



BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | **PFMA**
2017-18

Briefing to Portfolio Committee on
Higher Education and Training



AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

The Auditor-General of South Africa (AGSA) 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.



Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



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Our focus



Our annual audit examines three areas

1 FAIR PRESENTATION AND
RELIABILITY OF FINANCIAL
STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE INFORMATION
FOR PREDETERMINED
OBJECTIVES

3 COMPLIANCE WITH KEY
LEGISLATION ON FINANCIAL
AND PERFORMANCE
MANAGEMENT



The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)

Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings

Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion

Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published

Adverse opinion

Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion







Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements








The percentages in this presentation are calculated based on the completed audits of 28 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Movement over the previous year is depicted as follows:

-  Improved
-  Unchanged Movement of 5% or less:  slight improvement  slight regression
-  Regressed



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2017-18 audit outcomes for DHET and Public entities



ACCOUNTABILITY = PLAN + DO + CHECK + ACT



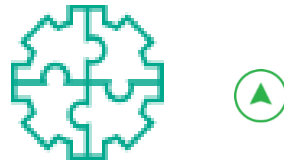
Portfolio snapshot (2017-18)



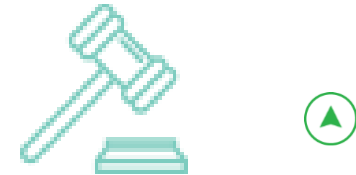
Clean audits: 36%
(2016-17: 36%)



Quality financial statements: 61%
(2016-17: 57%)



Quality performance reports: 32%
(2016-17: 18%)

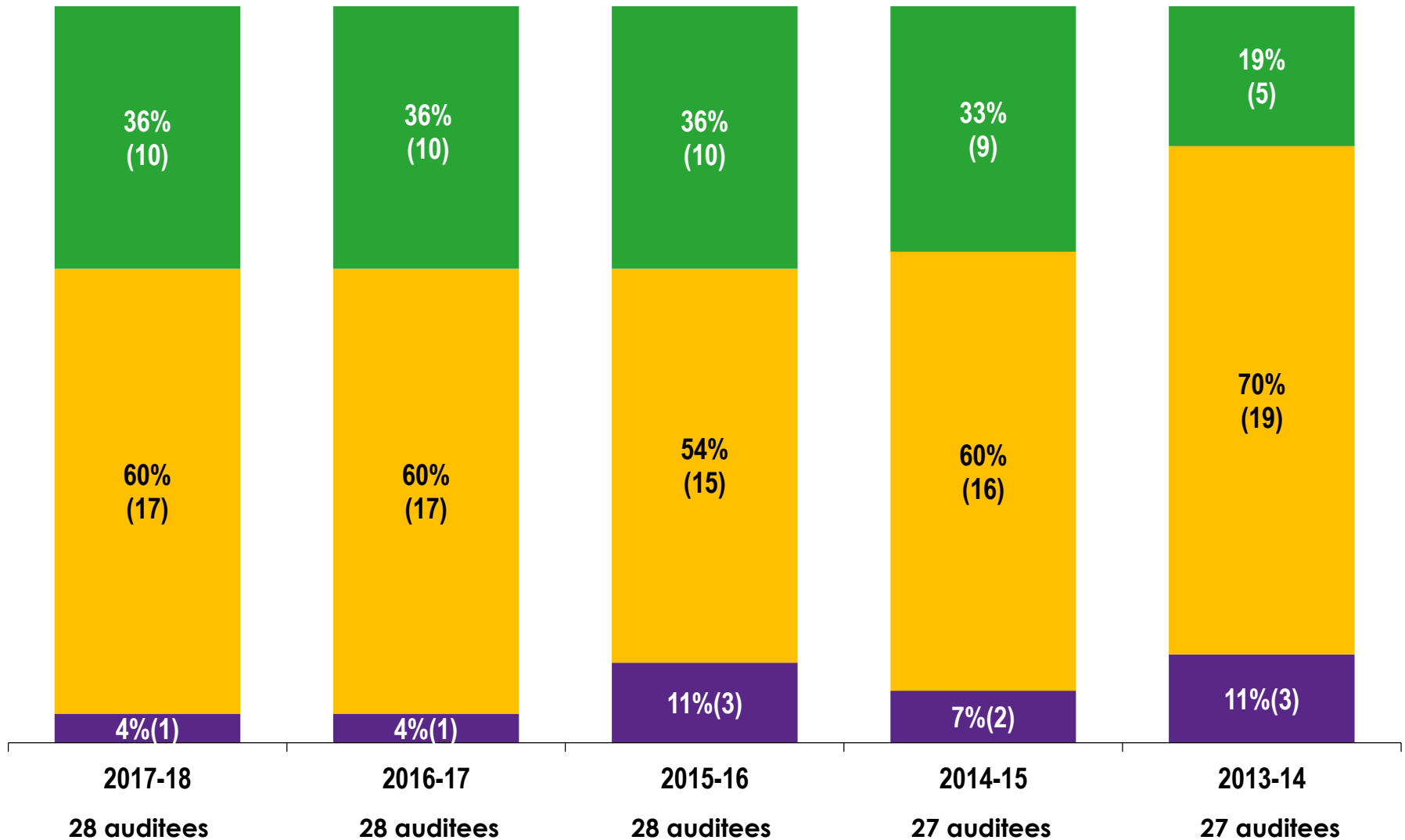


No findings on compliance with legislation: 54%
(2016-17: 50%)



Irregular expenditure: R637m
(2016-17: R775m)

Audit outcomes of portfolio over five years

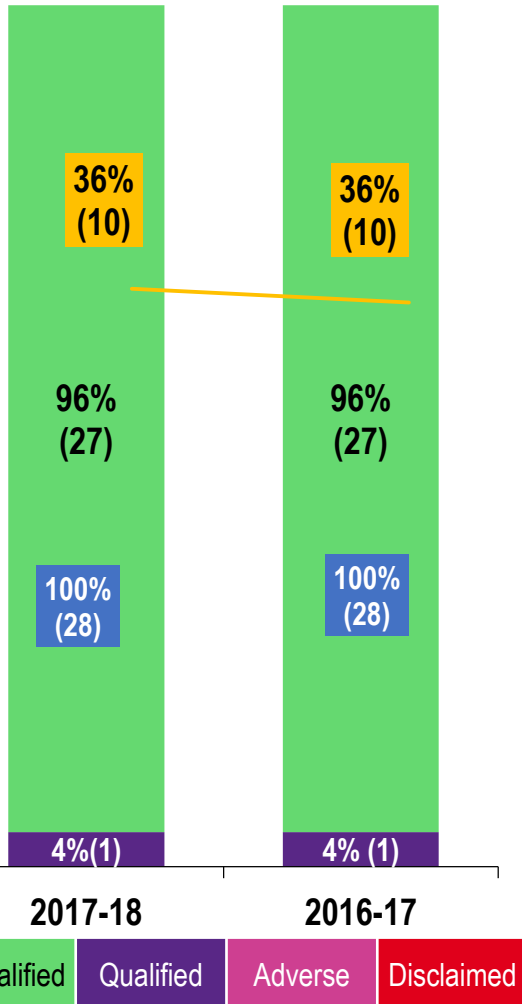


Movement table (2017-18 over 2016-17)

