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This report contains 37 pages
Final Performance Review Report

Reference: 6/2/3/1/3

NIPP Performance Review: Strategic Defence Package
(SDP) Phase 1

Final Internal Audit Report

(the dti)

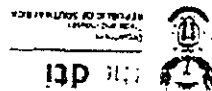
The Department of Trade and Industry



Department
Trade and Industry
REPUBLIC OF SOUTH AFRICA

the dti

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05 October 2012

The Director-General
The Department of Trade and Industry (the dti)
77 Meinjies street
Sunnyside
0002

Dear Sir,

Final Internal Audit Report - NIPP Performance Review: Strategic Defence Package (SDP)

The Internal Audit Unit completed the NIPP Performance Review on the Strategic Defence Package. Kindly refer to the attached report for the detailed findings emanating from this Audit.

This report is issued by the dti: Internal Audit Chief Directorate for the sole use of the dti. Therefore, the distribution of this report is limited to the authorised persons of the dti and should not be distributed to or relied upon by any third party without the prior written consent from the dti: Internal Audit Chief Directorate.

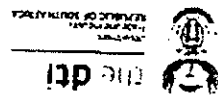
The Internal Audit Chief Directorate would be pleased to provide you with further assistance. Please do not hesitate to contact us with any further queries that you may have. Ms. Emilize Nezar, Director: Performance and IT Audits at (012) 394 1732, or Ms. Kameetha Singh, Chief Audit Executive at (012) 394 1739

Yours sincerely,

Director: Performance and IT Audit

Chief Audit Executive

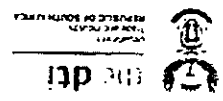
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Mr. Masizakhe Zimela	Chief Director, IPS	x	x	
Audit Committee Members	Audit Committee			x
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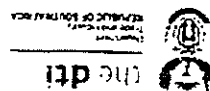
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ANNEXURE A

LL



Introduction

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Mandate

1.1

As agreed with the Deputy Director-General, IDI the dti Internal Audit performed a Performance Review on the NIPP with focus on the projects related to the Strategic Defence Package (SDP).

The Audit review was requested by IDI Management in view of a number of issues raised in the media and briefings with the Portfolio Committee on Trade and Industry. The review is intended to enable IDI to respond to the broader enquiry on the SDP should that be necessary.

The objective of the audit is to evaluate performance of the NIPP projects under the SDP and compliance with established NIPP processes and procedures necessary to fulfill the obligations. The audit included evaluation of the overall administration of the NIP programme as it relates to the SDP. The evaluation covered the following areas:

- Compliance of the NIPP Obligors with all the processes, procedures, information and documentation requirements

- The validity, accuracy and completeness of credits awarded to discharge the NIPP obligations as compared to the outcomes achieved by the projects.

- The extent to which the projects achieved the outputs as specified in the Business Plans with regards to

Investment,

Sales (Export sales and Domestic sales),

Employment creation,

Training,

Technology transfer,

Economic Advantages to previously disadvantaged communities, and

Human resource development.

The performance review considered 40 out of 121 NIP Projects relating to SDP.

Management's Responsibilities

1.2

The Industrial Participation Secretariat (IPS) within IDI is responsible for managing the Industrial Participation Programme. The Secretariat evaluates the Industrial Participation

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proposals, and makes recommendations to the Industrial Participation Control Committee for approval of Projects. The IPS is also responsible for monitoring performance of the NIP projects, in terms of outputs and time scales for completion.

Management is further responsible for the establishment and maintenance of an effective system of internal control. The objectives of the system of internal control are, *inter alia*, to provide management with reasonable, but not absolute, assurance that:

- Risks are properly managed;
- Assets are safeguarded;
- Financial and operational information is reliable;
- Operations are effective and efficient; and
- Laws, regulations, and contracts are complied with

The principal safeguard against fraud, misstatement, and irregularities is an effective system of internal control. It must however be recognised that, there are inherent limitations in any system of internal control – including human error and circumventions through collusion. The prevention and detection of fraud is therefore management's responsibility.

Management representations made are considered to form part of our audit evidence. Any management representations were accepted on face value and in good faith, with only limited evaluation to assess for reasonableness.

Management is also responsible to ensure that all control weaknesses and inefficiencies are addressed as soon as possible.

