



**PFMA
2021-22**

Budgetary review and recommendations report (BRRR) on **Portfolio Committee on Higher Education and Training**

12 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

“The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”

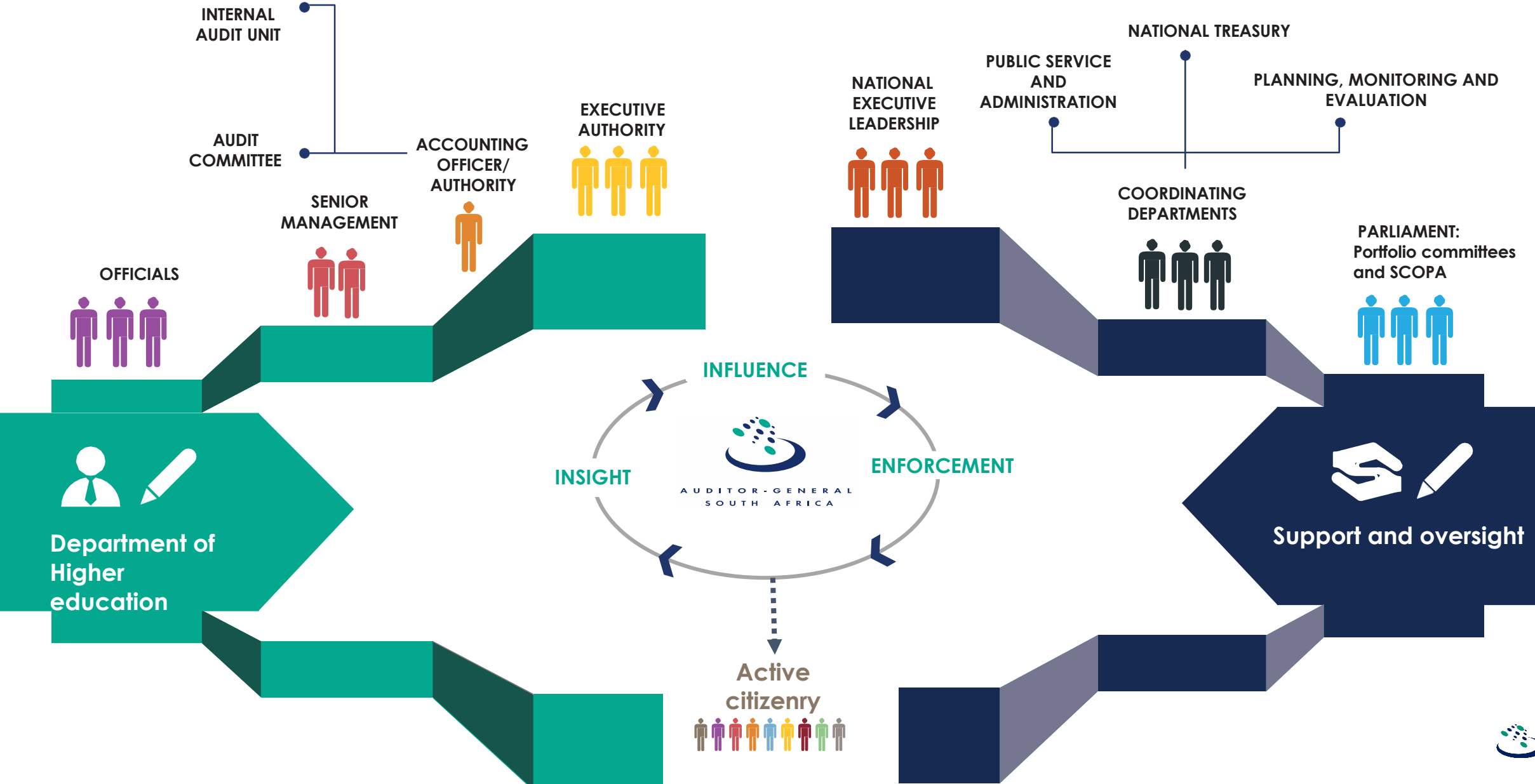


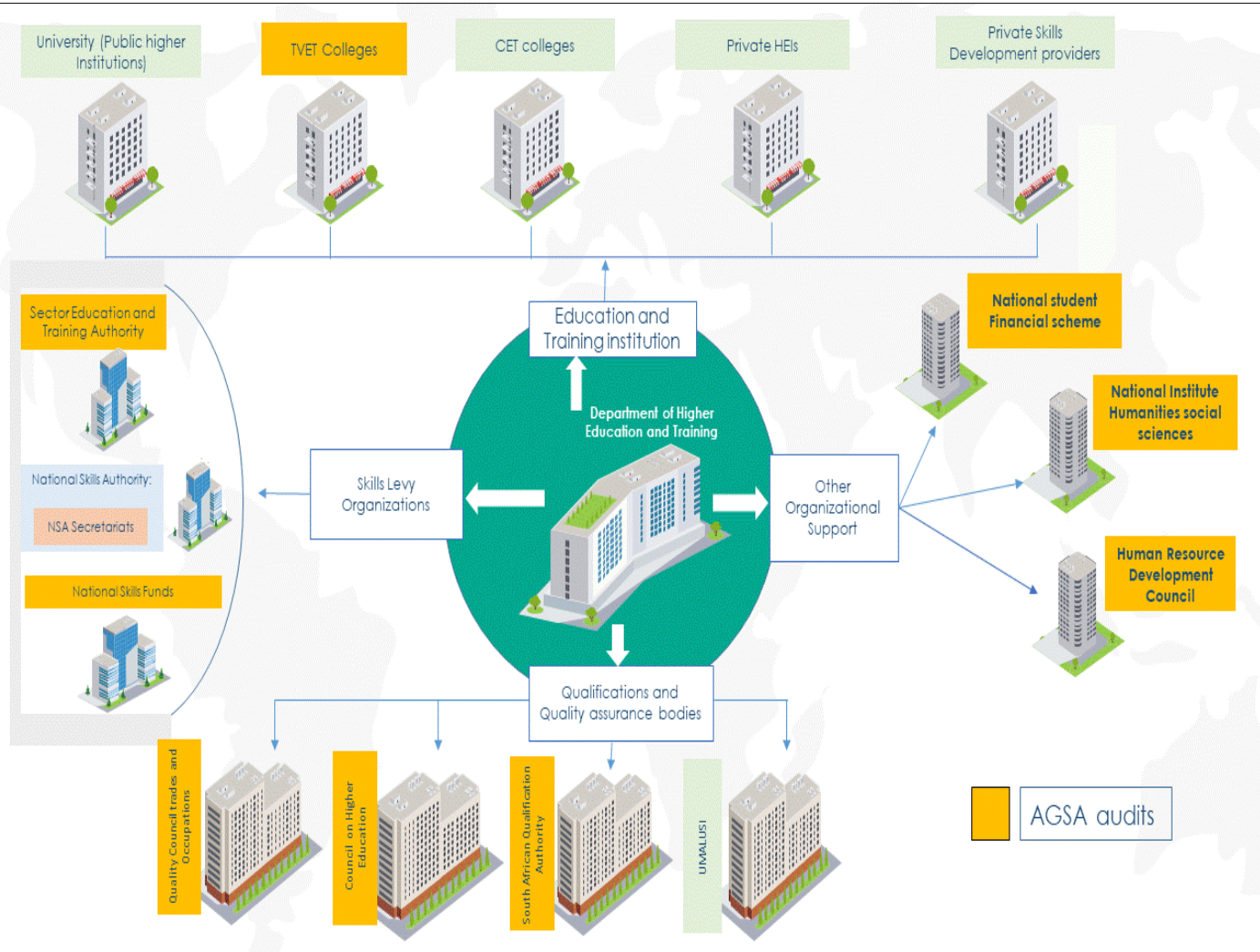
VISION

“To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.”



