



higher education
& training

Department:
Higher Education and Training
REPUBLIC OF SOUTH AFRICA



National Skills Fund (NSF) 2019/20 Annual Report

Briefing to the Standing Committee on Public
Accounts (SCOPA)

18 May 2021

1.1 Introduction and Background

- The National Skills Fund (NSF) has been scheduled for a hearing by the Standing Committee on Public Accounts (SCOPA) in terms of Standing Rule 206 of the National Assembly.
- The Committee seeks to address:
 - The annual report and financial statements for the 2019/20 financial year – refer to presentation sections:
 - 2. 2019/20 annual performance information report**
 - 3. 2019/20 financial overview**
 - Irregular, fruitless and wasteful expenditure in 2019/20 – refer to slides 30 to 37 in section 3
- Other matters addressed in the presentation:
 - 4. Audit report and key issues in the 2019/20 audit on the NSF**
 - 5. Progress to address issues raised by the Auditor-General in the 2019/20 audit**

1. Introduction and Background

NSF Legislative and Policy Framework
NSF Mandate

1.1 Introduction and Background (cont...)

- The National Skills Fund (NSF) had one outcome-orientated strategic goal during the 2015/16-2019/20 strategic period as premised on the Medium Term Strategic Framework (MTSF) 2014-2019
Outcome 5: A skilled and capable workforce for an inclusive growth path.
- For the financial year ending 31 March 2020, the NSF had committed in its annual performance plan to support 10 priorities - 8 national skills development priorities and 2 internally focused priorities towards achieving business excellence:
 1. Skills development towards priority occupations
 2. Developing skills of people from rural areas
 3. Improving the skills of small, medium & micro enterprises (SMMEs) and cooperatives
 4. Community development and training skills development
 5. Improving worker education
 6. Support to expand, integrate and ensure an effective PSET system
 7. Skills development infrastructure
 8. Skills development research, innovation and advocacy
 9. Improving NSF's efficiency and effectiveness through the deployment and management of human capital
 10. Improving NSF's efficiency and effectiveness through technology

Internally focused on business excellence

1.2 NSF Legislative and Policy Framework

POLICIES

WP-STI

WP-PSET

SDA

SDLA

SETA Grant Regulations

PFMA

HRDSA II
2010-2030

MTSF

MTEF

NSDP 2030

ERRP

IPAP

NGP

National Infrastructure Plan (SIPs)

STI Decadal Plan

NP-PSET

Jobs Summit Agreement Framework

ERRSS

DDM

NDP
Vision for 2030
Easy access to education to participate meaningfully in our country's social & economic life

KEY GOVERNMENT STRATEGIES & PROGRAMMES

LEGISLATIVE MANDATE

1.3 NSF Mandate

The money that the NSF receives through the SDL Act is to be used for the primary objectives as defined by the prescripts of the Skills Development Act (SDA) namely:

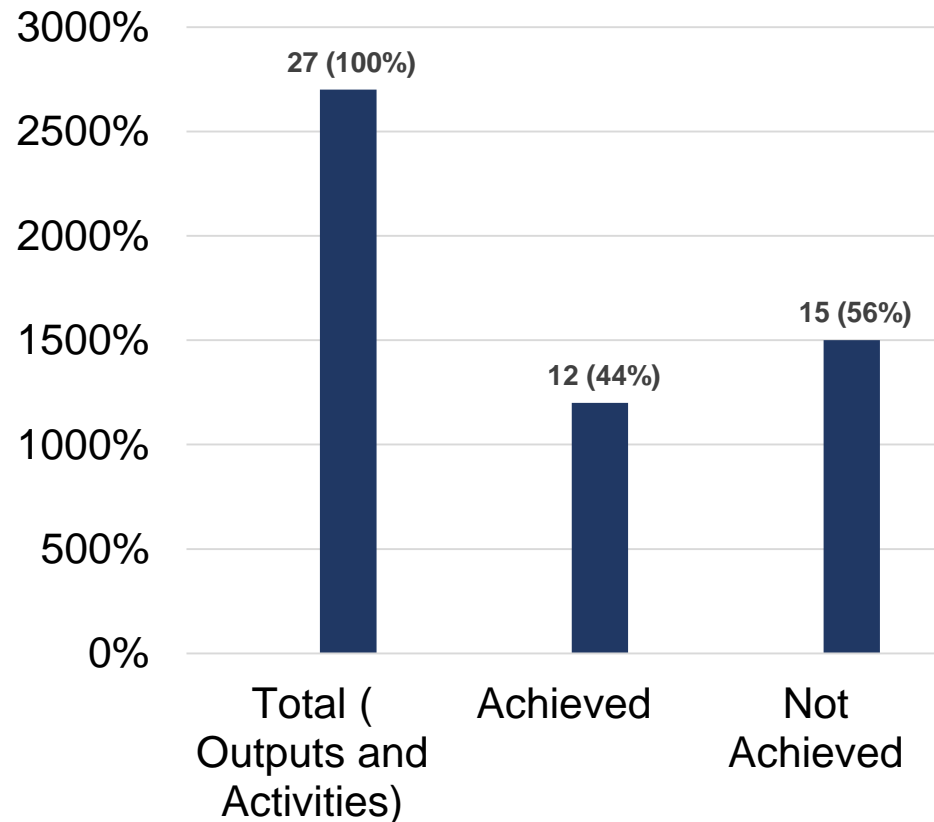
1. To fund projects identified in the National Skills Developed Strategy III (National Skills Development Plan 2030) as national priorities (section 28(1) of the SDA);
2. To fund projects related to the achievement of the purposes of the SDA as the Director-General of Higher Education and Training determines (section 28(1) of the SDA);
3. To fund any activity undertaken by the Minister of Higher Education, Science and Innovation to achieve a national standard of good practice in skills development (section 30B of the SDA); and
4. To administer the NSF within the prescribed limit (section 28(3) of the SDA). Regulations to prescribe the limit for the administration of the NSF at 10% of revenue has been approved and published in Notice No. R.1030, Government Gazette No. 33740 dated 8 November 2010.