Project Management

The report has been issued as follows:

<p>Draft report issued: 04 September 2012</p> <p>Chief Audit Executive: Ms. Kameetha Singh Director- Performance and IT audits: Ms. Emilize Nezar Director- Compliance and Forensic Audit: Mr. Vincent Jones</p>	<p>Final report released: 05 October 2012</p> <p>Chief Audit Executive: Ms. Kameetha Singh Director- Performance and IT audits: Ms. Emilize Nezar</p>
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- 1.4 **Comments on report**
- | | |
|--|--|
| Overall responsibility for corrective action: | Chief Director: IPS- Mr. Masizakhe Zimela |
| | Director: IPS- Mr. William Ramula |
- The report has been issued to the above persons on the dates indicated in paragraph 1.3 of the report. Management comments and action plans as well as the due dates and responsible officials to address the matters, have been included in the report.
- 1.5 **Restriction on distribution of this document**
- This document has been prepared for the sole and exclusive use of the dti. The document may not be made available to anyone other than authorised persons within the dti, or relied upon by any third party.
- 1.6 **Reporting**
- A critical success factor for the effectiveness of any Internal Audit function is the quality of its reporting and communication. Our focus during reporting and communication is to ensure that management understand the inefficiencies and processes that need to be improved. Agreed management action is obtained for all audit findings to ensure that progress in the implementation of agreed action will be monitored in an effective manner.
- 1.7 **Use of the report**
- The current level of fraud in South Africa has reached unprecedented levels and is a cause for concern. Internal Audit work is planned with reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, Internal Audit procedures alone, even when carried out with due professional care do not guarantee that fraud will be detected. Accordingly, our review as Internal Auditors should not be relied upon solely to disclose fraud, defalcation, or other irregularities that may exist.
- 1.8 **Acknowledgement**
- We would like to record our appreciation for the time and co-operation that was provided during the course of our review from the Industrial Participation Secretariat and other officials of the dti

2 Executive Summary

2.1 Risk Rating

Category	Symbol	Description
Significant		A fundamental / critical weakness, whereby the possible failure of the related internal control may result in material financial loss or significant breakdown of service delivery. Such a weakness requires immediate management attention. NB: <i>Certain Repeat Audit Findings not actioned by Management within the six (6) month allocated period will be rated significant for auctioning purposes</i>
Less Significant		The weakness may have a noticeable effect on the operation /process audited, and could result in probable financial loss or probable breakdown in service delivery. The weakness is considered to be of a moderate to serious nature and should therefore receive Management attention in the short term.
Housekeeping	Ⓜ	Control weaknesses, which is not considered serious (there is no risk to the environment and can be corrected at minimal costs). The resolution of such issues will lead to a more controlled environment in the long term.
Value Add/ Process Improvement		An opportunity for improvement was identified and brought to Management's attention. These are control or process enhancements, the resolution of which will lead to enhancing operational efficiency and/ or effectiveness. (Reaching optimal standards for a process being carried out).

2.2 Classification

CLASSIFICATION	DESCRIPTION
Non-Compliance Risk	Risk resulting from non-compliance with an existing policy and/or procedure.

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CLASSIFICATION	DESCRIPTION
Control Inadequacy	Risk resulting from the non-existence or inadequate design of appropriate controls, policies and procedures.
Control Ineffectiveness	Risk resulting from the designed control not operating as intended for the period of intended reliance
Process Improvement	These are control or process enhancements identified during the audit process, for the specific areas audited. They should allow for enhancing operational efficiency in the process / area audited, i.e. reaching optimal standards for a process carried out.

2.3 Findings Identified

Below is the summary of performance review findings emanating from our audit based on the focus areas agreed with the IDD Management.


No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.1	Compliance of the NIPP Obligors with the processes, procedures, information and documentation requirements.	High		
2.2.1.1	Use of negotiated Credit Package deals.	High	Annexure A - A1	<p>The NIP Terms for the Defense Obligors prescribed the following NIP Credit calculation methodology</p> <p>One (1) NIPP Credit to be awarded for each USD/ EURO of Investment, Local Sales and Net Export Revenues caused or earned by the Defense Obligors in implementing any NIP Project</p> <p>IPS and IPCC took a decision to adopt the concept of "Package Deals" as a strategy to</p> <ul style="list-style-type: none"> • direct NIPP investments towards industrial areas, sectors, communities that would traditionally not be favorable to potential investors (NIPP obligated companies), • compensate those NIPP obligated companies that are willing to invest in industrial areas, sectors and businesses where the return on investment is not attractive, the risk of not earning NIPP credits on revenue

No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.2	The validity, accuracy and completeness of credits awarded to discharge the NIPP obligations (Audit results)			<p>is high, the time of generating NIPP credits is longer than the required time frames (as per paragraph 1 above). This resulted in Defence Obligors obtaining more NIPP Credits compared to the investments and sales created or caused by them. The NIPP Terms for the Defence Obligors prescribed that 1 NIPP Credit will be awarded for 15/ 1€ of investment, local sales and net export revenues caused by these Obligors.</p>
2.2.2.1	The validity, accuracy and completeness of Credits awarded		Annexure A- A2	<p>The NIPP commitment of the Defence Obligors as described in the NIPP Terms was</p> <p><i>Undertake to achieve NIPP Credits having a value of 15 split between Investments, Local Sales and Net Export Revenues by execution of NIP projects in accordance with the NIPP terms which are necessary to fulfil the NIPP Obligation.</i></p> <p>As a result, the NIPP Implementing mechanism was required to award the NIPP credits based on the Investment, Local Sales and Net Export Revenues claimed by the Defence Obligors.</p> <p>Based on the audit tests conducted, it was noted that the NIPP Credits awarded to the Defence Obligors with respect to</p>

