

Briefing to the Portfolio Committee on 15 October 2019

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)*.



Our annual audit examines three areas

THE AG's
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

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



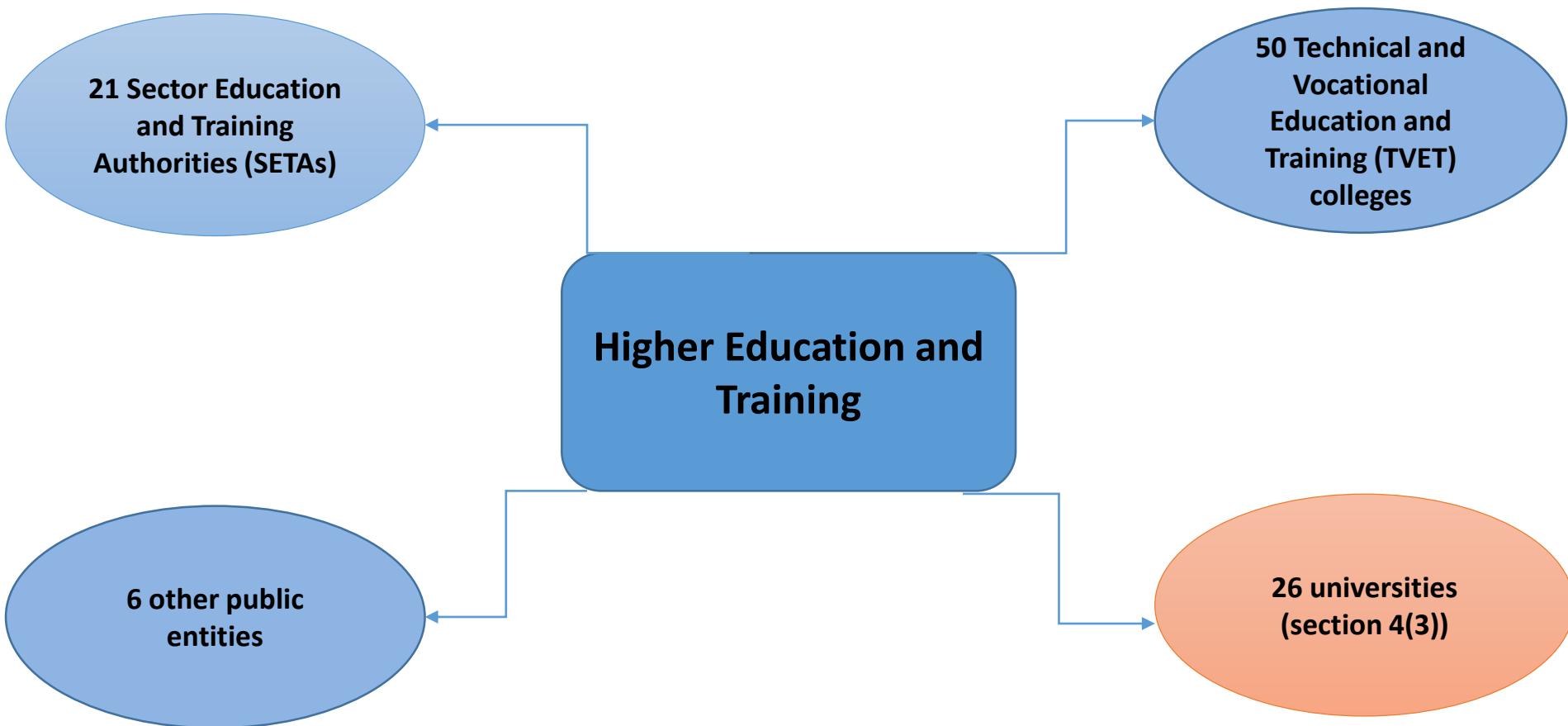
Auditee:

- 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

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Higher Education and Training portfolio



The percentages in this presentation are calculated based on the **completed audits of 74 auditees out of the total of 78 (95%) within the DHET portfolio**, unless indicated otherwise.

The 2018-19 audit outcomes for DHET and its entities

Important to note

Audit outcomes are indicated as follows:

 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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Improved