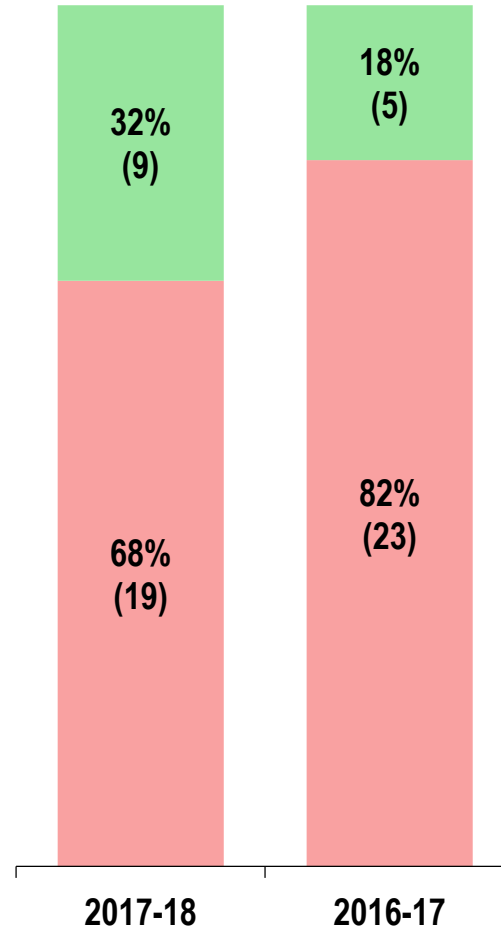
Audit outcome	MOVEMENT				
	4 Improved	20 Unchanged	4 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 10	FOODBEV SERVICE SETA CHE	BANKSETA CETA CHIETA ETDP INSETA NIHSS QCTO	None	None	None
Unqualified with findings = 17	W&R SETA	DHET PSETA AGRISETA EWSETA FASSET LGSETA MERSETA SASSETA CATHSSEA	TETA NSF SAQA MQA	FP&M SETA MICTSETA HWSETA	None
Qualified with findings = 1	None	None	NSFAS	None	None
Adverse with findings = 0	None	None	None	None	None
Disclaimed with findings = 0	None	None	None	None	None

Movement on the quality of financial statements, annual performance reports and compliance

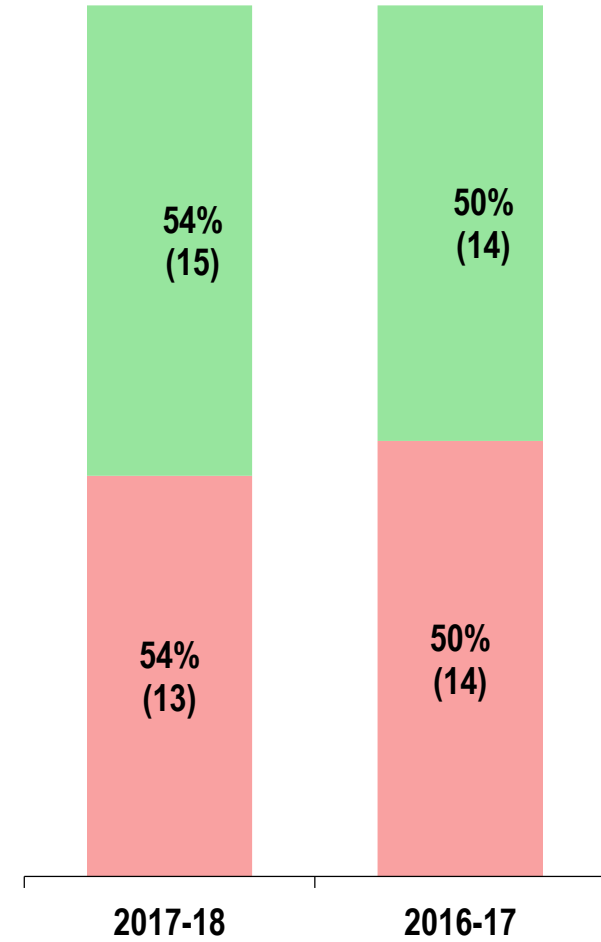
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



