



Briefing to Portfolio Committee on Higher Education and Training, Science and Technology

PFMA
2019-20

03 November 2020



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).



The 2019-20 audit outcomes



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

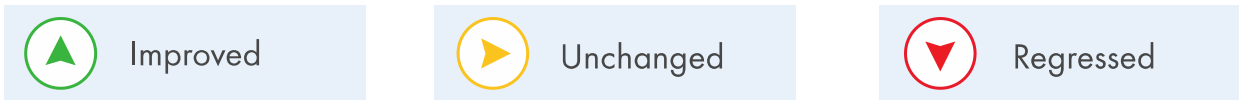
Important to note

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

Audit outcomes are indicated as follows:



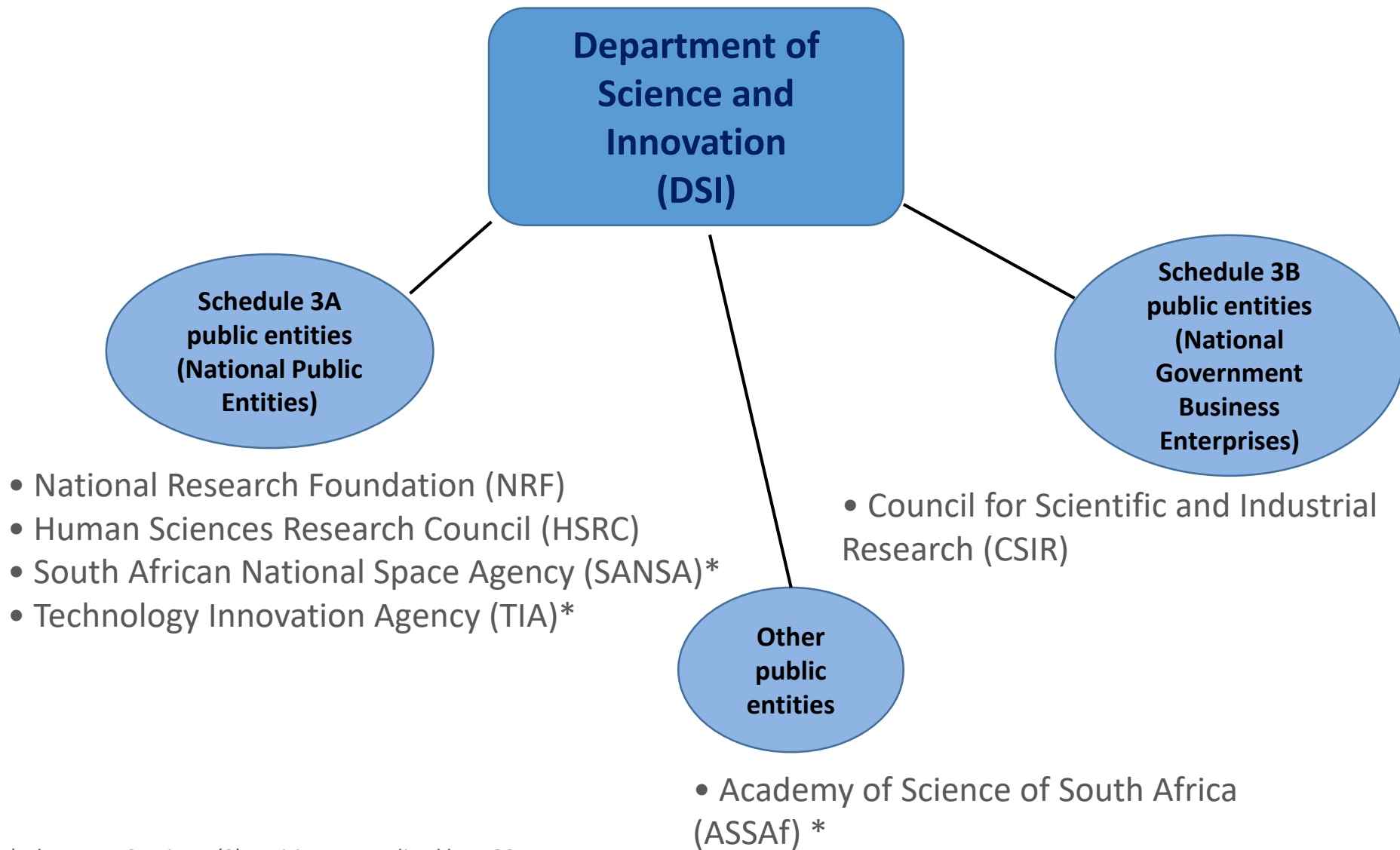
Movement over the previous year is depicted as follows:



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

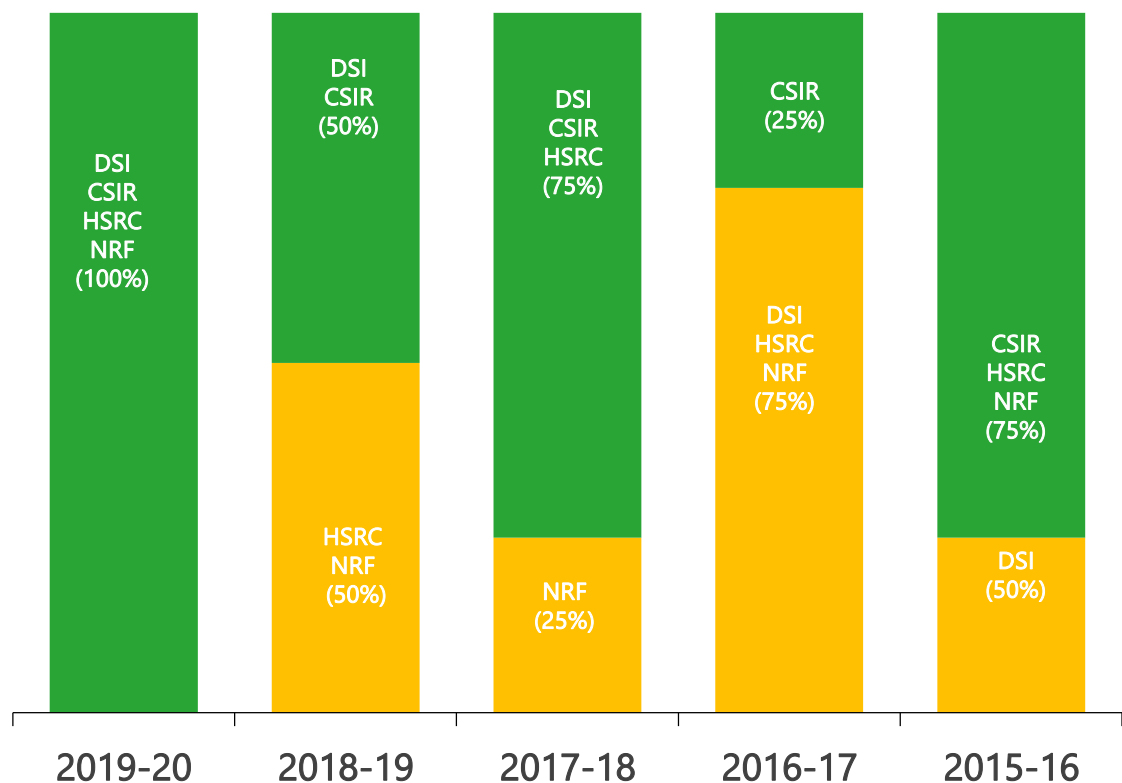


Science and Innovation Portfolio



* These are Section 4(3) entities not audited by AGSA.
These outcomes will be presented on a separate slide.

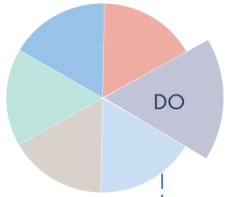
Audit outcomes of portfolio over five years



Movement	
▲	2
▼	0
▶	2
Outstanding audits	0

- DSI and CSIR retained clean audit outcomes.
- NRF and HSRC audit outcomes improved from unqualified audit opinions with findings on compliance with laws and regulations (material non-compliance on prevention of irregular expenditure) to unqualified with no findings (clean audits).