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No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.3	The extent to which the projects achieved the outputs as specified in the Business Plans.			<ul style="list-style-type: none"> • Accurate: in the sense that they are consistent with supporting documentation submitted by the Obligors and calculations were consistent with the prescribed credit calculation methodology • Valid: they are consistent with the deliverables prescribed in the NIP Project Business Plans and other decisions that were taken in the IPCC meetings. • Complete: all relevant supporting documentation and information was recorded and attached in the claim files <p>(This excludes the exceptions noted in other areas of this report)</p>
2.2.3.1	Investments: Local Sales and Net export revenues.		Annexure A- A3	<p>The NIPP commitment of the Defence Obligors as described in the NIPP Terms was:</p> <p>Undertake to achieve NIP Credits having a value of 1\$ split between Investments, Local sales and Net export revenues by execution of NIP projects in accordance with the NIPP terms which</p>

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No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.3.2	Other strategic values to South Africa		Annexure A. A3	<p>are necessary to fulfil the NIPP Obligation.</p> <p>As a result the NIP Implementing mechanism was required to award the NIP credits based on the Investment, Local Sales and Net Export Revenues claimed by the Defence Obligors.</p> <p>Based on the audit tests conducted, the Defence Obligors achieved the outputs and deliverables stated in their NIP Project Business Plans with respect to Investments, Local and Export Sales (This excludes the exceptions noted in other areas of this report).</p> <p>The objectives of the NIP as described in the NIP Guidelines included the following:</p> <ul style="list-style-type: none"> • Export promotion, • Training and Development, • SMME development, • Benefits to historically disadvantaged individuals, • Technology transfer, and • Black Economic Empowerment <p>The NIP Projects Business Plans considered during the audit</p>

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No	Finding heading	Risk rating	Paragraph reference	Finding Description
				<p>Included some of the deliverables and benefits that could result from implementing the NIP Projects relating to the above objectives.</p> <p>The audit team could not determine if the Defence Obligors achieved objectives with regards to sustainable economic growth, access to new markets, and establishment of new trading partners, development of human resources, ensuring technology transfer to SA, and supporting the economic development of historically disadvantaged communities stated in the Project Business Plans. The following factors hampered the auditability of these deliverables:</p> <ul style="list-style-type: none"> NIP Terms concluded with the Defence Obligors did not include an obligation to deliver on other NIPP objectives to earn NIP Credits, except for Investment (which may include 5% of technology transfer), Local Sales and Net Export Revenue (which may include export promotions) deliverables. These deliverables were included in the Business Plans as additional deliverables and benefits that will accrue as a

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No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.3.3	Employment creation		Annexure A- A3	<p>result of implementing the NIP Projects</p> <ul style="list-style-type: none"> In certain instances, no values were attached to the deliverables to enable the achievements to be measured per the approved Business Plans <p>Estimates of jobs to be created by implementing the NIP Projects were included in 24 NIP Project Business Plans that were reviewed. The number of jobs created by implementing the NIP Projects was recorded in the NIP Projects spread sheet and also reported in the NIP Annual Review Reports.</p> <p>The audit team could not verify from supporting documents if the total number of jobs reported were created and whether they were sustained or not sustained. The following shortcomings in the process impeded the audibility of these deliverables:</p> <ul style="list-style-type: none"> NIP Terms concluded with the Defence Obligors did not include an obligation to deliver on job creation to earn NIP Credits, except for Investment, Local Sales and Net Export Revenue deliverables.

No	Finding heading	Risk rating	Paragraph reference	Finding Description
2.2.4.	Overall administration of the NIP Programme as it relates to the SDP.			<ul style="list-style-type: none"> The actual contribution of each project on employment was not described in terms of sustaining existing jobs, creating new/ additional jobs, or creating opportunities for jobs. The baseline employment figures were not provided at the beginning of each project to be able to determine the additional jobs that resulted from the NIP Activity implemented by the Defence Obligor. Evidence of jobs created was not collected as the job creation deliverable is independent of the NIPP Credit claiming process, which is solely based on Investment, Local Sales and Net Export Revenues created or caused by the Defence Obligor.
2.2.4.1	Record keeping and documentation requirements.		Annexure A- A4	Certain documents were not in the project files requested from the Industrial Participation Secretariat. A meeting was held with IPS on the 26 th of July and the 7 th of August 2012 to discuss the missing information, the attempts to find the information were not successful.
2.2.4.2	NIPP Project Monitoring	High	Annexure A- A4	The NIPP commitment of the Defence Obligor as described in the