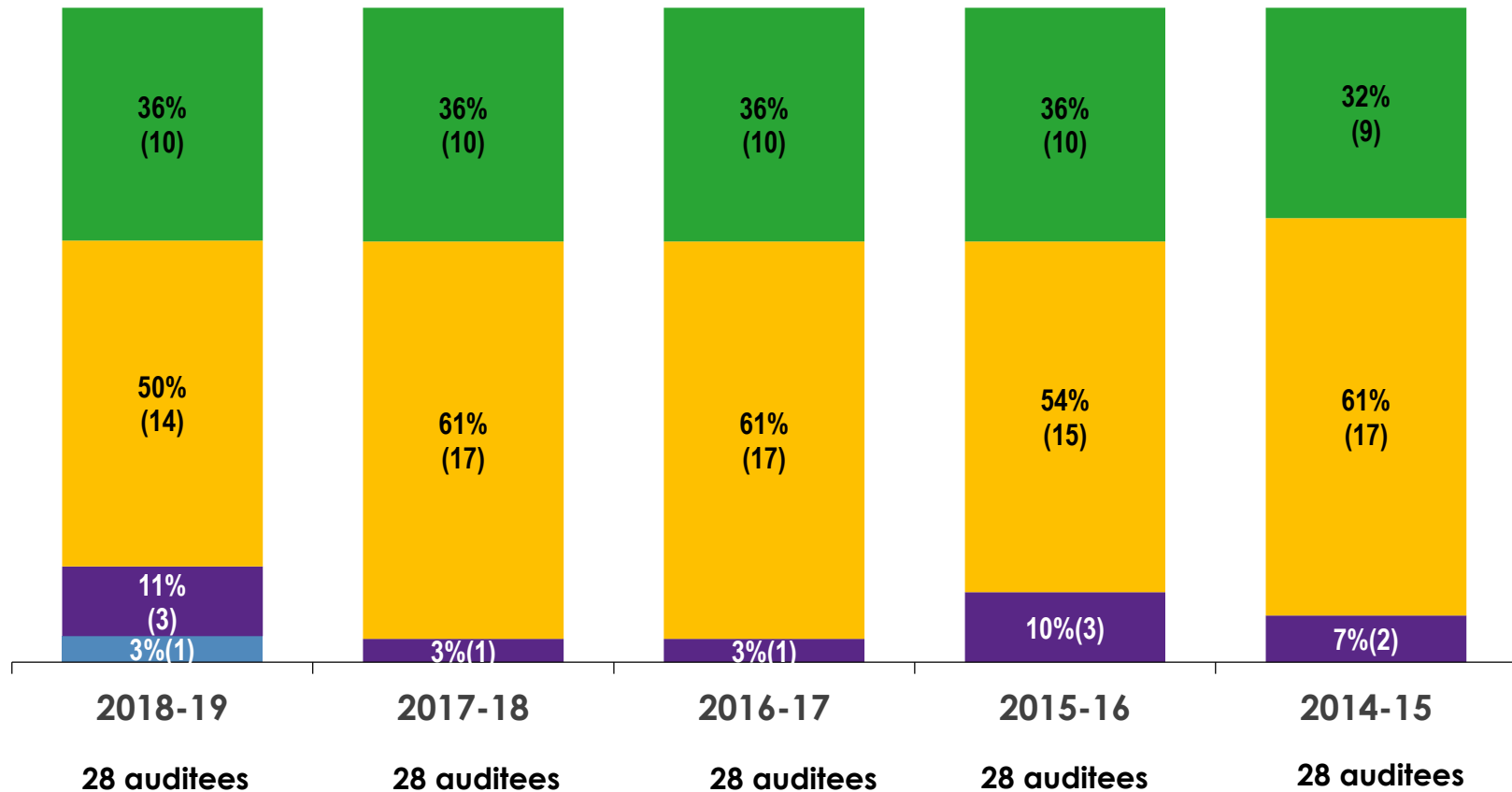


Unchanged



Regressed

Audit outcomes of portfolio over five years



- We commend the FOODBEV SETA, INSETA, QCTO, CETA, NIHSS & CHE for retaining the clean audit status.
- The NSF received a qualified audit opinion on accruals and receivables, as we were unable to obtain sufficient audit evidence that the transactions were accounted for appropriately, Services SETA and W&R SETA were qualified on commitments due to not having adequate systems in place to process records related to projects.
- Financial statement preparation remains a concern as material adjustments were effected to AFS submitted for audit at 15 auditees.



Movement table (2018-19 over 2017-18)

Audit outcome	MOVEMENT			
	4 Improved	17 Unchanged	6 Regressed	1 Outstanding audits
Unqualified with no findings = 10	FPM SETA, PSETA, SASSETA & SAQA	FOODBEV SETA, INSETA, QCTO, CETA, NIHS & CHE		
Unqualified with findings = 14		AGRI SETA CATHSSETA DHET EW SETA FASSET H & W SETA LGSETA, MERSETA MICTSETA, MQA TETA	CHIETA ETPDSETA BANK SETA	
Qualified with findings = 3			W&R SETA, NSF SERVICES SETA	
Adverse with findings = 0				
Disclaimed with findings = 0				
Outstanding audits=1				NSFAS



Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Financial statements submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

100%

100%

37%

36%

89%

97%

52% achieved unqualified opinions only because they corrected all misstatements identified during the audit

Top qualification areas

- Commitments (Services SETA, W&RSETA)
- Accruals (NSF)
- Receivables (NSF)





Credible performance reporting



Performance report

Performance report submitted without errors

Quality of final submission after audit

Movement



2018-19

2017-18

	41%		32%
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	70%		71%
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29% had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements

70%

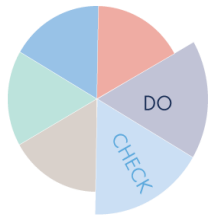
71%

Usefulness of performance indicators and targets

96%

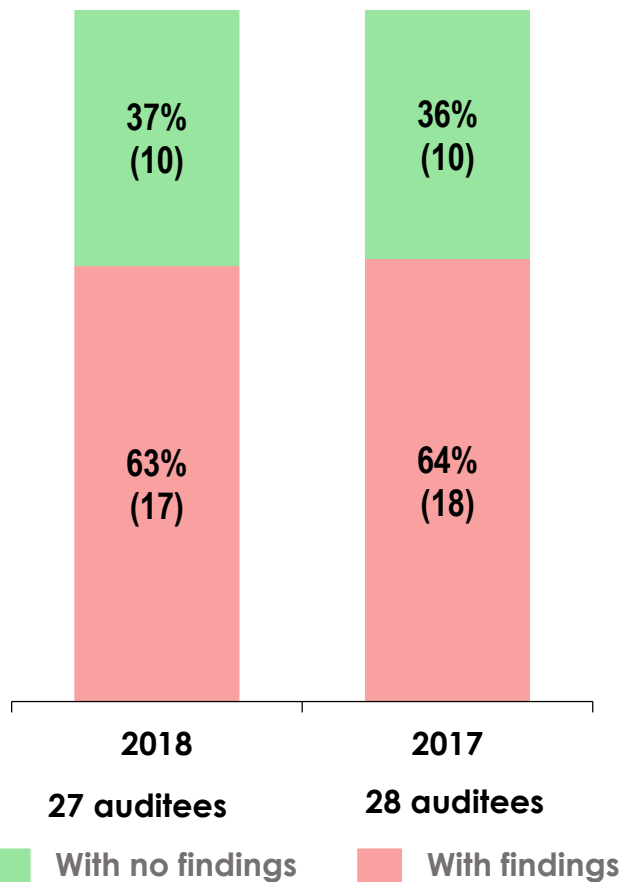
100%





Disregard for compliance with legislation

Findings on compliance with key legislation



Top non-compliance areas

- **Quality of financial statements** (AgriSETA, BankSETA, CATHSSETA, MQA, NSF, ServicesSETA, TETA, EtdpSETA, EwSETA, FASSET, HWSETA, LGSETA, MerSETA, MICT & W&R SETA)
- **Management of procurement and contracts** (BankSETA, MictSETA, Teta, W&RSETA)
- **Prevention of irregular and fruitless and wasteful expenditure** (AgriSETA, CathsSETA, DHET, EwSETA, MersSETA, MictSETA, ServicesSETA, Teta, W&RSETA)



