



PFMA 2016-17



Budgetary review and recommendations briefing

Portfolio Committee on Higher Education and Training

October 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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).





ACCOUNTABILITY = PLAN + DO + CHECK + ACT



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

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 areas to:

- align their performance reports to the predetermined objectives they committed to in their 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 a period is depicted as follows:

 Improved

 Unchanged

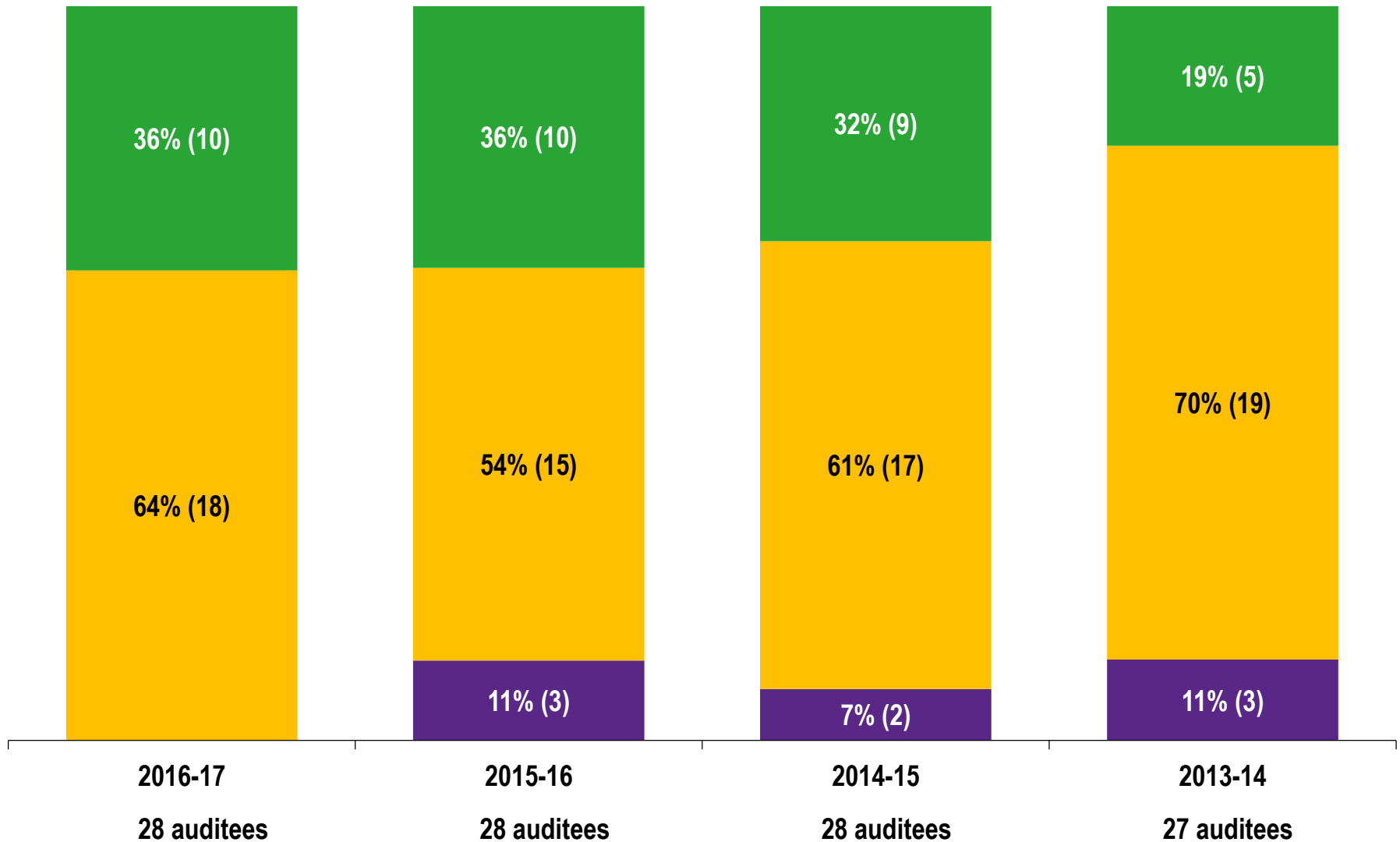
 slight improvement

 slight regression

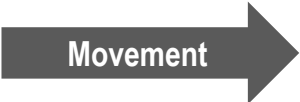
 Regressed



Audit outcomes of portfolio over four years





Movement table (2016-17 over 2015-16)

	 6 Improved	19 Unchanged	3 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 10	ETDPSETA, NIHSS, QCTO	BANKSETA, CETA, CHIETA, FP&MSETA, HWSETA, MICT, INSETA,	None	None	None
Unqualified with findings = 18	MQA, PSETA, W&RSETA,	DHET, AGRISETA, EWSETA, FOODBEV, LGSETA, MERSETA, SASSETA, TETA, NSFAS, NSF, CHE, SAQA,	FASSET, SERVICESSETA, CATHSSETA	None	None

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

Movement table (2016-17 over 2015-16)

 Movement  Audit outcome	6 Improved	19 Unchanged	3 Regressed	0 New auditee	0 + 0 Outstanding audits
Qualified with findings = 0	None	None	None	None	None
Adverse with findings = 0	None	None	None	None	None
Disclaimed with findings = 0	None	None	None	None	None

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

Management and delivery on key programmes – spending, performance and reporting

Programme	Budget spent	Material misstatements	Unauthorised, irregular and fruitless and wasteful	Findings on material indicators			Achievement of targets – from performance report
				Indicator	Not useful	Not reliable	
Programme 3: university education	100%	No	IE = R3 324 739.94	No findings			12 out of 15 targets
Programme 4: Technical and Vocational Education and Training	100%	No	IE = R29 465 233.00	7 Various Indicators		X	1 out of 12 targets
Programme 5: skills development	98%	No	IE = R2 183 182.22	Work based opportunities		X X	4 out of 5 targets
Programme 6: CET	99.5%	No	IE = R7 895 520.91	Headcount enrolments in all CET Colleges (n) Certification rates in formal CET qualifications (%)		X	None achieved

UE – Unauthorised expenditure IE – Irregular expenditure FWE – Fruitless and wasteful expenditure

Good

Of concern

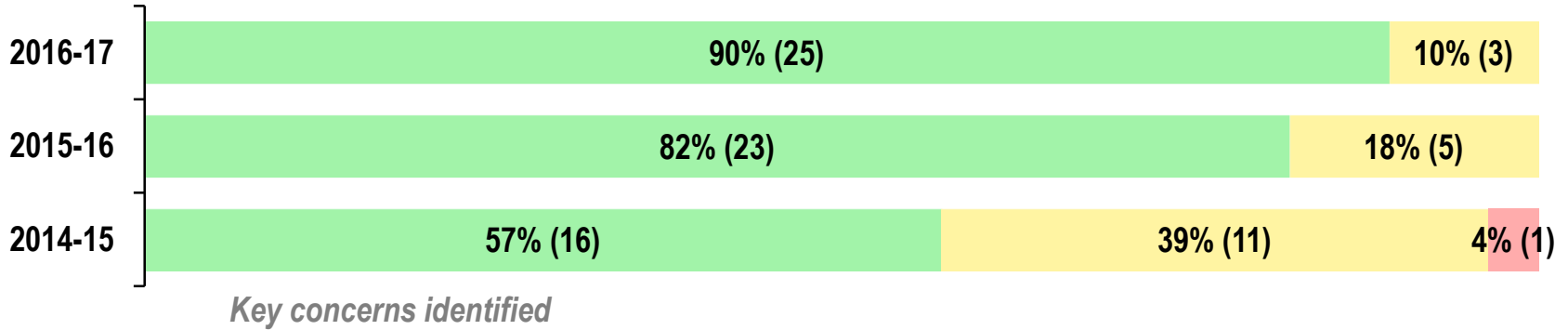
Intervention required

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Financial health

No material uncertainty exists, i.e. whether auditees can continue to operate in future.