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





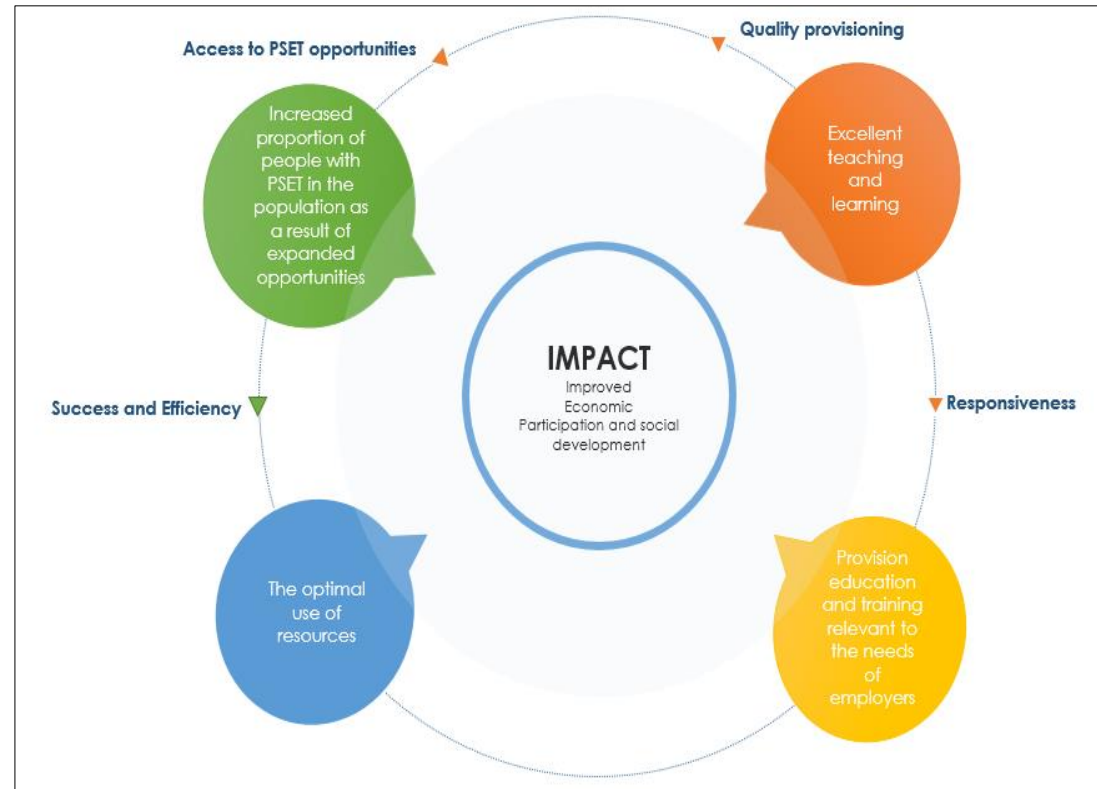
NDP 2030

Access to education and training of the highest quality

Cater for different needs and produce highly skilled individuals

MTSF 2020-25

Improving the quality of and expanding access to education and training

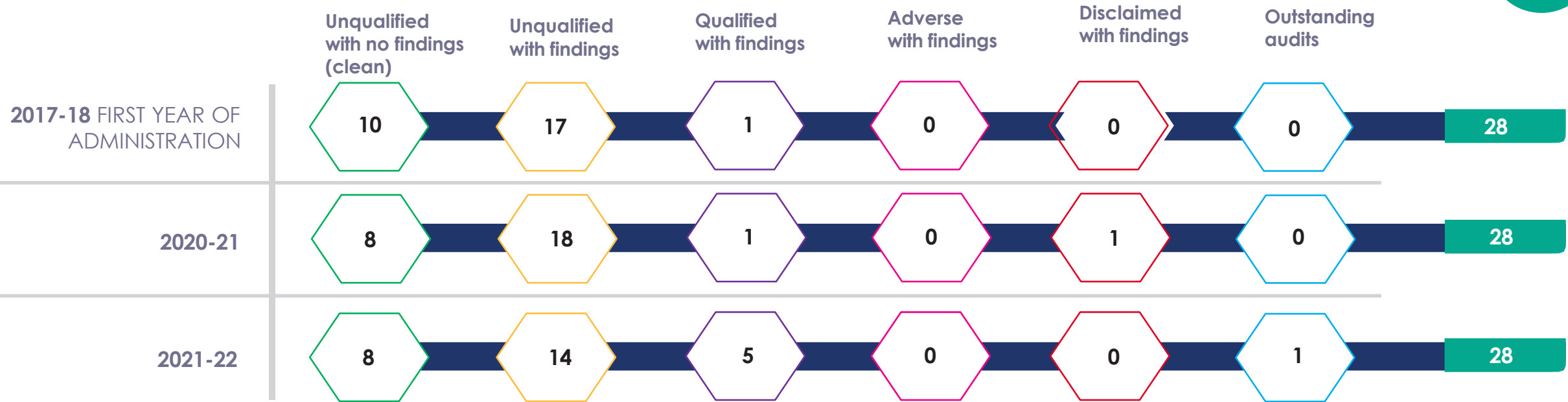




Audit outcomes of the department and its entities (excluding the TVETs and Universities)



Audit outcomes over the administration term



FASSET,ETDPSET A,FPMSETA,PSE TA,QCTO,SASS ETA, NIHSS and MQA

DHET,AGRISETA,BANKSETA, CHIETA, CATHSSETA, EWSETA, FOODBEVSETA,HW SETA, MERSETA, MICTSETA, LGSETA, SAQA, TETA and CHE

W&RSETA, CETA, INSETA, NSF and SSETA

None

None

NSFAS

MOVEMENTS FROM PREVIOUS YEAR:
 4 ↑ 5 ↓



We commend **ETDPSETA, FASSET** and **MQA** for improving and obtaining unqualified with no findings audit opinions in the current year and the following entities that maintained the similar audit outcome, being **SASSETA ,FPMSETA,PSETA,QCTO,NIHSS**.

National Skills Fund, moved from disclaimer audit outcomes to qualified audit outcomes.

Financial statement preparation remains a concern as material adjustments are effected to AFS submitted for audit at 15 auditees, this enabled them to obtain the unqualified audit opinion.

The following audits are a concern in the portfolio as they received qualified audit opinions.

- **NSF** while it is encouraging that the NSF moved from a disclaimer of opinion in the past two years to a qualified opinion. It is still a concern that the entity has not addressed the deficiencies noted around the skills development funding as the entity was qualified on skills development funding and accruals from non-exchange transactions. The absence of adequate project management processes and expenditure approval processes continues to be a challenge at the institution, this has been communicated in past audit cycles but the entity is slow in addressing this.
- **CETA** received a qualified audit opinion on discretionary grants commitments as they were not able to support the commitments balance disclosed on the financial statements with adequate supporting documentation. This is mainly attributable to poor project management processes at the entity which results in them not being able to track the status of contracts with service providers (specifically on the commitments disclosure note).
- **Services SETA** received a qualified audit opinion on commitments in the current year and prior period errors as we were unable to obtain sufficient audit evidence that these transactions were accounted for appropriately, the entity's systems to process and maintain records relating to projects were not adequate.
- **W&R SETA** received a qualified audit opinion on receivables from exchange transactions and payables from non-exchange transactions as they did not provide supporting documentation to support the balances reported on the AFS, the entities systems to process and maintain records relating to projects were not adequate.
- **INSETA** received a qualified audit opinion on administrative expenditures and payables from non-exchange transactions as we they also did not provide supporting documentation to support the amounts and balances reported on the AFS.

