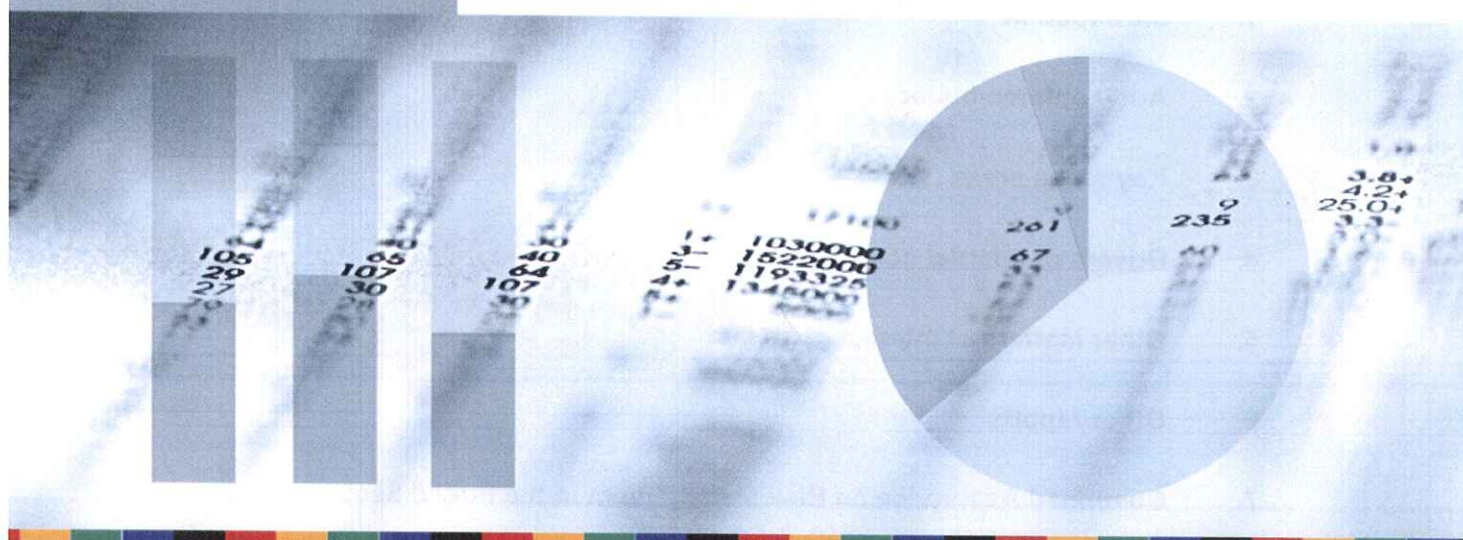


PC BRIEFING NOTE



PFMA audit outcomes of the 2013-14 financial year for

Science and Technology

14 October 2014



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

To provide an overview of the audit outcomes and other findings in respect of the Science and Technology portfolio for the 2013-14 financial year.

1.3 Overview

The portfolio consists of:

- Department of Science and Technology (DST)
- Three schedule 3A public entities audited by the AGSA:
 - Council for the African Institute of South Africa (AISA)
 - Human Sciences Research Council (HSRC)
 - National Research Foundation (NRF)
- One schedule 3B public entity with subsidiaries and joint venture audited by the AGSA:
 - Council of Scientific and Industrial Research (CSIR)