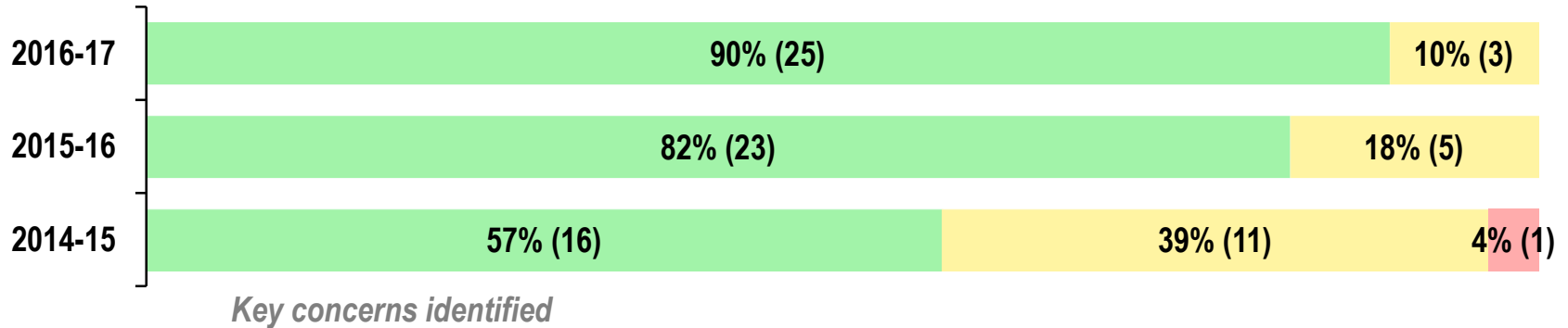
- For one entity the creditor’s payment period is exceeding 30 days. Asset and liability are not managed properly this is evidence by an increase in the restated grants transfer payables
- For one entity a net current liability position was realised as a result of an increase in deferred income as well as a decrease in cash and cash equivalents. A deficit of was also realised.
- Although a significant reduction in the creditor payment period was noted compared to the prior year the Department still takes an average of over 30 days to pay creditors.

- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses



Financial health

No material uncertainty exists, i.e. whether auditees can continue to operate in future.



- The department, if it was assessed on an accrual basis, would have incurred a deficit indicating that the department would have incurred unauthorised expenditure as the expenditure would have exceeded the vote.
- The department, if it was assessed on an accrual basis, would have been in a negative current liability and net liability position. This would be due to significant increase in current liabilities for the current year. This position coupled with the fact that the entity is in a negative overdraft and negative cash flows from operations position presents a poor financial performance of the department.

- **Two or less unfavourable indicators**
- **More than two unfavourable indicators**
- **Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses**

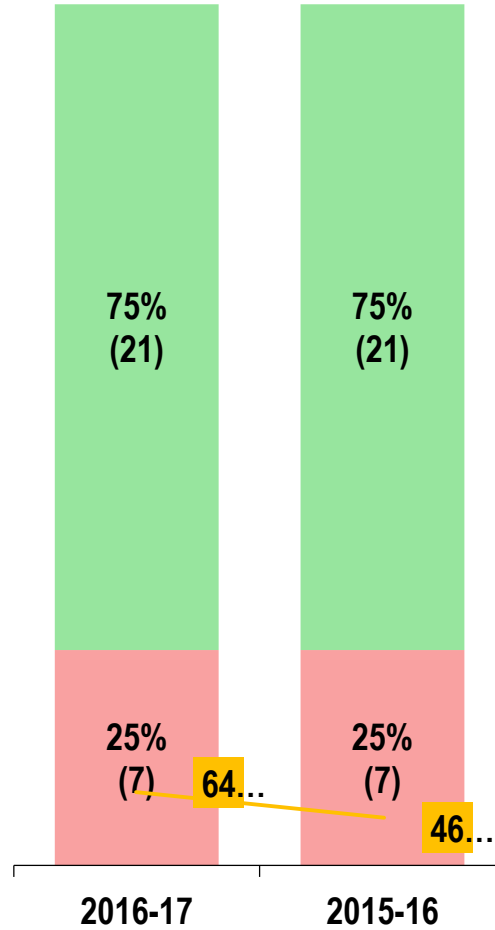


Movement on the quality of financial statements, annual performance reports and compliance

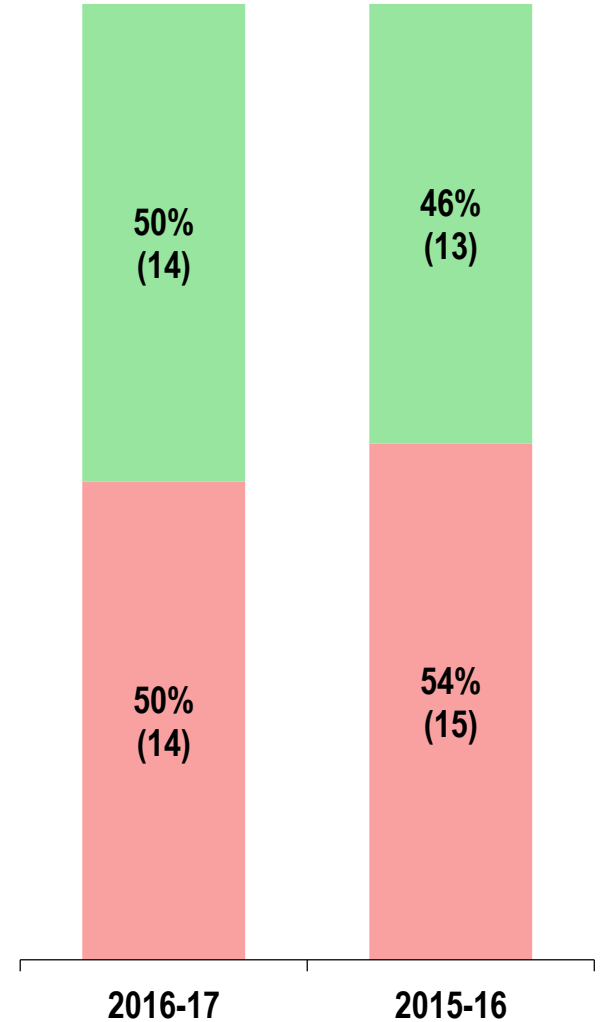
Audit of financial statements



Findings on annual performance reports



Findings on compliance with key legislation



Unqualified Qualified Adverse Disclaimed

AFS submitted on time

AFS and APR submitted with no material misstatements

With no findings
With findings

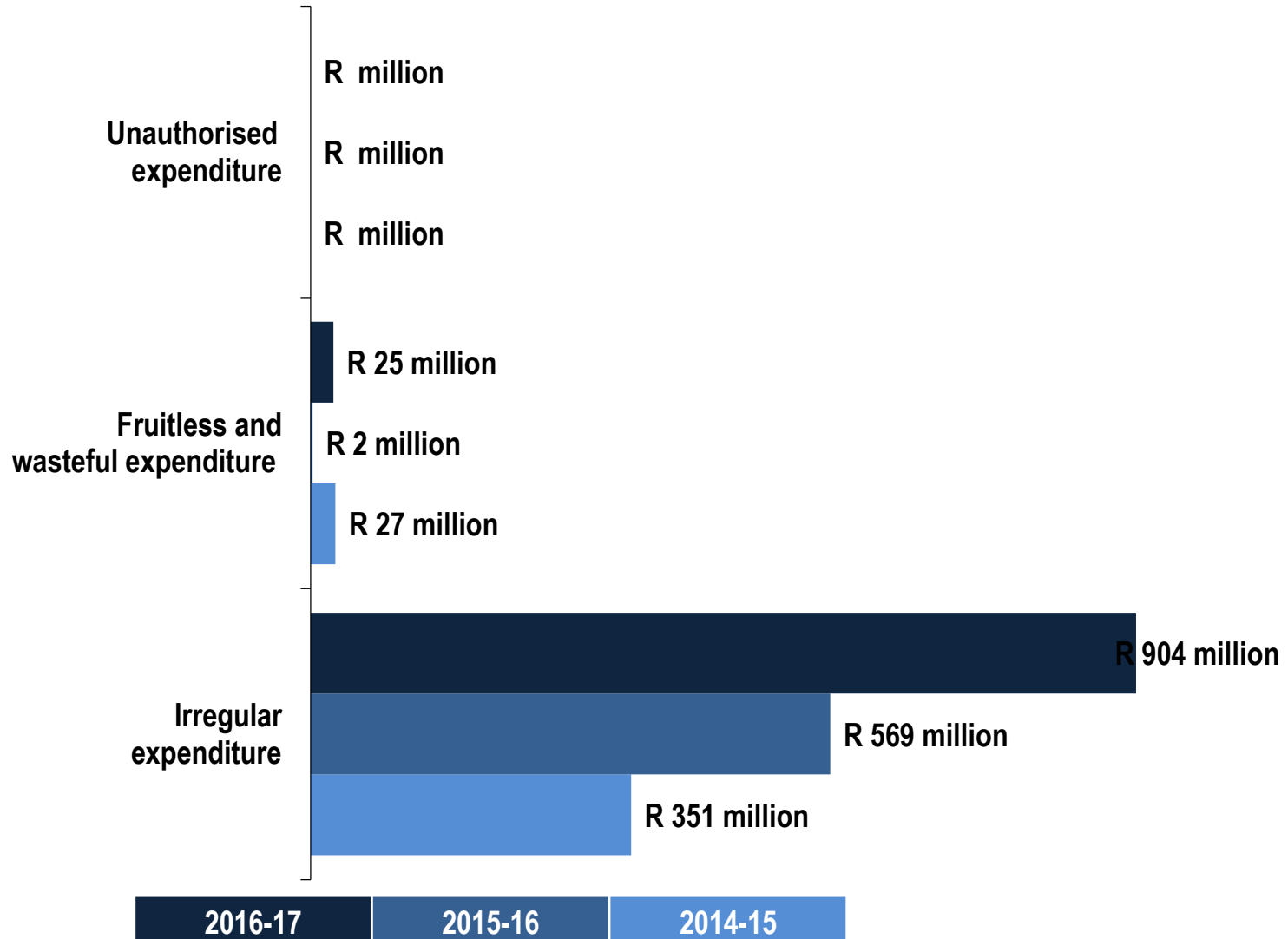
Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years