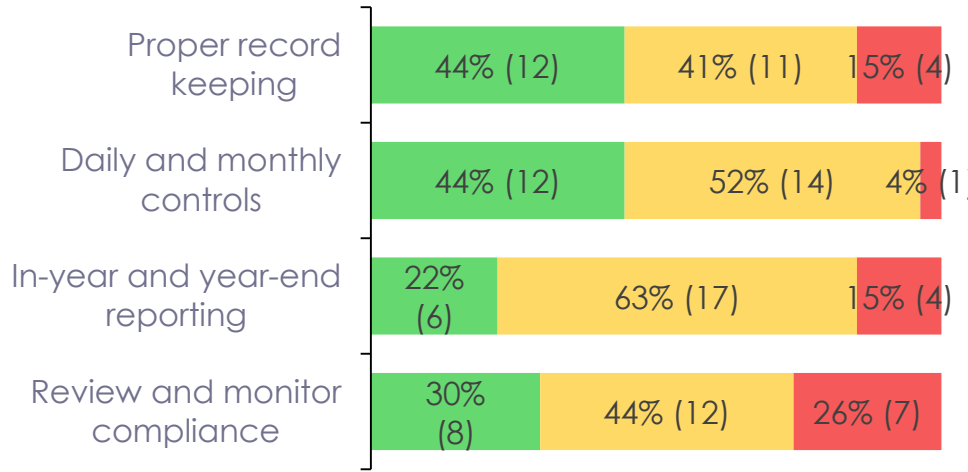




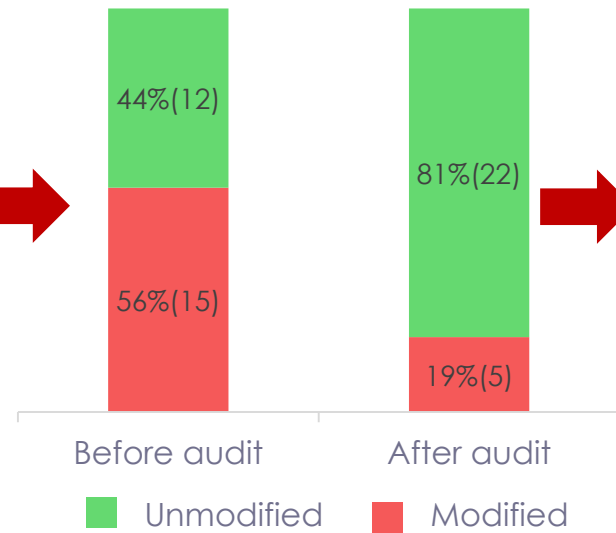
Financial management and compliance



Financial management controls



Impact on quality or financial statements submitted for audit



Main qualification areas

- Discretionary Grant Commitments
- Expenditure
- Receivables
- Payables from non-exchange transactions

■ Good
 ■ Of concern
 ■ Intervention required
 ■ Unmodified
 ■ Modified

Impact

- Project management continues to be a challenge in some of the SETAs and as a result they struggle to produce commitments registers that are complete and accurate.
- The accuracy of the commitment register is critical, as it is also used as a basis to determine the amount of reserves that will be retained. There is thus an incentive for the SETAs to misstate the commitments balance in order to retain more funds. This should be further analyzed and addressed in line with the targets set by the individual SETAs.
- Furthermore, the PFMA states that entities may not budget for deficits and may not exceed approved budgeted expenditure, unless appropriate approvals are obtained, the inaccurate commitments register may result in future non-compliance with legislation should the SETAs commit to more than what can be approved through the budgeting process.





2021-22



No material findings



Material findings

Most common areas of non-compliance

Procurement and contract management
CETA, W&R SETA, EWSETA & LGSETA

Quality of financial statements

NSF, TETA, SAQA, Services SETA, CATHSSETA, CETA, CHIETA, EWSETA, FoodBev, HWSETA, INSETA, LGSETA, MERSETA, W&R SETA & CHE

Prevention of irregular, unauthorised, and fruitless and wasteful expenditure

CETA, EWSETA, LGSETA, MERSETA, TETA, Services SETA & W&R SETA

Effecting consequences

W&R SETA AND NSF

Status of compliance with legislation on procurement and contract management

2021-22



With material SCM findings



With no SCM findings

Most common areas of non-compliance

Contracts modified by incorrect delegation **W&R SETA**

Declarations not submitted by suppliers **W&R SETA**

Threshold for local content on designated sector procurement not properly applied **CETA**

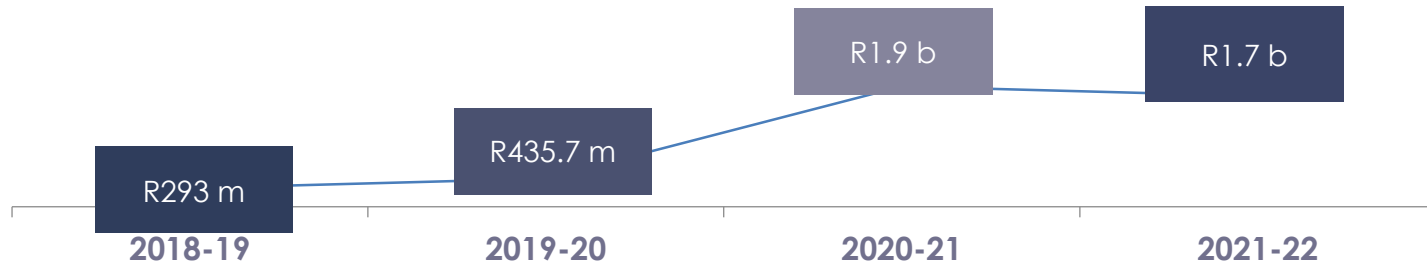
Bids advertised for shorter period **CETA**

Competitive bidding process not followed **CETA and LGSETA**

Procurement from supplier without SARS clearance **EWSETA**



Annual irregular expenditure



Top contributors



Services SETA, Constructions SETA and the NSF were also top contributors to the irregular expenditure balance even in the prior year. This is an indication that consequence management is not adequate in these entities and employees are not held accountable for transgressions. The culture of performance excellence should be promoted and institutionalised.

The entities exceed the budgeted limits, indicative of the poor budgeting process.

Impact assessment of irregular expenditure incurred

Exceeding approved budget: Most of the irregular expenditure was incurred by the entities exceeding the approved budgeted expenditure.

Impact not yet assessed: Entities are incurring expenditure above the thresholds, indicative that the budgeting process are not accurate.

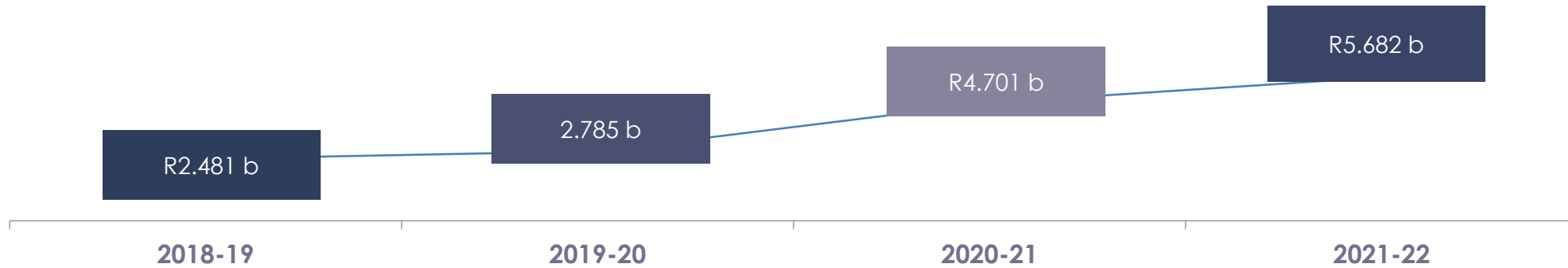
Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness:

Losing out on competitive costs available in the market

Losing out on the most competent/qualified service provider



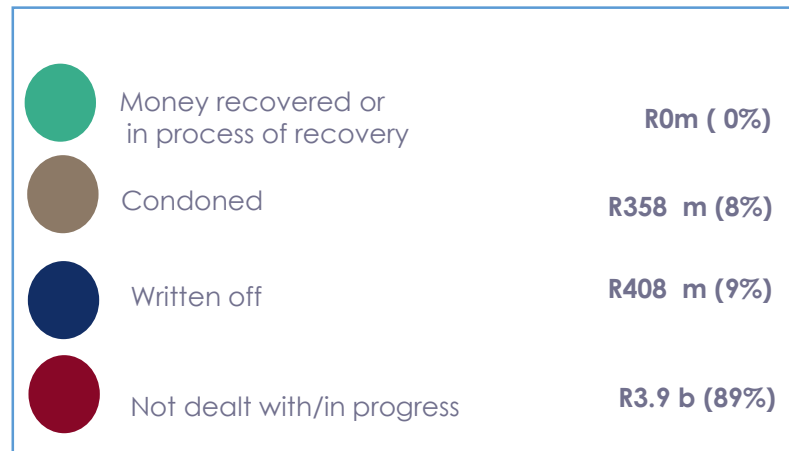
Closing balance of irregular expenditure continues to increase



