent non-compliance with SCM prescripts as entity did not follow competitive bidding process in awarding contracts(R10 million) **Competition Commission**.

Previous year irregular expenditure reported for investigation



Fruitless and wasteful expenditure over 2 years

Definition Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by entities in portfolio

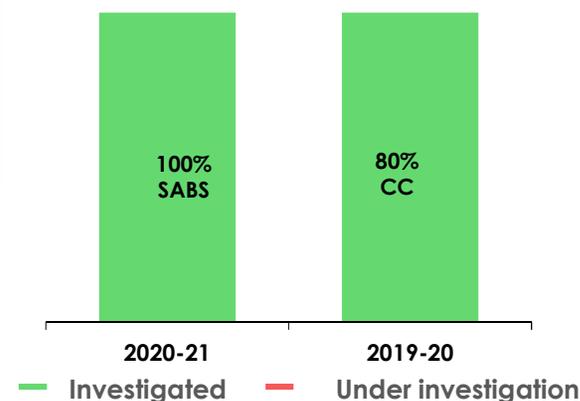


- R684 000 – non-compliance in 2020-21 financial year
- R296 000 – non-compliance in 2019-20 financial year
- Previous year – CC contributed to 80% of total fruitless and wasteful expenditure
- Current year – SABS contributed to 94% of total fruitless and wasteful expenditure

Nature of fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure identified amounts to R684 000 , an increased from the reported prior year value of R296 000.
- R649 000 (94%) of the fruitless and wasteful expenditure relates to SABS, mainly a for interest/penalties paid to SABS on late payments.

Previous year fruitless and wasteful expenditure reported for investigation





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Portfolio snapshot

Portfolio snapshot 2020-21



Clean audits: 3
(2019 - 20: 4)

type of irregularity



Financially unqualified financial statements: 5
(2019-20: 5)



No findings on performance reports: 6
(2019-20: 6)



No findings on compliance with legislation: 3
(2019-20: 2)



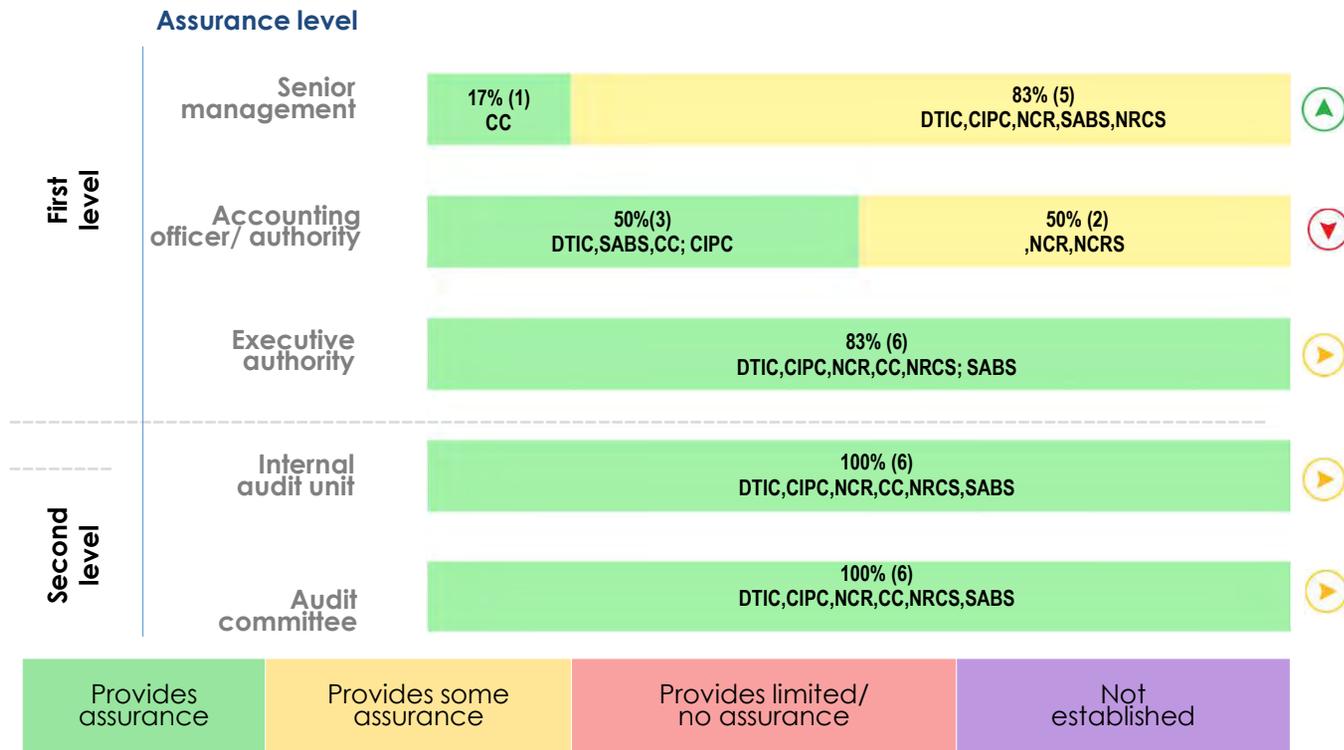
Irregular expenditure: R31m
(2019-20: R30m)