■ With no findings
■ With findings

— AFS submitted on time

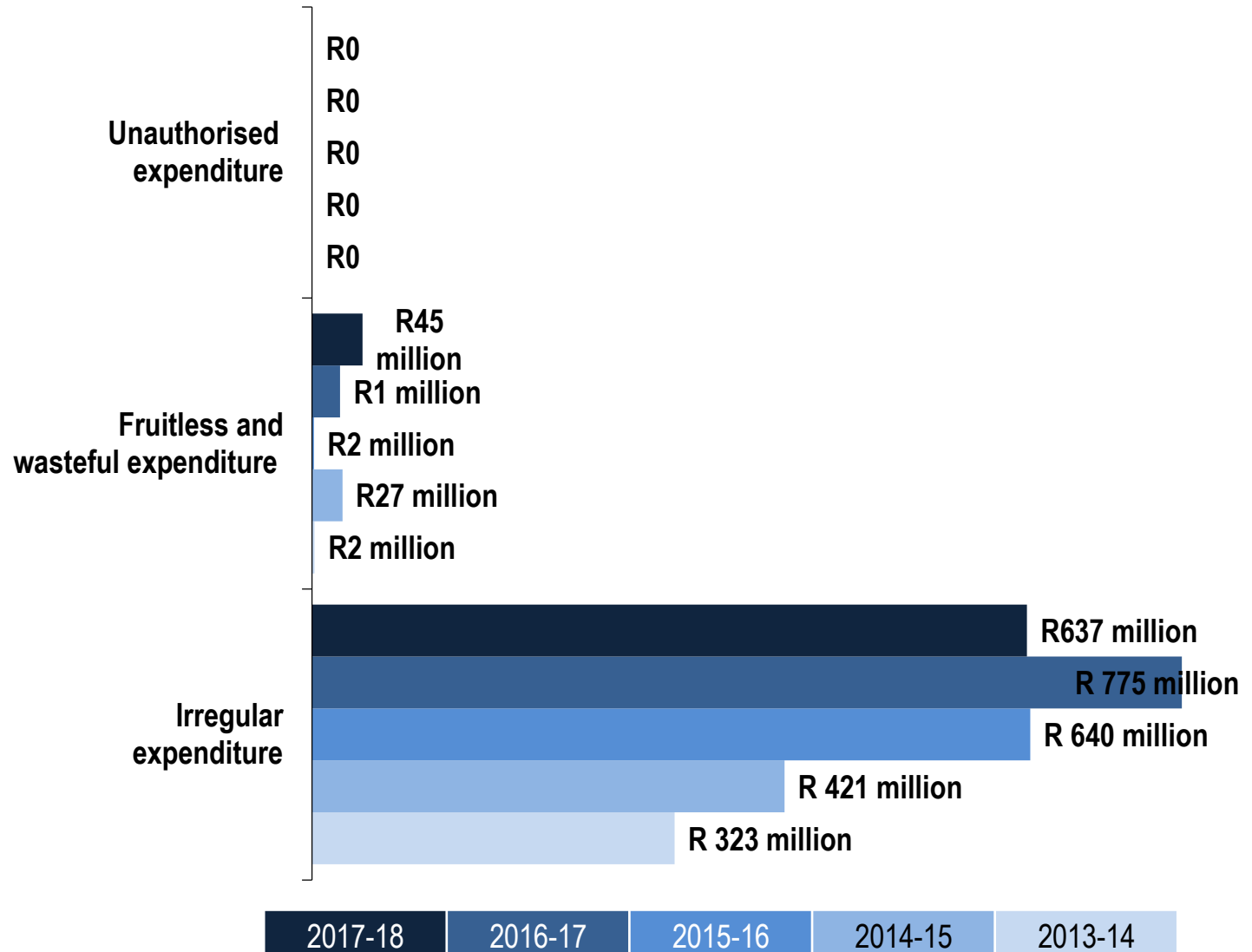
Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over 5 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

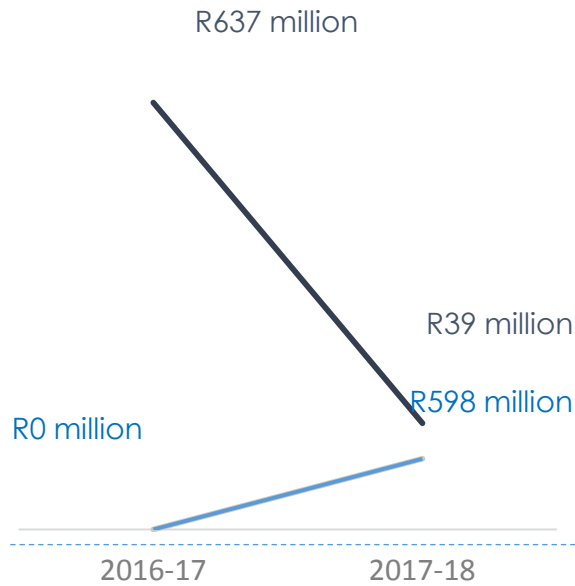
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



Irregular expenditure and supply chain management

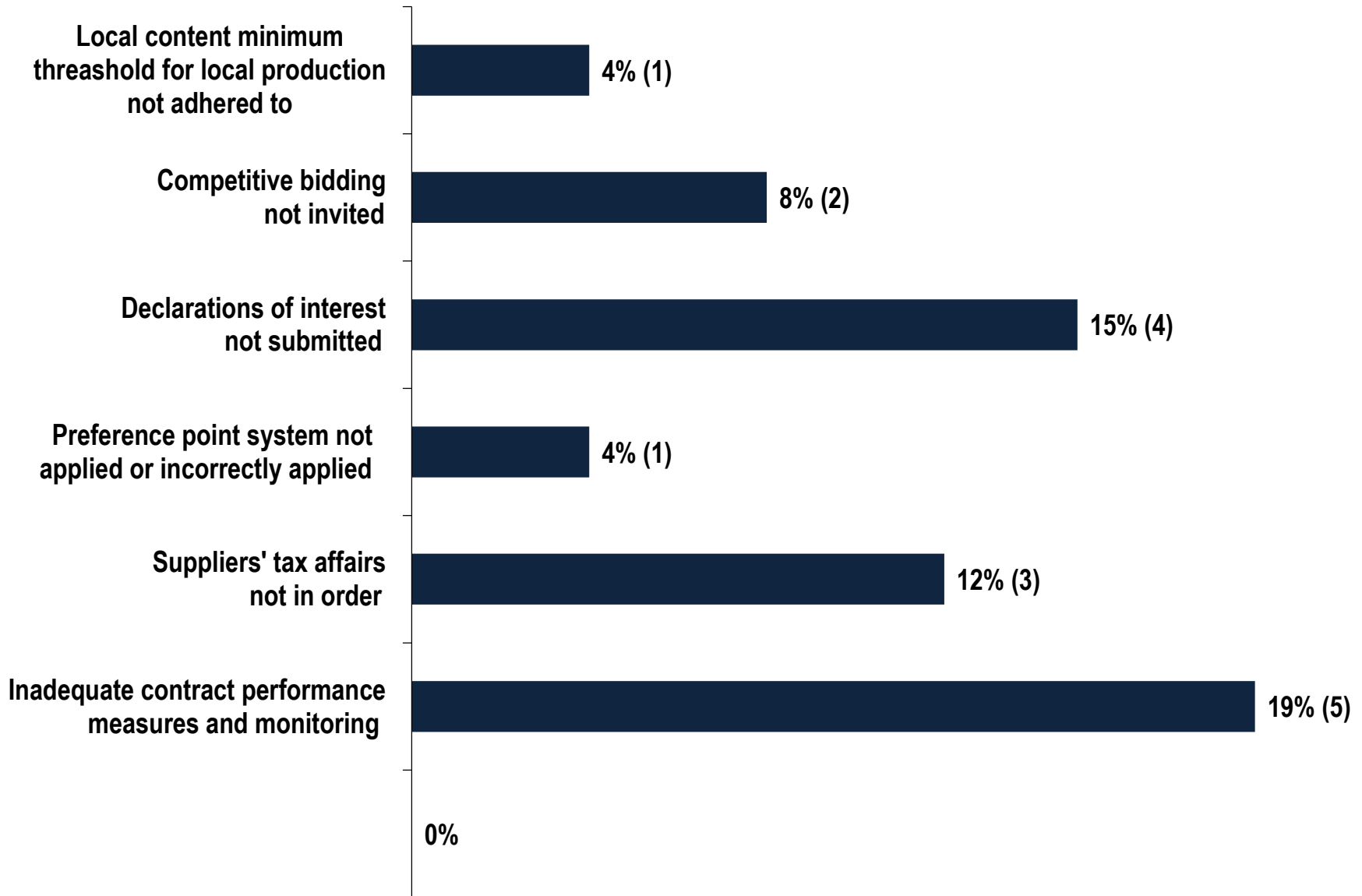
Irregular expenditure decreased from R775 million to **R637million (18,% decrease)**



