

Small Enterprise Finance Agency SOC Limited (SEFA)

Report on the Statutory Audit for the year ended 31 March 2020

18 November 2020

Our Audit

Statutory Audit

*Companies Act and
International Standards on
Auditing (ISA's)*

• Key areas of focus identified

• Significant classes of transactions, account balances and disclosure:

- Risk of fraud in revenue recognition;
- Risk of manual override of controls due to fraud;
- Implementation of IFRS 16 – Leases; and
- Risk of financial statement misstatement as a result of COVID-19.

• Elevated risks

- Valuation of unlisted investments;
- Impairment of financial instruments in terms of IFRS 9 on the expected credit loss models;
- Unearned Risk and Outstanding claims reserves;
- Existence and Valuation of Properties; and
- Compliance with laws and regulations.

Regulatory Audit

*Public Audit Act of South Africa
(PAA), Public Finance
Management Act (PFMA) and
National Credit Act (NCA)*

• Compliance

• Human Resources

• Financial Viability

• Unauthorised, Irregular and Fruitless and wasteful expenditure

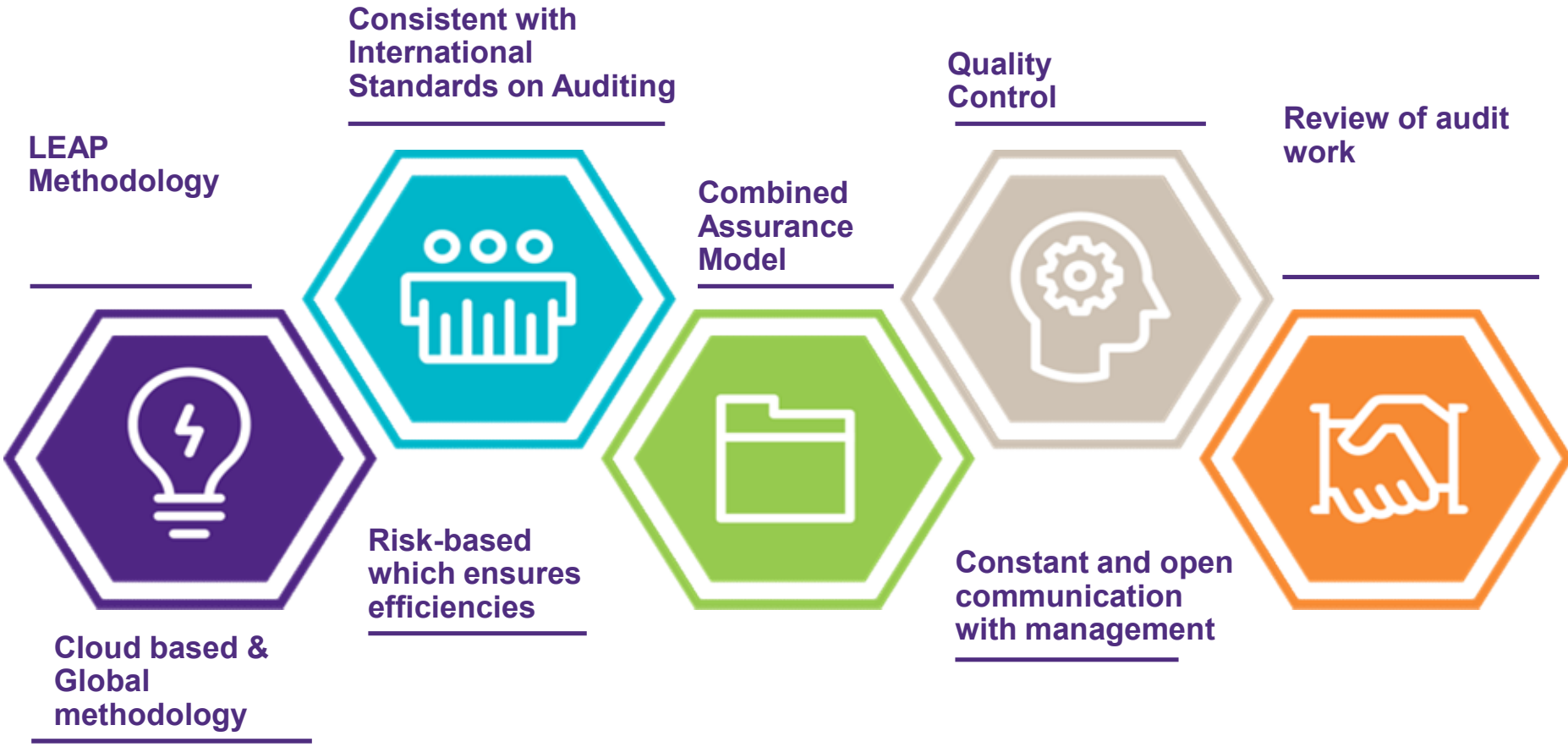
• SOE Governance & Oversight

• Procurement Management

• Audit of Predetermined Objectives

• National Credit Act compliance

Audit approach - audit methodology



Statutory Audit

Materiality	Planning R'000	Final R'000
Overall materiality	46 997	46,997
Performance materiality	35 248	35,248
Clearly Trivial	2 350	2,349

Audit differences	SOCI-Dr/(Cr) R'000	SOFP – Dr/ (Cr) R'000	Equity – Dr/(Cr) R'000
Summary of uncorrected misstatements (reclassification)	(16 127)	16 127	0
Summary of corrected misstatements	5 092	(5 092)	0

- **Investments R7.2 million credit to SOCI**
The impairment in Anglo has been overstated and a reversal of impairment is required.
- **Loans and Advances Impairments R14.9 million credit to SOCI**
Inability to value collateral due to Covid-19 thus non-compliance with IFRS 9 provisions.
- **R6 million debit to SOCI** - Small Business Growth Trust legal settlement agreement of R6 million in respect of outstanding management Fees.

Corrected - Reclassification of Investment properties held-for-sale to Equipment, furniture and other tangible assets.

Statutory Audit

Detailed issues noted during the audit	Resulted in audit difference	Housekeeping issues
Recognition of bank account in SEFA's name that does not relate to SEFA	●	
The net asset value of Anglo Awethu, a Joint Venture of SEFA, has been adjusted in the updated AFS of Anglo. No adjustment has been processed by SEFA on equity accounted earnings	●	
Collateral has not been valued in the current year and not considered in determination of ECL	●	