2. 2019/20 Annual Performance Information Report

Annual Performance Overview
Key Performance Highlights
Strategic Objectives and
Budget Programmes

2.1 Performance summary in 2019/20

2019/20 Annual Performance Overview



Education and Training (Programme 1)

- **Achieved all** performance indicators and strategic objectives targets

PSET System Capacity Building, Skills Infrastructure and Research, innovation and Advocacy (Programme 1)

- **Non-achievement** due to some funded projects not having a clear business plan and budget breakdown which affected actual performance against expenditure to date

Administration (Programme 2)

- **Non-achievement** due to prolonged delays in the recruitment processes performed by the DHET HRM and delays in the full implementation of the NSF's integrated IT system, MS Dynamics, including the lack of a website

2.1 Performance summary in 2019/20 (cont...)

STRATEGIC OBJECTIVES (OUTPUT-BASED) : Total: 11 (5 achieved and 6 not achieved)

Programme 1: Funding Skills Development

5 targets achieved Sub-Programme 1.1: Education and Training

1 target not achieved

Sub-Programme 1.2: PSET System Development and Capacity Building

1 target not achieved

Sub-Programme 1.3: Skills Infrastructure Development

1 target not achieved

Sub-Programme 1.4: Skills Development Research, Innovation and Advocacy

Programme 2: NSF Business Excellence

3 targets not achieved

Administrative Programme

BUDGET PROGRAMMES (ACTIVITY-BASED) : Total: 16 (7 achieved and 5 not achieved)

Programme 1: Funding Skills Development

7 targets achieved

Sub-Programme 1.1 Education and Training

3 targets not achieved

Sub-Programme 1.2: PSET System Development and Capacity Building -

3 targets not achieved

Sub-Programme 1.3: Skills Infrastructure Development - 2 target not achieved

Programme 2: NSF Business Excellence

3 targets not achieved

Administrative Programme

2.2 Key Performance Highlights in 2019/20

8 679

people completed
education programmes
toward priority occupations

11 674

people from rural areas
completed education
programmes

1 356

learners completed
education and training
through SMMEs and
cooperative development
initiatives

5 955

learners completed
education and training
through community-based
development initiatives