4% (R39 million) of the irregular expenditure was payments/ expenses in previous years only uncovered and disclosed for the first time in 2017-18

96% (R 598million) of the irregular expenditure includes payments made on contracts irregularly awarded in the current and previous years - if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

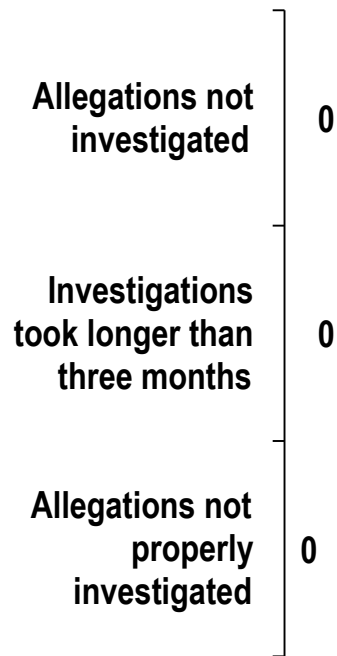
Most common findings on supply chain management



Fraud and consequence management

- No auditees had findings on non-compliance with legislation on consequence management

Allegations of financial and/or fraud and SCM misconduct (28 auditees)



Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2017-18 audit process
(all auditees)



Financial health: Key matters

Services Seta-The Seta is significantly over committed

Total commitments amounts to R3,59 billion excluding commitment letters that were sent out which amounts to R698 million for which they are in the process of contracting.

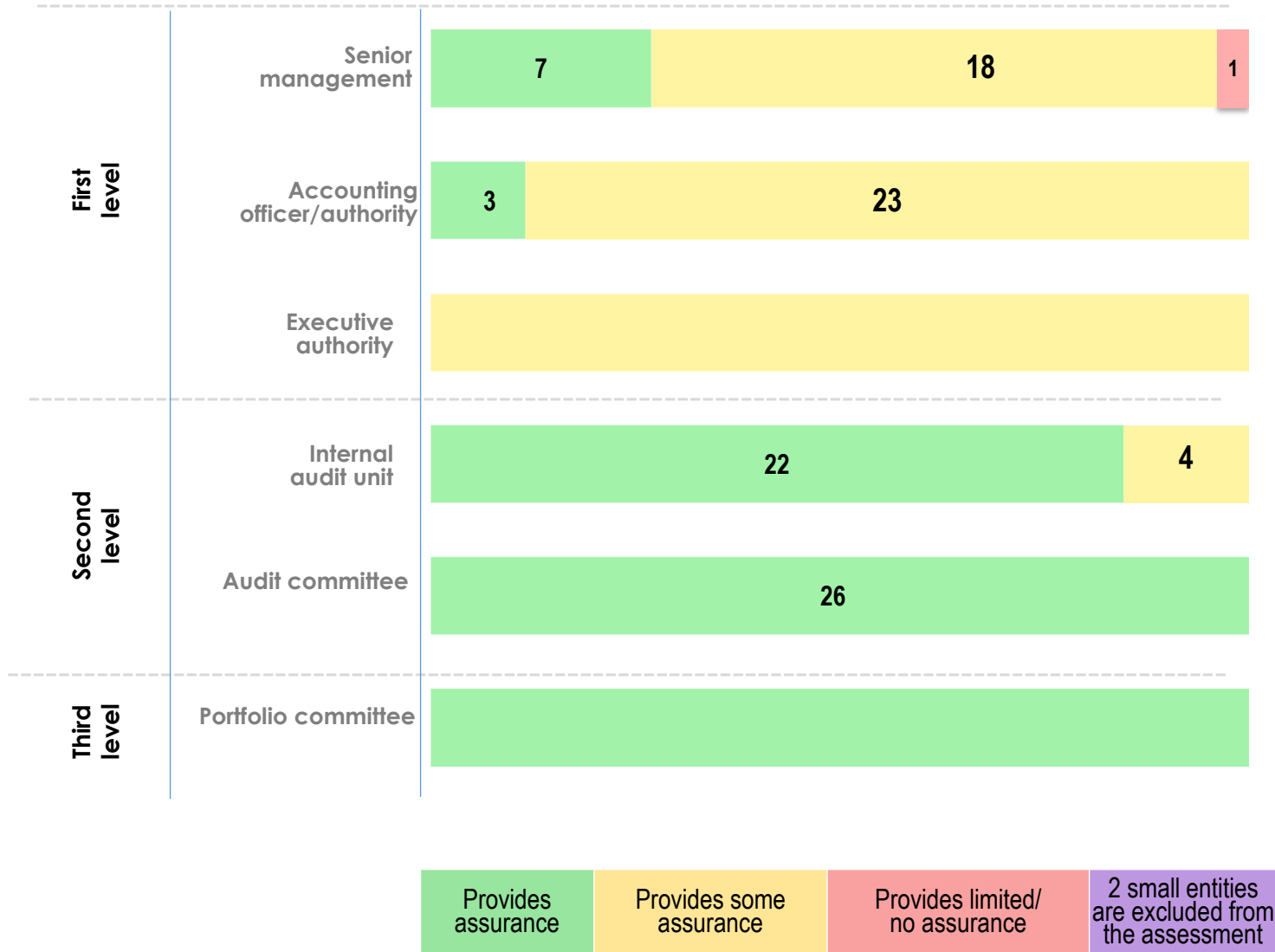
The total commitments would therefore amount to almost R4,3 billion compared to a discretionary reserve of R877 million.

This Suggests that should all these commitments materialise, the Seta may not be able to settle these commitments and will have cash flow problems. We therefore recommend close monitoring in this regard.