Status of internal control



Leadership

Effective leadership

DSI, NRF, CSIR, HSRC



Financial and performance management

Proper record keeping

DSI,NRF

CSIR,HSRC



Daily and monthly controls

DSI, CSIR, HSRC, NRF



Review and monitor compliance

DSI, CSIR, HSRC,NRF



Governance

Risk management

DSI, CSIR, HSRC,NRF



Good

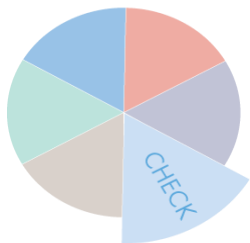


Of concern



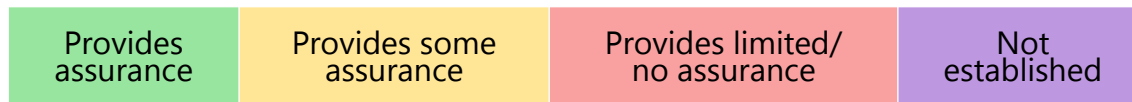
Intervention required

11



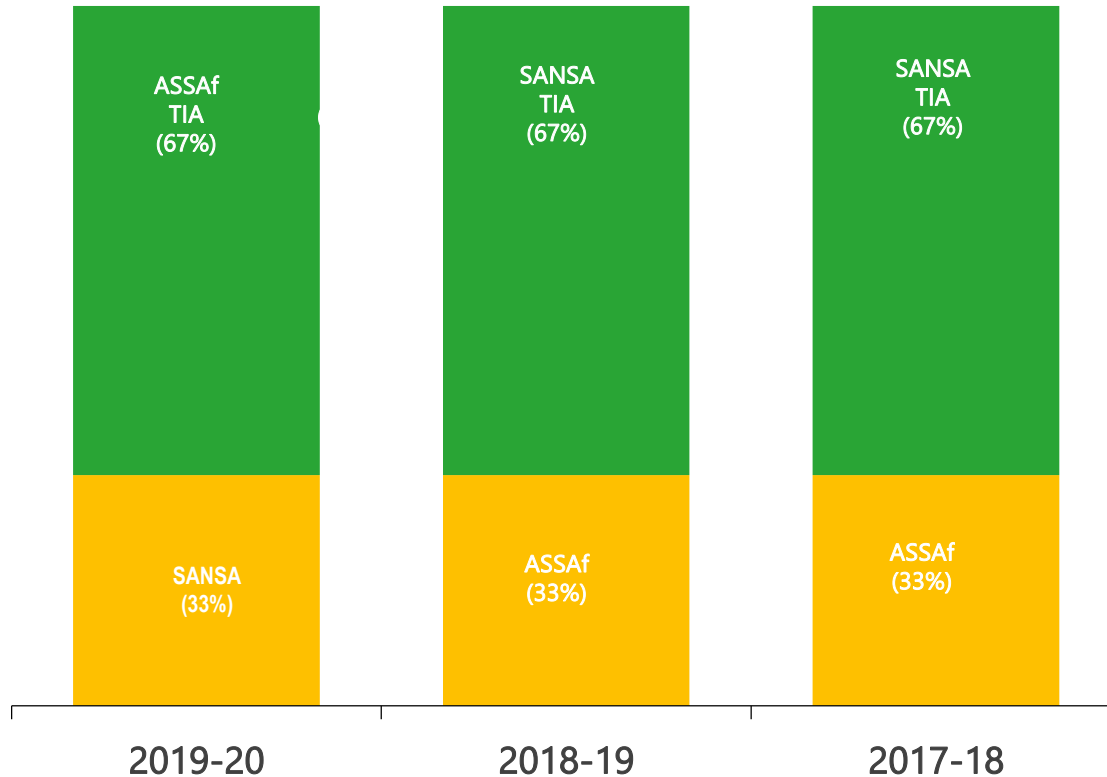
Assurance provided

Assurance		
First level	Senior management	DSI, HSRC, NRF CSIR
	Accounting officer/authority	DSI, CSIR, HSRC, NRF
	Executive authority	DSI, CSIR, HSRC, NRF
Second level	Internal audit unit	DSI, CSIR, HSRC, NRF
	Audit committee	DSI, CSIR, HSRC, NRF



Entities included in the Science and Innovation portfolio not audited by AGSA

Audit outcomes over three years



Movement	
▲	1
▼	1
▶	1
Outstanding audits	0


- TIA maintained its clean audit status
- SANSa's audit opinion regressed from a clean audit to an unqualified audit opinion with material findings on compliance with legislation because there were material misstatements identified in the financial statements submitted for audit purposes
- ASSAf's enabling legislation no longer require compliance with the PFMA as the new Science Adjustment Act deleted the section requiring that ASSAf need to comply with the PFMA.