611

SMMEs and cooperatives
benefited from skills
development initiatives

485

workers completed
education through worker
education initiatives

2.2 Key Performance Highlights in 2019/20

**9 TVET Campuses
Construction and
Refurbishment**

TVET Connectivity
National Roll of TVET
Connectivity

**Centers of
Specialisation for
13 Trade areas for
Artisan
Development**

**Research:
Labour Market
Intelligence
amongst others**

**TVET Campus and
Lecture Capacity
Building**

**Constituency Based
interventions
ie. Human Resource
Development Council of
SA and National Skills
Authority**

3. 2019/20 Financial Overview

Financial Overview

Budget vs Actual Expenditure

Irregular Expenditure

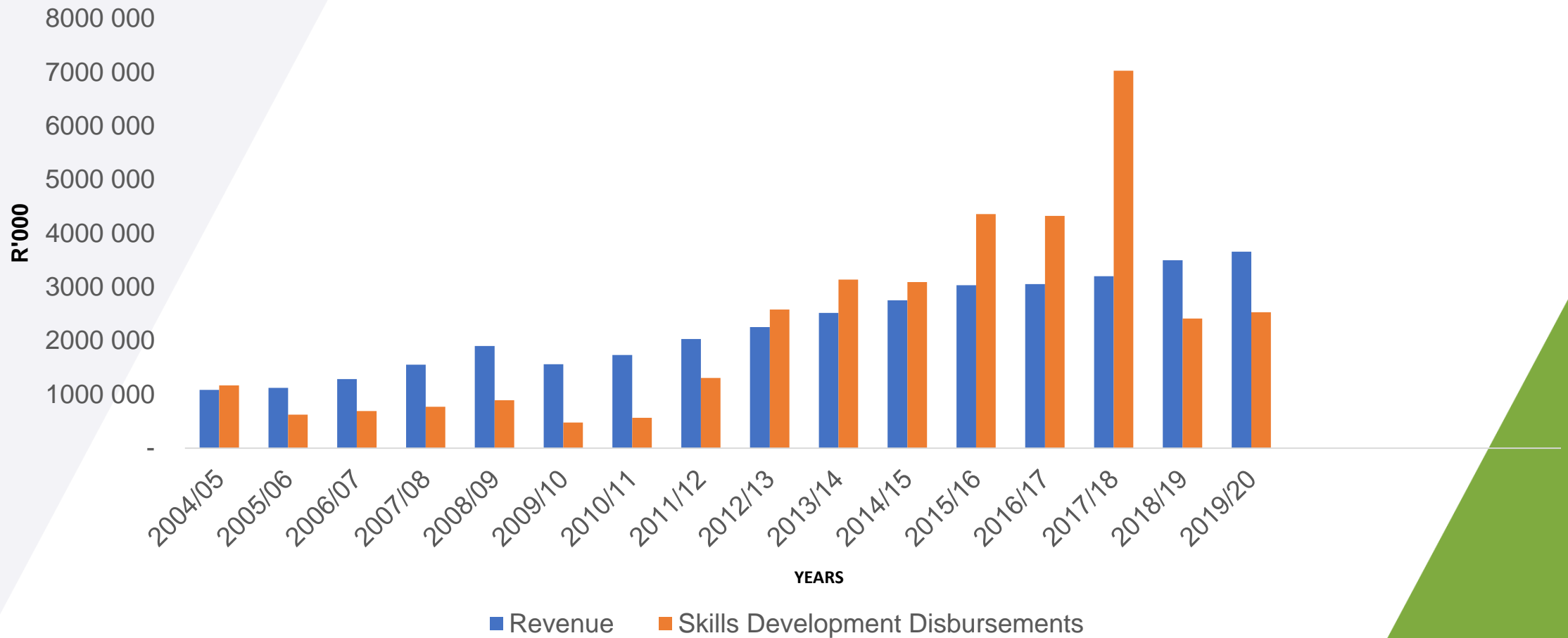
Fruitless and Wasteful Expenditure

Determination Tests on Irregular,

Fruitless and Wasteful Expenditure

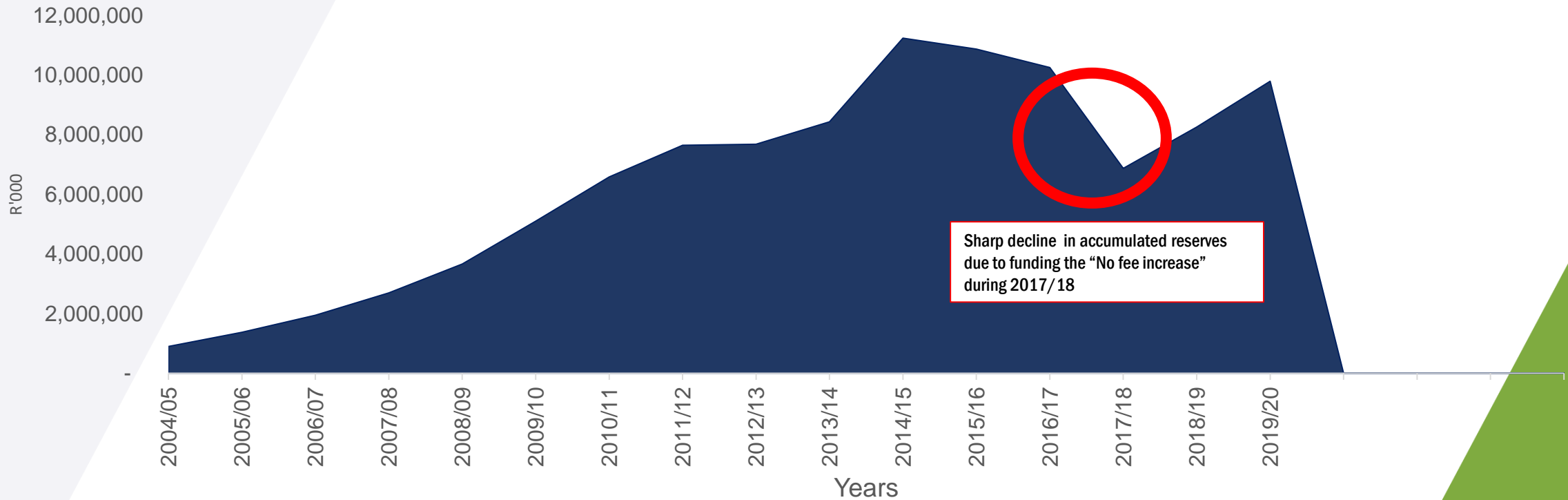
3.1 Financial Overview

NSF Total Revenue vs Skills Development Expenditure (R'000)



3.1 Financial Overview (cont...)

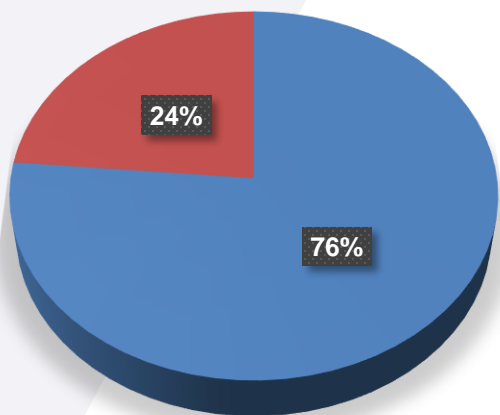
Accumulated Reserves	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	Restated 2016/17	Restated 2017/18	Restated 2018/19	2019/20
	R5,100bn	R6,582bn	R7,646bn	R7,680bn	R8,34bn	R11,199bn	R10,872bn	R10,258bn	R6,818bn	R8,332bn	R9,794m



3.1 Financial Overview (cont...)

2019/20 Disbursements

**R2,517 BILLION INVESTED
TOWARDS SKILLS DEVELOPMENT**

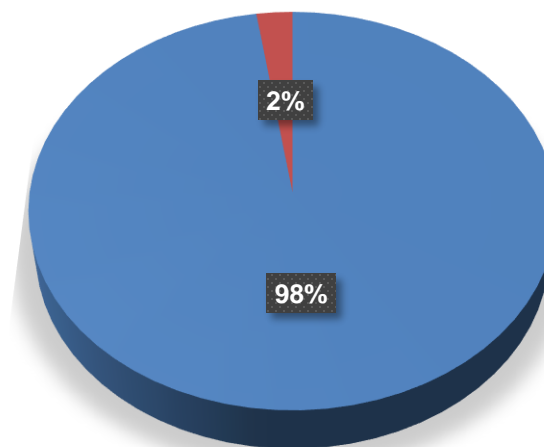


R1,923 (76%) billion towards education and training of learners

R594,127 (24%) million towards strengthening the PSET system

2018/19 Disbursements

**R2,410 BILLION INVESTED
TOWARDS SKILLS DEVELOPMENT**



R2,352 (98%) billion towards education and training of learners

R58 (2%) million towards strengthening the PSET system



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3.1 Financial Overview (cont...)

REVENUE

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Skills development levies

Income from SETAs

REVENUE FROM EXCHANGE TRANSACTIONS

Finance income

Finance income from advance payments to skills development programmes and projects

TOTAL REVENUE

	2019/20 R'000	2018/19 Restated R'000
	3 660 340	3 204 737
Skills development levies	3 656 840	3 496 140
Income from SETAs	3 500	8 055
Finance income	600 420	551 016
Finance income from advance payments to skills development programmes and projects	551 744	445 263
	48 676	60 096
TOTAL REVENUE	4 260 760	4 009 554

SDL has increased on average by 6% for the past 5 years

Income from SETAs: INDLELA development & recapitalisation

Investment income increased by 9%, delays in approving funding allocated to NSF bursary schemes (NSFAS) & subsequent payments. Delays in approval of new projects resulting in higher interest earned at PIC.

