



years of funding Higher Education



NSFAS

National Student Financial Aid Scheme

**2017/18 Annual Report
Presentation to the
Portfolio Committee on
Higher Education and
Training**

9 October 2018



1. Audit outcome
2. Performance highlights
3. Financial statements overview
4. Annual performance report overview
5. Action plan to address audit findings

Unqualified
with
findings
2015-16

Unqualified
with
findings
2016-17

Qualified
with
findings
2017-18

Qualification on Student loans and Irregular expenditure

Student loans

- Disbursements in excess of contract amount (R503m) do not meet the definition of an asset.
- Impact on carrying value of student loans could not be verified.

Irregular expenditure

- The extent of the irregular expenditure (loans and bursaries) due to disbursements above contract amounts could not be verified.

- In the 2017 academic year NSFAS migrated all remaining institutions (58) to the student centred model.
- In the student-centred model students apply for funding once. The contract includes an estimate of the funding required for the duration of study.
- During the migration, some contracts (2 500) were generated with incorrect amounts (amounts less than R1 000) while the amount recorded on other contracts (11 000) was less than the funding required.
- In both instances, NSFAS disbursed the correct amounts to institutions and students based on the registration data.
- Extent of over-disbursements was determined to be R284m, external auditors projected R726m (R503m on student loans and R223m on bursaries).
- The external auditors were unable to verify the extent of over-disbursements as the records of contract amounts on NSFAS databases were not reliable.

Annual performance report

- Material finding on the reliability of 1 out of 14 key performance indicators (% of manual applications received by 30 November captured by 31 December).
- The misstatement identified could not be corrected as the records of manual applications were not reliable.

Material non-compliance

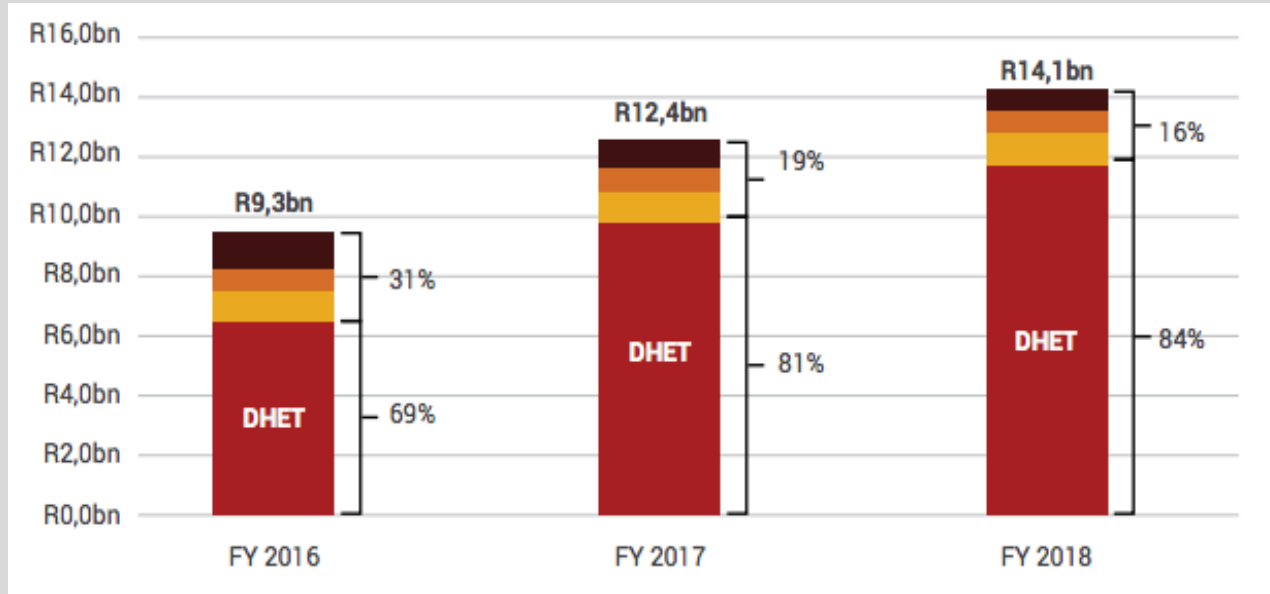
- Funds were invested with banking institutions that were not approved by National Treasury.
- Material misstatements on: deferred income (corrected) and uncorrected misstatement on irregular expenditure

Supply Chain Management

- There were no material findings on supply chain management.

5 PERFORMANCE HIGHLIGHTS

Funding for Student Financial Aid



- Total funding for student financial aid increased by 14% from the 2016/17 financial year and by 52% from the 2015/16 financial year.
- Funding from DHET has continued to increase while funding from DBE (Funza Lushaka) and NSF has remained at the same levels
- Other funding consists of SETAs, other government departments and institutions' own funding

Disbursement of financial aid



Number of students funded

2017

2018

451 507

460 341

225 950

260 002 UNIs.