Small Business Growth Trust settlement agreement in respect of outstanding Management Fees	●	
IFRS 16 Leases		●
Input tax claimed by SEFA on invalid invoices		●
Control accounts not cleared at year end and Contracts relating to Rental revenue not available		●
Trade and other payables includes invoices not addressed to SEFA		●
IFRS 9 Expected credit losses (ECL)		●
IFRS 16 Incremental Borrowing Rate (IBR)		●
IT related matters		●

Regulatory Audit Results



Compliance

No instances of material compliance deviations noted



Human Resources

- Positions in senior management* were not vacant for more than 12 months.
- Key positions have not been vacant for more than 12 months.
- No exceptions in Performance Management.
- HR best practices maintained.



Financial Viability

- Cash Management – Positive balance
- Asset and Liability Management
 - R425 million loss for the year (2019: R292 million)
 - Increased bad debts write off by R 74 million.
 - Adequate shareholder reserves to absorb losses – Subordinated interest free IDC loan
 - EDD MTEF Allocation of R247 million
- Funds that were previously allocated to other initiatives to the tune of R704 million, namely the SBIF, TEF and EU have also been re-allocated for Covid-19 purposes.
- Expenditure Management well managed.
- Revenue Management
 - High level of loans outstanding due to Legacy direct loans under Khula.
 - R209 million in bad debts written off in 2020.
 - 70% of the write off – Legacy book
 - Revenue dip to be expected in 2021 due to lower rates of prime less 5% compared to the previous 7% - 12%.



Unauthorised, Irregular and Fruitless and wasteful expenditure

- No fruitless and wasteful expenditure have been noted
- Irregular expenditure of R7,5 million relating to Khula Business Premises (KBP) contracts that were not renewed but continued on a month-to-month basis on takeover from Motseng (Previous property manager).
- Investigation has been concluded and New contracts are being concluded with all relevant service providers.
- National Treasury Condonation has been applied for.



SOE Governance & Oversight

Inspected the board charter, confirmed that the board's roles and responsibility is to ensure that the entity has procedures and policies in place to prevent non-compliance with laws, regulations and policies.



Procurement and contract management

- Related to KBP contracts.
- No significant findings noted.



Audit of Predetermined Objectives

- Reported performance information was properly presented.
- Performance was consistent with the approved performance planning documents.
- Indicators and related targets were measurable and relevant.
- Reliable reported performance information.

Questions