Refer to page 118 of the annual report.

3.1 Financial Overview (cont...)

	2019/20 R'000	2018/19 Restated R'000	
EXPENSES			
SKILLS DEVELOPMENT EXPENSES	(2 530 232)	(2 410 267)	Skills development grants increased by 5% (R120m)
Skills development grant disbursements	(2 517 313)	(2 410 267)	
Impairment Provision	(12 919)		
ADMINISTRATIVE EXPENSES	(144 570)	(156 636)	Admin expenses decreased by 7.7%. The key driver of the NSF's operating expenses relates to the staff establishment which attracts the following operating expenditure: ICT needs of NSF staff, DHET shared services, facilities, S&Ts. The high vacancy rate is the main attributor towards the underspending on operating expenses.
Employee costs	(81 825)	(70 474)	
Operating expenses	(57 071)	(80 596)	
Management fees and bank charges	(2 266)	(1 813)	
Depreciation and amortisation	(3 408)	(3 753)	
LEVY COLLECTION COSTS TO SARS	(48 386)	(48 578)	SARS levy collection costs on par with prior years.
TOTAL EXPENSES	(2 723 188)	(2 615 481)	

Refer to page 118 of the annual report

3.1 Financial Overview (cont...)

	2019/20 R'000	2018/19 Restated R'000
OTHER INCOME/ (EXPENDITURE)	(7)	(35)
Loss on disposal of assets	(3)	(35)
Fair value adjustment on financial assets	10	
TOTAL OTHER INCOME/(EXPENDITURE)	-	-
NET SURPLUS/(DEFICIT) FOR THE YEAR	1 537 579	1 394 038

Refer to page 119 of the annual report

3.1 Financial Overview (cont...)

ASSETS

Non-current Assets

Property, plant and equipment
Intangible assets
TVET college infrastructure assets
Trade and other receivables from non-exchange transactions

	2019/20 R'000	2018/19 Restated R'000
	1 066 292	863 712
Property, plant and equipment	2 563	3 047
Intangible assets	22 052	21 664
TVET college infrastructure assets	1 041 677	839 001
Trade and other receivables from non-exchange transactions	-	-

10 TVET college sites under construction:

- Assets capitalised to NSF and derecognised upon transfer of campuses to TVET colleges
- The disposals reported (Nkandla A & portion of Bhambanana are disposed of); the DHET is no longer managing Vryheid, Giyani and Nkandla B sites under the agency agreement with NSF.

Current Assets

Investments
Trade and other receivables from exchange transactions
Trade and other receivables from non-exchange transactions
Deferred expenditure on skills development grant disbursements
Cash and cash equivalents

	9 471 231	7 768 791
Investments	8 064 321	6 658 826
Trade and other receivables from exchange transactions	2 093	262
Trade and other receivables from non-exchange transactions	4 310	31
Deferred expenditure on skills development grant disbursements	1 105 344	1 013 664
Cash and cash equivalents	295 163	741 259

The increase of 21.1% is due to less withdrawals made in 2019/20 (R2.8bn) vs (2018/19) R3.6bn to fund skills development programme and projects

TOTAL ASSETS

10 537 523 **9 277 754**

The decrease of 60.1% is due to NSF keeping the funds at commercial banks to minimal to maximize interest earned at PIC. Funds are transferred to commercial banks for disbursements towards skills development programme and projects

Refer to page 116 of the annual report

3.1 Financial Overview (cont...)

LIABILITIES

Current Liabilities

Trade and other payables from non-exchange transactions
 Trade and other payables from exchange transactions
 Accruals from non-exchange transactions
 Accruals from exchange transactions
 Provisions

TOTAL LIABILITIES

TOTAL NET ASSETS

2019/20
R'000

2018/19
Restated
R'000

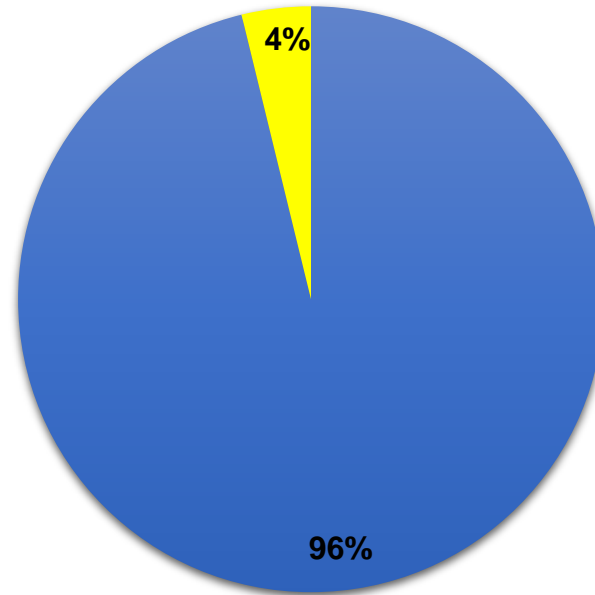
	2019/20 R'000	2018/19 Restated R'000
Current Liabilities	743 872	1 488 495
Trade and other payables from non-exchange transactions	12 999	31 499
Trade and other payables from exchange transactions	57 147	29 113
Accruals from non-exchange transactions	665 141	954 336
Accruals from exchange transactions	5 939	4 895
Provisions	2 646	1 839
TOTAL LIABILITIES	743 872	1 021 682
TOTAL NET ASSETS	9 793 651	8 256 072

Current liabilities decreased by 50% (R744,6m). The main driver attributed to reduction in accruals from non-exchange. Accruals from non-exchange mainly relate to skills development programmes and projects.