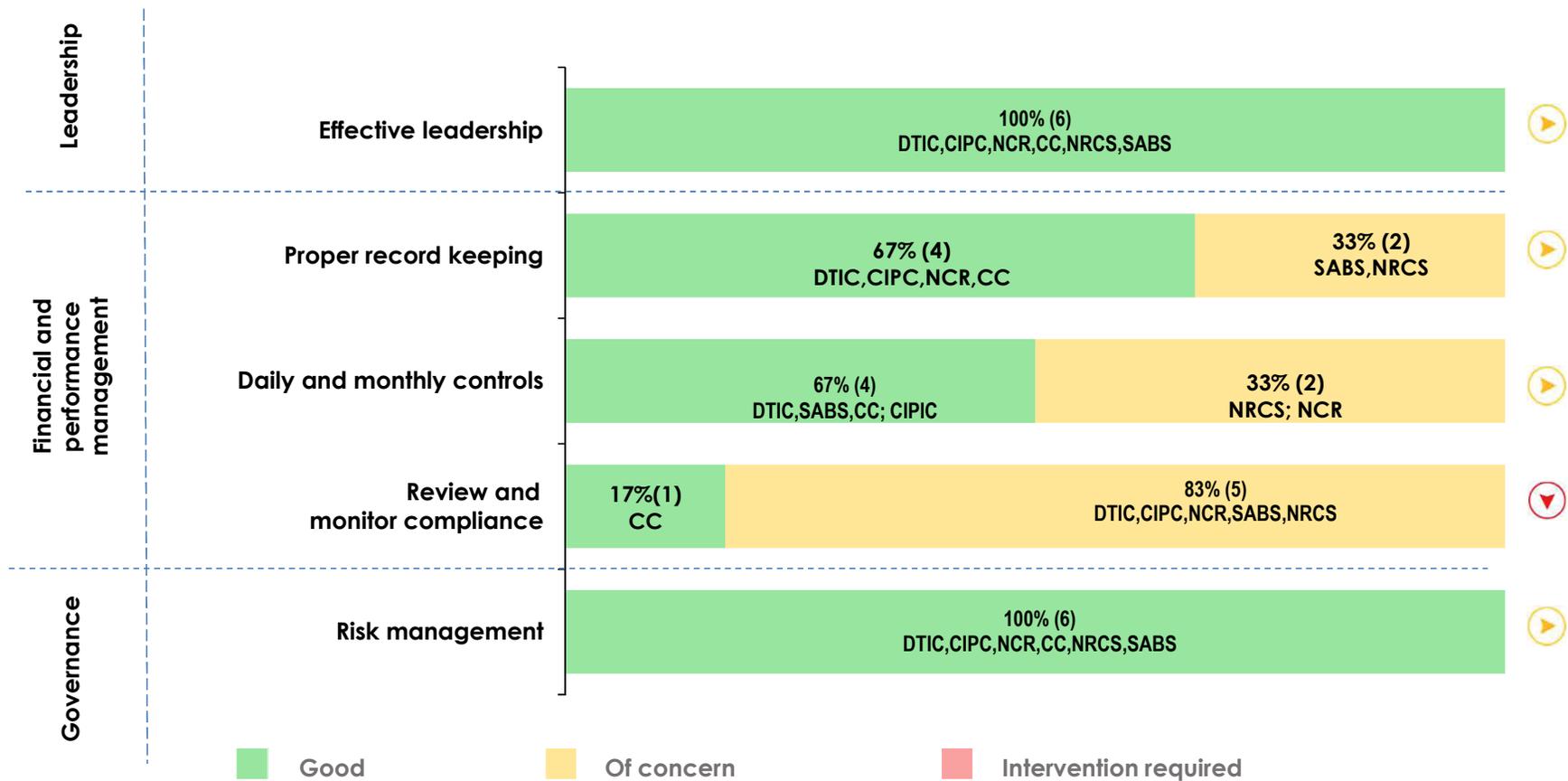
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Governance and internal controls