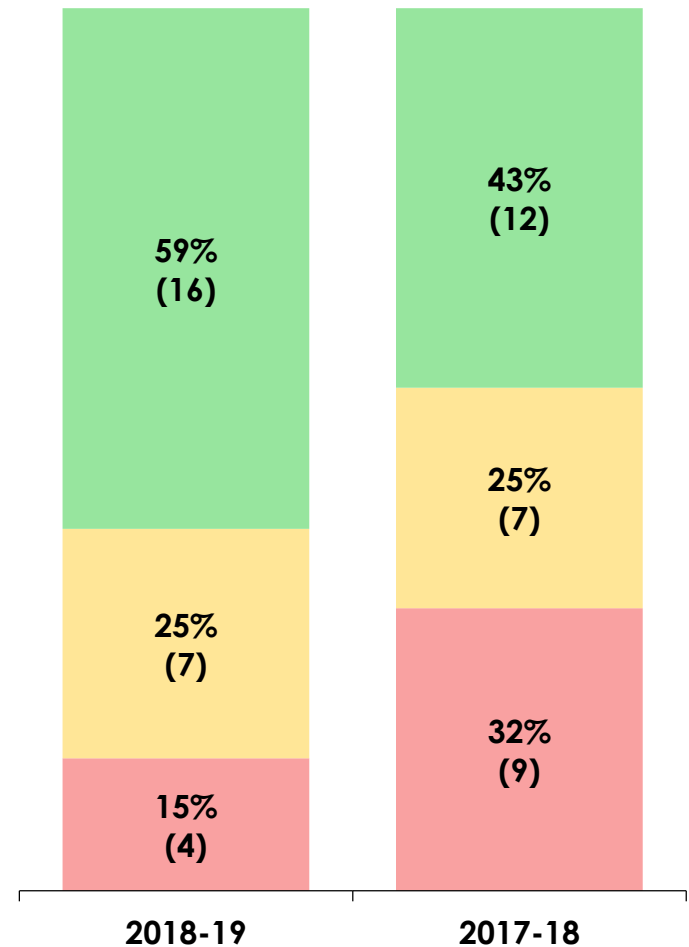
Supply chain management

▲ Improvement in SCM compliance (2018-19: 59% with no findings)

All SCM findings should be investigated

Top findings on supply chain management

- Uncompetitive and unfair procurement processes at **9 of the auditees**
- Inadequate contract management at **4 of the auditees**
- Not able to audit procurement of **R11 million** due to **incomplete information**



With no findings



With findings



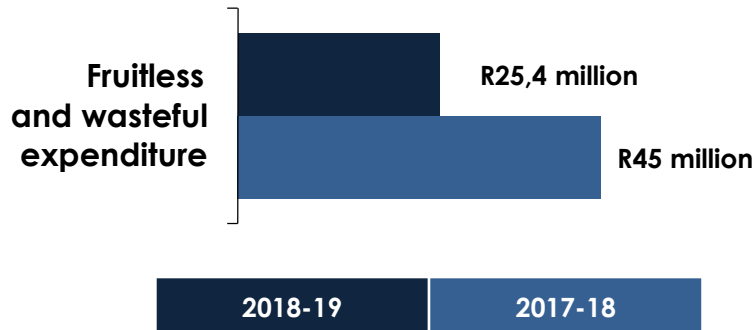
With material findings 15

Fruitless and wasteful expenditure decrease over 2 years

Definition

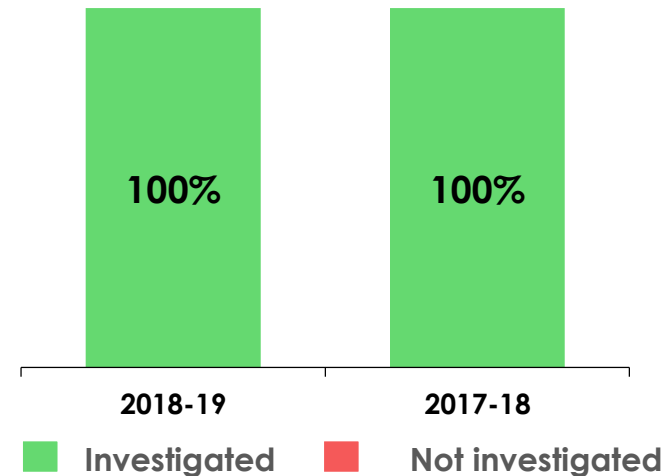
Expenditure incurred in vain which could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by the portfolio



- R25,4 million represents non-compliance in 2018-19

Previous year's fruitless and wasteful expenditure reported for investigation



Nature of the fruitless and wasteful expenditure

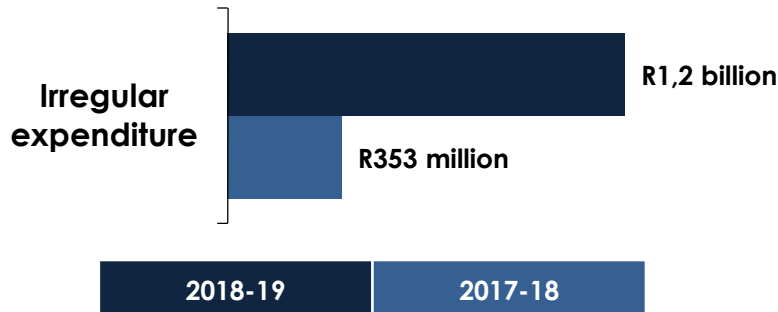
- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by fraudulent payments at the Department of Higher Education and Training (DHET), resulting in fruitless and wasteful expenditure of R24 million. This matter was identified by the department.