No	Finding heading	Risk rating	Paragraph reference	Finding Description
				<p>NIPP Terms was</p> <p><i>Undertake to achieve NIP Credits having a value of 1\$ split between Investments, Local sales and Net export revenues by execution of NIP projects in accordance with the NIPP terms which are necessary to fulfil the NIPP Obligation.</i></p> <p>For monitoring purposes the Defence Obligors were accountable to submit bi-annual progress reports in respect of the Defence Obligor's NIP Commitment and in respect of the NIP Projects. Furthermore, the IPS was required to hold bi-annual meetings with the representatives from the Defence Obligor where the following matters will be considered among other things</p> <ul style="list-style-type: none"> • Status of NIP Credit Claims. • Status of NIP Credits awarded. • Performance reporting and reconciliation of records. • New matters and general issues. <p>There were discrepancies noted in the reporting and review of project performance for the NIP Projects with regards to sustainable economic growth, access to new markets, and establishment of new trading partners, development of human</p>

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No	Finding heading	Risk rating	Paragraph reference	Finding Description
				resources, ensuring technology transfer to SA, and supporting the economic development of historically disadvantaged communities.

2.4 Overall Conclusion

Each report is rated to summarise our overall conclusion for the area reviewed. The ratings are based on the risk exposure ratings as on p. 7. above (Significant, Less Significant, Housekeeping and Value Add/Process Improvement) given to the issues/recommendations at the individual report level. The ratings awarded represent the independent opinion of the Internal Audit based on the results of the audit.

Rating	Definition
Adequate	Based on the results of our work undertaken, we can provide reasonable assurance regarding the adequacy and effectiveness of the system of internal controls. An appropriate and effective control framework is in place given the inherent business risks. Some improvements were recommended to routine detailed control activities.
Needs Improvement	Based on the results of our work undertaken, we can provide limited assurance regarding the adequacy and effectiveness of the system of internal control, as several key findings were noted which require management's attention. This process needs improvement due to either a number of high-risk ranked findings identified and/or a combination of high, medium and low ranked findings identified.
Inadequate	Based on the results of our work undertaken, we cannot provide reasonable assurance regarding the adequacy and effectiveness of the system of internal control, as several key findings were noted which

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Rating	Definition
	<p>require management's attention. This process is inadequately managed due to either a number of high-risk ranked findings identified and/or a combination of high, medium and low risk ranked findings identified. Significant control weaknesses were noted that could expose the entity to unacceptable levels of unmanaged risk</p>

Based on our internal audit work performed, we were able to conclude for the following area

No.	Title and reference	Rating
1	Performance review - NIPP - SDP	Needs Improvement

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ANNEXURE A

A1. Compliance of the NIPP Obligors with all the processes, procedures, information and documentation requirements.

A1.1. Use of negotiated package deals for awarding credits to the obligors

Criteria

The NIP Terms for the Defense Obligors prescribed the following NIP Credit calculation methodology

One (1) NIP Credit to be awarded for each USD/ EURO of Investment, Local Sales and Net Export Revenues caused or earned by the Defense Obligors in implementing any NIP Project

Finding

- 1) IPS and IPCC took a decision to adopt the concept of "Package Deals" as a strategy to
 - direct NIPP investments towards industrial areas sectors, communities that would traditionally not be favorable to potential investors (NIPP obligated companies);
 - compensate those NIPP obligated companies that are willing to invest in industrial areas, sectors and businesses where the return on investment is not attractive, the risk of not earning NIPP credits on revenue is high, the time of generating NIPP credits is longer than the required time frames (as per paragraph 1 above)

The table below indicates the NIP Projects where the negotiated package deals were applied in awarding credits to the Defense Obligors

Obligor	Project Name	Investment Value	Credits awarded		Package deal credit awarded		Total credits awarded
			Investment	Sales	Sales	Investment	
THALES	IDC credit Facility	\$ 50 000 000	\$ 50 000 000	0	\$ 50 000 000	0	\$ 100 000 000
	Tranche 1						
BAES	IDC credit Facility	\$ 30 000 000	\$ 30 000 000	0	\$ 30 000 000	0	\$ 60 000 000
	Tranche 2						
BAES	Carbolek Carbon Manufacture	\$14 460 000	0	0	0	\$110 404 336	\$110 404 336
	GEMCO Laboratornes	\$ 35 000 000	0	0	0	\$ 350 000 000	\$ 350 000 000
GFC	Omnia	€4 500 000	€4 500 000	0	€25 000 000	0	€ 29 500 000
	Polysius Service Centre	€7 500 000	€7 500 000	0	€25 000 000	0	€ 32 500 000
	SAMES High Tech Facility	€4 500 000	0	0	€100 000 000	€100 000 000	€ 200 000 000
	Call Centre	€4 593 000	0	0	€42 968 750	€70 312 500	€ 113 101 250
GSC	Oil and Gas	€15 790 000	0	0	€375 000 000	€280 000 000	€ 655 000 000
	Long Walk to Freedom Movie	€5 691 952	0	0	€180 000 000	€120 000 000	€ 300 000 000
	SAMES Loan Grant	€1 500 000	0	0	€150 000 000	€67 800 000	€ 217 800 000