Top contributors (R3.5 billion) to irregular expenditure not dealt with constitute 89% of R3.9 billion

- R1 898b SSETA
- R702m CETA
- R434m NSF
- R433 m WRSETA

How have auditees dealt with irregular expenditure

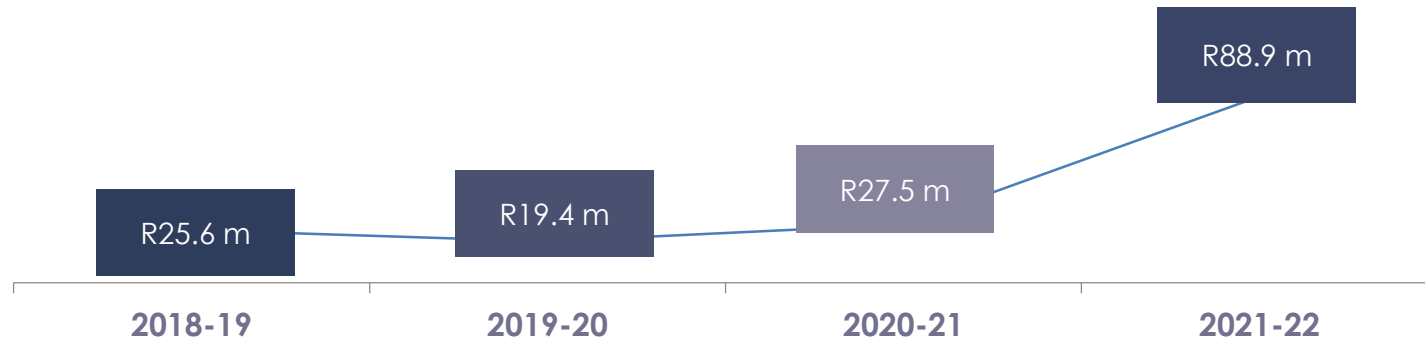


Reasons for IE not dealt with:

- Slow investigations and implementation of consequence management



Annual fruitless and wasteful expenditure



Top contributors



Nature of the fruitless and wasteful expenditure

The highest contributors to the fruitless and wasteful expenditure in the portfolio:

- R65.7 million (R59,4 million of this amount related to fruitless and wasteful expenditure that was identified in the current year but relates to the prior year) of the fruitless and wasteful expenditure relates to the NSF as duplicate payments were made to skills providers and extra costs were incurred due to delays in TVET infrastructure projects.
- R16.7 million of the fruitless and wasteful expenditure relates to CETA. The majority of this F&W at CETA relates to a Project embarked on by the entity that did not yield the required outcomes as the data obtained was found not be usable and thus no discernible benefit was obtained.



Material irregularities



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 Public Audit Act 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**



Material irregularities identified



The National Skills Fund & Construction SETA

Entity	Notified	MI description	Status of MI
The National Skills Fund	9 July 2021/ 06 August 2021	The NSF approved and paid for three modules (for a Security Officer Learnership programme)twice which resulted in a financial loss. This is a non-compliance with section 57(b) of the PFMA as the resources of the entity were not used effectively.	<p>The notification was issued to the accounting authority.</p> <p>The material irregularity was not addressed by the accounting authority so a notification was issued with recommendation on how the irregularity should be addressed. These were also included in the audit report in the 2021-22 financial year.</p> <p>The accounting authority was meant to submit a progress report on the implementation of the recommendations by the 02 September 2022, this was received on the 23 September 2022 and is currently being assessed.</p> <p>The recommendations are expected to be implemented by the 02 December 2022.</p>
Construction Education Training Authority	28 June 2022	<p>The entity entered into an agreement with an consulting firm to assist the CETA in analyzing data for adequate decision-making and to undertake conflict of interest verifications.</p> <p>Payments were made to the service provider in excess of the rates agreed upon on the Service Level Agreement. The Overpayment is also a non-compliance with sections 57(b) of the PFMA</p>	<p>The notification was issued to the accounting authority.</p> <p>A response was received from the accounting authority on how the material irregularity is addressed however certain aspects were not covered, specifically on identifying the responsible officials and implementing consequence management. A follow up letter was sent to the new accounting authority and response is expected on 30 September 2022.</p>

Identified MIs – next steps and responsibilities

1 AO/AA is dealing with MI

AO/AA... implements the committed actions to address the MI and improves controls to prevent recurrence

AGSA... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

2 MI is referred to a public body

AO/AA... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

3 Recommendation included in audit report

AO/AA... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

4 Remedial action issued

AO/AA... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days



Executive and oversight

Executive... monitors progress and supports AO/AA in addressing the MI and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls

Oversight... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing remedial action and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes

Observations from MI process



- The MIs raised were as result of overpayments made to suppliers due to a breakdown in internal controls at the entities. Inadequate daily and monthly controls such as reconciliations are not in place, these controls could have prevented these payments being processed.
- Instability in accounting authorities has an impact in the accountability processes, as the implementation of corrective action needs to be implemented by the accounting authorities.
- There has been a significant delay in addressing the MI reported at the National Skills Fund.
- Overall, the consequence management is not appropriately addressed, the responsible officials must be identified and consequences implemented.

Recommendations for the AAs

Implement recommendations on the National Skills Fund and provide the AGSA with a progress report on the implementation of these recommendations

Identify the responsible officials and take appropriate action.

Recommendations for the committee

To monitor progress and actions taken by the entities to address the MI and the actions taken to improve the internal controls.

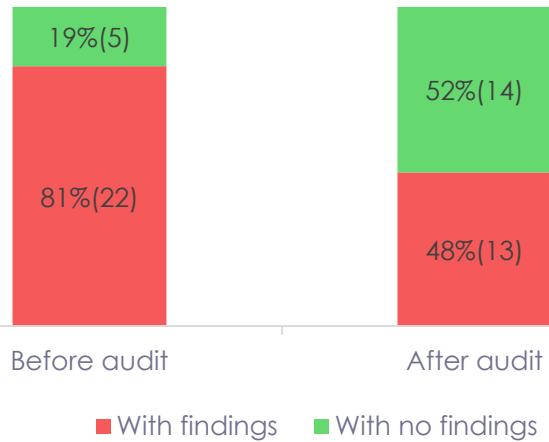
To request action plan or implementation from the NSF AA, monitor progress and call AA to account for actions taken to implement the recommendations and outcomes.



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery

- Indicators were identified as not well-defined at the following auditees:
- BANKSETA
- LGSETA
- MERSETA
- SSETA
- W&RSETA
- CETA

Findings: Reporting

The supporting evidence for the reported achievements was not always provided, and in some instances materially differed from the reported achievement for the auditees below

- | | |
|------------|-----------|
| • DHET | -HWSETA |
| • AGRISETA | -INSETA |
| • BANKSETA | -MERSETA |
| • CETA | -MICTSETA |
| • EWSETA | -NSF |
| • TSETA | -SSETA |

Impact

The SETAs provide learnerships, bursaries and provide opportunities for work skills to the youth. Deficiencies noted on the planning and reporting of targets and indicators may result in incorrect assessments of the contributions and impact that the SETAs have on the achievement of the MTSF targets. This will also hamper the accuracy of needs assessment to enable future planning for skills activities, within the sector.