Definition

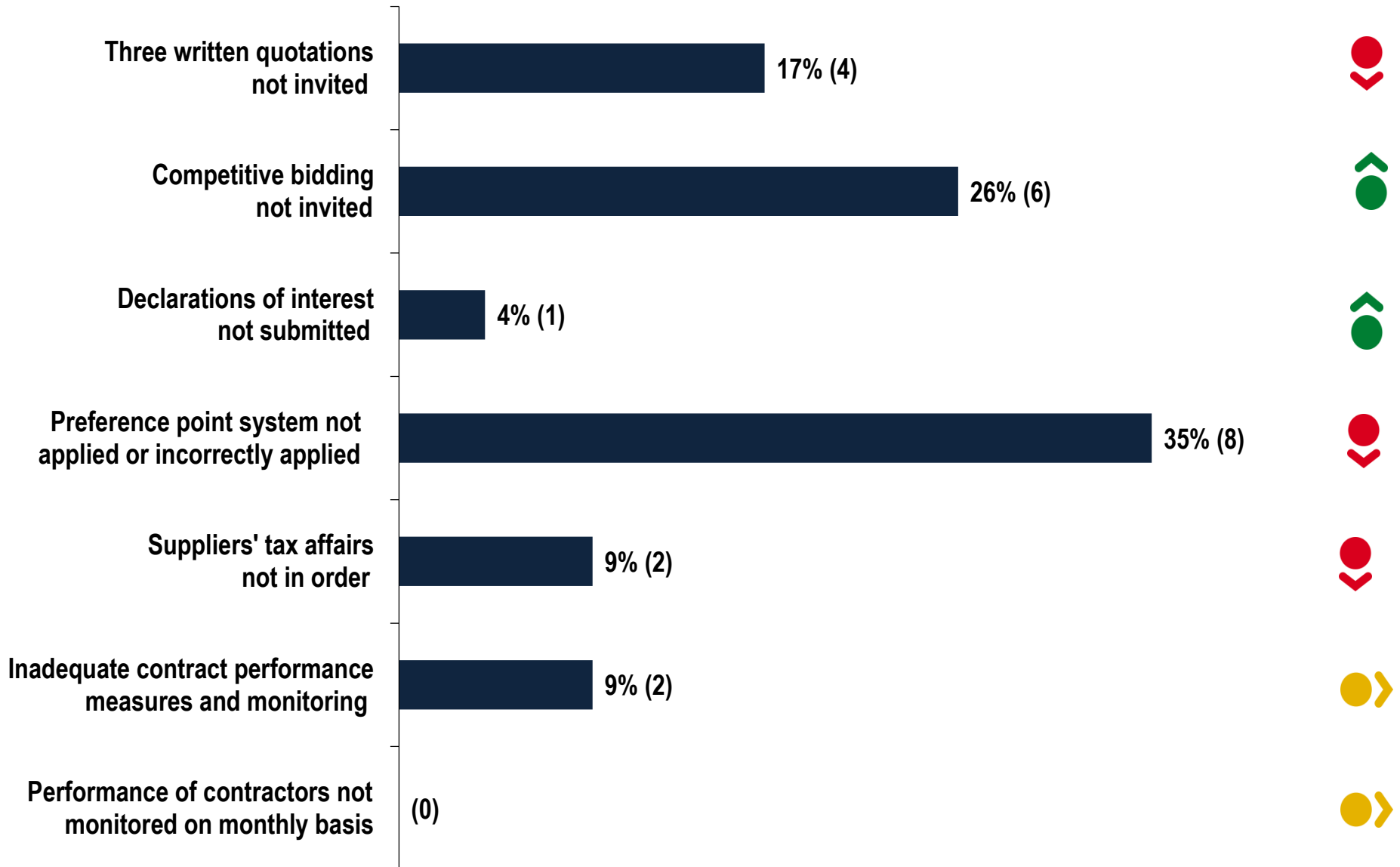
Expenditure not in accordance with the budget vote/ overspending of budget or programme

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



Most common findings on supply chain management



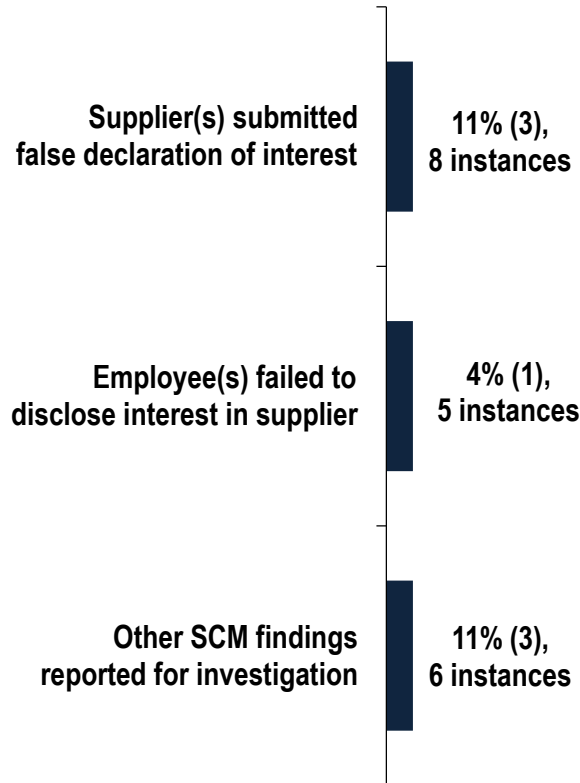
Fraud and consequence management

Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

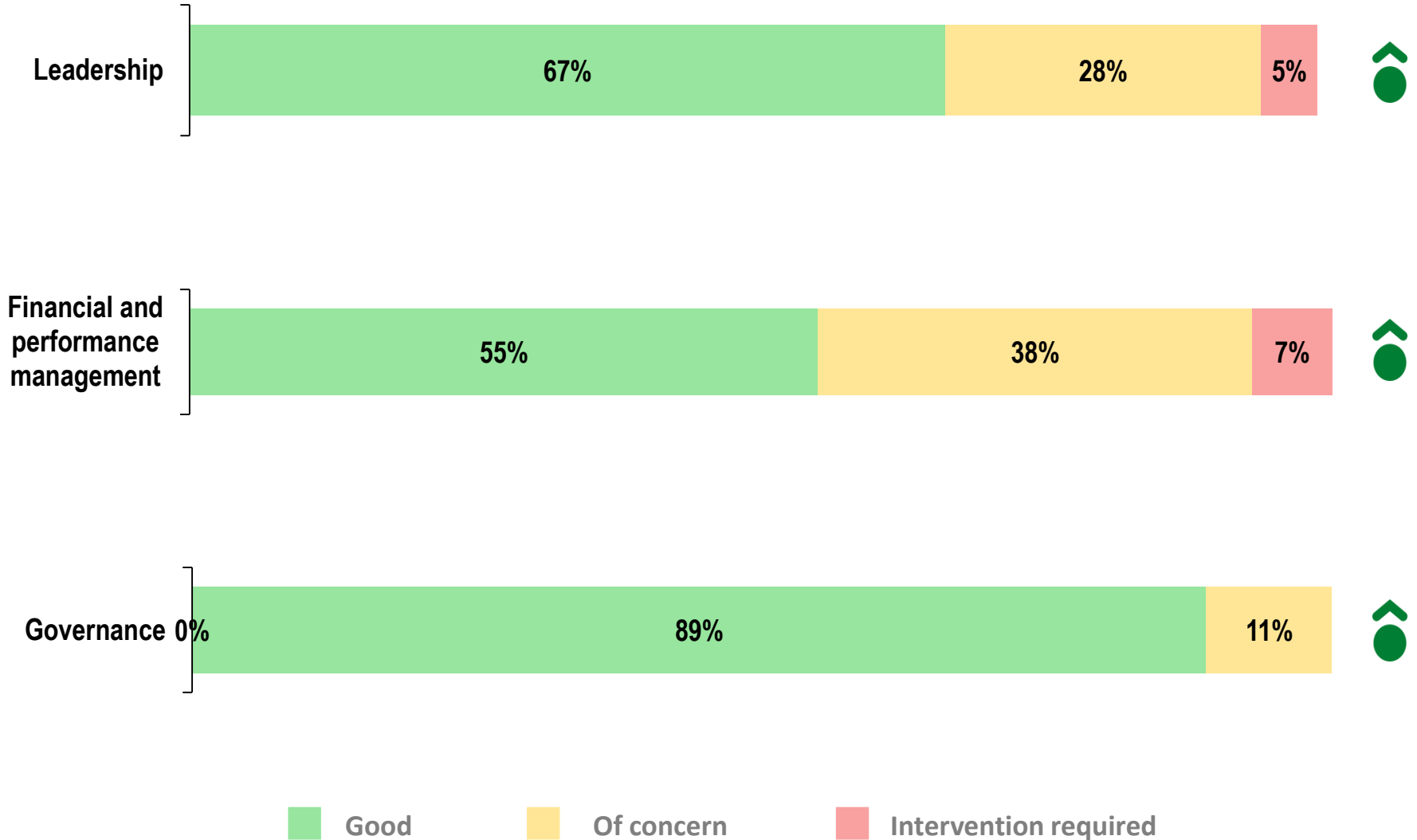


Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2015-16 audit process (all auditees)