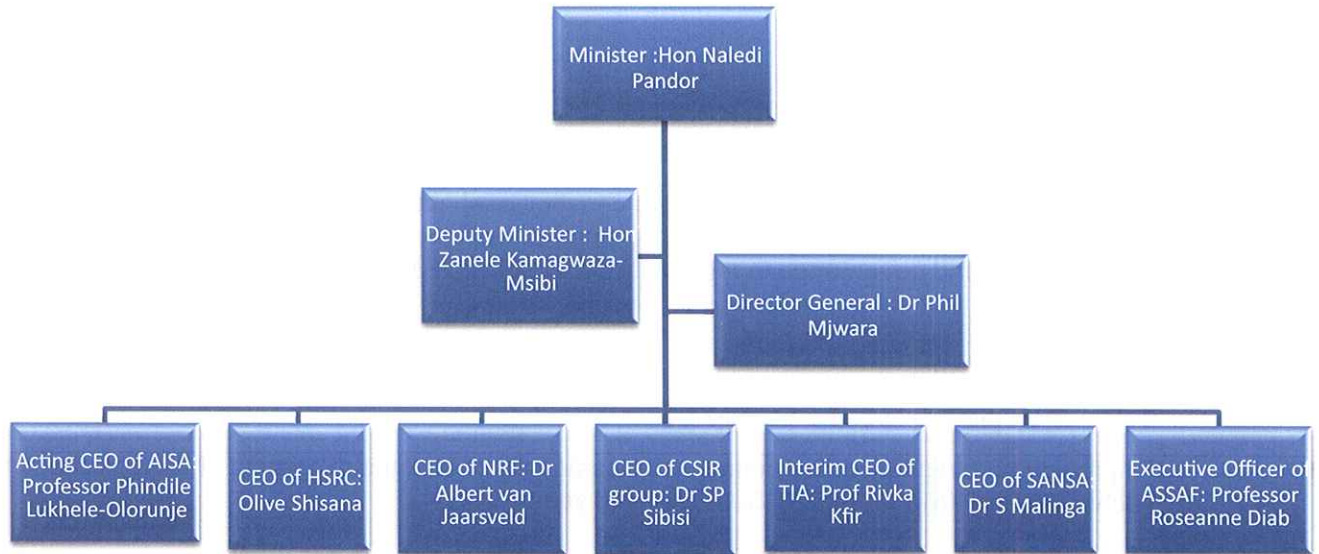
Subsidiaries:

 - Technovent (Pty) Ltd – active
 - Technology Finance Corporation (Pty) Ltd – active
 - Accredited Spatial Knowledge Network (Pty) Ltd – dormant
 - Ulwazi Biotech (Pty) Ltd – dormant
 - Citizens Information Services (Pty) Ltd – dormant

Joint venture:

 - Ellipsoid Technology (Pty) Limited – active
- Three schedule 3A public entities not audited by the AGSA in terms of section 4(3) of Public Audit Act:
 - Technology Innovation Agency (TIA) – audited by KPMG
 - South African National Space Agency (SANSA) – audited by SizweNtsalubaGobodo
 - Academy of Science for South Africa (ASSAF) – audited by Douglas & Velcich

1.4 Organisational structure



1.5 Funding

Annual appropriation

The Department (Vote 34) received a final annual appropriation of R6.2 billion and has spent 99.54% of the allocation in the 2013/14 financial year. The under-spending has decreased as compared to 0.53% in 2012/13 to 0.46% in 2013/14, which is due to vacant positions, reduced administrative costs and delays in contracts. The largest portion of 92.03% of the annual appropriation was transferred to the portfolio entities, other institutes and projects.

Department of Science and Technology						
Program	2013-14	2013-14	%	2012-13	2012-13	%
	Budgeted	Actual	(Over)/ Under	Budgeted	Actual	(Over)/ Under
	R'000	R'000	Spendi ng	R'000	R'000	Spendi ng
Program 1: Administration	258 926	257 471	0.56%	226 372	225 270	0.49%
Program 2: Research, Development and Innovation	1 671 041	1 669 678	0.08%	1 160 383	1 156 845	0.30%
Program 3: International Cooperation and Resources	141 430	139 783	1.16%	137 240	136 518	0.53%
Program 4: Human Capital and Knowledge systems	2 473 172	2 462 720	0.42%	2 057 033	2 038 955	0.88%
Program 5: Socio-Economic Partnerships	1 653 586	1 639 837	0.83%	1 418 582	1 415 727	0.20%
TOTAL	6 198 155	6 169 489	0.46%	4 999 610	4 973 315	0.53%

Transfers to public entities

The following transfers to public entities in the portfolio were made from various programmes.