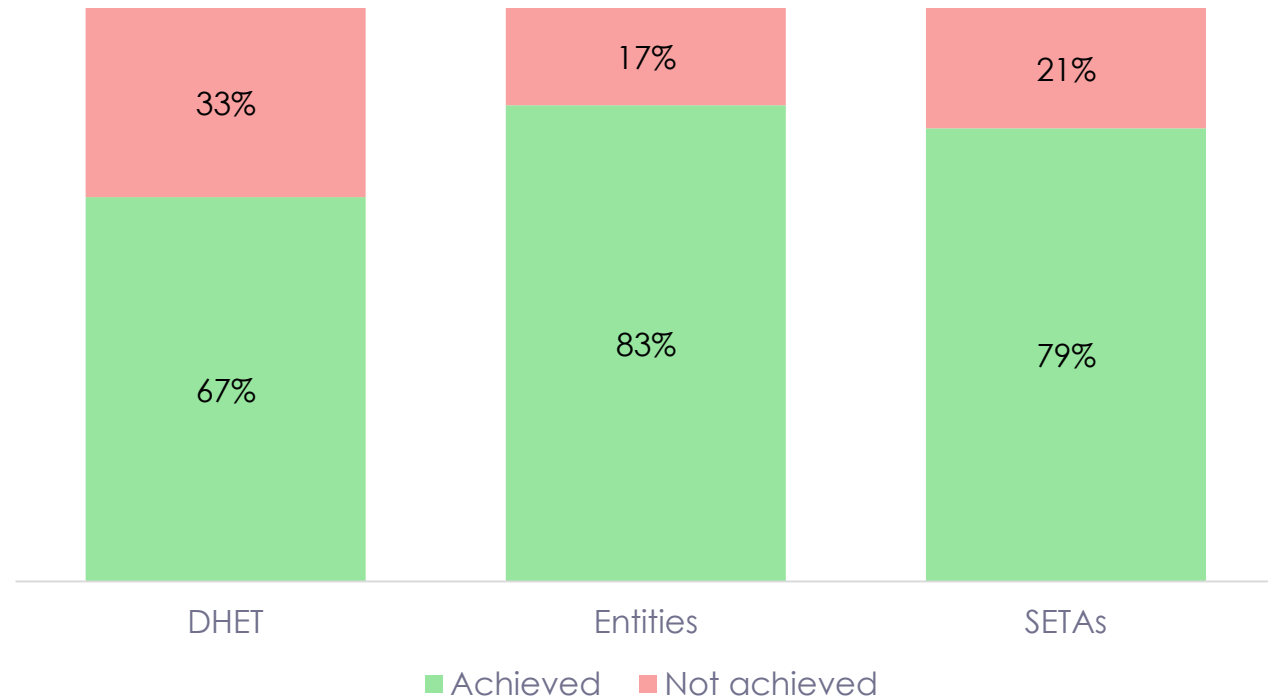
Key targets in medium term strategic framework for portfolio

- Expanded access to PSET opportunities - To provide diverse students population with access to a comprehensive and multifaceted range of PSET opportunities
- Improved success and efficiency of the PSET system - To improve efficiency and success of the PSET system
- Improved quality of PSET provisioning - To build the capacity of PSET institutions to provide quality education and training
- A responsive PSET system - To provide qualifications programmes and curricula that are responsive to the needs of the world of work, society and students

Achievement of annual targets as reported in Annual Performance Report (all indicators) – 2021-22

Key Outcome Performance Indicators

- Enrolments in PSET .
- Students receiving funding through NSFAS bursaries .
- Learners registered for SETA supported skills programmes.
- Students completing qualifications and part qualifications .
- Throughput rates : University and TVET.
- University lecturer qualifications (Doctoral degrees).
- TVET college lecturers with professional qualifications.



Impact

Achieving the key targets for learning interventions over the 5 year strategic journey

Accurate decisions based on impact assessment

Impact on the efficiency and effectiveness of the different role players in the ecosystem





Data analysis for the SETAs : Value-add





OBJECTIVE OF THE VALUE ADD ANALYSIS



- We analysed the data of the different SETAs to obtain deeper insights in order to determine some of the patterns to identify opportunities.

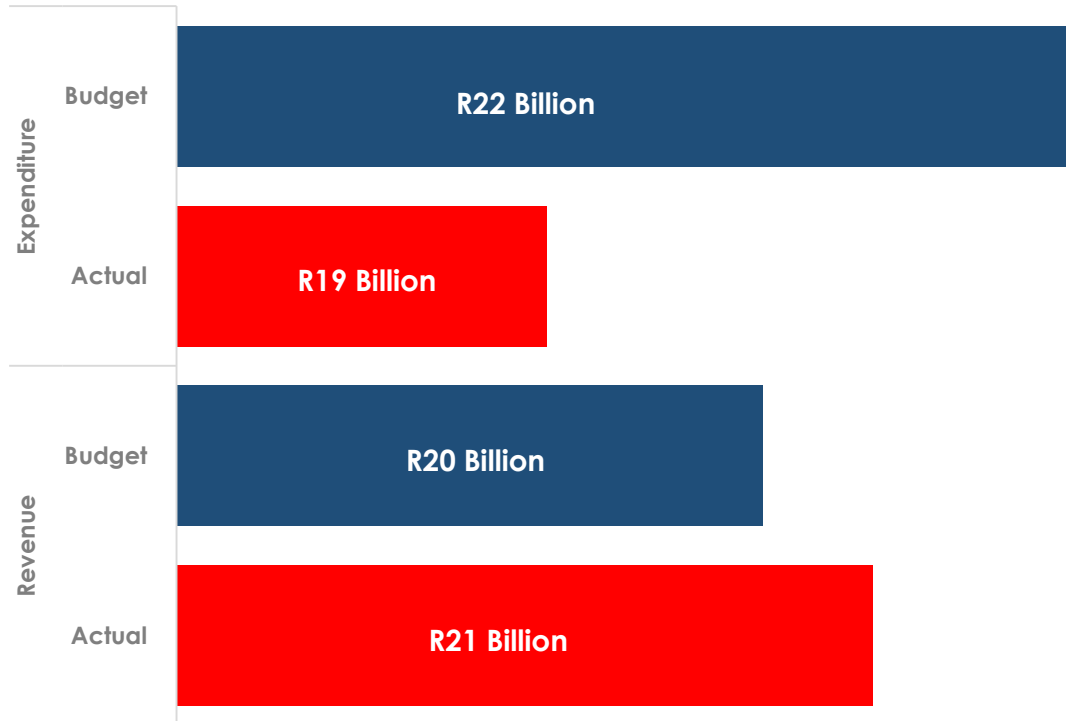


These insights require attention and action by all stakeholders in order to ensure the adequate financial and performance management and reporting.