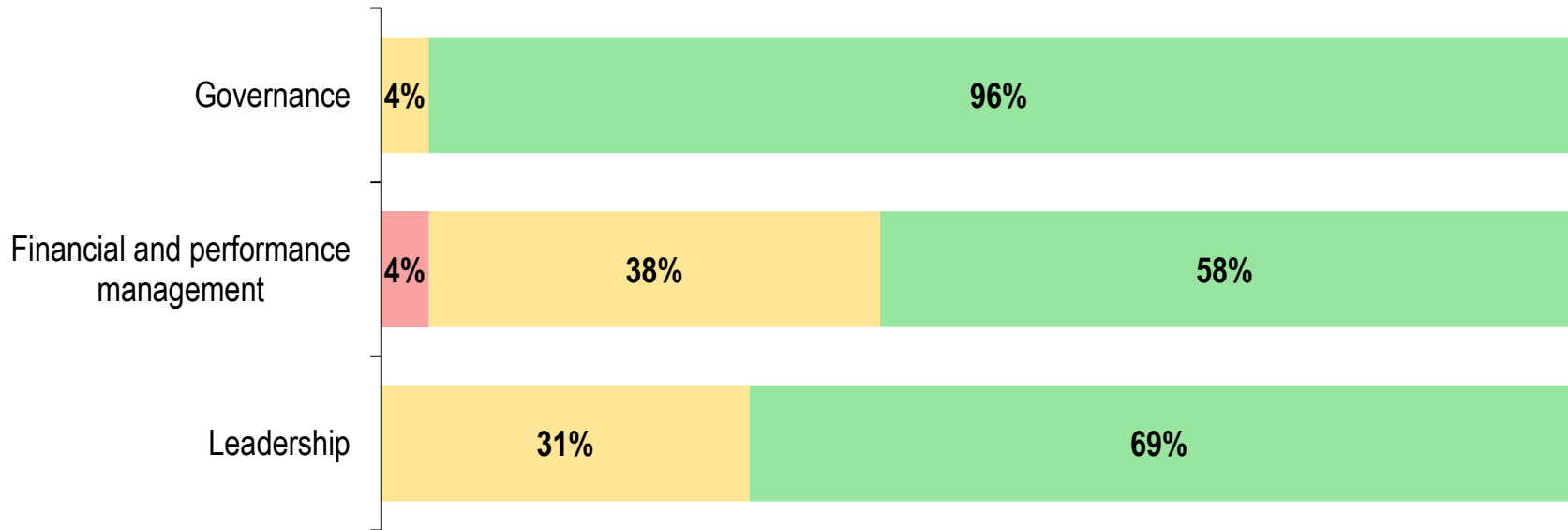


Assurance provided

Assurance



Status of internal control



Little improvement in plan-do-check-act cycle



Key Root causes

Management do not respond with the required urgency to our messages about addressing risks and improving internal controls in order to achieve clean administration.

There was inadequate project management and monitoring over discretionary grants contracts in some Setas. This led to inaccurate reporting on discretionary commitments and performance reports.

There is inadequate record keeping controls to ensure that reported financial and performance reports are supported by reliable evidence.



Key recommendations

- Action plans to improve the internal control environment should be implemented. Monitoring of progress against action plans should be enhanced to determine if implemented actions are effective to address reported internal control deficiencies
- Record management systems should be improved to ease information retrieving

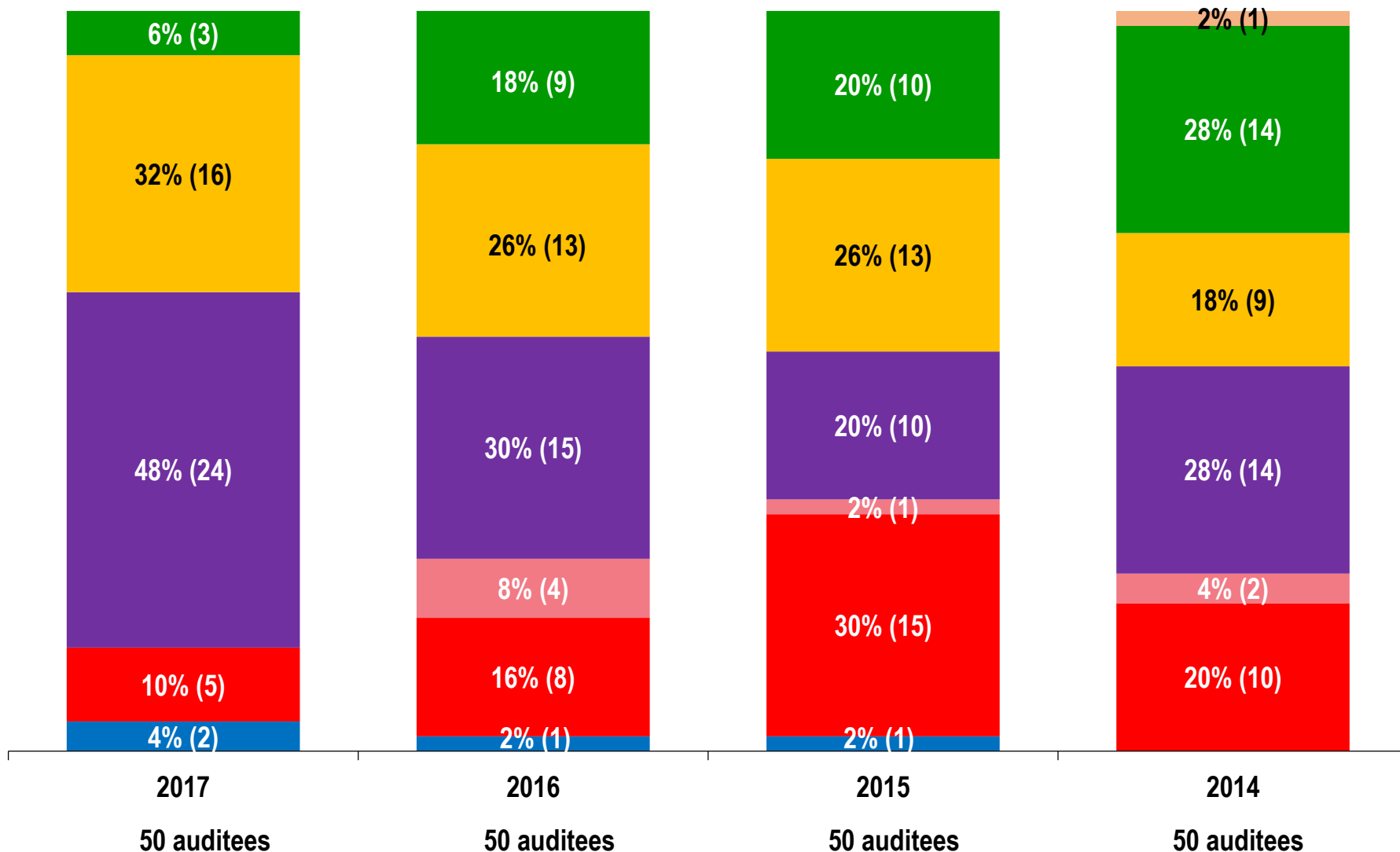


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2017-18 audit outcome for TVET colleges



Overall audit outcomes of TVET colleges



Movement table (2017 over 2016)