Name of entity	2013-14 Actual R'000	2012-13 Actual R'000
Council for the African Institute of South Africa	35 000	34 000
Human Sciences Research Council	250 000	214 000
National Research Foundation	2 668 000	1 064 000
Council of Scientific and Industrial Research	796 000	743 000
Technology Innovation Agency	523 000	456 000
South African National Space Agency	172 000	126 000
Academy of Science for South Africa	20 744	16 000

2. Audit opinion history

AUDIT FOCUS AREAS

1. Financial statements
2. Predetermined objectives
3. Compliance with laws and regulations
4. Internal controls

AUDIT OPINION

	CLEAN AUDIT OPINION: No findings on Predetermined objectives and Compliance
	UNQUALIFIED with findings on Predetermined objectives and Compliance
	QUALIFIED AUDIT OPINION (with/without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

Audit opinion table

DESCRIPTION	09-10	10-11	11-12	12-13	13-14
Department of Science and Technology					
Audit opinions					
No areas of qualification					
Other findings					
• Non-compliance – Compensation of employees				✓	✓
• Non-compliance – Supply chain management					✓
• Non-compliance – Annual Financial Statements material adjustments					✓
• Usefulness of Predetermined objectives	✓		✓		
• Reliability of Predetermined objectives				✓	
Council for the African Institute of South Africa					
Audit opinions					
No areas of qualification					
Other findings					
• Usefulness of Predetermined objectives	✓			✓	
• Non-compliance - Supply chain management	✓		✓	✓	
• Non-compliance - Inventory and assets	✓				
• Non-compliance - Banking and cash management					
• Non-compliance - Annual financial statements- Material adjustments	✓		✓	✓	✓
Human Sciences Research Council					
Audit opinions					
No areas of qualification					
Other findings					
• Non-compliance- Irregular expenditure		✓			
• Usefulness of predetermined objectives		✓			
• Reliability of predetermined objectives		✓			
National Research Foundation					
Audit opinions					
No areas of qualification					
Other findings					
• No significant findings					
Council of Scientific and Industrial Research					



group					
Audit opinions					
No areas of qualification					
Other findings					
• No significant findings					

The outcomes of the portfolio generally remained unchanged. The National Research Foundation, Council for Scientific and Industrial Research and Human Sciences Research Council received unqualified opinions with no findings on predetermined objectives and compliance. The Department of Science and Technology and Council for Africa Institute of South Africa received unqualified opinions with findings on compliance but they managed to resolve their prior year findings on predetermined objectives.

The main findings arising from our audit, as reported in the audit reports, which need to be addressed to improve the overall audit outcomes are as follows:

- Council for Africa Institute of South Africa and Department of Science and Technology recorded instances of non-compliance as material adjustments were made to the annual financial statements submitted on 31 May 2014.
- A number of non-compliance findings in respect to supply chain management were identified at Department of Science and Technology.
- Department of Science and Technology failed to comply with prescripts relating to compensation of employees as the verification process had not been followed for new appointments.

The overall audit outcomes of these entities have improved when compared to the previous year.

2.1 Significant emphasis of matters

Entity	Significant emphasis of matters
Council for Africa Institute of South Africa	<p>Restatement of corresponding figures The annual financial statements include adjustments made in respect of prior year errors identified in the current year. The errors relates to incorrect allocation of rental expense for the prior year, assets additions for the prior year incorrectly accounted for in the current year and a Unemployment Insurance Fund error relating to amounts payable to employees.</p> <p>Going concern The Annual Financial Statements have been prepared on the going concern basis. However attention should be drawn to the announcement of the Minister of the Department of Science and Technology that Council for Africa Institute of South Africa has been incorporated into the HSRC at 01 April 2014.</p>

2.2 Significant additional matters

No significant additional matters were included in the audit report of the department and the public entities.

2.3 Qualification paragraph

None of the entities in the portfolio had a qualified opinion, adverse opinion or disclaimer of opinion in the 2013/14 financial-year.

3. Key focus areas

Auditee	Supply chain management	Predetermined objectives	HR Management	IT controls	Material errors/ omissions in AFS submitted for audit	Financial Health
DST	Regressed	Improvement	No improvement	No matters	Regressed	No matters
AISA	No improvement	No matters	No matters	No matters	No improvement	No matters
HSRC	No matters	No matters	No matters	No matters	No matters	No matters
NRF	No improvement	No improvement	No matters	No matters	No matters	No matters
CSIR	No matters	No matters	No matters	No matters	No matters	No matters

3.1 Predetermined objectives

No significant findings on predetermined objectives were identified. The quality of performance reports improved within the portfolio with an exception of National Research Foundation which submitted an annual performance report for audit that contained material misstatements. They avoided material findings in their audit report only because they had corrected all the misstatements we identified during the audit.