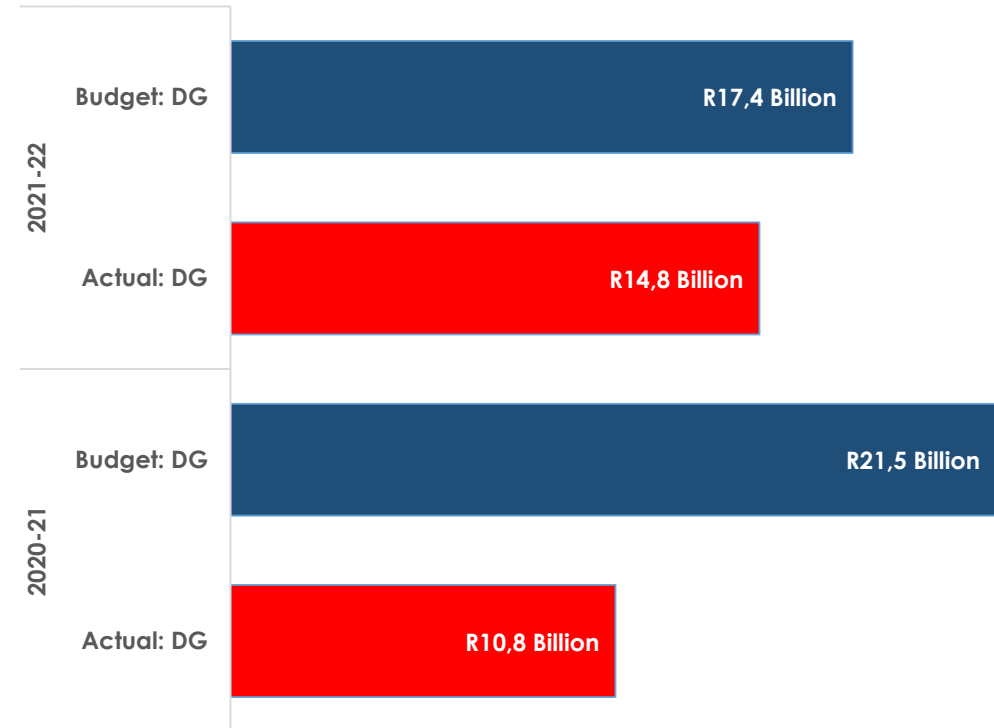




Budget vs Actual

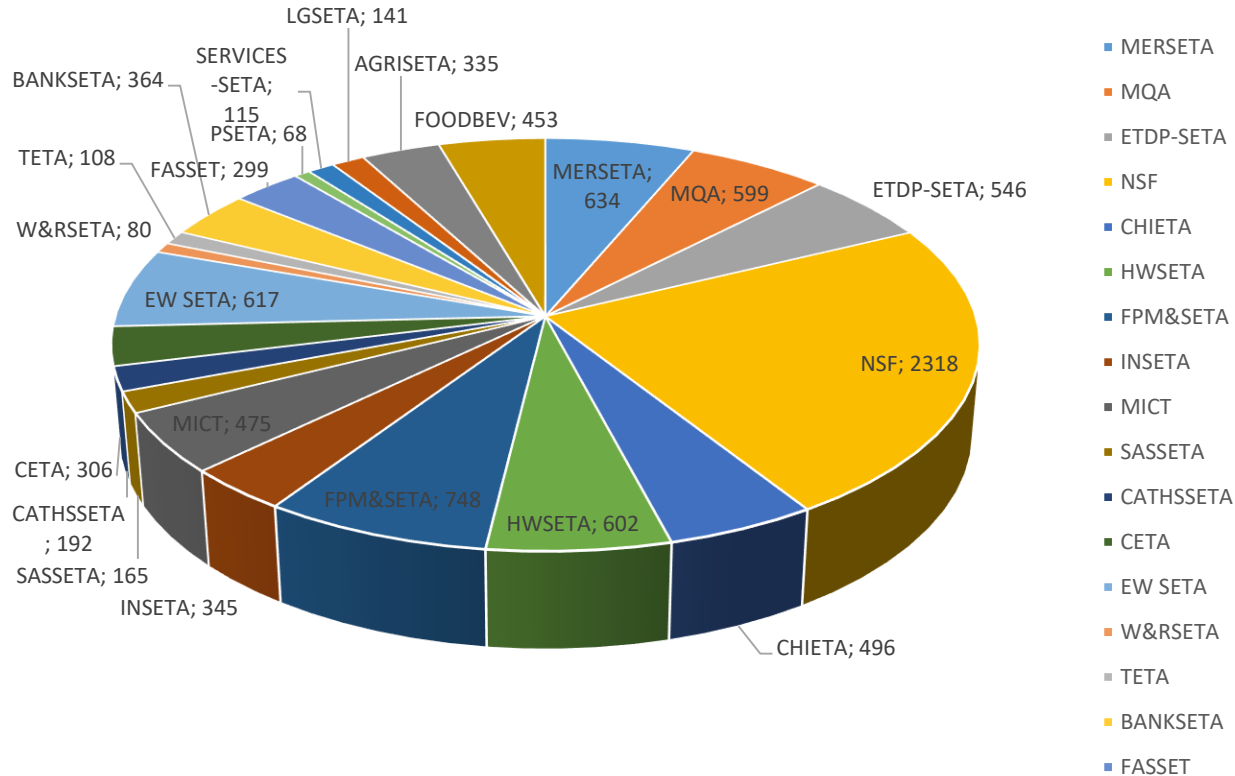


Discretionary Grants Budget vs Actual





Learners in multiple SETAs



DECEASED LEARNERS	Learners reported as deceased on the Home affairs system.	11	LEARNERS WITH ID NUMBERS NOT ON HOME AFFAIRS	Identified learners with ID numbers that are not valid or not home affairs registered	17
LEARNERS IN MULTIPLE SETAs	Same learners across all the SETAs.	10006	LEARNERS REPORTED IN MULTIPLE YEARS	Learners reported as achievements in multiple years.	454
HOME AFFAIRS SYSTEM	Instances where learners have ID numbers that are on the home affairs system with different details.	3	LEARNERS <15 YEARS or >65 YEARS	Payments made to learners who are less than 15 years or more than 65 years old.	140
LEARNERS FUNDED TWICE	Identified learners that received a bursary from NSFAS and also awarded a SETA bursary	236	LEARNERS FUNDED TWICE	Identified learners SETA bursary with Funza Lushaka.	53
REGISTERED COMPANIES	Companies doing business with the SETA that could not be confirmed with the CIPC, are deregistered or in the process of deregistration	87	EMPLOYED LEARNERS	Learners identified to be employed but reported under indicators for unemployed learners.	76
CAPTURING ERRORS	Invalid IDs captured on the SETA system and learners erroneously captured with different details	1410			





OPPORTUNITIES


- The higher education portfolio will benefit greatly from an integrated system within the SETA sector as this would maximise the efficiencies.
- An integrated system would also benefit the citizens of the country i.e. the youth seeking skills development
- We noted that the current systems are not streamlined to promote transparency in the sector and they do not allow for better co-ordinated planning and collective execution of skills interventions.



RECOMMENDATIONS

- The department higher education and training may consider an integrated system between the SETAs. This will also facilitate improved monitoring and reporting within the portfolio
- The portfolio should also continue to elevate integrated planning streamlined processes.

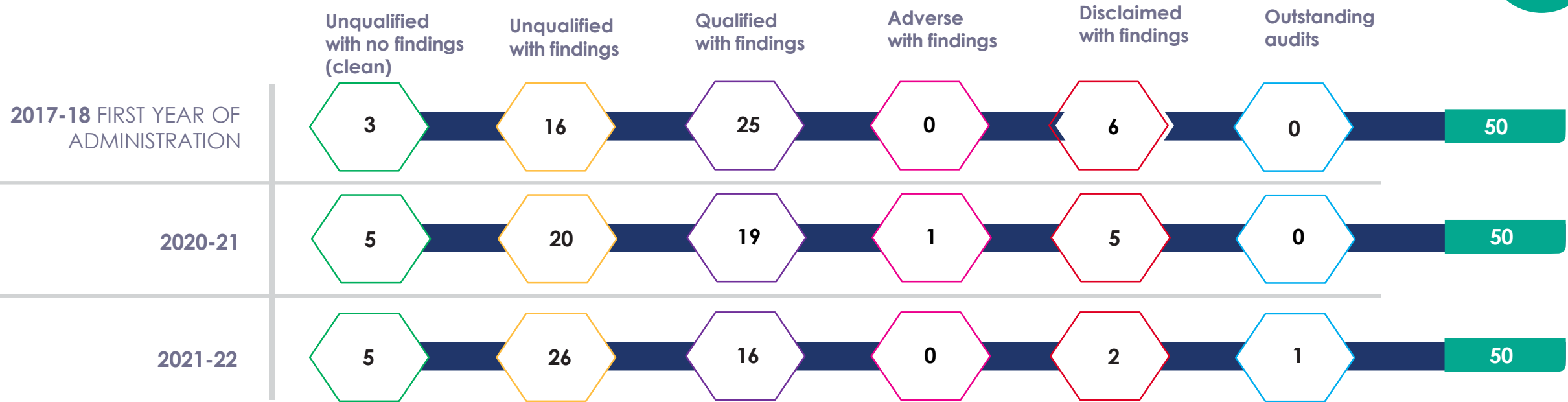




Technical and Vocational Educational Education and Training (TVETs)



Audit outcomes of the TVET colleges



MOVEMENTS FROM PREVIOUS YEAR:
 14 ↑ 4 ↓

Boland
 Esayidi
 Northlink
 West Coast
 South Cape

Capricorn, East Cape
 Midlands, Elangeni,
 Ikhalo, Ingwe, King Hintsa,
 Letaba, Majuba,
 Mnambithi, Mopani South
 East, Orbit, Sedibeng,
 Sekhukhune,
 Umgungundlovu,
 Vhembe, Waterberg,
 Ekurhuleni East, Buffalo
 East, Ekurhuleni West,
 Lovedale, Maluti,
 Mthshshana, Nkangala,
 Northern Cape Rural,
 Thekwini, Western

Lephalale, South West
 Gauteng, Tshwane
 North, Vuselela, Cape
 Town, False Bay,
 Flavius Mareka, Gert
 Sibande, Nothern
 Cape Urban, Port
 Elizabeth, Goldfields,
 King Sabatha
 Dalindyebo, Motheo,
 Tshwane South,
 Umfolozi, Taletso