Irregular expenditure increase over 2 years

Definition

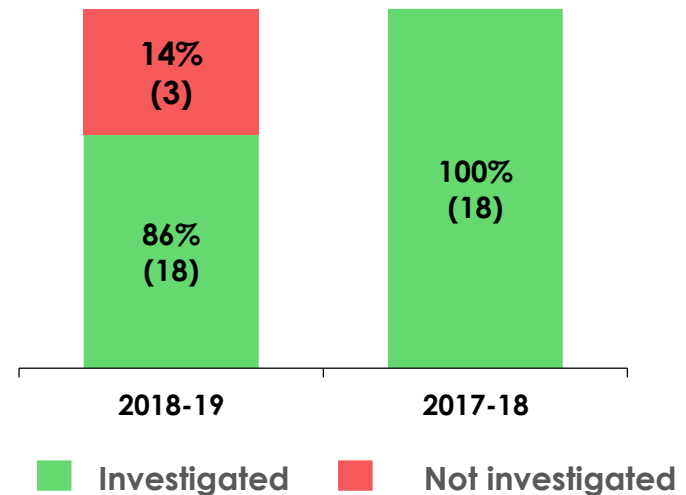
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular expenditure incurred by the entities in the portfolio



• R1,2 billion represents non-compliance in 2018-19

Previous year's irregular expenditure reported for investigation

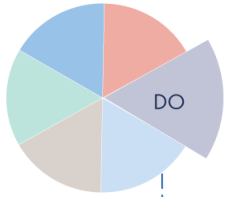


Nature of irregular expenditure

- Overspending of the budget without approval from the executive authority, specifically with regard to expenditure on discretionary grants.
- R1,1 billion of the R1,2 billion irregular expenditure balance was incurred by 4 entities (CETA, EWSETA, MICT and Services SETA) due to the overspending of the budget.
- Deviations approved without justifiable reasons.
- Award of bid not in accordance with approved specification.



Status of internal control



Leadership

Effective leadership

85% (23)

15% (4)



Financial and
performance
management

Proper record keeping

56% (15)

32% (9)

12% (3)



Daily and monthly controls

33% (9)

63% (17)

4% (1)



Review and
monitor compliance

41% (11)

48% (13)

11% (3)



Governance

Risk management

41% (11)

48% (13)

11% (3)



Good

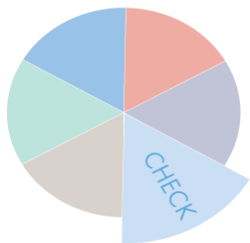


Of concern



Intervention required

18



Assurance provided

Assurance

First
level

Senior
management

33%(9)

63%(17)

4%(1)



Accounting
officer/authority

52%(14)

48%(13)



Executive
authority

78%(21)

22%(6)



Second
level

Internal
audit unit

81%(22)

19%(5)



Audit
committee

93%(25)

7%(2)



Provides
assurance

Provides some
assurance

Provides limited/
no assurance

Not
established

Key IT audit findings

IT governance

- The direction and oversight of IT governance was found to be not adequately and effectively maintained in some instances, as **weaknesses** were identified relating to the **IT strategic plan, IT strategic session not being held** and the lack of an approved **organisational structure** for the ICT department.