Refer to page 116 of the annual report

3.1 Financial Overview (cont...)

NSF REVENUE vs NSF ADMINISTRATIVE EXPENSE (2019/20) R'000



NSF remains cost-efficient spending only 4% on admin costs in relation to the skills development skills levy received in 2019/20

■ REVENUE ■ ADMINISTRATIVE EXPENSES

3.1 Financial Overview (cont...)

	2019/20 R'000	2018/19 Restated R'000
Commitments and earmarked funds		
Contractual commitments	5 054 118	8 038 844
Education and training	3 658 566	5 158 651
PSET system development and capacity building	31 789	1 221 505
Skills infrastructure development	1 363 763	1 594 910
Skills development research, innovation and communication	-	63 778
Earmarked funds	12 700 264	12 366 811
Total Capital and Reserves as at year end	9 793 651	8 256 072
(Over)/ Under committed	4 739 533	217 228
(Over)/ Under committed and earmarked	(7 960 731)	(12 149 583)

NSF earmarked funds towards constructive commitments arising from annual allocations to ongoing skills development programmes and projects is limited to the five-year strategic period ending 31 March 2024.

Due to past established pattern of past practice, the NSF has created a valid expectation on 3rd parties that it will continue to fund these skills development programmes and projects.

Refer to page 169 of annual report

3.2 Budget vs Actual Expenditure in 2019/20

Skills Development Disbursements	Budget vs Actual Expenditure	Reason for Variances
<p>Education and Training</p> <ul style="list-style-type: none"> - Occupational programmes in the TVET colleges - Workplace-based learning (apprenticeships, learnerships, internships, cadetteships etc.) and skills programmes 	<p>R1,923 million expensed which is 27.6% (R732 million) below the budgeted amount of R 2,655 million</p>	<p>Slow disbursement is due to delays in the implementation of occupational programmes in the public TVET college system as a result of funding TVET colleges on a project basis. In order to mitigate this going forward, the NSF is in the process of amending contractual agreements with all the public TVET colleges to fund occupational programmes in the TVET colleges on a programmatic basis.</p> <p>The reason for the variance is due to delays in the implementation of the Unemployment Insurance Fund Labour Activation Phase I Programme. First tranche payments were only disbursed to 3 of 34 projects as the remaining projects (31) had not yet finalised contractual agreements to release of the first tranche payment and subsequent payments.</p>



3.2 Budget vs Actual Expenditure in 2019/20 (cont...)

Skills Development Disbursements	Budget vs Actual Expenditure	Reason for Variances
PSET system development and capacity building	R205,626 million expensed towards PSET system development and capacity building initiatives, which is R377, 684 million (64,7%) below the budget of R583 million.	The main reason for the budget variance is due to slow performance on certain PSET system development and capacity building projects.
Skill infrastructure development	R383, 477 million expensed towards skills infrastructure development initiatives, which is 36,3% (R586,527 million) below the budget of R970 million.	The variance can mainly be ascribed to delays in procurement processes related to construction, refurbishment and completion of the remaining TVET college campuses. The procurement processes have, however, been completed and construction is in process. The construction was delayed due to the lockdown regulations but has subsequently resumed.
Skill development research, innovation and advocacy	R5,024 million expensed towards skills development research, innovation and advocacy initiatives, which is 92.0% (R57,494 million) below the budget of R62,518 million.	The main reason for the underspending relates to slow implementation of the NSA Constituency Capacity Building Programme, as well as underspending by the HRDC with regards to skills development research, innovation and advocacy.



3.2 Budget vs Actual Expenditure in 2019/20 (cont...)

Administrative Expenditure	Budget vs Actual Expenditure	Reason for Variances
Employee cost	Actual employee cost is 37% below the budgeted employee costs.	The reason for the underspending is mainly due to the slow pace at which the DHET HRM function fills vacant positions for the NSF, taking on average 11 months to fill a position from date of advertisement and between 4 to 6 months to advertise a vacant position, thus in total 15 to 17 months. The slow pace at which the DHET's HRM function fills vacant positions has impacted negatively on all NSF's functions. Operationally, the NSF is already experiencing the dire consequences as a result thereof.
Operating expenses	Actual operating expenses is 59.2% below the budgeted operating expenses.	The key driver of the NSF's operating expenses relates to the NSF's staff establishment which attracts the following operating expenditure: computer services and consumables provided to NSF staff , DHET shared services charge based on the NSF's staff establishment, operating leases of facilities and office equipment, printing and publications, resettlement costs, security, software expenses, stationery, telephone and fax, travel and subsistence. The NSF's high vacancy rate is the main attributor towards the underspending on operating expenses.

3.2 Budget vs Actual Expenditure in 2019/20 (cont...)

Administrative Expenditure	Budget vs Actual Expenditure	Reason for Variances
Management fees and bank charges	Management fees and bank charges are 18.1% over the budget.	The increase in the PIC's management fees and bank charges can be ascribed to the increase in NSF investments, since the PIC bases its fees on the funds under management at the end of each month.
Collection cost to SARS	There was a saving of 10.4% (R5.614 million) on the actual levy collection costs incurred by SARS for the period in comparison to the costs budgeted	The savings can be attributed to efficiencies in the SARS collection processes

3.3 Fruitless & Wasteful Expenditure (cont...)

35. Fruitless and Wasteful Expenditure Disclosure			2019/20	2018/19
	Reconciliation of Fruitless and Wasteful Disclosure	Notes	R'000	R'000
	Opening balance - prior year		-	-
	Add: fruitless and wasteful expenditure incurred during the year		5,619	-
	- Centre for Education Policy Development Project	35.1	5,619	-
	Less : Amounts recovered		-	-
	Less : Amounts approved for write off		-	-
	Closing balance		5,619	-
	<i>Refer to page 214 of the annual report</i>			

3.3 Fruitless & Wasteful Expenditure (cont...)

Loss Control Function

- NSF Director: Legal, Governance, Risk and Compliance was appointed on 03 July 2020 as the head of the NSF Loss Control Function
- NSF Directorate: Internal Audit to assist with conducting independent determination tests and investigations on irregular expenditure from time to time and to provide their reports to the loss control function for further processing based on the recommendations provided.