2) We further noted that for certain projects the package deals were agreed to in advance with certain conditions having to be met. However the conditions were not met and the obligor was awarded the credits without meeting the conditions. The obligor had a shortfall of €15 210 000 to the agreed contributions. The table below refers:

No	Obligor	Project	Investment	Package deal	Package deal agreed upon	package deal credits awarded
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	Value	agreement contribution	Investment	sales	Investment	sales	
1 GSC	Oil and Gas	€15 790 000	€28 000 000	€280 000 000	€375 000 000	€280 000 000	€375 000 000
2	SAMES	€1 500 000	€4 500 000	€ 67 800 000	€ 150 000 000	€ 67 800 000	€ 150 000 000
Totals		€17 290 000	€32 500 000	€347 800 000	€525 000 000	€347 800 000	€525 000 000
Difference		€15 210 000					

3) Lastly, it was noted that for one (1) project the NIP credits were granted "up front" with certain conditions. Further enquiries from IPS indicated that this project eventually failed. There is currently no evidence to indicate that the conditions for awarding the credits were eventually met. The details of the project are indicated below:

No	Obligor	Project	Investment (Non-refundable grant to Evertrade)	Package deal agreed upon Investment	Investment	Sales	Total credits
1	THALES	Evertrade Medical Waste	\$ 1 100 065	\$ 55 003 266	63 623 256	107 590 000	171 213 256

Root Cause

- Package deals were used as the strategy to encourage investment towards industrial areas, sectors and communities that would traditionally not be favourable to potential investor.
- It was a compensation for those NIPP obligated companies that were willing to invest in industrial areas, sectors and businesses where the return on investment is not attractive, the risk of not earning NIPP credits on revenue is high, the time of generating NIPP credits is longer than the required time frames
- The absence of a guiding framework and criteria on how the packages will be granted and the extent of additional credits to be allocated for each credit package.

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Impact:

- The obligors were awarded credits which exceeded the value of investments, local sales and net export revenues actually caused by them. This indicates that the value of NIP Activities actually completed by the Defence Obligor was less than the total obligation value to be offset by the NIP Credits. The table below reflects additional credits awarded as result of using the negotiated package deals:

No	Obligor	Actual contribution	Obligor	Value of package deal credits	
				Investment	Sales
1	THALES	\$ 80 000 000			\$ 80 000 000
2	BAES	\$14 460 000		\$ 460 404 336	
3	GFC	€ 16 500 000		€ 157 111 019	€ 415 729 024
4	GSC	€ 27 574 952		€ 538 112 500	€ 747 698 750

- The NIP Credit package deals assisted in steering direct NIPP Investments towards industrial areas, sectors, communities that would traditionally not be favorable to potential investors.

Rating: Less significant

Recommendation

Management should consider the following for the future:

- Incorporating the negotiated package deals into the agreed NIPP Terms to provide a clear view of the methodology for calculating the NIP Credits to be earned by the Obligor for each USD/EURO of investment, local sales and net export revenues created and caused by them

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- Incorporate in the NIP Guidelines a guiding framework to be used for structuring credit package deals for investments in industrial areas, sectors and businesses where the return on investment is not attractive.

Management Comments:

Management Action Plan	Responsible Official	Implementation Date
The management of IDD has decided to discontinue the use of negotiated package deals to attract NIPP investments.	Masizakhe Zimela	Immediately

A2. The validity, accuracy and completeness of credits awarded to discharge the NIPP obligations as compared to the outcomes achieved by the projects.

Criteria

The NIPP commitment of the Defence Obligors as described in the NIPP Terms was:

Undertake to achieve NIP Credits having a value of 15 split between Investments, Local sales and Net export revenues by execution of NIP projects in accordance with the NIPP terms which are necessary to fulfil the NIPP Obligation

As a result the NIP implementing mechanism was required to award the NIP credits based on the Investment, Local Sales and Net Export Revenues claimed by the Defence Obligors

Observation



Based on the audit tests conducted, it was noted that the NIP Credits awarded to the Defence Obligors with respect to Investments, Local Sales and Net Export Revenues were valid, accurate and complete. The conclusion was based on the following assessment:

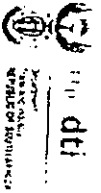
- Accurate: in the sense that they are consistent with supporting documentation submitted by the Obligors and calculations were consistent with the prescribed credit calculation methodology.
- Valid: they are consistent with the deliverables prescribed in the NIP Project Business Plans and other decisions that were taken in the IPCC meetings.
- Complete: all relevant supporting documentation and information was recorded and attached in the claim files

(This excludes the exceptions noted in other areas of this report).