3.2 Supply chain management

Entity	Finding	Root cause	Recommendation
Department of Science and Technology	<p>Uncompetitive or unfair procurement processes</p> <p>Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by the Treasury Regulation 16A.9.1(d) and the Preferential Procurement Regulations</p> <p>Irregular expenditure incurred as a result of the contravention of supply chain management legislation.</p>	Lack of proper review and monitoring by management to ensure compliance with supply chain management policies, procedures and legislation.	Management should regularly evaluate and monitor implementation of supply chain management policies, procedures and legislation.
Council for Africa Institute of South Africa	<p>Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by the Treasury Regulation 16A.9.1(d) and the Preferential Procurement Regulations</p>	Lack of review by supply chain management officials, of bidding documentation received from suppliers, before awarding contracts.	Management should ensure that supply chain management regulations and policies are adhered to by all supply chain management officials who interact with service providers and the supply chain management unit should ensure that tax clearance certificates are collected during an annual invitation of registration or updating of supplier's information.
National Research Foundation	<p>Irregular expenditure incurred as a result of the contravention of supply chain management legislation</p> <p>Uncompetitive or unfair procurement processes</p> <p>Inadequate controls over supply chain management</p>	Compliance with laws and regulations were not properly reviewed and monitored. The non-compliance with supply chain management legislation could have been prevented had compliance been properly reviewed and	Proper review and monitoring of compliance with laws and regulations at corporate and national facilities.

		monitored.	
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3.3 Human resources

Entity	Finding	Root cause	Recommendation
Department of Science and Technology	<p>Verification process was not followed for new appointments as required by Public Service Regulations of 2001, 1/VII/D.8.</p> <p>Non-compliance with Public Service Regulations and Public Service Act circular and candidate who do not qualify in all respects may be appointed resulting material compliance deviation.</p>	<p>Management indicated that the requests for verifications are sent to the service provider prior to appointments and the service provider takes time to produce the results, hence appointments are being made without verification being done, with that being said, we still identified newly appointed employees whose request for verifications were sent to service provider after appointment dates, this may indicate that there is lack of reviewing and monitoring of the appointment process.</p>	<p>Management should implement controls to ensure that the appointment verification process is done and completed in time before a candidate is appointed.</p> <p>Review and monitor the appointment process to ensure that the verification process is done and the applicable laws and regulations are complied with.</p>

3.4 Information technology controls

There were no significant matters to report on the information technology controls.

3.5 Financial health status

None of the auditees in the portfolio had findings or displayed signs that there were matters which could affect the financial sustainability of the portfolio.

3.6 Material Misstatements to Financial Statements

Entity	Finding	Root cause	Recommendation
Department of Science and Technology	Material misstatements of tangible assets, intangible assets and commitments identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion	Management did not properly review and monitor the submission of the financial information and accuracy of the amounts to supporting schedules and general ledger on the submitted financial statements.	Management should exercise oversight to ensure that the values disclosed in the annual financial statements are supported by correct and reliable information.
Council for Africa Institute of South Africa	Material misstatements of property, plant and equipment, intangible assets, payables, revenue, operating expenditure, irregular expenditure, fruitless and wasteful expenditure, employee costs and prior period errors identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.	Management did not properly review and monitor the submission of the financial information and accuracy of the amounts to supporting schedules and general ledger on the submitted financial statements.	Management should properly review the accuracy of the amounts supporting the financial statements.