225 557

200 339 TVETs

26 Universities

+

50 TVET Colleges

Funding disbursed



R14.1bn

(2017: 12,4bn)

R2.0bn

(2017: 2.1bn) for TVET colleges

R12.1bn

(2017: 10.3bn) for Universities

R2.0bn (17%)

100% Bursaries

R10.1bn (83%)

Convertible loans

R3.4bn (34%)

Converted to bursaries

R6.7bn (66%)

Nominal value of loans

R3.9bn (58%)

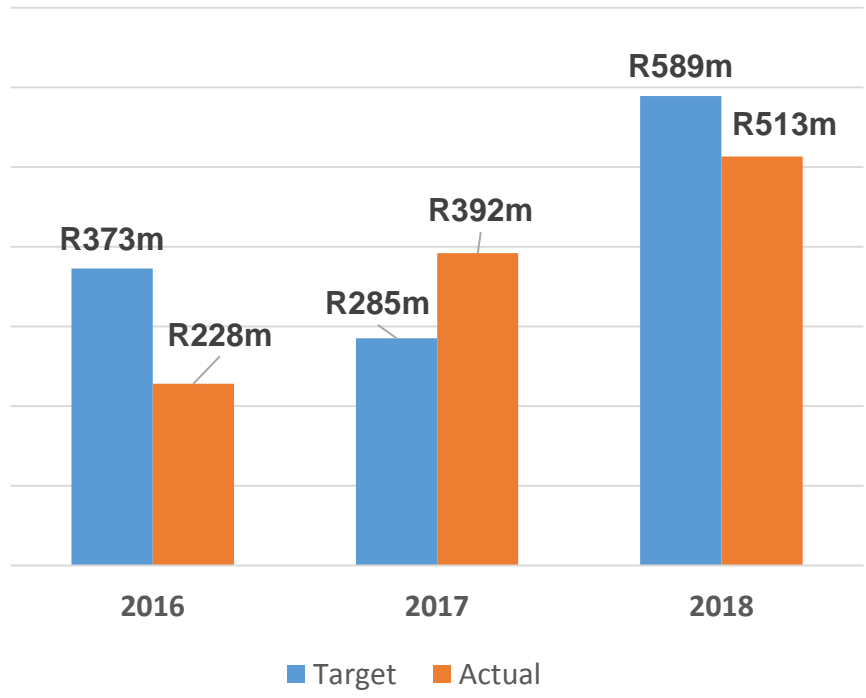
Social benefit

R2.8bn (42%)

Net carrying value

Social benefit –
Valuation
adjustment on
initial recognition
of new loans

Recoveries



Collections have increased by 125% from FY 2016

- Actual collections of R513m were 13% below the target of R589m. Collections increased by 31% (target was 50% increase) from the prior year.
- Public sector collections were the main driver of performance in the prior year. In the current year, there has been a stagnation in public sector collections.
- NSFAS engages External Debt Collectors (EDCs) to contact debtors and negotiate repayment arrangements.
- A panel of EDCs to collect from the private sector was finalised in the last quarter of the year.
- Delay in the finalisation of the appointment of private sector EDCs also contributed to the under-performance.

Financial position

Cash and cash equivalents

includes R113m of recovered funds and R3.4 billion held on behalf of funders. Recovered funds of R1.8 billion were used to finance upfront payments for the 2018 academic year. The balance of upfront payments was financed from unspent funds.

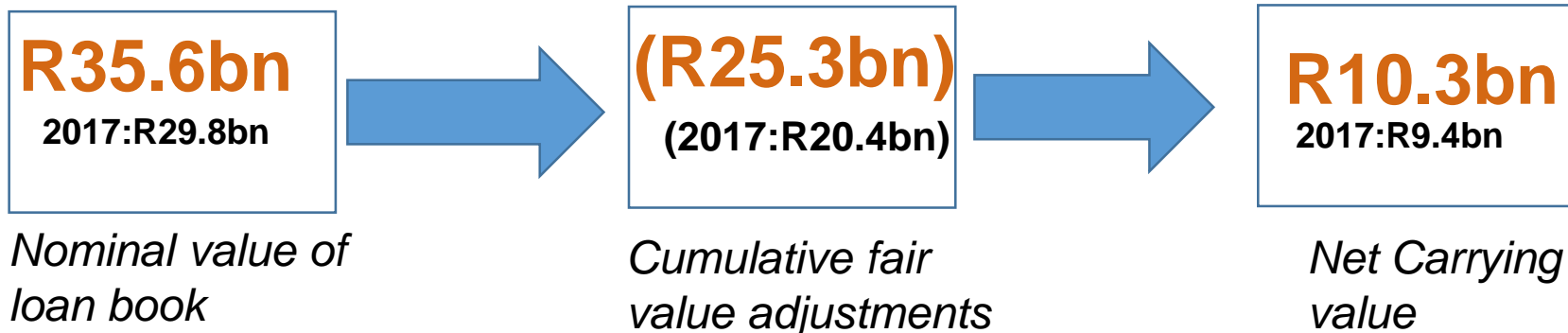
Deferred income relates to the unspent portion of conditional grants.