Financial health and financial management



Financial health



Overall

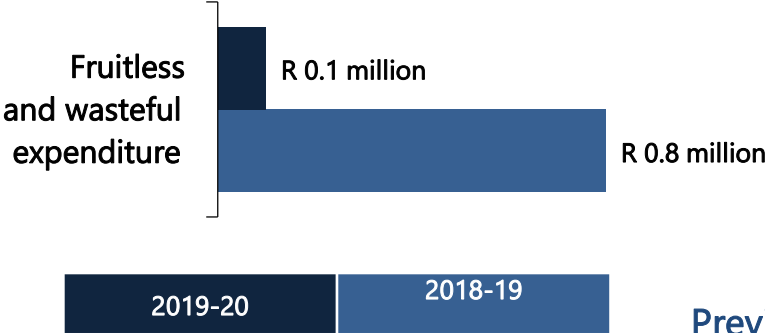
- The overall financial health in the portfolio is favorable.
- Even though the MTEF allocation for 2020-21 was revised downwards for the Department of Science and Innovation and all the entities within the DSI portfolio, the entities remain financially viable.
- The portfolio has assessed its financial viability and it is clear from the assessment that the going concern assumption remains relevant taking into account that the performance plans have been adjusted in line with the available reduced budgets.

Fruitless and wasteful expenditure decrease over 2 years

Definition

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

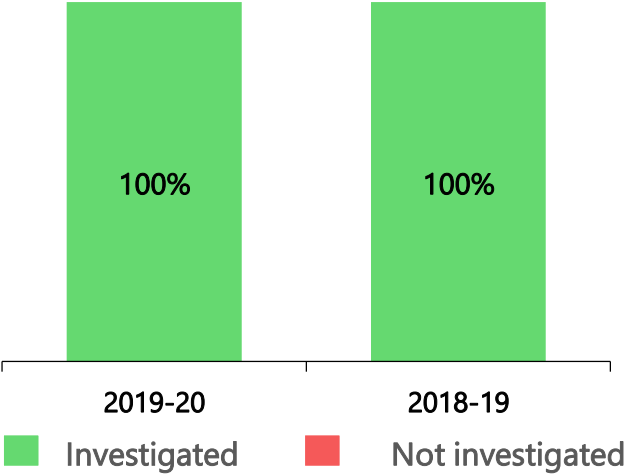
Fruitless and wasteful expenditure incurred by entities in portfolio



Nature of the fruitless and wasteful expenditure

- *DSI and CSIR did not incur any fruitless and wasteful expenditure during the year under review.*
- *HSRC incurred R79 000 fruitless and wasteful expenditure resulting from missed flights, interest charged on an invoice and staff members traffic fines.*
- *NRF incurred R19 000 which relates to traffic fines and incorrect information provided to a service provider, resulting in a duplication of work performed.*

Previous year fruitless and wasteful expenditure reported for investigation

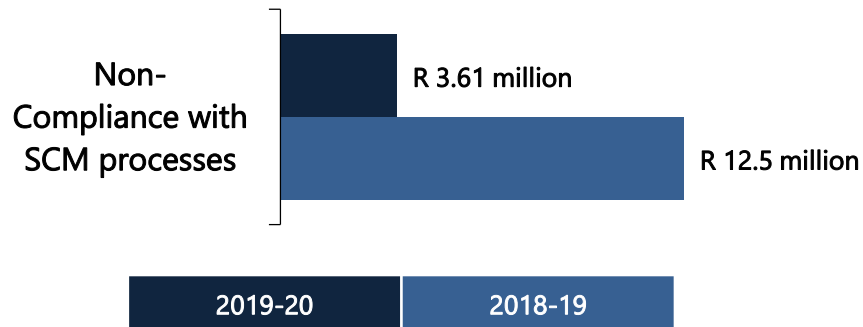


Irregular expenditure expenditure decrease over 2 years

Definition

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

Irregular expenditure incurred by entities in portfolio

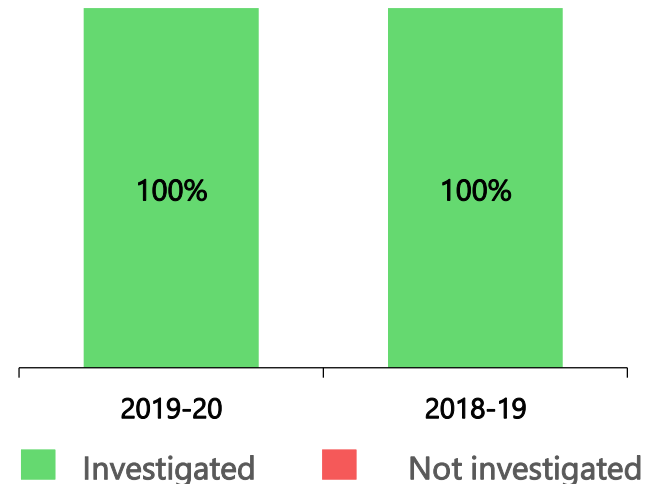


- R1,76 million represents non-compliance in 2019-20
- R 1,85 million is expenditure on ongoing multi-year contracts