4. Drivers of internal controls

	Good
	In progress
	Intervention required

Drivers of internal control														
Entity	Leadership						Financial and performance management					Governance		
	Effective leadership culture	Oversight responsibility	HR management	Policies and procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling	Reporting	Compliance	IT systems controls	Risk management	Internal audit	Audit committee
DST														
AISA														
HSRC														
NRF														
CSIR														

Internal control deficiencies:

Entity	Leadership	Financial and Performance Management	Governance
Department of Science and Technology	<p><u>Compliance</u></p> <p>The appropriate level of management did not regularly review monthly/interim reporting in terms of best practice to ensure compliance with supply chain management and human resource management. A number of findings regarding supply chain management issues were identified which indicated that there was a lack of oversight responsibility thus</p>	<p><u>Compliance</u></p> <p>Delays in providing information and information provided was not complete resulting in numerous findings identified on supply chain management. Some of the supporting documentation was not provided for audit purposes which may indicate improper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support that supply</p>	No significant control deficiencies






	<p>resulting in non-compliance of supply chain management policies and procedures in the awarding of tenders and quotations and an issue regarding verification process on new appointments was raised on human resource management.</p>	<p>chain management processes has been followed. Documents relating to tenders were not easily retrievable.</p> <p>Management to ensure that a proper record keeping of supply chain management tenders and quotation are implemented so that all necessary information to verify the compliance to laws and regulation are easily accessible.</p> <p><u>Financial statements</u> Management did not ensure that assets that are not on a good working condition are derecognised from the financial statements and that all assets exist and are completely recorded in the annual financial statements and that all assets bought are bought at their depreciated replacement cost and not at their historical costs.</p> <p>Furthermore; commitments were significantly overstated. Management subsequently adjusted the financials with the misstatements identified.</p>	
<p>Council for Africa Institute of South Africa</p>	<p>No significant control deficiencies</p>	<p><u>Financial statements</u> We agreed that all information requested for audit purposes would be submitted within five working days and communication of audited findings would be responded to within three working days. Despite this agreement significant delays in providing information were experienced</p> <p>The financial statement submitted did not agree to supporting schedules and contained numerous calculation errors</p> <p><u>Compliance</u> Non-compliance with section 51(1) (a) (i) and, 55(1) (a) of the</p>	<p>No significant control deficiencies</p>

		<p>Public Finance Management Act 1 of 1999 and National Treasury guidance for Public entities could have been prevented had management properly reviewed and monitored the submission of the financial information and accuracy of the amounts to supporting schedules and general ledger on the submitted financial statements.</p> <p><u>Information technology systems</u></p> <p>Incorrect change approval process was implemented and was never rectified.</p> <p>Shortages of in-house skills in the ICT administration.</p>	
National Research Foundation	<p><u>Compliance</u></p> <p>Management at facilities did not exercise the required level of oversight to ensure compliance with supply chain system/process</p> <p><u>Information technology systems</u></p> <p>Based on the assessment of implementation of the Corporate Governance of information and communications technology (ICT) Policy</p> <p>Framework (CGICTPF) published by the DPSA for adoption by all spheres of government, management was in the process of aligning ICT processes to phase one deliverables which were required to have been implemented by 31 March 2014. Section 20.9 of the CGICTPF lists IT governance deliverables that need to be delivered by all spheres of government, organs of state and public enterprises as per Section 195 of the</p>	<p><u>Performance reporting</u></p> <p>Lack of review and monitoring to ensure that performance information reported was supported and evidenced by reliable information to confirm validity and accuracy. Controls should be implemented to prevent, detect and correct the misstatement in the performance report.</p> <p><u>Compliance</u></p> <p>Management of facilities did not monitor compliance with laws and regulations surrounding procurement and contract management.</p> <p>Management did not review and monitor compliance with applicable laws and regulations as the supply chain management process followed deviated from the competitive bidding process or deviations not in terms of the requirement. The non-compliance with supply chain management legislation could have been prevented had compliance been properly reviewed and monitored.</p>	No significant control deficiencies

	<p>Constitution. The framework was approved by the Cabinet in November 2012. This framework has been developed in terms of Sections 3(1) (g) and 3(2) of the Public Service Act 103 of 1994.</p> <p>The review surrounding the ICT Governance focus area, for the 2012/13 financial, was not based on the implementation of the CGICTPF but ICT Governance processes that NRF had adopted in comparison to industry best practices.</p>		
<p>Council for Scientific and Industrial Research</p>	<p>No significant control deficiencies</p>	<p><u>Information technology systems</u></p> <p>Lack of sufficient resources to implement a comprehensive and formal monitoring process to review the PeopleSoft application audit logs.</p> <p>Resource constraints within the information and communications technology (ICT) department. Funding constraints limit the ability to deploy appropriate database logging tools and appropriate segregation of duties within ICT.</p> <p>Developers having access to production environment could be ascribed to resource constraints within the ICT department. As a result the developers are required to perform end user functional support.</p>	<p>No significant control deficiencies</p>