Status of internal control

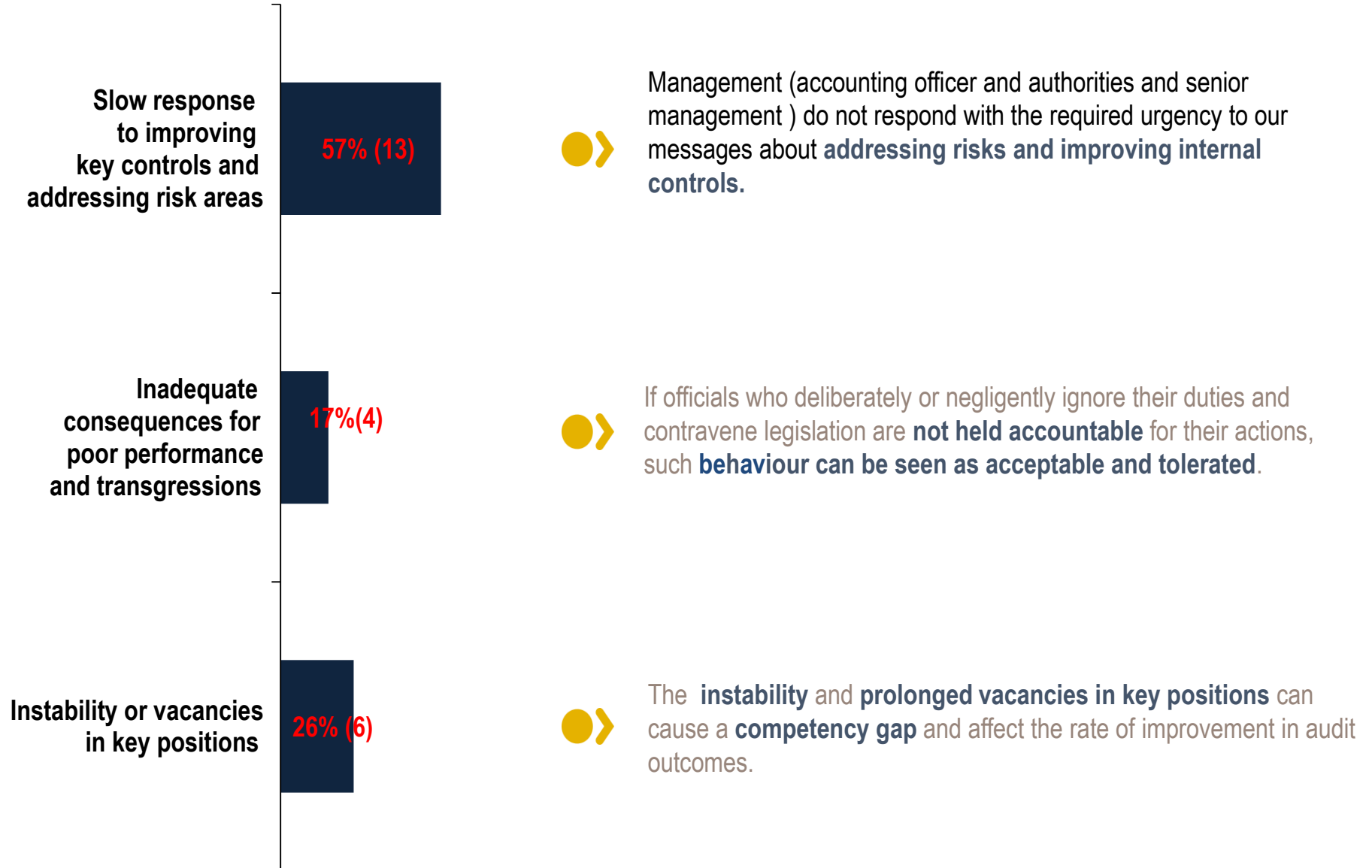


Assurance and key controls

Assurance



Root causes






TVETS

ACCOUNTABILITY = PLAN + DO + CHECK + ACT





The percentages in this presentation are calculated based on the completed audits of 50 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

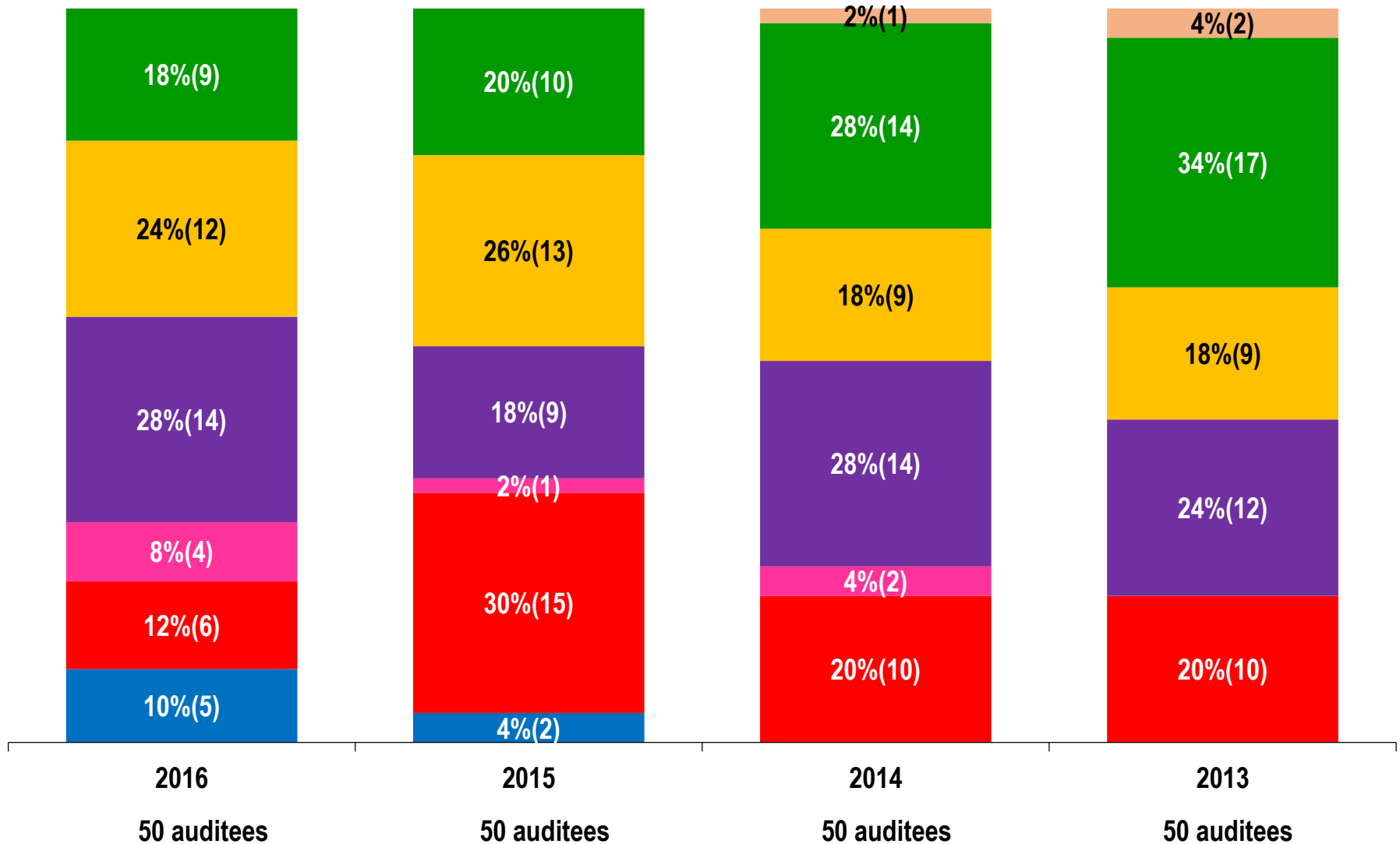
-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings
-  Audits outstanding