Audit outcome	MOVEMENT			
	11 Improved	25 Unchanged	12 Regressed	2 Outstanding audits
Unqualified with no findings = 3	South Cape	Ekurhuleni East, False Bay		
Unqualified with findings = 16	College of Cape Town, Northlink, Thekwini, WestCol	Flavius Mareka, Gert Sibande, Lovedale, Maluti, Mthashana, NC Rural, NC Urban, West Coast	Buffalo City, EWC, Nkangala, PE College	
Qualified = 24	Capricorn, Ikhala, Motheo, Sekhukhune, Tshwane South, Waterberg	Coastal, EC Midlands, Goldfields, Ingwe, King Hintsa, King Sabatha Dalindyebo, Letaba, Mopani SE, Umfolozi, Umgungundlovu, Vhembe	Boland, Central JHB, Elangeni, Esayidi, Majuba, Mnambithi, Orbit,	
Adverse = 0				
Disclaimed = 5		Ehlanzeni South West Gauteng Taletso Vuselela	Lephalale	
Outstanding audits				Sedibeng, Tshwane North

Colour of the number indicates the audit opinion from which the auditee has moved.

Outcomes snapshot (2017)



Clean audits: 6%
(2016: 18%)



Quality financial statements: 6%
(2016: 52%)



No findings on compliance with legislation: 6%
(2016: 24%)

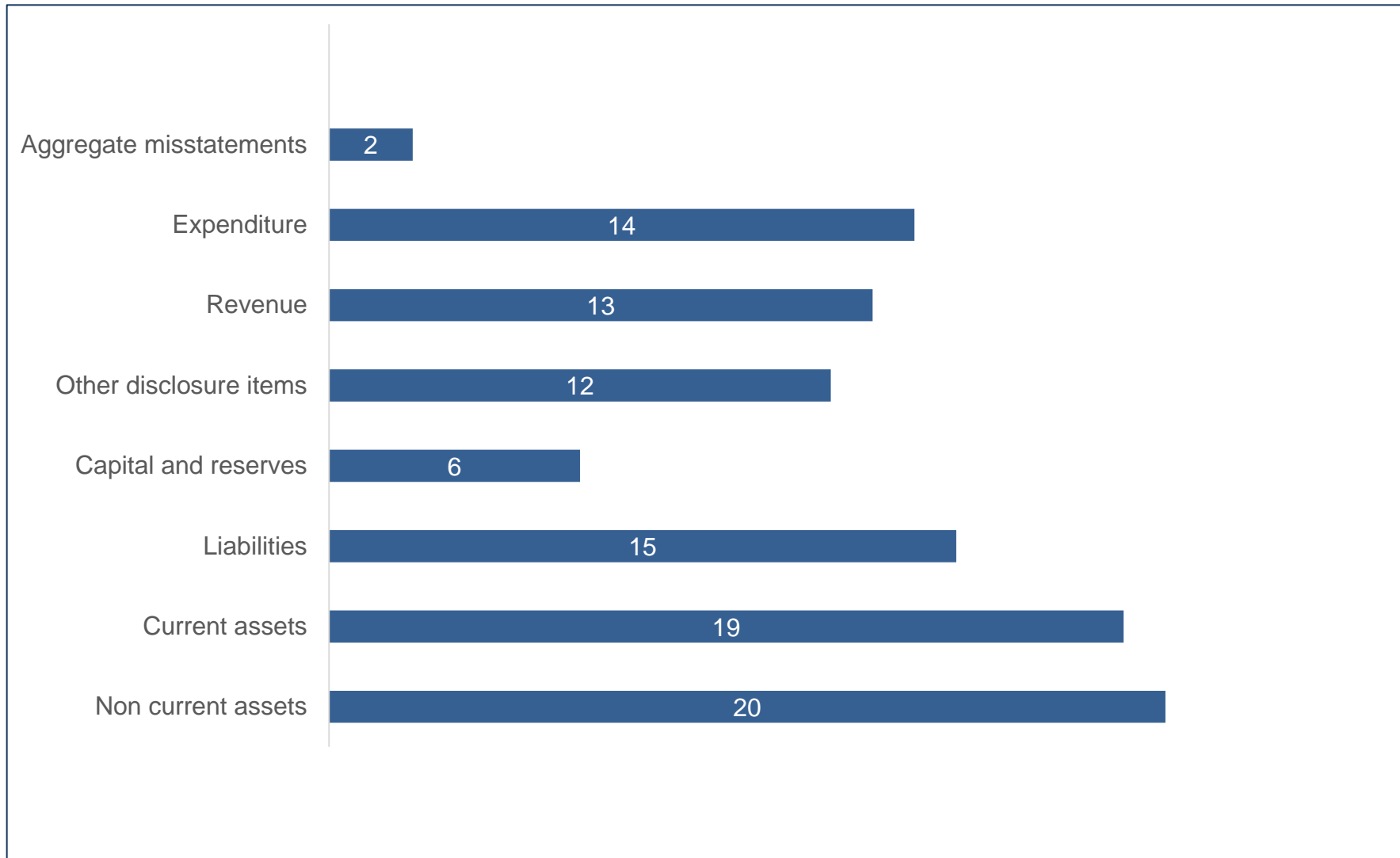


Status of audits outstanding as at 31 August 2018

- Tshwane North TVET college – recently submitted AFS for 2016 year end. The delay was due to the finalisation of prior year audits
- Sedibeng TVET college – only submitted AFS for 2017 year end during the first week of September