Assets	2018 R'm	2017 R'm	Movement
Student loans	10 308	9 362	10%
Prepayments	3 559	1 402	153%
Cash and cash equivalents	3 671	3 897	6%
Total assets	18 149	15 229	19%

Liabilities	2018 R'm	2017 R'm	Movement
Deferred income	3 639	3 569	2%
Total liabilities	4 016	4 156	3%

Net assets	2018 R'm	2017 R'm	Movement
Net assets	14 133	11 072	28%

Student loans



Cumulative fair value adjustments include the impact of:

- Interest on outstanding loans charged at 80% of the repo rate (significant discount to market rates)
- Interest not charged while a student is studying and a further 12 months after graduation
- No fixed repayment terms
- Non-repayment of loans due to unemployment, mentally disabled and disability

Financial performance

- **Grants for student awards revenue** are recognised to the extent of expenditure incurred in terms of GRAP 23.
- **Interest revenue** comprises of interest on student loans of R948m and interest earned on bank balances/short term investments of R527m
- **Bursary expenditure** was lower than budget due to a delay in the disbursement of funds to institutions and students.

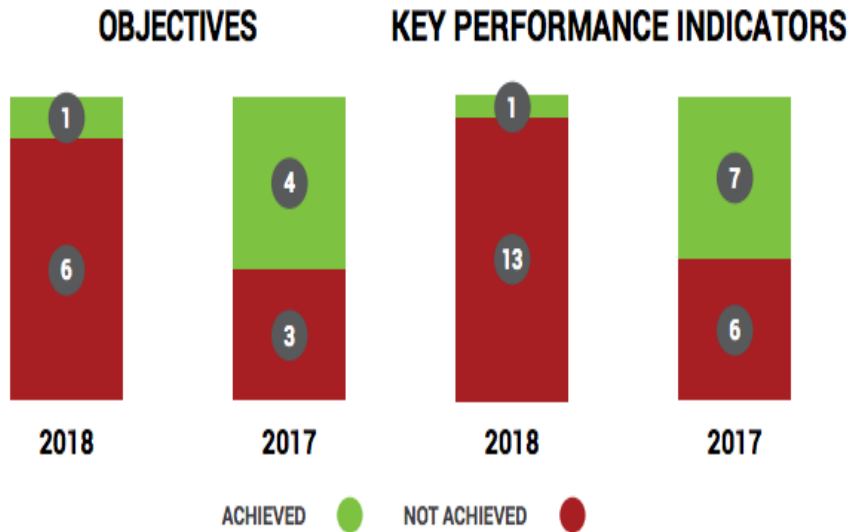
Revenue	2018 Act. R'm	2018 Bud. R'm	Act vs Bud
Admin grants & fees	251	274	8%
Grants for student awards	13 989	15 317	9%
Interest revenue	1 476	1 180	25%
Total revenue	15 727	16 770	6%
Expenditure	2018 Act. R'm	2018 Bud. R'm	Act vs Bud
Personnel cost	149	157	5%
Bursary exp.	7 388	10 108	27%
Val. adjustments	4 894	3 210	52%
Other expenses	236	150	57%
Total exp.	12 667	13 625	7%
Surplus	3 060	3 145	3%

Cash flow

By 31 March 2018, NSFAS had made upfront payments of R2.6 billion for the 2018 academic year which were financed from recovered funds and unspent funds from the 2017 academic year.

Cash flow	2018 Actual R'm	2018 Budget R'm	Movement
Receipts	14 938	15 616	4%
Payments	(15 681)	(16 124)	3%
CF from operating activities	(747)	(508)	47%
Net CF from investing activities	521	305	71%
Increase / (decrease) in cash	(226)	(202)	12%

Summary



Significant decline in performance compared to prior year:

- Continued to experience system and process issues which resulted in delays in the disbursement of funds to institutions and students – Objective 4.
- Deterioration in performance:
 - Recoveries (Objective 2),
 - Employee engagement (Strategic Objective 6)
 - Research (Strategic Objective 7).
- Performance targets not met for Strategic Objective 3 - Application and Funding - New objective)
- The only objective achieved was increase in fund raising (Objective 1)

Highlights

Amounts due to students

92% of allowances per LAF/SOPs accepted by 30 November 2017 were paid to students by 31 December 2017

Provisional funding decisions

Provisional funding decisions for 82% of applications received by 30 November 2017 had been communicated by 31 January 2018

Amounts due to institutions

97% of amounts due to institutions per LAFSOPs accepted by 30 November 2017 were paid to institutions by 31 December 2017

- 12 EDCs have been contracted to collect amounts due from debtors employed in the private sector. We have seen an increase in collections from Q4 of 2017/18.
- Targets on the 2018/19 APP have been revised in line with actual experience and current system and process limitations.
- Work being done to improve data exchange between NSFAS and institutions, and to improve performance and capacity of systems.
- Improving partnerships with Universities, TVET colleges, DHET, student bodies.

- Management has finalised the identification of accounts with over disbursements taking into account 2018 over disbursements.
- Communication with students to sign contracts with the correct amounts to commence in October 2018.
- Management has engaged with the Auditor General to perform a review of the progress in addressing the audit findings from November 2018.
- Disinvested all funds held by asset managers by the end of July 2018.
- Implemented improved controls over the disbursement and top up payments.



Questions and comments