Movement over a period is depicted as follows:

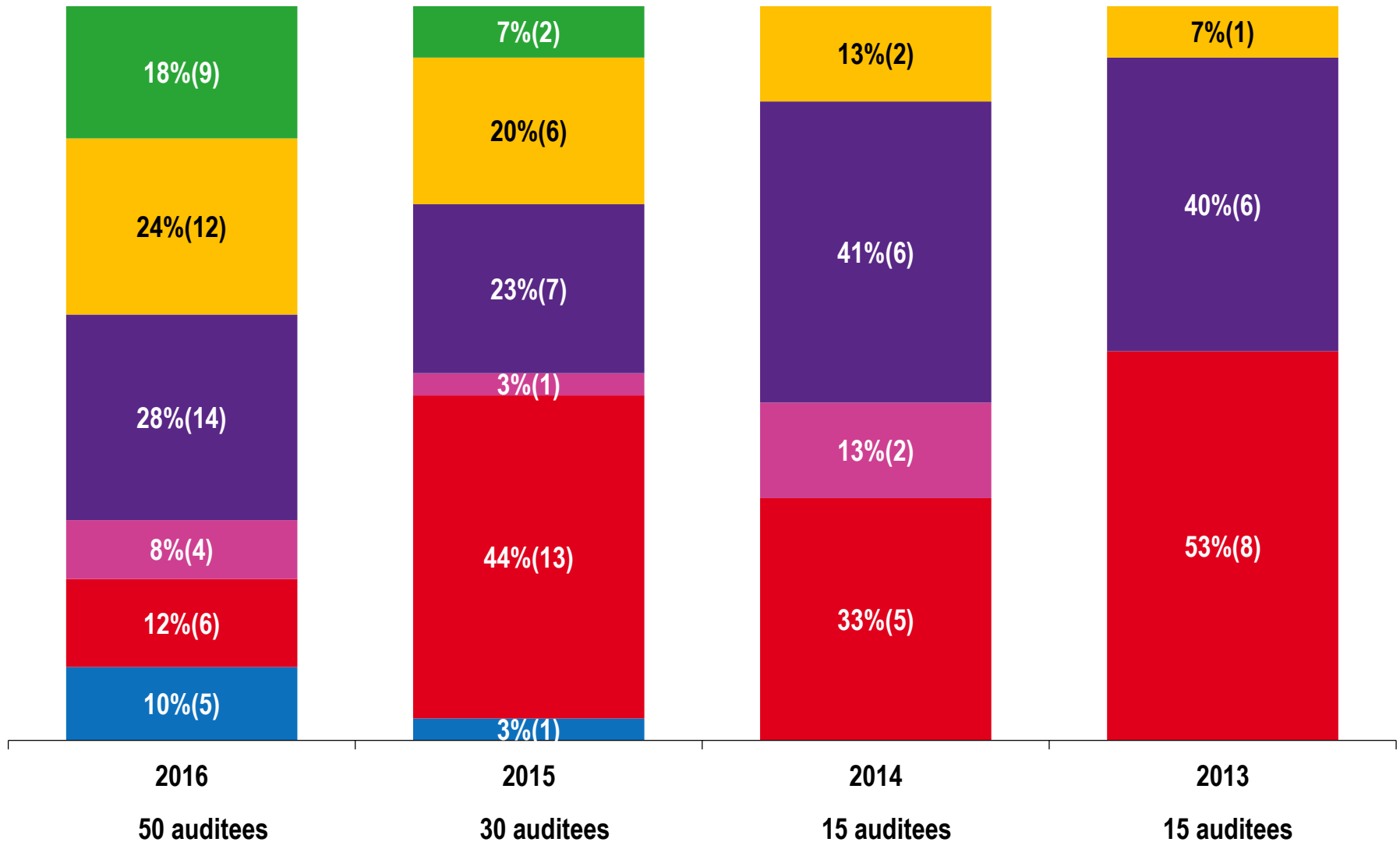
-  Improved
-  Unchanged
-  slight improvement
-  slight regression
-  Regressed



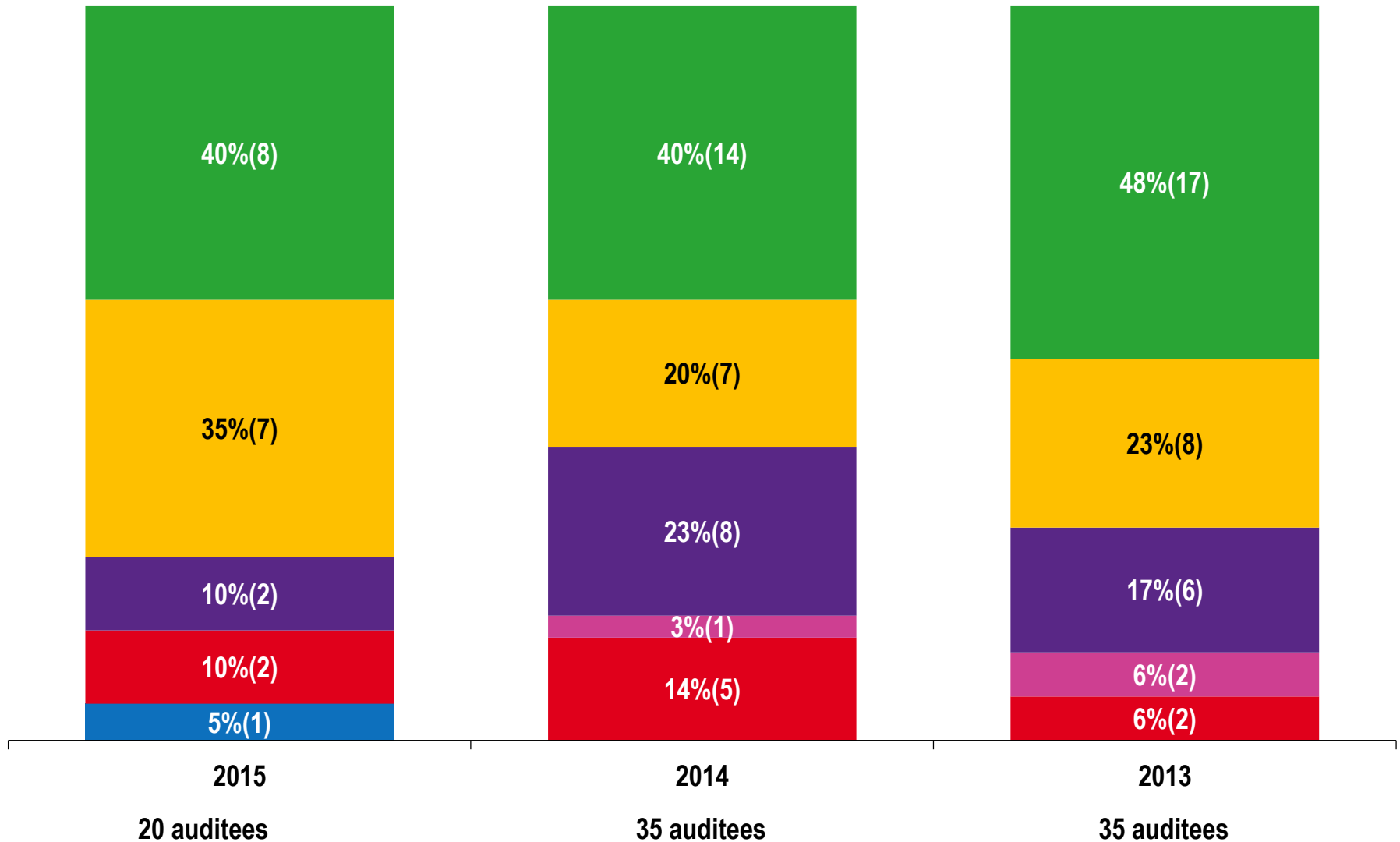
Overall audit outcomes of TVET colleges



Colleges audited by the AGSA



Colleges not audited by the AGSA



Movement table TVET Colleges (2016 over 2015)

Movement

Audit outcome

	14 Improved	23 Unchanged	8 Regressed	5 Outstanding audits
Unqualified with no findings = 9	Esayidi, Port Elizabeth, Majuba, Nkangala	Ekurhuleni East, Boland, Buffalo City, Ekurhuleni West, False Bay		
Unqualified with findings = 12	Central JHB, Lovedale, West Coast	Maluti, Mnambithi, NC Urban, Mthashana, South Cape, Elangeni, Flavius Mareka, Gert Sibande,	Orbit	
Qualified with findings = 14	King Hintsa, Letaba, WestCol, Goldfields, Ingwe, KSD	Northlink, Coastal, Mopani SE, Umfolozi	College of Cape Town* Thekwini* Umgungundlovu* Vhembe*	
Adverse with findings = 4	Sekhukhune	Lephalale	Capricorn* Waterberg*	
Disclaimed with findings = 6		Ikhala, Motheo, Taletso, Vuselela, Ehlanzeni	South West Gauteng	
Outstanding audits				East Cape Midlands, NC Rural, Tshwane North, Tshwane South, Sedibeng