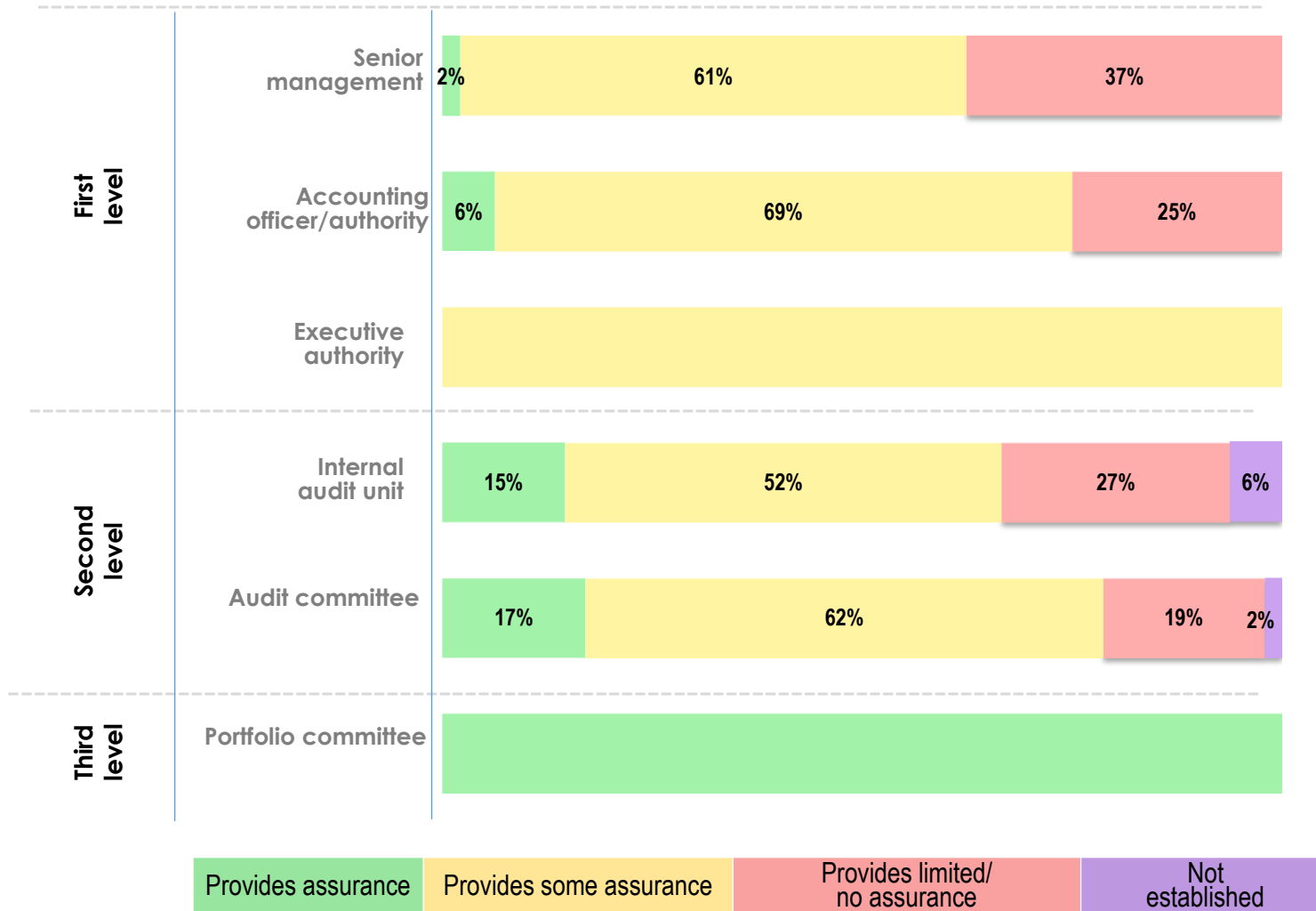


Financial Statement Qualification Areas

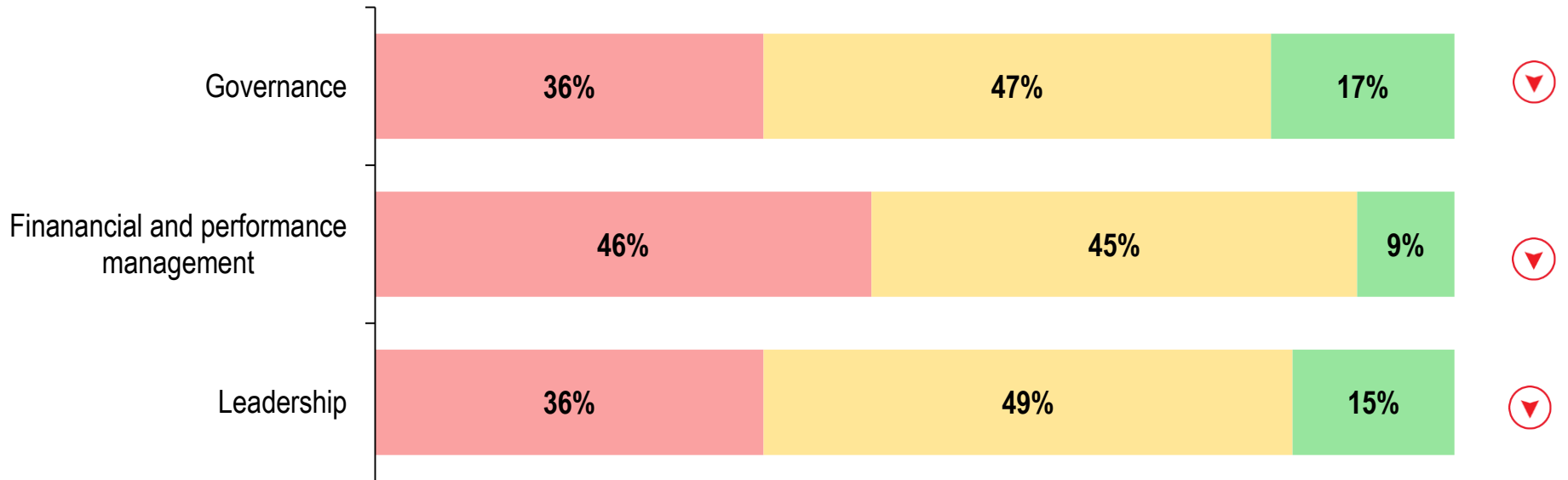


Assurance provided

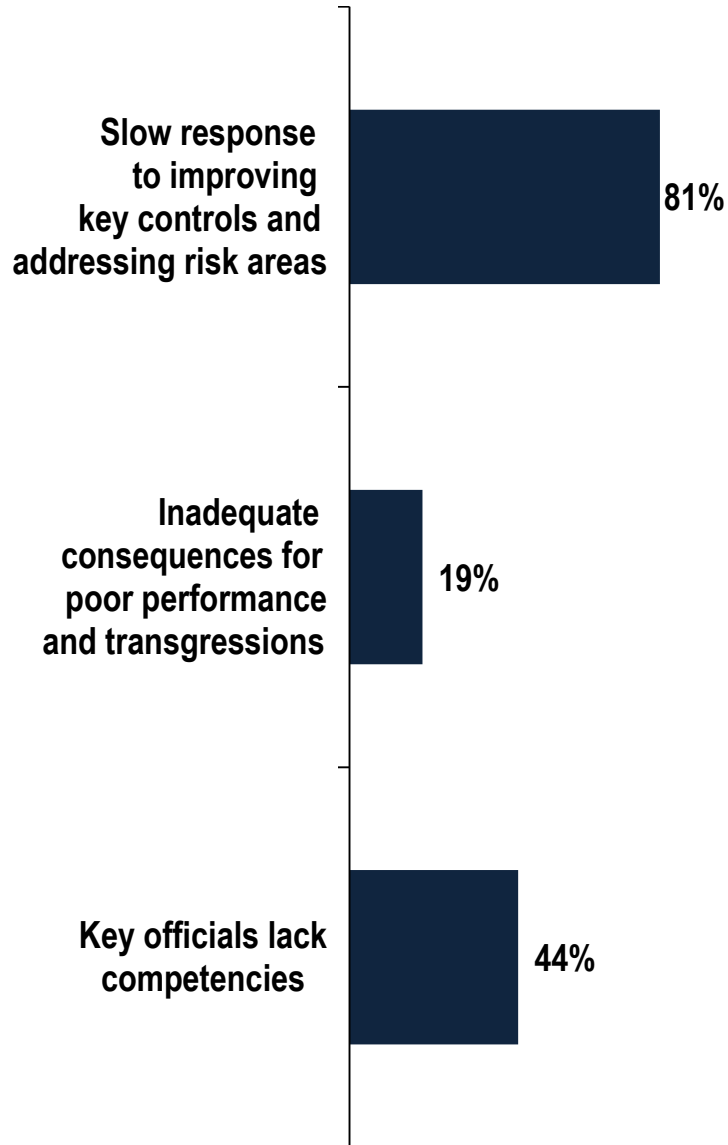
Assurance



Status of internal control



Root causes



Management and/or councils do not respond **with the required urgency** to our messages about **addressing risks and improving internal controls**.

If officials who deliberately or negligently ignore their duties and contravene legislation are **not held accountable** for their actions, such **behaviour can be seen as acceptable and tolerated**.

Officials in key positions do not have the required competency levels to carry out their responsibilities



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2017-18 sector audit outcomes for Post-School Education and Training

National Skills Development Priorities

- National Development Plan advocates for:
 - Improving the system of skills planning
 - Development of strong national qualifications and variety of non-formal skills programmes
 - Strengthen and expand the number of TVET colleges
 - The development of world class centres for training and skills development
- The policy objectives of the White Paper for Post-School Education and Training (PSET) include:
 - A stronger and more cooperative relationship between education and training institutions and the workplace.
 - A PSET system that is responsive to the needs of individual citizens, public and private employers as well as societal and developmental objectives.
- The essence of the National Skills Development Strategy (NSDS) III is to address systemic blockages such as:
 - A lack of synergy between the various post-school sub-systems (e.g. universities, TVET colleges, Setas, etc.)
 - A lack of clarity in relation to the role expected of the various parts of the skills development system
 - Inefficiencies and wastage within the PSET system
 - Silo mentality which prevents partnerships and alignment needed to improve effectiveness



2014 – 2018 PSET sector audit focus areas

2014-16

Value add areas

- Research
- Partnerships
- Monitoring and Evaluation

2016-17

NSDS III Key Pillars

- PIVOTAL/WIL
- Rural Development
- SMMEs/Unions
- Inter-sectoral skills
- Revitalisation of TVET college

2017-18

Revitalization of TVET Colleges

- Seta interventions for TVET colleges
- NSF interventions for TVET colleges
- DHET policy, guidance and support for TVET college interventions
- NSFAS bursaries (WC)

Planning, collaboration and data management

Achievement of outcomes

Interventions are making impact

Value proposition for skills development

- **Research**
 - Research providers – established research institutions/private research providers
 - National Research Repository
- **Partnerships**
 - Partnership beyond designated skills entities
 - Department of Labour (Public Employment Services) registration of work seekers
 - Expanded Public Works Programme, Community Works Programme, NARYSEC, etc.
 - Within Setas: identification of priority/focus areas and collaboration
- **Monitoring and Evaluation**
 - Continue to strengthen monitoring and evaluation of skills development interventions
- **NSDS III key pillars needing more attention from Setas and NSF**
 - Support skills for rural development
 - Support SMMEs, NGOs and trade union
 - Revitalisation of TVET colleges



2017 – 18 skills development sector audit findings:

Auditee	Findings