None

Central
 Johannesburg
 Ehlanzeni

Coastal



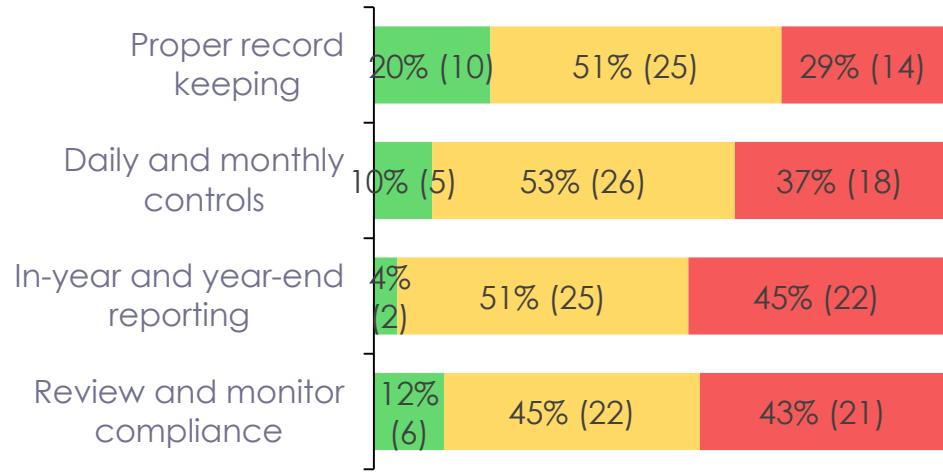


Financial management and compliance (TVETs)



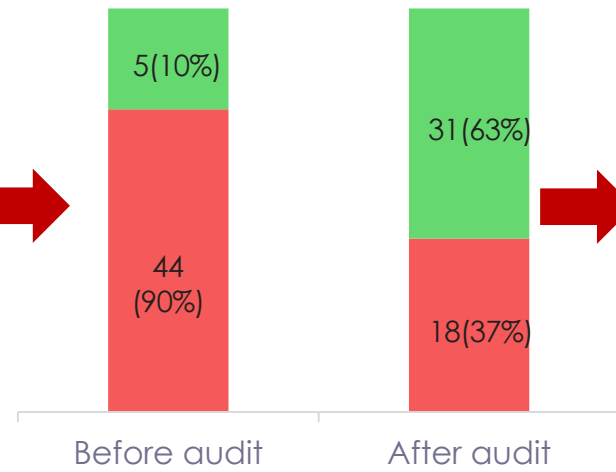
Quality of financial reporting (TVETs)

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required

Impact on quality or financial statements submitted for audit



■ Unmodified
 ■ Modified

Main qualification areas

- Property, infrastructure, plant and equipment, Payables, accruals and borrowings,
- Receivables, expenditure and disclosure notes

Impact

- Inadequate financial management controls result in the entities not being able to produce credible financial statements that are free from material misstatements.
- It is essential for the TVET colleges to have effective asset management systems that produces credible asset register, this will enable the colleges leadership to determine the state of the assets and react timely and appropriately to ensure suitable learning environments for the students.
- The management of receivables is critical, as most students obtain funding from various sources within government, it is important to know which students are struggling to make payments and which take advantage of the opportunities provided, this will also enable accurate decision-making regarding student funding.
- Credible financial reporting is important in order to determine the financial status of the colleges.



Compliance with key legislation (TVETs)



2021-22



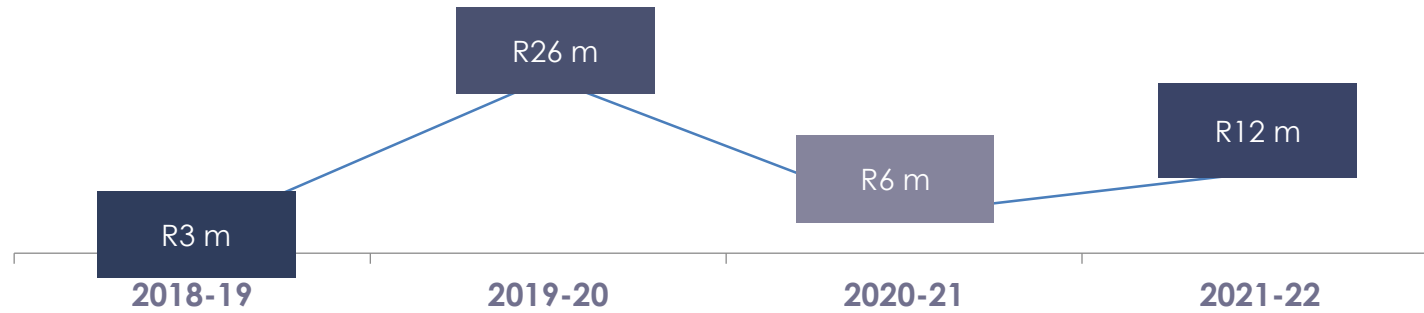
● No material findings ● Material findings

Most common areas of non-compliance	Auditees
Procurement and contract management	Buffalo City, Central Johannesburg, Ehlanzeni, Motheo, Waterberg, Taletso
Quality of financial statements	Buffalo City, Capricorn, Central Johannesburg, College of Cape Town, East Cape Midlands, Ehlanzeni, Ekurhuleni East, Ekurhuleni West, Elangeni, False Bay, Flavius Mareka, Gert Sibande, Goldfields, Ikhala, Ingwe, King Hintsa, King Sabatha Dalindyebo, Lephalale, Letaba, Lovedale, Majuba, Maluti, Mnambithi, Mopani South East, Motheo, Mthashana, Nkangala, Northern Cape Rural, Northern Cape Urban, Orbit, Port Elizabeth, Sedibeng, Sekhukhune, South West Gauteng, Thekwini, Tshwane North, Tshwane South, Umfolozi, Umgungundlovu, Vhembe, Vuselela, Waterberg, Western, Taletso
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	South Cape, Nkangala, College of Cape Town, South West Gauteng, Taletso
Effecting consequences	Majuba



Irregular expenditure (TVETs)

Annual irregular expenditure



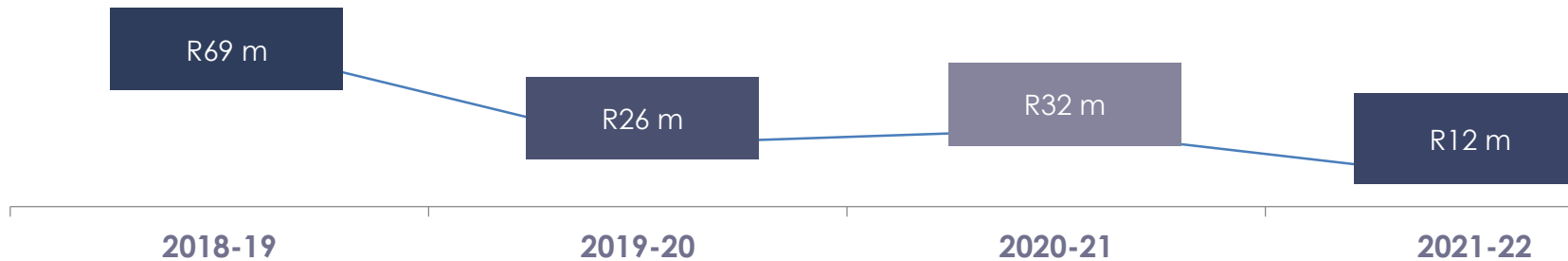
Top contributors



Impact assessment of irregular expenditure incurred

Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness.

Closing balance of irregular expenditure



Limitation

The CET act allows for the colleges to develop their own policies and procedures relating to procurement and contract management, and is not prescriptive as the PFMA. Furthermore, the policies of the colleges are not standardised, therefore these are analysed where irregular expenditure was identified as non-compliance with the colleges policy.