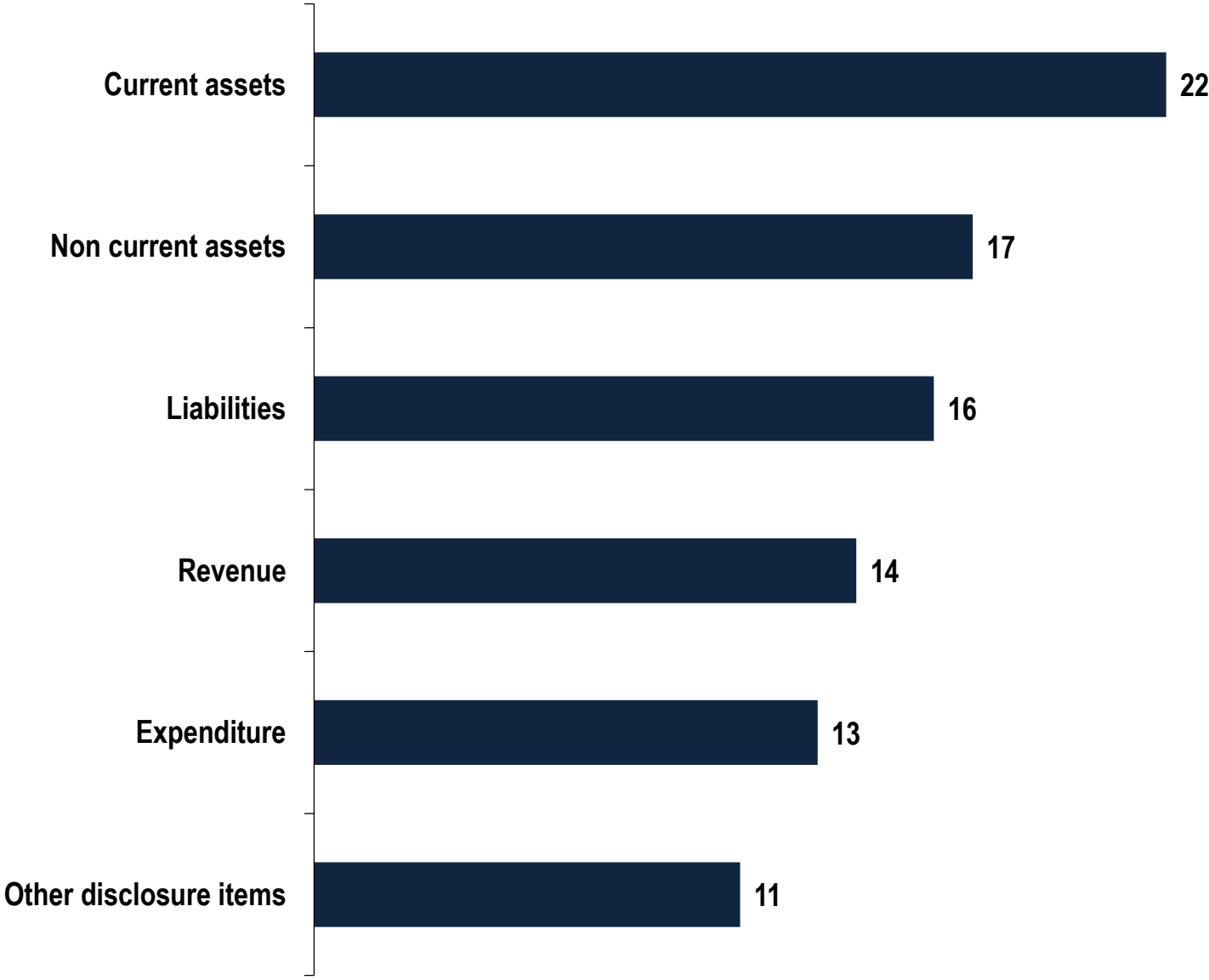
ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Status of audits that were outstanding at 31 August 2017

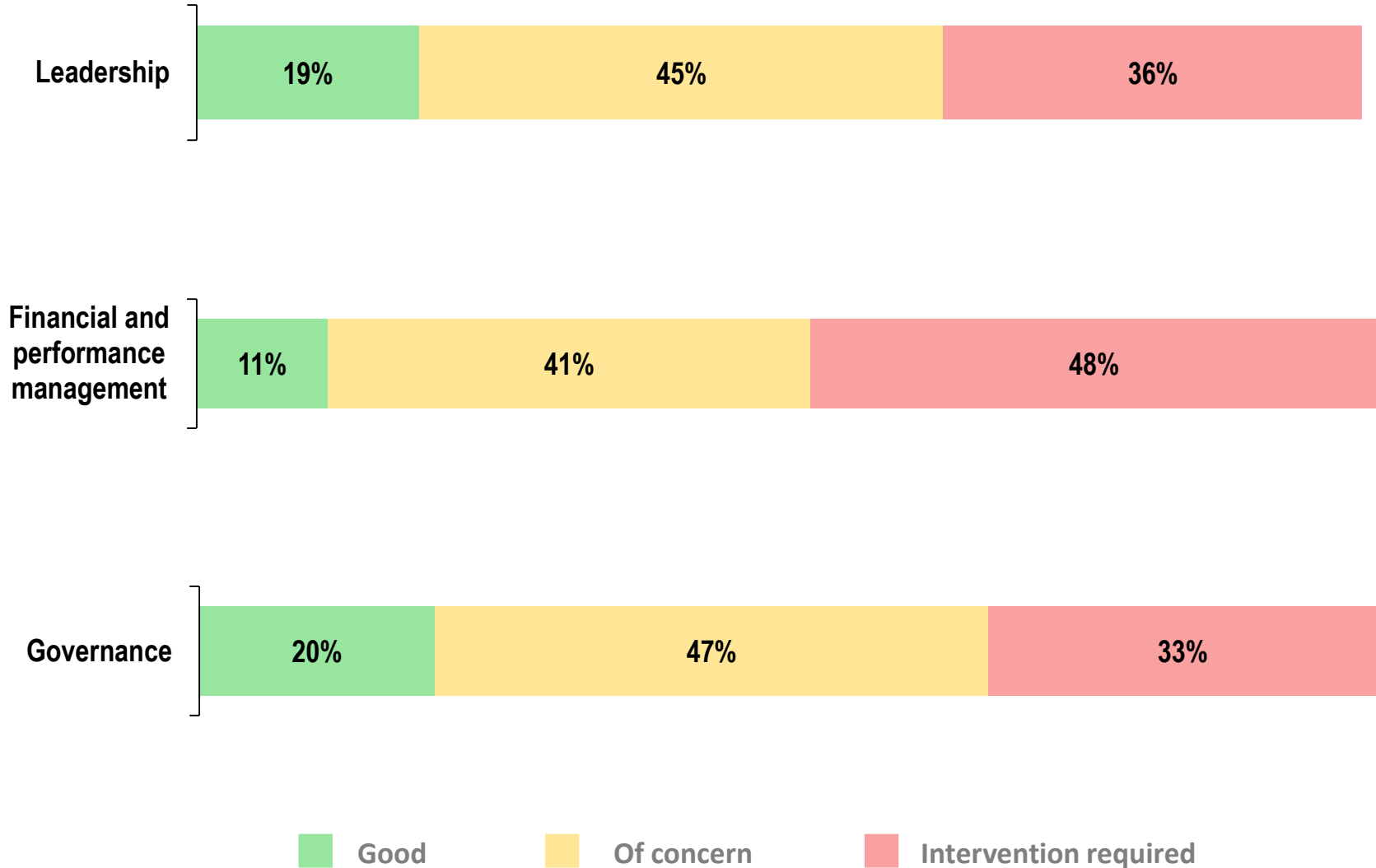
- East Cape Midlands – audits for 2014 and 2015 have not yet been finalized due to disagreements with management on some accounting issues. Progress has been made towards resolving these issues and the audits are expected to be finalized by 31 October 2017.
- Northern Cape Rural – AFS were submitted late for audit. Audit is anticipated to be completed by 31 October 2017
- Sedibeng – approved AFS were only submitted on 4 September 2017 due to challenges in reconciling asset and related balances. Audit is in progress and is expected to be completed by 15 November 2017
- Tshwane North – the college has a backlog of uncompleted prior year audits. The AFS for 2016 thus could not be submitted.
- Tshwane South - Financial statements were submitted late for audit. AFS were received 3rd of July 2017 instead of 31 March 2017. Audit is in the reporting stage and will be finalized by 31 October 2017