A3. The extent to which the projects achieved the outputs as specified in the Business Plans, Criteria

The NIPP programme is required to contribute to the objectives listed below, in addition to the Investments, Local Sales and Net Export Revenues that need to be generated by the Programme:

- Ensure sustainable economic growth.
- Facilitate access to new markets, and establish new trading partners.
- Encourage Foreign Direct Investment into SA.
- Increase exports of SA value added goods and services.
- Encourage research and development collaboration in SA.
- Contribute to job creation in SA, and
- Develop Human Resources in the country.



- Ensure technology transfer to SA, and
- Support the economic development of historically disadvantaged communities

Observation

1) Investments, Local Sales and Net export revenues.

The NIPP commitment of the Defence Obligors as described in the NIPP Terms was

Undertake to achieve NIP Credits having a value of 1\$ split between Investments, Local sales and Net export revenues by execution of NIP projects in accordance with the NIP terms which are necessary to fulfil the NIPP Obligation

As a result the NIP Implementing mechanism was required to award the NIP credits based on the Investment, Local Sales and Net Export Revenues claimed by the Defence Obligors.

Based on the audit tests conducted, the Defence Obligors achieved the outputs and deliverables stated in their NIP Project Business Plans with respect to Investments, Local and Export Sales (This excludes the exceptions noted in other areas of this report).

2) Job creation

- Estimates of jobs to be created by implementing the NIP Projects were included in certain of the NIP Project Business Plans. The number of jobs created by implementing the NIP Projects was recorded in the NIP Project's spread sheet and also reported in the NIP Annual Review Reports.

However, the audit team could not verify from supporting documents if the total number of jobs reported were actually created and whether they were sustained or not sustained. The following shortcomings in the process limited auditability of these deliverables:

The NIP Terms concluded with the Defence Obligors did not include an obligation to deliver on job creation to earn NIP Credits.

The actual contribution of each project on employment was not described in terms of sustaining existing jobs, creating new additional jobs, or creating opportunities for jobs.

The baseline employment figures were not provided at the beginning of each project to be able to determine the additional jobs that resulted from the NIP Activity implemented by the Defence Obligors.

Evidence of jobs created was not collected as the job creation deliverable was independent of the NIP Credit claiming process, which was solely based on Investment, Local Sales and Net Export Revenues created or caused by the Defence Obligors.

The table below indicates the employment statistics that were provided by IPS

Obligor	Project Name	Number of jobs as per the Business plan	Number of direct jobs created as per spread sheet	Number of indirect jobs created as per spread sheet
GSC	Polysius Service Centre	It was estimated project will result in employment creation of 25-30 people	30	None
	Call Centre	It was estimated the project will create 4000 agent positions seats that would result in creation of employment for 6400 contact centre agents	150	None
GFC	Saidaha and A-Bath	It was estimated that 40 950 project related jobs would be created from 2006-2015	1720	None
	Long Walk to Freedom Movie	It was estimated that South African Production employment of 13 030 people in different stages of production would be	69	None

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Obligor	Project Name	Number of jobs as per the Business plan	Number of direct jobs created as per spread sheet	Number of indirect jobs created as per spread sheet
AGUST A	Mario Levi	created	120	240
	Gold Chain Technology	It was estimated that 287 direct jobs would be created in 3 years. It was estimated that 324 jobs will be created.	15	30
	Capstone	It was estimated that 1400 jobs will be created	250	500
THALES	Laroché Winery	It was estimated that the investment will create around 40 Jobs	30	40
	Tenessa	It was estimated that 60 jobs will be created over 3 to 5 years.	60	120
	Novamoda	It was estimated that 50 new jobs will be created over 2 years	50	100
BAE	Durban Shipyard - EB&H	It was estimated that 250 jobs will be created	250 saved	0
	Cardolek Carbon Manufacture	It was estimated that 350-400 jobs will be created	30	60
	Hivex Ltd	It was estimated that 120 jobs will be created	40	80
	SARM	It was estimated that 1000 jobs will be created	400	800
GEMCO	It was estimated that 1300 jobs will be created	700	1400	

3) Delivery on other NIPP objectives

The NIP Projects Business Plans considered during the audit included certain deliverables and benefits that will result from implementing NIP Projects relating to the objectives stated above.

The audit team could not determine if the Defence Obligor achieved other deliverables/ benefits that were stated in the Project Business Plans relating to the objectives stated above. These include sustainable economic growth, access to new markets, and establishment of new trading partners, development of human resources, ensuring technology transfer to SA, and supporting the economic development of historically disadvantaged communities. The following impedes audiability of the deliverables.