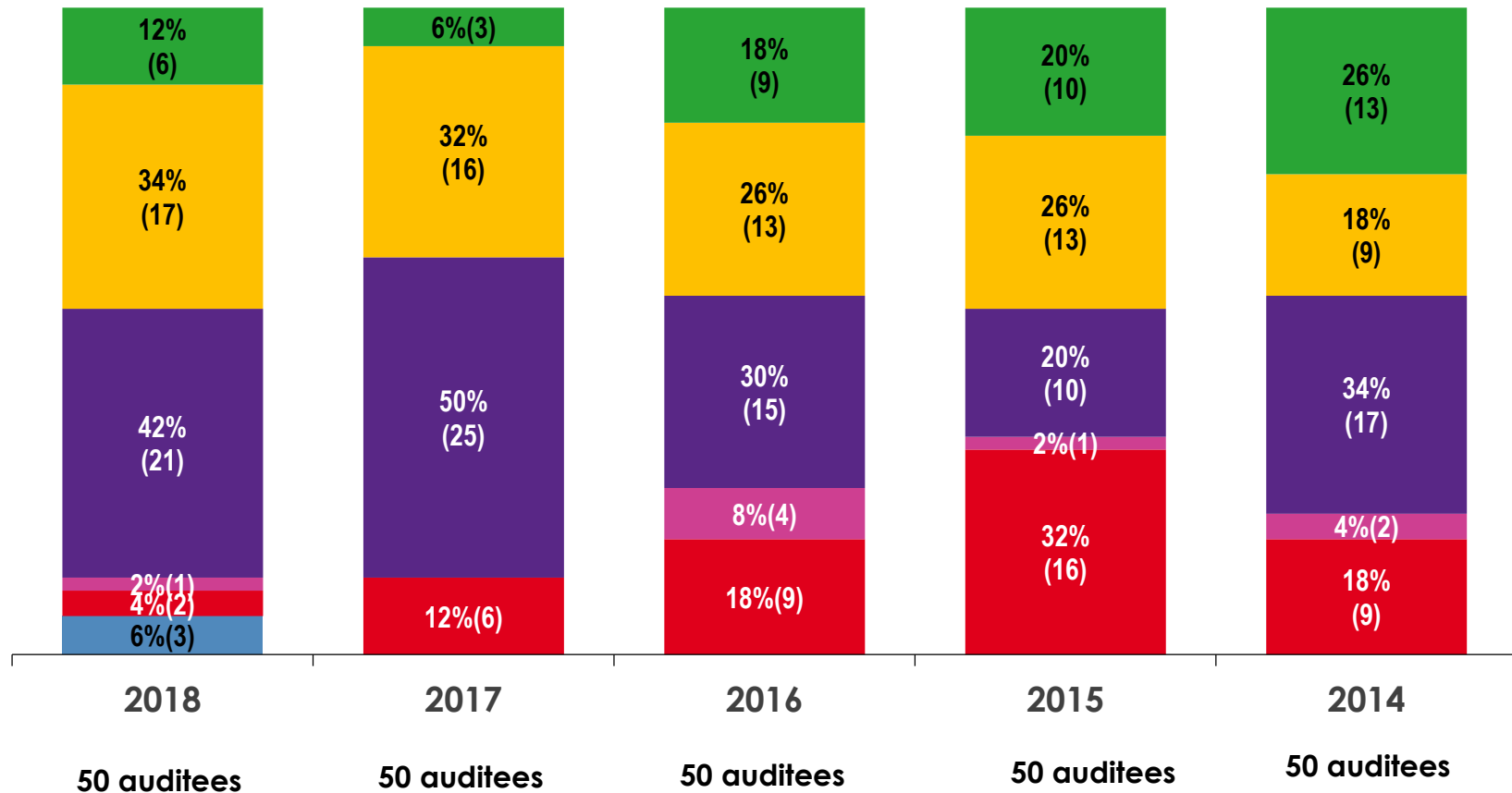
IT system controls

- Most controls over the financial systems (transversal systems) are adequate and operating effectively. However, various **weaknesses** were identified on the Exams, TVETMIS, TTMIS and NAMBMIS **systems** that are used for **performance reporting purposes**. Controls were not adequately designed and implemented regarding user access management, program change management and IT service continuity on these systems.
- The weaknesses identified in the network security controls at DHET regarding **inadequate patch management processes** and **inadequate configuration settings** can be attributed to inadequate network security governance processes, patch management policies and procedures as well as information security hardening standards. Previously raised findings were also not addressed and there was ageing network infrastructure.
- **The business continuity plan (BCP)** was still in progress and not yet finalised and the required infrastructure for disaster recovery was not yet in place.



The 2018-19 audit outcomes for TVET colleges

Audit outcomes of portfolio over five years



- We commend False Bay and South Cape for retaining the clean audit status.
- Financial statement preparation remains a concern, as material adjustments were effected to AFS submitted for audit at forty (41) TVET colleges.
- Twenty one (22) TVET colleges received qualifications on repeat areas, as the previous year's findings were not addressed during the year.
- The number of outstanding audits remains a concern.



Movement table (2018-19 over 2017-18)

Audit outcome	MOVEMENT			
	10 Improved	34 Unchanged	3 Regressed	3 Outstanding audits
Unqualified with no findings = 6	Elangeni, Maluti, Northlink, West Coast	False Bay, South Cape		
Unqualified with findings = 17	Boland, East Cape Midlands, Esayidi, Letaba, Majuba	Buffalo City, College of Cape Town, Ekurhuleni West, Flavius Mareka, Gert Sibande, Mthashana, Nkangala, Northern Cape Urban, Port Elizabeth, Thekwini, Western College	Ekurhuleni East	
Qualified with findings = 21	Lephalale, Vuselela	Capricorn, Central JHB, Goldfields, Ikhala, Ingwe, King Hintsa, King Sabatha Dalindyebo, Mnambithi, Mopani South East, Motheo, Orbit, Sekhukhune, Tshwane South, Umfolozi, Umgungundlovu, Vhembe, Waterberg & Sedibeng TVET College	Lovedale	
Adverse with findings = 1			Coastal	
Disclaimed with findings = 5		Ehlanzeni, South West Gauteng		Northern Cape Rural, Taletso, Tshwane North



Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Movement



2018-19

84%

2017-18

90%

Financial statements submitted without errors



13%

6%

Quality of final submission after audit



49%

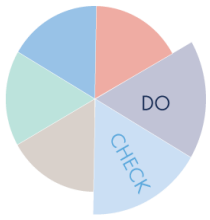
38%

36% achieved unqualified opinions only because they corrected all misstatements identified during the audit

