

## **Juanita Terblanche: Balancing your books isn't rocket science, Minister**

The Department of Science and Technology (DST) and its seven Public Entities' audit outcomes for the past year set a fine example for other departments.

However, the Auditor-General (AG) reported on a number of findings which need to be addressed in order to improve the overall audit outcomes of the Department and its Public Entities.

Both the 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

Further, a number of non-compliance findings in respect to supply chain management were identified by the AG at the Department of Science and Technology, the Council for Africa Institute of South Africa and the National Research Foundation. The findings included:

- Uncompetitive or unfair procurement processes
- Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order
- Irregular expenditure incurred as a result of the contravention of supply chain management legislation and inadequate controls over supply chain management

The AG reported that the above findings were caused by the lack of proper review and monitoring by management to ensure compliance with supply chain management policies, procedures and legislation.

This non-compliance appears to be the major contributor for an estimated R100 million in irregular expenditure:

- R32 214 000 by The Department of Science and Technology;
- R588 000 by the Africa Institute of South Africa;
- R76 000 by the Human Science Research Council; and
- R15 346 000 by the National Research Foundation.

It is a serious concern as any deficiency in the Supply Chain Management System appears to be the entry point for tenderpreneurs and a subsequent rapid increase of questionable procurement practices

In addition, material misstatements of tangible assets, intangible assets and commitments were identified by the auditors in the submitted financial statements and were subsequently corrected,

resulting in the financial statements receiving an unqualified audit opinion. A similar AG finding was recorded in the case of the financial statements of the Africa Institute of South Africa.

It is a concern that the AG reported that DST management did not, in accordance with best practice, regularly review monthly and interim reporting 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. Subsequently there has been an increase in non-compliance with supply chain management policies and procedures in the awarding of tenders and quotations.

I am however hopeful that the Department and its entities will address the issue identified by the AG and that repeated similar findings will not appear in the next AG report.

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### **Annelie Lotriet: Innovation belongs at the centre of economic growth and job creation**

Hon Chairperson,

The biggest problem our country faces is poor economic growth and unemployment.

Throughout the National Development Plan reference is made to the importance of science and technology as one of the key drivers of economic growth and more specifically of innovation to enable faster economic growth and job creation.

Although the Minister has given an overview of all the successes and I also have to commend the Department and its entities for the excellent work done, the question still has to be asked, are we on track to give effect to the objectives of the NDP?

Let's start by looking at the most obvious and immediate requirement – funds.

The budget for 2015/16 is R7 482 billion. Admittedly, and I suppose with great gratitude from the science and technology community, it is an increase of R1 billion from last year. However, we need to put this into perspective and in the context of what this Department has to deliver, especially with reference to the key role it has to play in economic growth as envisaged by NDP. This budget constitutes a mere 5.5 % of the national budget. This is clearly not evidence of the important role it has to play in ensuring economic growth and job creation.

The limited funds was also the thread throughout the different entities' presentations to the Portfolio Committee. Encouraging however, is that these entities did not only lament the limited funding available, but had in fact made some adjustments. Although this is commendable, the question remains whether these adjustments, especially when it entailed a reduction in staff, is not going to impact negatively on research and innovation capacity?

What also became evident during the presentations by the different entities, was the funding model for research councils. For example, they indicated that they had to compete with private institutions and universities for research projects in order to generate income to sustain their programmes. Therefore the sustainability of programmes was determined by how many research tenders the Councils could acquire. In many other countries, research councils are fully funded. The danger is that because councils are partially funded and continually need to seek external funding, it opens them up to influence on the research agenda, whereas this risk would be restricted if these research councils were better funded.

It is clear that the funding model for research entities should be revisited.

One way of increasing the funds available for research and development is through the Tax Incentive Scheme.

In the budget debate last year I referred to how far we are behind in terms of the percentage of GDP we spend on R & D as well as the critical importance of encouraging investment in R & D.

Whilst it is appreciated that there is indeed an R & D incentive scheme, it is far from ideal. The incentive scheme has to be attractive and must involve as few barriers as possible.

However, it seems that this is not the case. The turnaround time is too long, with applicants having received rejection letters in some instances more than 18 months later according to a KPMG presentation to Parliament. Very often these letters also contained no detailed reasons for the rejection. Although I do acknowledge that the department is trying to deal with the backlog and to improve the process it is hoped that it will achieve the 90 day turnaround target as soon as possible.

Chairperson, another concern raised, was the threshold against which applications are adjudicated. I accept that the Minister wants to set the bar high, but perhaps we need to make it more accessible given the dire need for access to funds by new entrepreneurs and innovators.

Another concern is that unlike other sections of tax legislation, there is no objection and appeal process built into Section 11D of the Income Tax Act. This basically means that applicants' only

recourse is to take the decision on appeal to the High Court. From the figures in the DST's report to Parliament on the performance of this tax incentive scheme, it seems that in the region of 50% of applications are turned down. Surely there has to be more affordable and accessible a mechanism for unsuccessful applicants to appeal a decision.

Besides the critical need for funding for research and innovation, human capital development is just as important.

The report released last week by the National Advisory Council on Innovation in which the state of the national system of innovation is assessed, does give some idea of where we stand on this. Inter alia, this report looks at the level of human capital development.

So what does this report say about the state of our human capital development vis a vis R & D capacity?

For innovation to be successful and to increase, you have to focus on research and development and for this you need researchers. The number of researchers per 1000 people employed is on average 7.7 in the Organisation for Economic Cooperation and Development countries (OECD) whereas in South Africa we have 1.5 researchers per 1000 people employed. Clearly we are still far from the level we should be at. It is easy to say, well let's just get more people into research. But to do that we have to have a source from which we can get these future researchers. And here is where the picture starts to become very worrying.

We need enough learners who pass matric with Mathematics and Physical Science with at least 60% to meet this future demand for researchers. However, according to the NACI report only 7.6% of learners and 5.5% of learners passed Mathematics and Physical Science with more than 60% respectively. Unfortunately this is also a decrease from 2013.

Chairperson, I do realise that this is not the Minister's department, but the reality is that even with the best intentions and plans, the DST will not be able to build sufficient research and innovation capacity whilst this sorry state of our basic education is not fixed. This should be a matter of national urgency not only because learners are ill equipped to get jobs, but because they will not be able to create the jobs we need.

An aspect that has been worrying is the extent to which the research done contributes to economic growth and job creation. However, this concern was addressed when the Department presented its Strategic Plan to the Portfolio Committee. Minister, it is commendable that an analysis was made in terms of trade balances and technology balance of payments. In this regard it is hoped that there will

be an asserted effort from the side of science and technology to stem the growing trade deficit in the manufacturing sector.

At this point in our country, we do not have the luxury of funding and conducting research for the sake of research.

Another factor that I believe does impact negatively on the state of innovation in the country, is the fact that research, development and innovation are spread over a number of departments. In this regard one can mention the Departments of Environmental Affairs, Communication, Telecommunications, Higher Education and Training, Energy, Mineral Resources and very specifically Trade and Industry.

This does have the danger of research and innovation being duplicated and less efficient use of funds that could be better spent by using available and existing resources. It is a matter of concern that the Technology and Human Resources for Industry Programme (THRIP) will be administered by the Department of Trade and Industry in future. This programme focusses on research and belongs with the DST.

Minister, perhaps it is time to look at streamlining and refocussing the innovation agenda.

The DA does in fact understand the critical role science and technology has to play. And in terms of our vision of freedom, fairness and opportunity, our Innovation policy places innovation at the centre of economic growth and job creation. This is the only way we can provide a bright and sustainable future for generations to come.