5. Other matters of interest

Irregular expenditure incurred:

Auditee		Irregular expenditure		
		Movement	2014 Amount R'000	2013 Amount R'000
1	Department of Science and Technology		32 214	569
2	Council for Africa Institute of South Africa		588	37
3	Human Science Research Council		76	132
4	National Research Foundation		15 346	2 424
5	Council for Scientific and Industrial Research		0	0

6. Other reports

Investigations

- No investigations are currently underway by the AGSA.

Performance audits

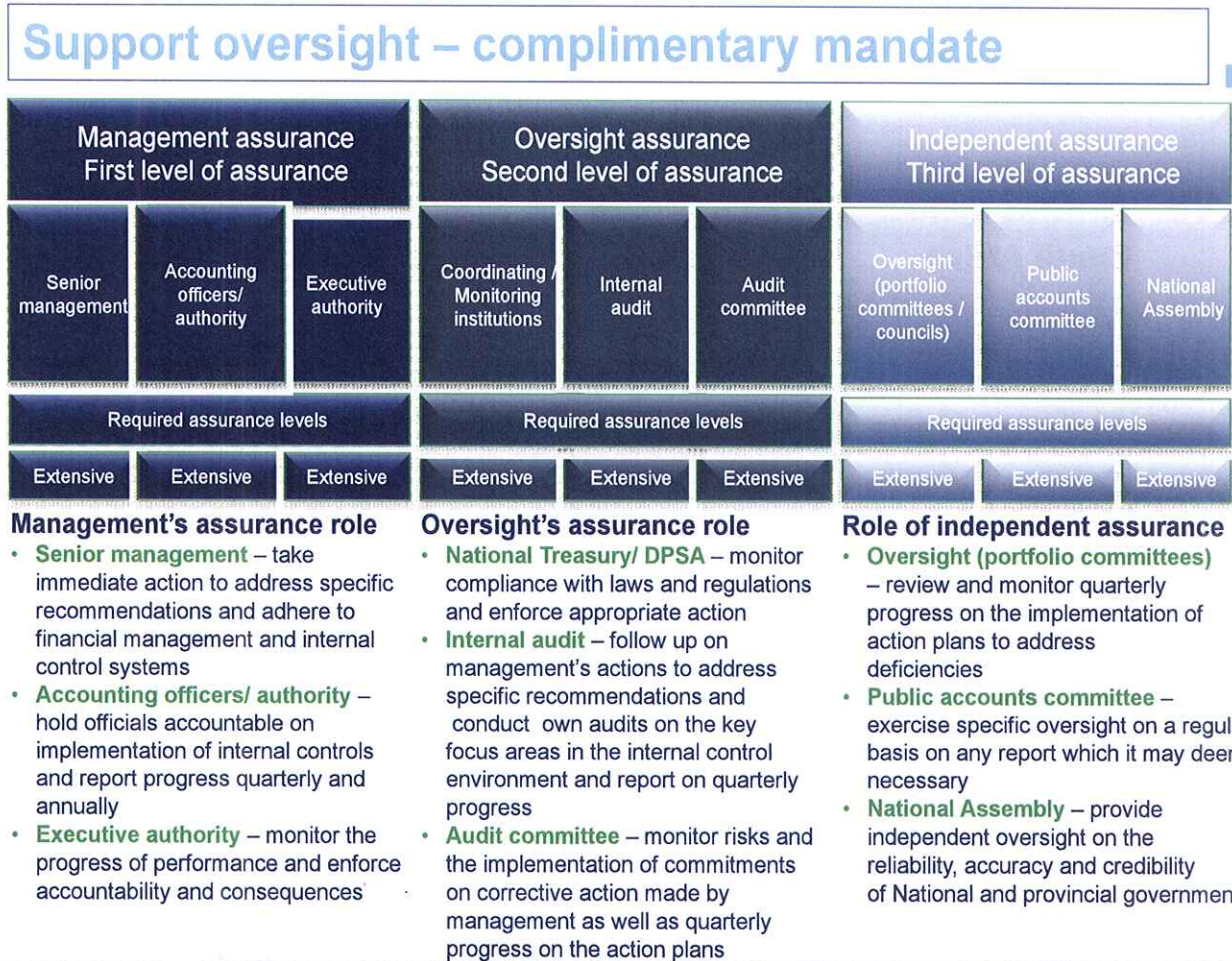
- No performance audits are currently underway by the AGSA.