Top five qualification areas

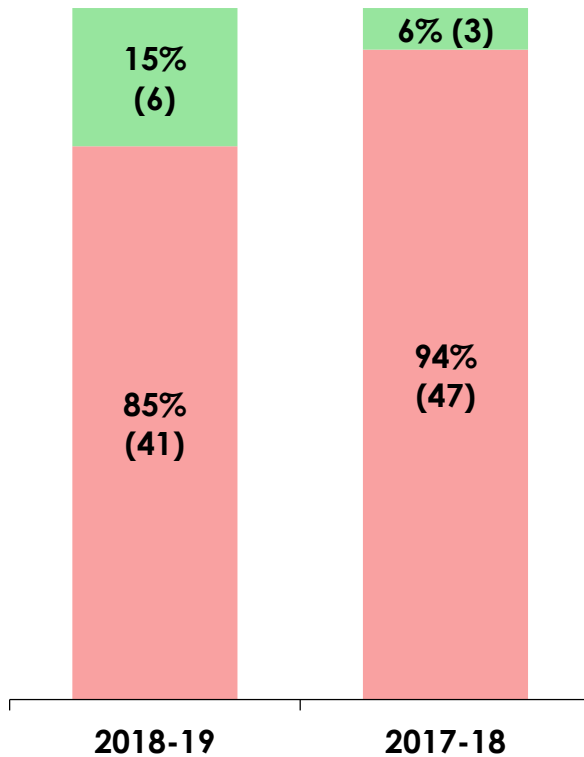
- Property, infrastructure, plant and equipment (Capricorn, Central JHB, Coastal, Ehlanzeni, Goldfields, Ikhala, King Hintsa, Lephalale, Mnambithi, Mopani SE, Motheo, Sekhukhune, SW Gauteng, Umfolozi, Umgungundlovu, Vhembe, Vuselela, Waterberg& Sedibeng)
- Payables, accruals and borrowings (Central JHB, Coastal, Ehlanzeni, Goldfields, Ingwe, Lephalale, Mopani SE, Motheo, Orbit, Sekhukhune, SW Gauteng, Tshwane South, Umfolozi, Umgungundlovu, Vhembe, Vuselela)
- Receivables (Coastal, Ehlanzeni, Goldfields, Ikhala, Ingwe, Lephalale, Mnambithi, Motheo, Orbit, Sekhukhune, SW Gauteng, Tshwane South, Umfolozi, Umgungundlovu, Vhembe, Vuselela)
- Expenditure (Coastal, Ehlanzeni, Goldfields, Ingwe, King Hintsa, King Sabatha Dalindyebo, Lephalale, Lovedale, SW Gauteng, Umfolozi, Vuselela. Waterberg & Sedibeng)
- Cash flow statement (Central JHB, Coastal, Ehlanzeni, Goldfields, Ingwe, Orbit, Sekhukhune)





Disregard for compliance with legislation

Findings on compliance with key legislation



With no findings



With findings

Top five non-compliance areas

- Material misstatement or limitations in submitted AFS
- Procurement management
- Annual financial statements and annual report
- Asset management



Irregular expenditure and fruitless and wasteful expenditure

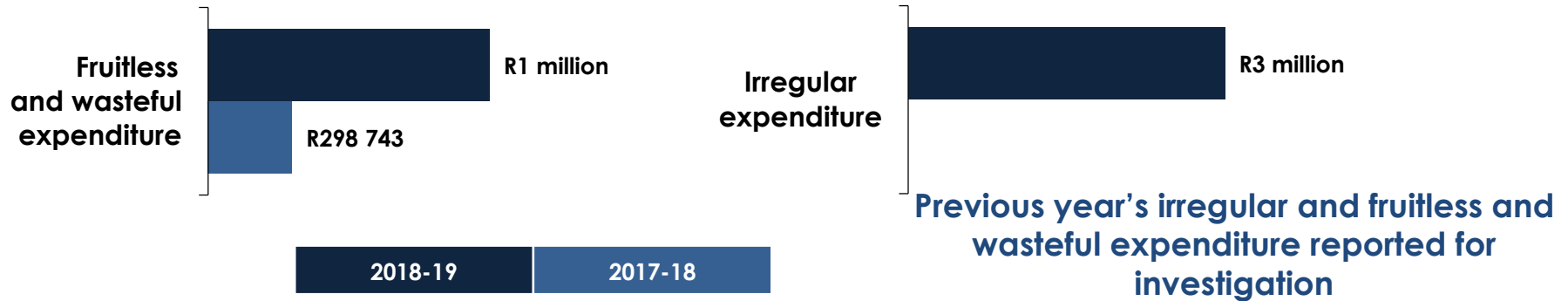
Fruitless & wasteful expenditure Definition

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

Irregular expenditure Definition

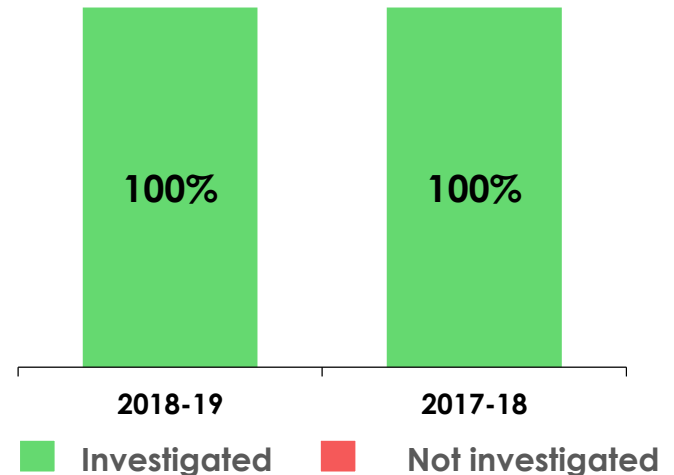
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

Irregular and fruitless and wasteful expenditure incurred by the TVETs

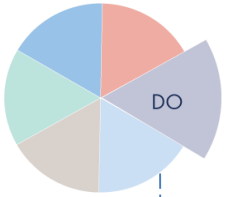


Nature of the fruitless and wasteful expenditure

- The fruitless and wasteful expenditure incurred in the current year was incurred by Coastal TVET college, Nkangala TVET college and South Cape TVET college as a result of interest on overdue accounts and other expenses that could have been avoided.*
- The irregular expenditure was as a result of Coastal TVET not adhering to their supply chain management policy.*



Status of internal control



Leadership

Effective leadership

40%(19)

40%(19)

19%(9)



Financial and performance management

Proper record keeping

17%(8)

45%(21)

38%(18)



Daily and monthly controls

13%(6)

45%(21)

42%(20)



Review and monitor compliance

13%(6)

55%(26)

32%(15)



Governance

Risk management

26%(12)

40%(19)

34%(16)