Nature of irregular expenditure

- *DSI – The department incurred irregular expenditure of R194 000 as a result of non-compliance with Public Service Regulations*
- *HSRC – The entity incurred irregular expenditure to the value of R191 000 of which relates to non compliance with Supply Chain Management legislation.*
- *CSIR - The entity incurred irregular expenditure to the value of R3.22 million of which R1, 37 million relates to the current year and the R1, 85 million has been identified in the current year but relates to prior year. All the irregular expenditure is a result of non-compliance with supply chain management regulations.*
- *NRF –The entity did not incur any irregular expenditure during the year under review*

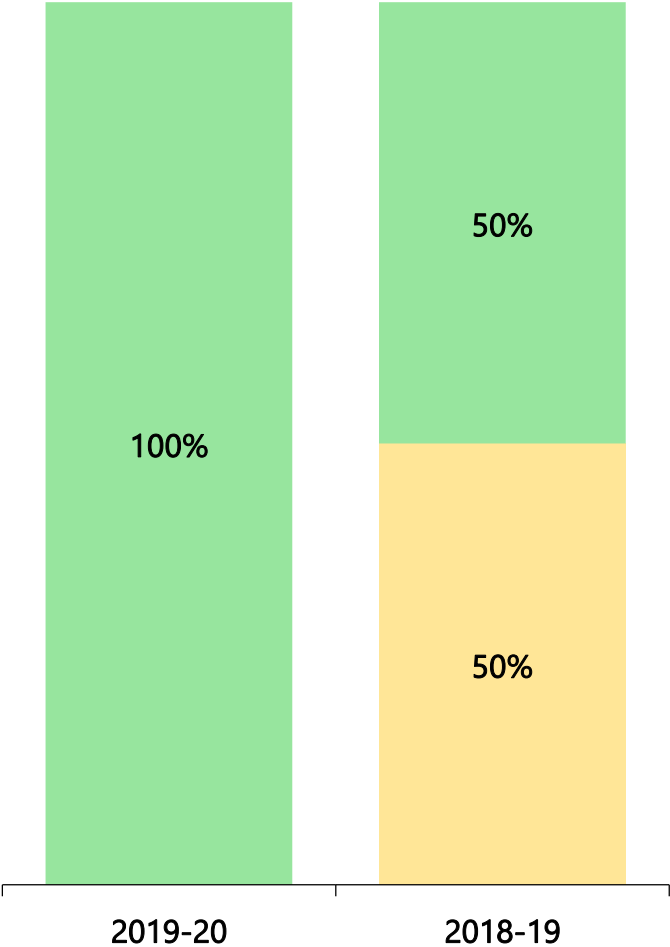
Previous year irregular expenditure reported for investigation



Supply chain management



Improvement in SCM compliance
(2019-20: 100% with no findings)
(2018-19: 50% with no findings)



With no findings



With findings



With material findings

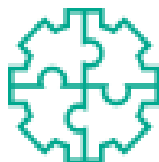
Portfolio snapshot (2019-20)



Clean audits: 100%
(2018-19: 50%)



**Financially unqualified
financial statements:
100%** (2018-19: 100%)



**No findings on performance
reports: 100%**
(2018-19: 100%)



**No findings on compliance
with legislation: 100%**
(2018-19: 50%)



**Irregular expenditure:
R3,61m**
(2018-19: R12.5m)

Best practices

Management responded adequately in **addressing risks, improving internal controls** and implemented/maintained **consequence management** processes.



Recommendations

To department and its entities

- Accounting officers/authorities and senior management must continue to implement effective and sustainable internal controls that support credible financial and performance reporting and ensure compliance with key legislation.

To the portfolio committee

- Monitor quarterly reporting to ensure consistent and credible reporting



Thank you



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