7. Combined Assurance on Risk Management in the Public Sector

The first and second levels of assurance should be improved by ensuring stability at the level of the accounting officer and by implementing the recommendations of the internal audit unit and directing the work of the audit committee towards evaluating performance information.

We met with the minister three times in the past year and in our opinion these interactions had a significant impact on the audit outcomes. Our opinion is based on the commitment shown by the minister, which is evident in the portfolio results.

Combined assurance model in the public sector:



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8. Commitments

In progress

- To ensure that the department and its entities comply to the National Treasury requirements on reporting on pre-determined objectives, management did proper monitoring during planning to ensure compliance to National Treasury framework and obtain feedback on a quarterly basis.

New commitments

- Monthly monitoring of the dashboard by management and updating the minister on a quarterly basis on the improvement and actions taken to improve on the controls thereof.
- A checklist to be implemented on the requirements of the supply chain management process, which must be completed with regards to all tenders, quotes and deviations. Internal audit to audit the process to ensure compliance.

9. Feedback on previous resolutions

There were no resolutions made as indicated in the report of the accounting officer in the annual report of the Department

10. Entities included in the portfolio not audited by the Auditor-General of South Africa

Audit opinion table:

DESCRIPTION	09-10	10-11	11-12	12-13	13-14
Technology Innovation Agency					
Audit opinions	New entity				
Areas of qualification					
<ul style="list-style-type: none"> Non compliance to SA standards of Generally Recognised Accounting Practice (GRAP) - Consolidated financial statements 		✓			
<ul style="list-style-type: none"> Investment in associates 		✓			
Other findings		✓			
<ul style="list-style-type: none"> Usefulness of Predetermined objectives 		✓	✓	✓	
<ul style="list-style-type: none"> Reliability of Predetermined objectives 		✓			
<ul style="list-style-type: none"> Annual financial statements - Material adjustments 		✓	✓		
<ul style="list-style-type: none"> Strategic planning and performance management 		✓	✓		
<ul style="list-style-type: none"> Procurement and contract management 		✓	✓		
South African National Space Agency					
Audit opinions	New entity				
No areas of qualification					
Other findings					
<ul style="list-style-type: none"> Usefulness of Predetermined objectives 			✓	✓	
<ul style="list-style-type: none"> Reliability of Predetermined objectives 			✓		
<ul style="list-style-type: none"> Procurement and contract management - compliance 			✓		
<ul style="list-style-type: none"> Expenditure management - compliance 		✓			
Academy of Science of South Africa					
Audit opinions	New entity	New entity			
No areas of qualification					
Other findings					
<ul style="list-style-type: none"> No significant findings 					

The overall audit outcomes of these entities have improved when compared to the previous year, all entities has unqualified audit without findings. Technology Innovation Agency and South African National Space Agency had no material findings on the quality of their annual performance reports in the current year.




Internal controls deficiencies:

Technology Innovation Agency:

The following internal control deficiencies were on leadership (performance reports) and financial management (compliance):

- The public entity did not have sufficient monitoring controls to ensure adherence to the internal policies and procedures at an objective level and for purposes of taking corrective action, as a result the target for the number of technology based products/ processes developed through investments objective was not well defined; and
- Non-compliance with legislation relating to supply chain management could have been prevented had compliance been properly reviewed and monitored.

Irregular expenditure incurred:

Auditee		Irregular expenditure		
		Movement	2014 Amount R'000	2013 Amount R'000
1	Technology Innovation Agency		52 435	6 191
2	South African National Space Agency		0	0
3	Academy of Science of South Africa		0	0