ADDITIONAL CONTROLS INSTITUTED

Issued NSF Finance Internal Circular 2 of 2020/21 outlining additional controls:

- Additional prescripts related to thresholds to be included in RFQs and ToRs.
- Declarations to be signed by NSF officials and service providers prior to issuing the order for them to acknowledge the thresholds.
- Increased monitoring of open orders vs actual expenditure by NSF SCM to ensure business continuity, without resulting in over expenditure on orders.

5.2 Determination Tests on Irregular, Fruitless and Wasteful Expenditure

Irregular expenditure determination test reports include:

- Root causes
- Employee(s) responsible
- Losses suffered and recommended processes to recover the losses
- Breakdown in internal controls
- Possibility of fraud, corrupt or criminal conduct that requires further investigation
- Referral of non-compliance for disciplinary processes with specific reference to employees affected.

Fruitless and wasteful expenditure determination test reports include:

- Whether expenditure meets conditions to be recognised as fruitless and wasteful expenditure.
- Root causes
- Employees responsible
- Confirmed amount of fruitless and wasteful expenditure to be recovered
- Confirmed amount of fruitless and wasteful expenditure assessed as irrecoverable.
- Breakdown in internal controls

Final reports submitted to the NSF's Head of Loss Control Function for further action

3.3 Fruitless & Wasteful Expenditure (cont...)

Irregular Expenditure Determination Tests: High Level Outcomes

- Outcomes based on specific information provided at time of review

Company Involved	Date of incident	Amount Involved (as per irregular expenditure register) R	Official/s involved	Action taken against the official/s
Irregular expenditure disclosed per 2019/20 AFS				
Rennies Travel	2015/16; 2016/17 and 2017/18	xx	Official identified as per DHET internal audit investigation report	DHET official suspended after disciplinary hearing held.
Cre8or (production of 2018/19 annual report)	2019/20	R65 397.27	Official identified as per NSF determination test report	<ul style="list-style-type: none"> • Request for condonation of irregular expenditure sent to National Treasury dated 1 June 2020. • Final written warning issued to the official by the DG dated 21 October 2020.
Batsumi Travel (Pty) Ltd	2016/17; 2017/18 and 2018/19	R 785 958.56	Officials identified as per draft determination test report	Disciplinary actions recommended per draft determination test report
Internet Solutions	2019/20	R 1 776 525.33	Officials identified as per draft determination test report	Disciplinary actions recommended per draft determination test report
Rambros Construction and Mamli Projects JV Phumi Trading	2014/15 to 2019/20	R 182 859 038.50	Officials identified as per draft determination test report	Disciplinary actions recommended per draft determination test report

3.3 Fruitless & Wasteful Expenditure (cont...)

Fruitless and Wasteful Expenditure: High Level Outcomes

- Outcomes based on specific information provided at time of review

Company Involved	Date of incident	Amount Involved (as per irregular expenditure register) R	Official/s involved	Action taken against the official/s
Fruitless and wasteful expenditure disclosed per 2019/20 AFS				
Centre For Education Policy Development (2 projects)	Projects' period 1 July 2015 - 31 May 2019 and 1 August 2012 – 31 December 2017	Approved amounts: R27 430 454.70 and R88 024 557.85 R 5 619 000 as disclosed in AFS as fruitless and wasteful in 2019/20	To be confirmed pending outcome of determination test.	

3.3 Fruitless & Wasteful Expenditure (cont...)

Fruitless and Wasteful Expenditure: High Level Outcomes

- Outcomes based on specific information provided at time of review

Company Involved	Date of incident	Amount Involved (as per irregular expenditure register) R	Official/s involved	Action taken against the official/s
Alleged fruitless and wasteful expenditure				
Emanzini Staffing Solutions Project	Project period: September 2016 to March 2019	Approved project amount: R31 768 800.00 Possible fruitless and wasteful expenditure yet to be determined based on outcome of determination tests.	To be confirmed pending outcome of determination test	
ADA holdings Ingwe TVET College Project	Project period: 3 April 2014	Approved project amount: R187 416 057.00 Possible fruitless and wasteful expenditure yet to be determined based on outcome of determination tests.	To be confirmed pending outcome of determination test	

3.3 Fruitless & Wasteful Expenditure (cont...)

Fruitless and Wasteful Expenditure: High Level Outcomes

- Outcomes based on specific information provided at time of review

Company Involved	Date of incident	Amount Involved (as per irregular expenditure register) R	Official/s involved	Action taken against the official/s
Alleged fruitless and wasteful expenditure				
Rubicon Communications Project	Project period: October 2018 to December 2019	Approved project amount: R4 138 750 Possible fruitless and wasteful expenditure yet to be determined based on outcome of determination tests.	To be confirmed pending outcome of determination test	
Chippa Training Academy (North West) Project	Project period: 6 July 2017 to 30 June 2018	Approved project amount: R84 167 125 Possible fruitless and wasteful expenditure yet to be determined based on outcome of determination tests.	To be confirmed pending outcome of determination test	

4. Audit Report and Progress to Address Issues Raised by the Auditor-General in the 2019/20 Audit

4.1 2019/20 Audit Outcome

FINANCIAL STATEMENTS = **DISCLAIMER AUDIT OPINION**

Basis for **disclaimer opinion** for the 2019/20 financial statements

- **Skills development funding expenses – *Directive to SDPs to prepare and submit evidence***
Insufficient appropriate audit evidence-originating source document, inadequate project monitoring and expenditure approval processes. (NSF) did not correctly account for some of the skills development expenditure due to inadequate system to record transactions.
- **TVET college infrastructure assets - *In progress see slide 49***
NSF did not perform an impairment assessment for all the TVET college infrastructure assets as required by Generally Recognised Accounting Practice (GRAP) 21.
- **Accruals from non-exchange transactions - *Resolved***
Insufficient appropriate audit evidence-originating source document, inadequate project monitoring and expenditure approval processes. (NSF) did not correctly account for some of the skills development expenditure due to inadequate system to record transactions.