Seta	<p>Some Setas did not ensure that their interventions are informed by the priorities of TVET colleges – strategic plans or engagement with College Principals Organisation and TVET College Governing Council.</p> <p>Some Setas did not support skills development interventions for strengthening the capacity of TVET colleges such as management development, teaching and learning facilities enhancement and curriculum alignment to industry needs.</p>
NSF	<p>Delays in transferring skills development funds to TVET colleges which had implications on project start times and securing of relevant capacity to implement projects.</p> <p>Limited strategic engagements on prioritising interventions for strengthening the capacity of TVET colleges.</p> <p>Discontinued or collapsed skills development projects due to TVET college inability to effectively manage the funded skills development programmes.</p>
DHET	<p>The absence of succession planning in most TVET colleges is a matter of concern given the risks emanating from lecturers' turnover due to aging, resignation and termination.</p> <p>The Seta – DHET service level agreements only focus on workplace integrated learning, partnership and lecturer development and are silent on strengthening other capacity needs of TEVT colleges such as management and governance development, enhancement of teaching and learning facilities and curriculum enhancement.</p>
	<p>No directive and support has been provided to ETDP Seta to ensure that it should coordinate prioritised interventions for strengthening the capacity of TVET colleges with other Setas to address cross and inter-sectoral skills development challenges through its TVET Sector Skills Plan.</p>



Root Causes

- As at 2017-18, the NSF, Setas and other skills development role players have not strategically moved in addressing the system blockages listed in the NSDS III
 - Engagements between Setas, NSF and DHET have not resulted in the sector moving from output to outcome and impact based.

For example – mostly focused on bursaries, learnerships, internships and less on strengthening TVET colleges capacity to achieve work integrated learning, rural skills development and support for SMMEs and Co-operatives

- The DHET, NSF and Setas did not collectively plan their skills development interventions. Each role player planned in isolation and engaged in negotiation which culminated in service level agreements not aligned to annual performance plans.
- Variety of tools used by Setas to monitor and evaluate the project implementation make it difficult to reconcile collected data to determine the effectiveness of the skills development interventions.
- The absence of a consolidated PSET report that is aligned to PSET role players performance reports make it difficult to measure the effectiveness of the national skills development strategy.



AGSA Value Proposition for Skills Development

Current planning and reporting Guidelines - amongst others

- *National Skills Development Strategy III (2011)*
- *National Development Plan (2012)*
- *White Paper on PSET (2014)*
- *Sector Skills Plans*
- *Annual Service Level Agreements*
- *Annual Performance Plans*
- *Quarterly Management Reports*
- *Annual Reports*

Critical elements for PSET effectiveness and efficiency

- Collective planning – Alignment of systems, processes and tools
- Coordination – DHET as a lead, SETAs lead sector specific initiatives and NSF lead initiatives which are not sector specific
- Monitoring and Evaluation – hub of information management
- Consolidated reporting





CORRUPTION

C

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MONOPOLY

DISCRETION

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