Financial Statement Qualification Areas



Status of internal control



Assurance

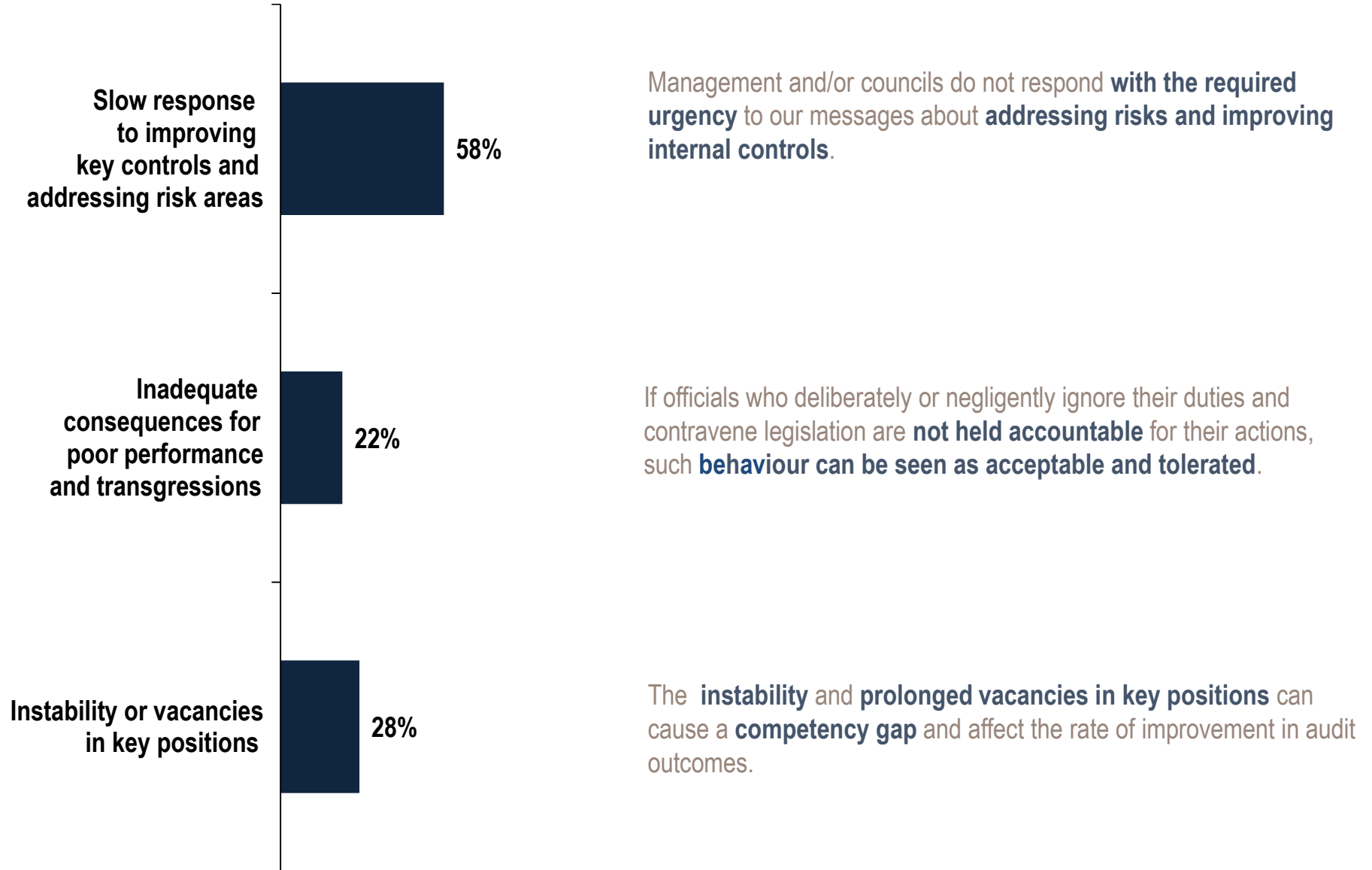


ACCOUNTABILITY = PLAN + DO + CHECK + ACT

required
32

PFMA
2016-17

Root causes

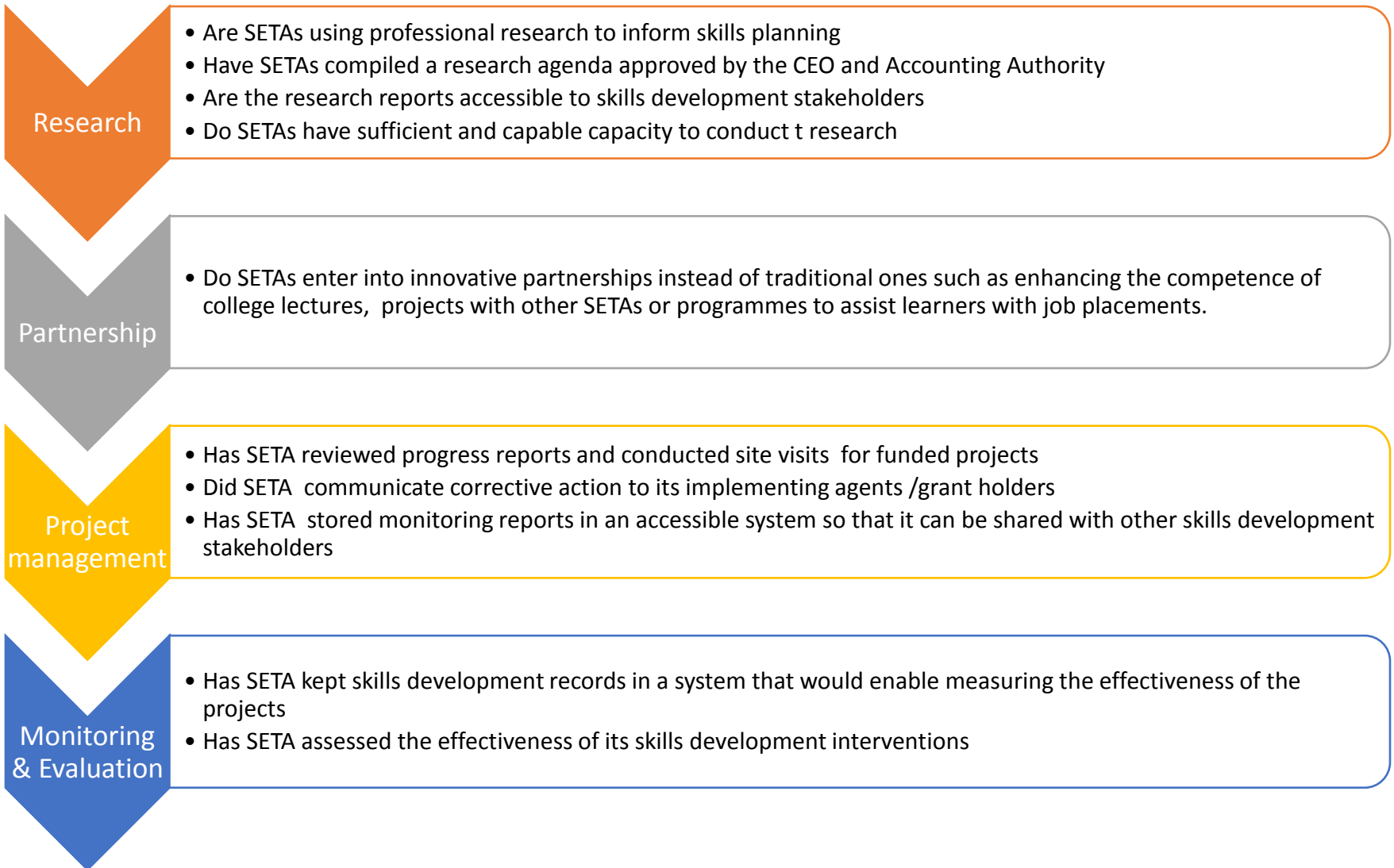


Skills Development Sector Audit



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

Skills development sector audit focus areas



Sector audit findings on research for a demand driven skills development

- Most SETAs used SSP chapter to report on the research done
- The reliability and validity of data reported (mostly relied on employers identifying the skills needs)

Research conducted by the LMIP was mostly HSRC driven and not SETA driven – (close working relationship between SETAs and LMIP is essential so that it is not seen as DHET issue)

2015-16 research audit findings

- Only four SETAs elevated their research report to the DHET research repository (peer review of data reported publicly was not done)

Some SETAs had human capacity and financial resources to conduct research while other SETAs didn't (is it a matter of priority, advanced v/s struggling sectors (PSETA v/s CHIETA))



Sector audit findings on monitoring and evaluation of skills development

M&E guidelines & framework

SETA uses variety of M&E frameworks/policies collecting different data sets

The is no national M&E framework and systems for SETAs to share their monitoring findings



M&E implementation

Site visits do not reflect deficiencies & corrective actions suggested – its mostly in a checklist format

SETA service providers submit progress reports – Project close-out reports are mostly not completed



M&E reporting

Report on outputs not much on outcomes and impact made by their interventions

Few SETAs have done impact assessment and tracer studies to assess the effectiveness of their interventions



Alignment of SETA reporting to NSDS III Key pillars

The NSDS III provides a framework for planning and implementation of skills development programmes and activities. It outlines the key pillars which forms a basis for measuring the achievement and effectiveness of the strategy . The NSDS III also outline the importance of reporting transformational and development imperatives by all institutions in the skills development system and the need for a requirement for skills development institutions to measure the extent to which significant progress is made to addressing the imperatives. Accurate and frequent update of skills development data and consistent monitoring and evaluation of skills development interventions are prerequisites for measuring the achievement and effectiveness of the national skills development strategy.