Good

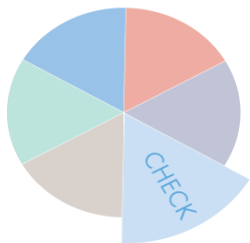


Of concern



Intervention required

27



Assurance provided

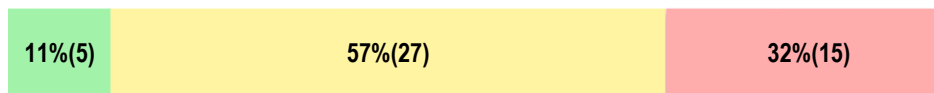
Assurance

First
level

Senior
management



Accounting
officer/authority

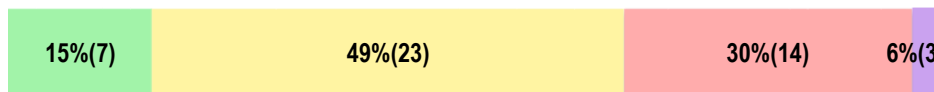


Executive
authority

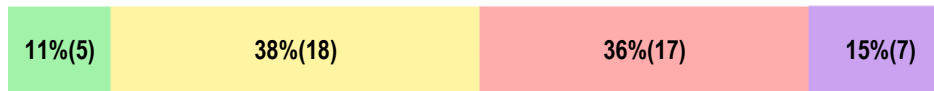


Second
level

Internal
audit unit



Audit
committee



Provides
assurance

Provides some
assurance

Provides limited/
no assurance

Vacant or Not
established

Financial health

Revenue management

- Collection of debt – inability to collect money owed and the resultant impairment of receivables due is a concern at 11 auditees within the higher education and training portfolio.

Asset and liability management

- Deficit for the year – this may also correlate to an overspending of the auditee's operating expenditure budget. Measures must be implemented to address this situation at 7 auditees to ensure sustainable service delivery and financial viability.
- Current liabilities exceeded current assets indicating liquidity issues, which means that the 8 auditees will not be able to pay their creditors as payments become due.
- Net liability position – highlights a possible risk that the 2 auditees cannot continue their operations at the desired levels, which may lead to an interruption or breakdown in service delivery.



Of concern



Intervention required



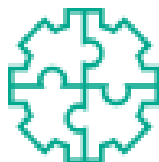
Portfolio snapshot (2018-19)



Clean audits: 21%
(2017-18: 33%)



Financially unqualified financial statements: 40%
(2017-18: 42%)



No findings on performance reports: 74%
(2017-18: 74%)

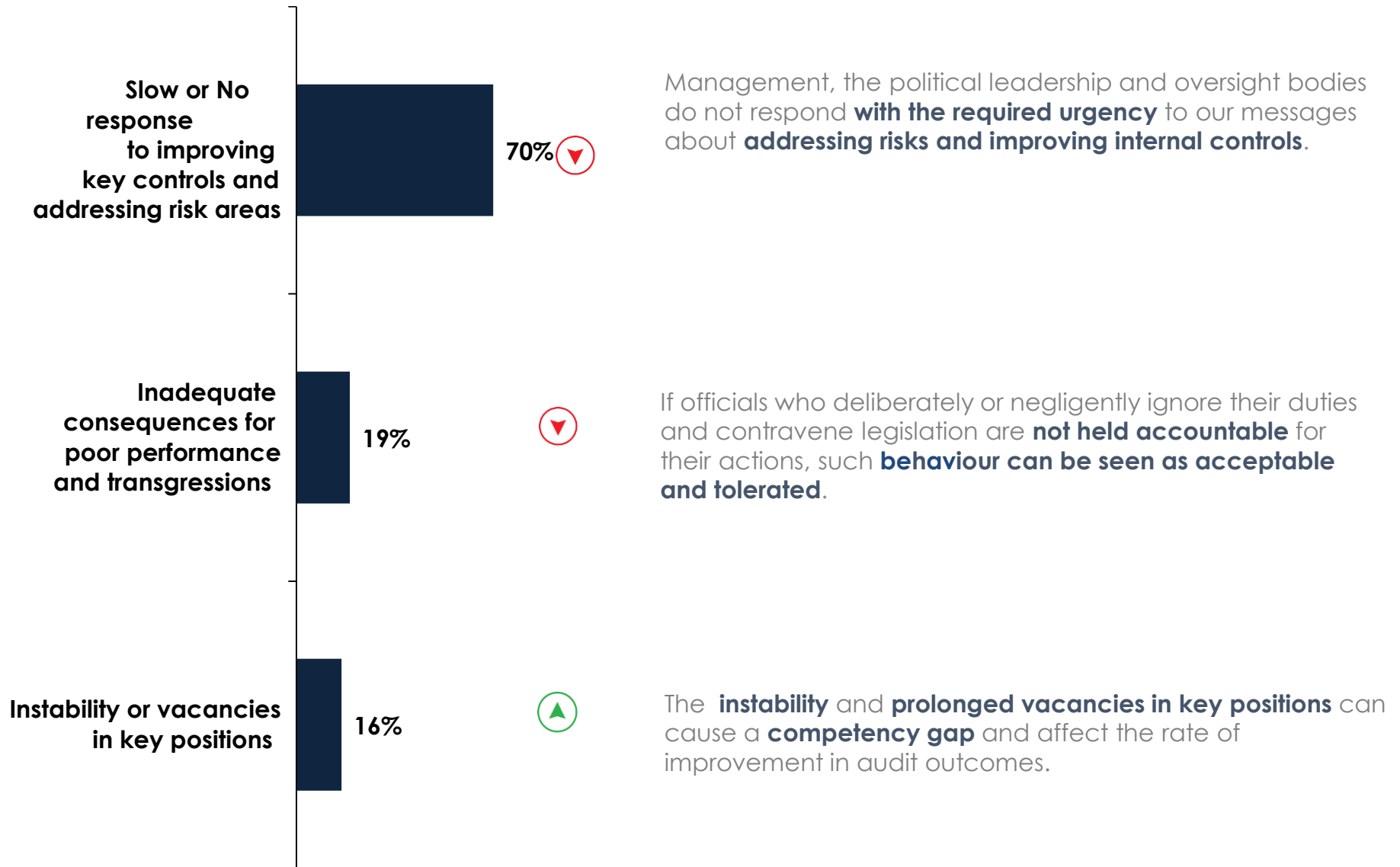


No findings on compliance with legislation: 22%
(2017-18: 23%)