- The NIP Terms of agreement concluded with the Defence Obligor did not include an obligation to deliver on the above deliverables to earn NIP Credits, except for Investment (which may include 5% of technology transfer), Local Sales and Net Export Revenue (which may include export promotions) deliverables.
- These deliverables as mentioned above were included in the Business Plans as additional deliverables and benefits or intended effects that will accrue as a result of implementing the NIP Projects. No specific information was provided on how these would be measured.
- In certain instances, no values were attached to the deliverables to enable the achievements to be measured per the approved Business Plans.

Root Cause

- Credits were only allocated for investment local sales and export revenues as per the NIPP Terms of agreement with the Defence Obligor.
- The supporting document that was maintained was for only the deliverables submitted with the NIP Credit claims. This excludes jobs created and other achievements by the NIP Projects.

Rating: Significant

Impact

- The audit team could not confirm credibility of the information reported on jobs created as supporting evidence was not collected when the job statistics were obtained from the Obligors
- The audit team could not establish whether other deliverables relating to the NIP objectives that were stated in the NIP Project business plans were achieved or not.

Recommendation

Management should consider the following:

- Expand the scope of monitoring to "monitoring the strategic values" as stated in various projects Business Plan as follows
 - IPS should request Obligors to provide detailed progress towards the achievement of other NIP Project deliverables as stated in the Business Plans, during the biannual review of the Obligors performance.
 - Supporting documentation for actual jobs created should be requested as this information is also reported in the Annual NIPP Review reports, which are in the public domain
 - Perform site visit inspection in instances where supporting documentation cannot be relied upon

Management Comments:

<u>Management Action Plan</u>	<u>Responsible Official</u>	<u>Implementation Date</u>
The NIPP objectives of access to new markets; establishment of new trading partners form part of export revenue credits as all exports are based on the principle of additionality i.e. no export project could be approved unless it is to new markets or new trading partners. The objective of sustainable economic growth implies that all projects approved have a long-term view (some projects fail due to changing economic situations). With regard to BBBEE, all business plans are submitted with the ownership structure of the project, thus information	William Ramulla Nomvula Tsatsi	15 December 2012

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Management Action Plan	Responsible Official	Implementation Date
<p>about BBBEE is available for all projects. In consultation with IDB management, the IPS is in the process of formally requesting SDP obligors to provide documentary evidence to substantiate project performances in the areas of job creation, technology transfer, R & D and BBBEE support.</p>		

A4. Overall administration of the NIPP programme as it relates to the SDP

A4.1. Information requirements and record keeping: Limitation of Scope.

Criteria

Section 2.5.1 of Records Management states that operations are to be carried out on a devolved basis, in accordance with the centrally approved policy and procedures. Each division is responsible for making effective arrangements for managing active records relating to its functions, including the allocation of the necessary resources. Semi- and inactive Records, as well as closed volumes, should be transferred to the dti Registry for storage.

Furthermore section 2.5.2 of the Records Management Policy states that while records are still active – that is, while they are being used on a regular basis – their security and integrity is the responsibility of the Head of the Division or Business Unit. Records only become the Records Centre's responsibility once they have been transferred to the Records Centre.

Findings

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The following information was not in the project files requested from the Industrial Participation Secretariat. A meeting was held with IPS on 26 July and 7 August 2012 to discuss the missing information and the attempts to find the information were not successful. The following are documents which could not be found in the requested project files.

No	Obligor	Project	Description of document
1	BAES	Kelbenco	Supporting documents for the following claims: 105/56/C06 - claims value of \$ 17 639 507.21 105/56/C07 - claims value of \$ 16 189 490.56 105/56/C08 - claims value of \$ 17 097 785.31
			Minutes of IPCC for July 1998
			Business Plan
			The evidence prescribed cannot confirm whether the imported content of the products (wire) is less than or more than 30%.
			Supporting documents for the following claims were not in the file. 103/2/C14 - invoice no 6101 - claims value \$ 411 435.32
2	Agusta	Global forest Flexider Mario Levi Filk Gold	103/2/C14 - invoice no 6102 - claims values \$ 1 239.49
			103/2/C16 - invoice no 1562 - claims value \$ 123 719.26
			103/2/C17 - invoice no 7145 - claims value \$ 64 656.58
			103/2/C19 - invoice no 1956 - claims value \$ 654 888.33
3	GSC	MDM Ferroman	103/2/C19 - invoice no 1987 - claims value \$ 337 055.99 Claims files for the following claims could not be provided C102/22/C16 - claims value € 6 671 687
			C102/22/C15 - claims value € 86 038
			C102/22/C17 - claims value €45 326 910
			Invoices for claim C102/22/C09 - claim value € 98 970

No	Obligor	Project	Description of document
4	GFC	Expor Promotions	Business Plan
5	Thales	Omina Evertrade Medical	Supporting documents for sales of Emission reduction certificate – claims value, € 25 000 000 Business Plan

Root cause

- Possibility exists that the information was not received from NPA after they requested the information for investigation of Kelbenco (Pty) Ltd.
- Possibility exists that that information was lost in the filing system.