The following key pillars were selected as a focus for 2016-17 skills development sector audit:

1. Prioritisation of skills for rural development
2. Emphasis of PIVOTAL programmes (occupationally directed qualifications)
3. Revitalization TVET colleges through improving the competence of TVET lecturers
4. Training incentives for cooperatives, SMMEs, NGO and trade unions
5. Implementation of cross and inter-sectoral skills needs



Skills development identified deficiencies

Department of Higher Education and Training (DHET)

- A review of the profile of TVET colleges' lecturers retrieved from PERSAL system revealed that there are 980 lecturers who are 60 years and above. Although the retirement age is 65, a mechanism to ensure that there are experienced replacement need to be considered
- Skills development data management across SETAs is still a challenge that need urgent attention to enable assessment of the NSDS III effectiveness and credibility of reporting. The new skills development system under construction should consider data capturing and reporting according to NSDS key pillars and goals.

National Skills Fund (NSF)

- The agreement between NSF and NSFAS was signed in 2002 by the then Director-General of the department of Labour and need to be reviewed in light of new developments.
- Shortcomings such as incomplete project documentations which was affected by monitoring and oversight of implementing agents.

NSFAS

- The NSFAS processes for accounting to funders and for holding institutions managing financial aid grants have not been implemented effectively.
- The NSFAS financial aid data management system is not configured to capture and reproduce data in a way that would inform the achievement and effectiveness of NSDS III



Skills development deficiencies identified

Audit Focus Areas	Information submitted	Partially info submitted	Information not submitted
Inclusion of project documentations (MOA, progress reports and closeout reports) Work Integrated learning	FASSET, PSETA, SERVICES, CETA, HWSETA, CATHSSETA, BANKSET, ETDP, INSETA, MERSETA, TETA, SASSETA, FOODBEV, CHIETA, FP&M	MICT, EWSETA, AGRISETA, LGSETA, W&R SETA	MQA
Reporting on monitoring and evaluation data	CATHSSETA, INSETA, MERSETA, SASSETA, CHIETA	MICT, SERVICES, FASSET, PSETA, CETA, HWSETA, BANKSETA, ETDP, LGSETA, MQA, TETA, FP&M	FOODBEV
Improving the competence of TVET lecturers	CETA, CATHSSETA, ETDP, INSETA, W&R SETA, MERSETA, TETA, FOODBEV, CHIETA	LGSETA, SASSETA	MICT, SERVICES, FASSET, PSETA, HWSETA, BANKSETA, EWSETA, AGRISETA, MQA, FP&M
Increased focus to support government prioritisation of rural development	MICT, PSETA, CETA, HWSETA, CATHSSETA, BANKSETA, ETDP, INSETA, AGRISETA, LGSETA, MERSETA, TETA, SASSETA, FOODBEV, CHIETA, FP&M	MQA	SERVICES, FASSET, EWSETA, W&R SETA
Providing training incentives to Cooperatives; SMMEs, NGOs and Trade Unions	CETA, HWSETA, CATHSSETA, BANKSETA, ETDP, INSETA, AGRISETA, MERSETA, TETA, SASSETA, FOODBEV, CHIETA, FP&M	LGSETA, W&R SETA	MICT, SERVICES, FASSET, PSETA, EWSETA, MQA
Cross-cutting and inter-sectoral partnerships	PSETA, CETA, HWSETA, CATHSSETA, BANKSETA, ETDP, INSETA, W&R SETA, SASSETA, FOODBEV, CHIETA, FP&M		FASSET, EWSETA, AGRISETA, LGSETA, MQA, MERSETA, TETA



Recommendations

DHET

- The department of higher education and training should put a programme in place to ensure that the TVET colleges sector has a programme for improve the suitable college lecturers
- The skills development data management system is configured to allow for capturing and reporting data in line with the NSDS key pillars .

NSF

- The department should facilitate a process of a new agreement between NSF and NSFAS .
- The NSF senior management to ensure that the monitoring and oversight of its implementing agencies is increased.

NSFAS

- The NSFAS should review its processes, systems and capacity for accounting to its funders and also ensuring that its implementing institutions are held accountable for ensuring the financial aid grants are used for the purposed intended.

SETAs

- SETAs should configure their individual data management systems to ensure that they are able to provide credible and complete information for reporting on the effectiveness of the NSDS key pillars



TVET Colleges Infrastructure sector audit



TVET COLLEGE INFRASTRUCTURE 2015-16 SECTOR AUDIT FINDINGS

During 2015-16 an audit was performed on three Further Education and Training (FET) campuses, in various provinces as part of the Department of Higher Education and Training (DHET) audit. These campuses were Nkandla A campus (Kwa-Zulu Natal), Bhambanana campus (Kwa-Zulu Natal) and the Thabazimbi campus (Limpopo).

The following shortcomings were identified in the three TVET colleges audited:

- Planning design deficiencies such as scope of work changes
- Project management deficiencies such as the site supervision and inspections to address lack of water which hampered completion of work and extension of time.
- Poor workmanship such as improperly done edges and floating, water courses and drains done poorly and delay in paying electrical bills has hampered the progress of electrical work. Other aspects include skew or incorrectly fitted door frames, exposed steel rebar's and poorly constructed storm water channel services
- Building and Structural Work defects were noted where bricks and plaster works were not according to the acceptable standard, the damp proof course being inappropriately installed.
- Deficiencies on access to facility was also identified such as lack of consideration for partially or fully disabled persons access points across the walkways, with steep gradients and uneven paving
- The projects experienced cost escalation due to poor cost control measures where quantities were estimated due to limited and inadequate information at the planning and design stage, and subject to re-measurement after execution on site by the contractor.
- Deficiencies were identified in relation to User Asset Management Plans (U-AMP's) and Custodian Asset Management Plans (C-AMP's). Where ownership has been transferred to the respective college, such college must ensure that the asset is captured in their asset register as required by Government Immovable Asset Management Act (GIAMA).



TVET COLLEGE INFRASTRUCTURE 2016-17 SECTOR AUDIT FINDINGS

During 2016-17 a follow up audit was performed for all three campuses and the department had not yet addressed all the issues raised in the prior year. In addition other issues were also identified during the follow up audit.

Examples of some of the issues identified were as follows

Quality defects due to poor workmanship and poor project planning

Delays in the completion of the projects, ranging from 15 months to 21 months

Variation orders had been approved on some of the projects. Some of these variations were issued due to an increase in scope

One of the campuses did not have an asset management plan in place, despite being completed on 1 December 2016



TVET COLLEGE INFRASTRUCTURE 2016-17 SECTOR AUDIT FINDINGS

The pictures below indicate some of the quality defects identified:



Water ponding at the entrance of an E-Learning Centre



Timber floor lifting due to water leaks



Entrance floor drains towards the entrance



Some of these issues were as a result of the following:

There was no full time site supervision on site in the form of a clerk of works	Adequate management processes were not in place to safeguard against delays	Some contractors experienced cash flow difficulties which affected works progress	Adequate planning was not conducted to avoid the use of variation orders and to curb costs within the project
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What should be done differently?

- Proper planning of projects should be conducted to keep the approval of variation orders to a minimum and to curb costs within the projects.
- The full scope of the project should be determined before the start of the project, to avoid additions to the scope during construction of projects.
- A detailed bill of quantities (BoQ) should be used for tenders rather than a provisional BoQ.
- Factors that may lead to delays and impede the progress of projects should be identified during the planning of projects and continuously revised and updated during implementation.
- Where there is a likelihood of factors contributing to a delay, measures should be implemented to address these issues.
- Materials should be ordered well in advance to avoid the delays in the supply of materials.
- A clerk of works should be appointed on all projects.
- Quality defects should be corrected immediately whilst the defect liability period is still active



CORRUPTION

C

=

M

+

D

-

A

MONOPOLY

DISCRETION

ACCOUNTABILITY



#AGSA

#AntiCorruption

Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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