Irregular expenditure: R1,230b
(2017-18: R634m)

Root causes



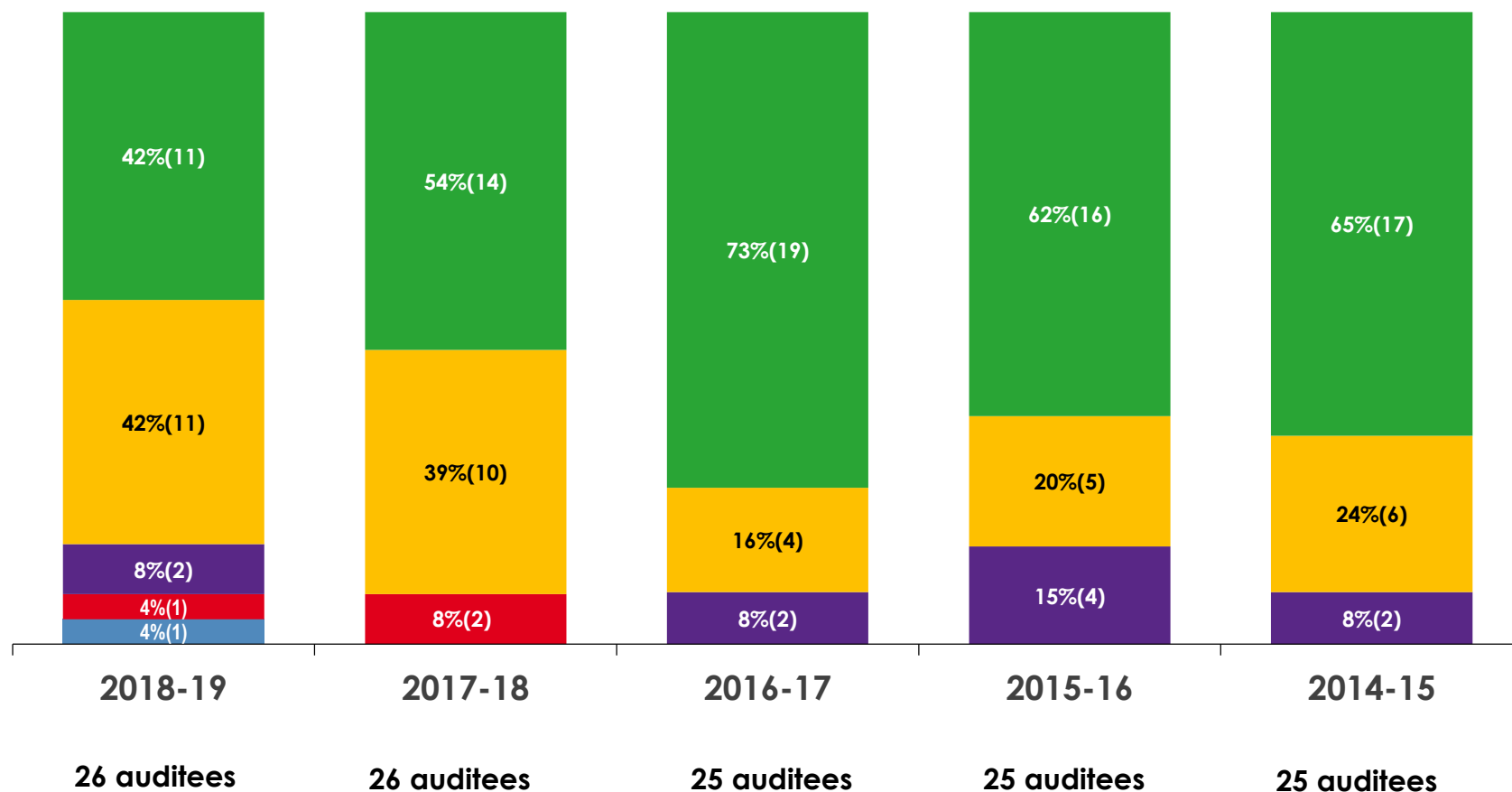
Recommendations

- There is a need for a concentrated effort in the management of projects in the SETA environment, as it came through as a root cause for the regression in that space.
- The TVET colleges will benefit greatly if there is an invested effort in developing responsive action plans that address the root causes of the deficiencies identified, capacitating their finance departments and improved oversight processes.
- 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.



Section 4(3) entities not audited by the AGSA : Public universities

Audit outcomes of portfolio over five years



Movement table (2018-19 over 2017-18)

Audit outcome	MOVEMENT			
	4 Improved	17 Unchanged	4 Regressed	1 Outstanding audits
Unqualified with no findings = 11	University of Mpumalanga, University of Johannesburg, North West University	University of Witwatersrand, University of the Free State, University of Stellenbosch, University of Pretoria, University of Cape Town, Tshwane University of Technology, Nelson Mandela Metropolitan University, Durban University of Technology		Vaal University of Technology,
Unqualified with findings = 11		University of Zululand, University of Venda, University of KwaZulu-Natal, Sefako Makgatho Health and Sciences University, Rhodes University, Central University of Technology, Cape Peninsula University of Technology, University of Limpopo	University of Western Cape, University of South Africa, Sol Plaatje University	
Qualified with findings = 2	Walter Sisulu University of technology and Science		Mangosuthu University of Technology	
Disclaimed with findings = 1		University of Fort Hare		

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