Assurance provided

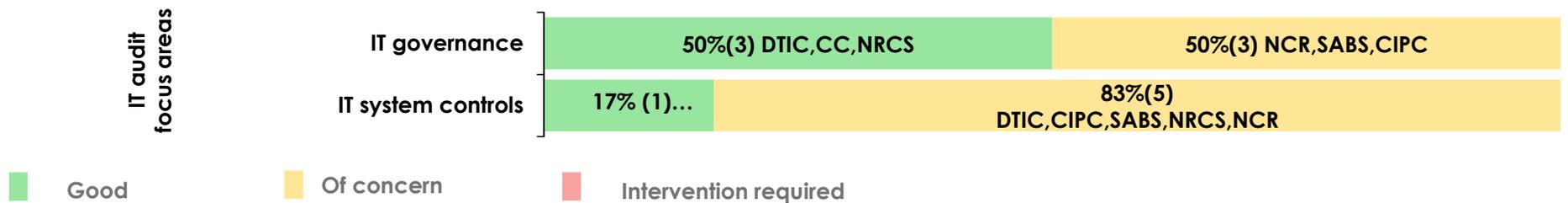


Status of internal control



Status of information technology (IT) environment

- **IT governance** – there to ensure IT is effectively and efficiently used to enable entity to achieve its mandate by specifying decision rights and accountability framework to encourage desirable behavior in using IT
- **IT system controls** – there to ensure entity's IT operates as intended to achieve its mandate
- Effective IT governance and system controls will help ensure entities are not vulnerable to cyberattacks and business continuity concerns



Areas	Root cause	Recommendations
IT governance	Instability in key ICT positions, and lack of governance policies in place.	Management should fill in key ICT positions and ensure that adequate ICT governance policies are designed and duly implemented.
IT system control	The weaknesses surrounding the user access management, security management, network security review and physical and environmental controls focus area could be attributed by the lack of compliance to the policies, management oversight.	Management should ensure monitor compliance with user access and security management policies.

Summary of 3 key root causes



Management did not put in place adequate controls to prevent non-compliance with procurement legislation



Management did not implement adequate review and monitoring controls over preparation of financial statements



Management was not effective in developing and monitoring implementation of action plans



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Recommendations

Recommendations for entities within the Trade, Industry and Competition portfolio



Develop and implement effective action plans to address audit findings



- Internal audit should adequately review both AFS and performance information prior to submission to AGSA.



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Progress on the special report

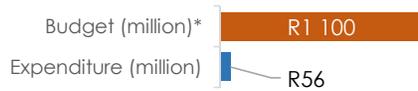
Loans through the Industrial Development Corporation

Purpose of initiative and status – 31 March 2021



Support to companies in distress due to covid-19

14 loans amounting to R419 million were approved by 31 March 2021



* R1 400 million of original R2 500 million budget repurposed to support businesses affected by recent unrests in GP and KZN.

Status

Ongoing

Implementation of SR 2 recommendations

Industrial Development Corporation ●

Key observations and findings – SR2

- Initially we reported that IDC's processes were not being performed with sufficient urgency and efficiency to approve loans in time to alleviate the financial distress of businesses that were negatively impacted by Covid-19. In response, the IDC approved amendments to original funding criteria to increase accessibility to Covid-19 distress funding.

New observations and findings

- Up until 31 March 2021 14 loans amounting to R419 million was approved, and a further 12 loans amounting to R228 million was being considered for approval, out of a total of 78 applications received amounting to R1 805 million. Disbursements on these approved loans amounted to R56 million. This is compared to zero being approved as at 15 July 2020 and only 4 as at 30 September 2020 to the value of R160 million
- Some of the funds (R1 400 million) have been repurposed from the Covid-19 fund for a tailored recovery package of R1 500 million to provide funding support to businesses and communities affected by the July unrest in GP and KZN.
- Approved loans until year-end constitutes 38% of revised budget of R1 100 million and actual disbursements only 5% thereof.

● Implemented
 ● In progress
 ● Behind schedule/ not implemented
 ● Not applicable

Loans through the Industrial Development Corporation (continued)

Impact achieved

IDC subsequently updated the criteria for the fund to make it more accessible to clients in response to our recommendations, however this did not have the desired impact of making the funding more accessible with applications being approved.

Remaining risks and consequence processes

There remains a risk that the initiative will not have the desired impact due to low number of loans approved. No matters were identified which indicated a need for further investigation.

No indications of financial loss were identified.

Key message

The IDC Covid-19 distressed funding has had limited impact, evidenced by only 5% of the revised budget of R1 100 million having been disbursed by 31 March 2021. The IDC has now shifted focus away from Covid-19 relief to other initiatives and – whilst the Covid-19 initiative is ongoing - it is unlikely that the initial objective for the fund having been created will be achieved.

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