Refer to page 105 on annual report

4.1 2019/20 Audit Outcome (cont...)

Basis for **disclaimer opinion** for the 2019/20 financial statements cont..

- **Trade and other receivables from non-exchange - Resolved**

Incorrect accounting of receivables from non-exchange transactions and the connected deferred expenditure related to skills development funding for the current and previous year, due to an incorrect change to the accounting policy, which constitutes a departure from GRAP 104, *financial instruments*.

- **Commitments and earmarked funds - In progress see slide 50**

Inadequate systems to maintain records of commitments and earmarked funds.

- **Net cash flow from operating activities - In progress see slide 50**

Cash paid to stakeholders, suppliers and employees was incorrectly calculated as the disclosed cash paid for skills development funding disbursements did not agree to the actual payments made on the payment system.

- **Net cash flows from investing activities - In progress see slide 50**

Net cash flows from investing activities were incorrectly calculated as non-cash disposals of TVET college infrastructure assets were netted off against additions to TVET college infrastructure assets amount.

4.1 2019/20 Audit Outcome (cont...)

Basis for **disclaimer opinion** for the 2019/20 financial statements cont..

- **Related parties - Resolved**

No adequate systems to maintain records of transactions with related parties.

- **Prior period errors corrected - Resolved**

The nature of the prior period error correction for skills development funding expenses and commitments and earmarked funds was not disclosed in the financial statements as required by GRAP 3, Accounting policies, changes in accounting estimates and errors.

- **Principle Agent arrangement - Resolved**

Fees paid as compensation to the SARS amounting to R48,6 million included in the financial statements were incorrectly disclosed as principle agent arrangements, the public entity does not direct SARS to undertake activities on its behalf as required by GRAP 109, principle agent arrangements.

Refer to page 106 on annual report

4.1 2019/20 Audit Outcome (cont...)

EMPHASIS OF MATTER PARAGRAPH

- **Events after reporting period**

The future implications of Covid-19 on the public entity's future prospects, performance and cash flows.

- **Underspending of the budget**

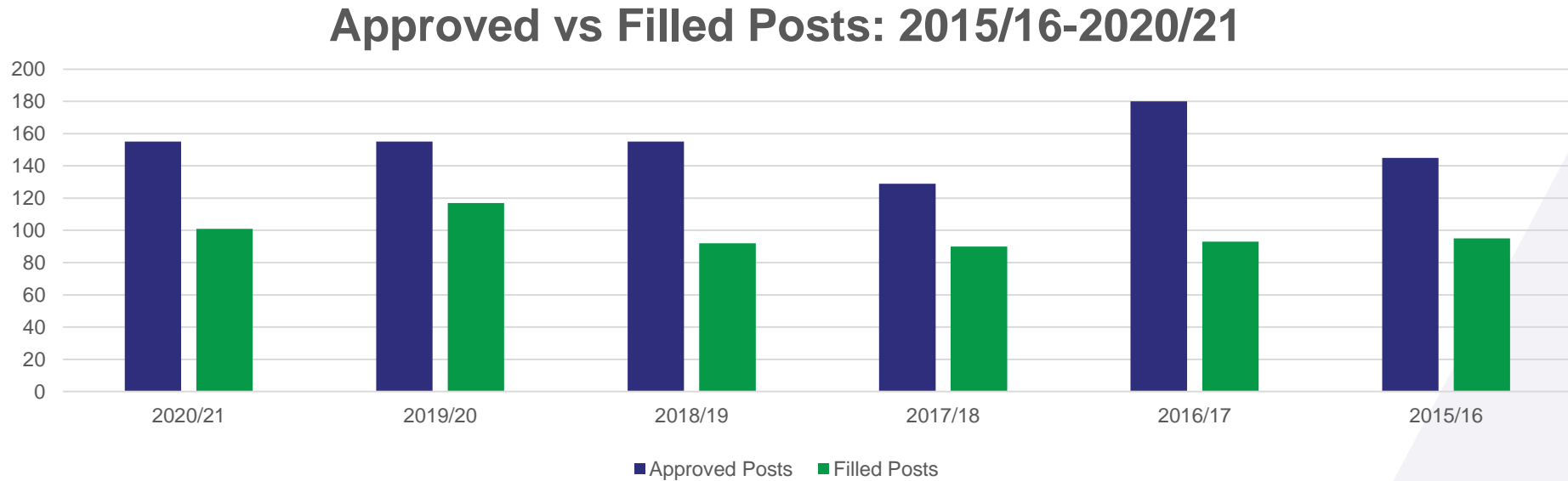
The statement of comparison of budget and actual amounts and note 33 to the financial statements, the public entity materially underspent on the budget by R1,8 billion.

4.2 Key Issues in the 2019/20 Audit on the NSF

CAPACITY CONSTRAINTS AND SLOW RECRUITMENT PERSIST

- In 2019/20, NSF had a 25% vacancy rate in the approved organisational structure with significant vacancies in key functions:
 - 71% vacancy rate in Strategy, Innovation and Organisational Performance
 - 57% vacancy rate in Legal, Governance, Risk and Compliance
 - 50% Human Resource Management and Development
 - 50% vacancy rate in Bursaries
 - Finance had two vacant senior management positions and nine vacant middle management positions
- NSF has a dependency on the DHET for the filling of these vacancies. To overcome these delays, the matter has been escalated to the accounting authority.
 - Progress in the recruitment of 3 senior management position is reported in 5.
Progress to Address Issues Raised by the Auditor-General in the 2019/20 audit.