Rating Significant

Impact

- The audit team could not confirm that the credits awarded for the above projects were substantiated by supporting evidence and that the calculation of the claims are accurate.
- The audit team could not conclude that the deliverables in the business plan were achieved by Obligors and the projects.

Recommendation.

Management should ensure that all the records relating to the processes followed to discharge the NPP obligation under the SDP are safeguarded.

Management Comments:

Management Action Plan	Responsible Official	Implementation Date
<p>The IPS acknowledges that its data management and record keeping has not been up to standard. As a result the business unit is currently involved in a process of migrating record management to an electronic filing system for easy and quicker data storage and retrieval. Where the records are missing or cannot be found the IPS will request copies from the obligors, where possible.</p>	<p>Nomvula Tsatsi William Ramulla</p>	<p>September 2012 – 31 March 2013</p>

A4.2. Monitoring of SPD projects

Criteria

The NIPP commitment of the Defence Obligor as described in the NIPP Terms was

Undertake to achieve NIP Credits having a value of 15 split between Investments, Local sales and Net export revenues by execution of NIP projects in accordance with the NIPP terms which are necessary to fulfil the NIPP Obligation

For monitoring purposes the Defence Obligor was accountable to submit bi-annual progress reports in respect of the Defence Obligor's NIP Commitment and in respect of the NIP Projects. Furthermore, the IPS was required to hold bi-annual meetings with the representatives from the Defence Obligor where the following matters were to be considered among other things:

- Status of NIP Credit Claims,
- Status of NIP Credits awarded,
- Performance reporting and reconciliation of records and

- New matters and general issues.

Findings

- 1) The progress reports did not include detailed information on the achievements of deliverables stated in the business plans as part of performance reporting with regards to sustainable economic growth, access to new markets, and establishment of new trading partners, development of human resources, ensuring technology transfer to SA, and supporting the economic development of historically disadvantaged communities.
- 2) Furthermore, the following discrepancies were noted from the obligors bi-annual review meetings

No.	Project	Findings
1	BAES Carbon Manufacturing	The project failed, however this is not highlighted in the project reviews or any report. This was discovered during the enquiries from IPS.
2	THALES Laroche	Information reported in June 2008 was the same as the information reported in the previous review (November 2007).
3	THALES Africa Explosive	Information reported in November 2006 was the same as the information reported in the previous review (June 2006).
4	GSC Call Centre	Performance of AvantCall was not reported in any of the bi-annual projects review meetings.
5.	GSC Long Walk to Freedom	The performance of the project was only reported in 3 review meetings, no other progress was reported even though the project continued.

Root cause

The monitoring process is focused on the status of NIP Credit claims, status of NIP Credits awarded, Performance Reporting and Reconciliation of Records, as well as new matters and general issues. Other matters relating to the performance of individual NIP Projects may not be adequately considered.

Rating Less significant

Impact

- Significant matters about the performance of the projects, e.g. project failures were not recorded in certain instances.
- IPS cannot adequately identify common causes of project failures which are to be considered in approving future projects
- The IPS cannot identify if the projects have successfully contributed to the overall IPS objectives, namely sustainable economic growth, access to new markets, establishment of new trading partners, research and development collaboration in SA, development of human resources, ensuring technology transfer to SA, and supporting the economic development of historically disadvantaged communities.

Recommendation

Management should consider the following:

- The progress reports should be adequately reviewed and interrogated during the bi-annual review meetings to ensure all significant concerns and successes about the project are noted and recorded.
- The status of all the projects should be reported to ensure effective monitoring including the projects that are terminated or discontinued.

Management Comments:

Management Action Plan	Responsible Official	Implementation Date
The review meetings report on activities pertaining to the past six months of year and where no additional activities for a certain project have taken place during that period, the review meeting's	Masizakhe Zimela	31 December 2012

Management Action Plan	Responsible Official	Implementation Date
<p>report would not have included that particular project. A new template on progress report to provide information on all projects regardless of activities will be developed and circulated to all obligors.</p> <p>All projects that have failed and the causes thereof have been discussed between project managers and the obligors. The IPS management is aware of the reasons for project failures. However, due to frequent changes in personnel and the previous practice of personalising the information, some of the information has been lost when officials resigned or changed to other units. The unit has now created a common server (IPS server) within the dti ICT system where all information is stored and available to everyone in the unit.</p> <p>As explained in 3 above, access to new markets and establishing new trading partners relates directly to export promotion while sustainable economic growth relates to life span of the projects. Thus, with the exception of job creation, R&D, technology transfer, and human resource development, the IPS has all the information regarding the achievement of NIPP objectives</p>		