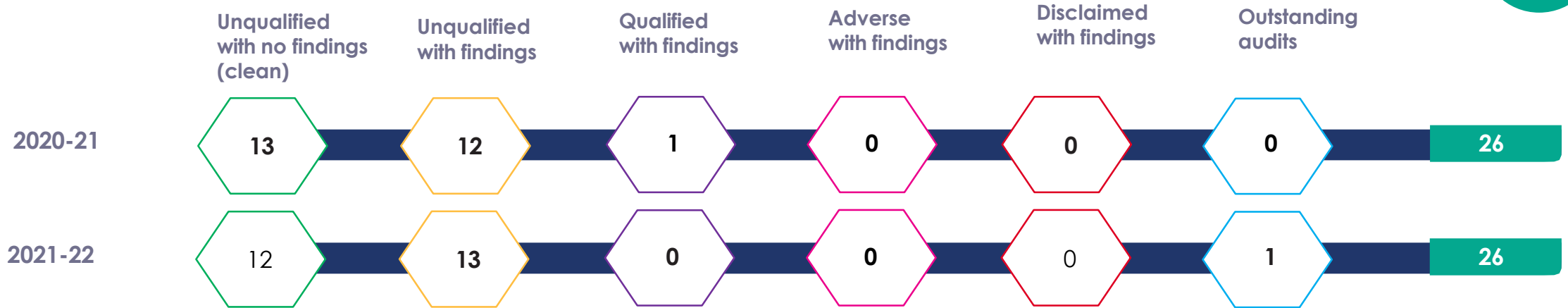


Universities

note: these are section 4(3) entities not audited by the AGSA



Audit outcomes of the Universities



MOVEMENTS FROM PREVIOUS YEAR:
 3 ↑ 3 ↓

University of Pretoria, University of Johannesburg, Rhodes University, University Stellenbosch, University of Cape Town, North West University, University of Zululand, University of Western Cape, Central University of Technology, Cape Peninsula University of Technology, Durban University of Technology, University of the Witwatersrand

University of Fort Hare, Nelson Mandela University, Mangosuthu University of Technology, University of the Free State, University of Kwa-Zulu Natal, University of Limpopo, University of Mpumalanga, University of Venda, Vaal University of Technology, Walter Sisulu University, Sefako Makgatho Health Sciences University, Tshwane University of Technology, Sol Plaatje University

None

None

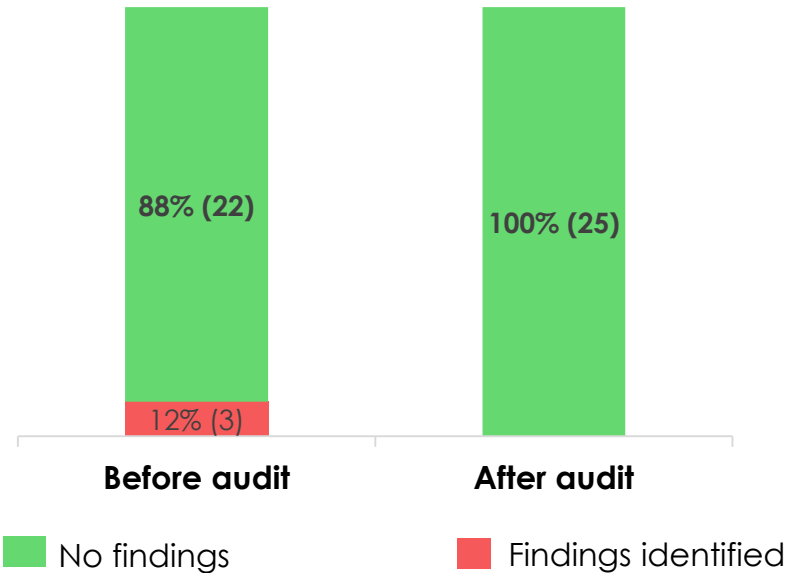
None

UNISA



Audit outcomes of Universities (continued)

Quality of financial statements submitted for 25 Universities



- Twenty two (22) of the auditees submitted financial statement that was supported by reliable supporting evidence. **University of Venda, Sefako Makgatho Health Sciences University, and Vaal University of Technology** had to effect adjustments to the financial statements to obtain a unqualified audit opinion.

Findings on compliance with key legislation



- In the current year there has been a slight improvement in the compliance with legislation.
- Eleven (11) out of the twenty five (25) universities have received findings on compliance with legislation. The non-compliances identified related mainly to the universities not having the required processes in place for the members of staff to declare their conflicts of interest proactively, or when conducting business with the institutions.

Findings on predetermined objectives



- Tshwane University of Technology, and Sol Plaatje University** had findings on predetermined objectives as some of the reported achievements were not supported by accurate and reliable information, or the reported achievements were not aligned to what was initially planned.

Recommendations

Develop a process that will prevent employees from doing business with the universities without declaring the interest.
 Ensure that performance information is supported by credible records, and improve the review of the performance reported in the annual performance report.
 In-year monitoring activities should be strengthened to enhance the preparation of financial and performance reports.



Conclusions and recommendations



KEY ROOT CAUSES

Department and its entities

- Inadequate project management, resulting in the lack of a credible commitments register.
- Lack of daily and monthly controls to enable accurate preparation of financial and performance reports.
- Inadequate reviews by management of supporting records against reported information, reliance is placed on the auditors to identify errors.
- Budget monitoring process are not always adequate some entities do not budget sufficiently for expenditure, resulting in the exceeding of the approved budget.

TVETs

- Daily and monthly controls are still not embedded in the financial management processes of the colleges. Over reliance on the audit process to identify errors, is still prevalent.
- Inadequate review of the financial statements to underlying supporting records and schedules to ensure reliable and transparent reporting.
- Poor record keeping of supporting evidence, therefore information not readily retrievable.

RECOMMENDATIONS

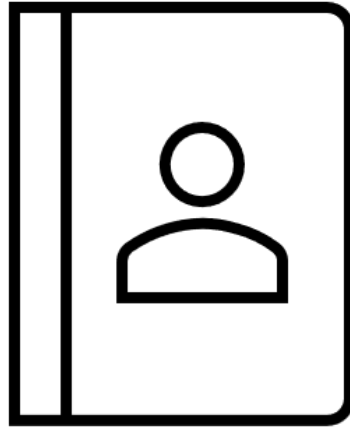
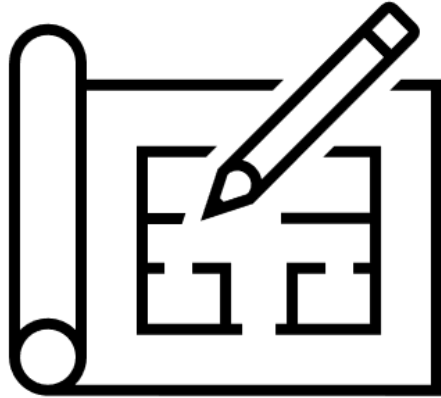
Department and its entities

- Review of performance reports on targets not achieved against the 5 year strategic plan , to determine if the objectives will still be met.
- There is an opportunity for the entities to review the budgeting process in place and ensure that all factors are taken into consideration when budgeting e.g. future committed expenditure.
- Develop responsive action plans and monitor implementation thereof. The AGSA compiled a preventative control guides in 2021 to assist entities with developing responsive internal controls, we encourage the utilisation of these guides.
- Perform an impact assessment to determine if the entities are achieving the desired skills development within the country.

TVETs

- There is still a need to capacitate the finance units of the colleges to enable daily financial disciplines to be adequately performed
- Develop responsive actions plans and monitoring thereof is still a key control that could ensure repeat findings are addressed.
- Internal audit units must also be fully capacitated to ensure that they assist with monitoring the action plans.

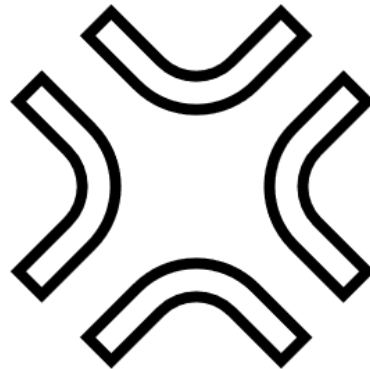




The SETAs could benefit from an integrated system that will enable them to capitalise on opportunities. The system will allow for transparency, and it will benefit the SETAs and the South African citizens looking for skills interventions.

Monitor the progress made by NSF and CETA on addressing the Material Irregularity

Obtain from the department and entities an assessment of the impact the non-achievement of targets will have on the 5 year strategic goals. Where gaps are identified, follow-up that these have been included in the 2022-23 Annual Performance Plan and beyond.



Follow up on progress made on implementing consequence management , for entities where there is irregular and fruitless and wasteful expenditure.

Obtain action plans from the entities and monitor the progress made on mechanism implemented to improve the controls around key business areas.

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