4.2 Key Issues in the 2019/20 Audit on the NSF (cont...)



Staffing is crucial to ensure the strengthening of internal reviews and controls including the segregation of duties.

4.2 Key Issues in the 2019/20 audit on the NSF (cont...)

AUDIT EXTENSION APPROVED BY AGSA BEYOND 30 SEPTEMBER 2020

Covid-19 significantly impacted on the ability to render a smooth and efficient audit process:

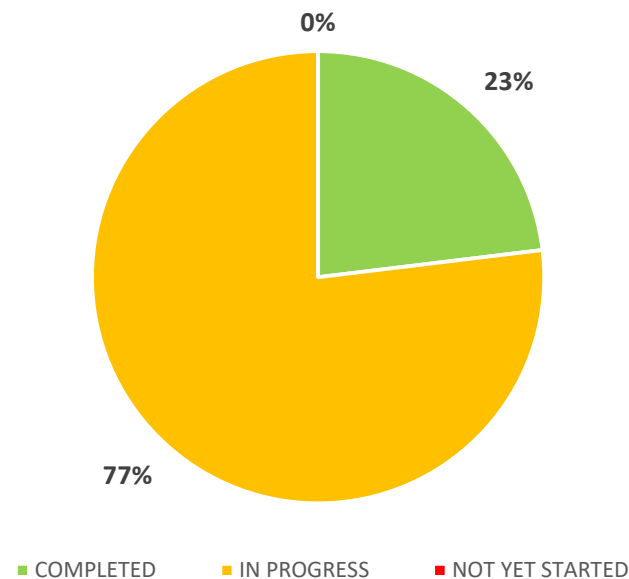
- NSF funded institutions i.e. TVET colleges and higher education institutions stopped or significantly reduced operations in adherence to Covid-19 regulations.
- Under a restrictive operational environment including the controlled, limited access to offices in observing Covid-19 protocols, NSF had to prepare two sets of financial statements for auditing purposes due to the audit qualification it received in 2019/20, significantly increasing the workload on an already under-capacitated organisation.



5. Progress to Address Issues Raised by the Auditor-General in the 2019/20 Audit

5.1 Overall progress on Audit Action Plans

- An action plan was developed to address AGSA audit findings for 2019/20.
- Standing item in all management engagements.
- The current status as per management's assessment is as follows:
 - **9 of 39 actions are completed (23%)**
 - **30 of 39 actions are in progress (77%)**
 - There are no actions that have not yet started (0%).



5.1 Overall progress on Audit Action Plans (cont...)

Responsibility	Count	Completed (count)	In progress (count)	Not yet started (count)	Completed (%)	In progress (%)	Not yet started
Executive Office	2	0	2	0	0%	100%	0%
Chief Financial Officer	10	5	5	0	50%	50%	0%
Chief Director: Strategy, Innovation and Organisational Performance	12	3	9	0	25%	75%	0%
Chief Director: Skills Development Implementation	7	0	7	0	0%	100%	0%
Director: Legal, Governance, Risk and Compliance	8	1	7	0	13%	88%	0%
Total	39	9	30	0	23%	77%	0%



5.2 Progress on Finance Related Audit Actions

1. TVET College Infrastructure Assets material misstatements

- Independent fruitless and wasteful expenditure determination test on the ADA Holdings Ingwe TVET college project is underway, and conducted by NSF Internal Audit .
- Submission is enroute to the Minister for approval to obtain the services of an external service provider to provide financial and organisational capacity support to the NSF.
- Meeting held on March 2021 between NSF Finance and Programme Monitoring with the DHET TVET Infrastructure Unit to discuss the audit findings for 2019/20 resolved as follows:
 - The DHET TVET Branch will be involved in the impairment assessment for year-end reporting for the TVET infrastructure asset
 - All progress reports will be provided to NSF Finance (NSF Programme Monitoring & DHET TVET Branch)
 - NSF Programme Monitoring will assist with the completeness test and valuation of the TVET infrastructure.
 - The submission for the appointment of a property evaluator has been approved (05 May 2021).
 - Terms of reference completed on 11 May 2021, submitted to SCM for further processing.

5.2 Progress on Finance Related Audit Actions (cont...)

2. Grants Disbursements

- Restated deferred expenditure/accruals/debtors/creditors balances and related party schedules for 2018/19 and 2019/20, with supporting schedules have been submitted to NSF Internal Audit on 19 April 2021 for review.

3. Fruitless and Wasteful Expenditure

- Fruitless and wasteful expenditure determination tests in progress.

4. Differences in Commitments

- Management is still having internal discussions on the approach relating to the commitments disclosure, with the aim to resolve the matter upon the releasing of the first draft AFS by 15 May 2021.

5. Cash Flow Statement

- The cash flow statement to be submitted with the first draft AFS before 15 May 2021.

5.3 Progress to Address Other Issues Raised by AGSA in the 2019/20 Audit

Developing Adequate Human Capacity and Internal Control Review

Staffing is crucial to ensure the strengthening of internal reviews and controls including the segregation of duties.

- 54 posts submitted to the DHET HRM to be advertised during March 2021, following Ministerial approval for all funded vacant posts to be advertised.
- Three senior management positions advertised on 29 and 31 January 2021 - the Chief Financial Officer (CFO), Director: Fund Management and Director: ICT and Analytics.
- Interim senior management capacity in vacant, critical positions:
 - Acting CFO seconded through South African Institute of Chartered Accountants (SAICA) resumes duties on 23 March 2021.
 - Acting Chief Director: Skills Development Implementation was appointed following the resignation of the previous incumbent in January 2021.
 - Acting Director: Fund Management, a qualified internal resource, continues to fulfil the management of this function while the recruitment process is underway.
- NSF Executive Officer has established an independent process to coordinate and monitor the implementation of the 2019/20 audit action plan.
- A submission to seek the approval of the executive authority to appoint a consultancy to boost project monitoring and evaluation capacity over the short term is being finalised.



5.3 Progress to Address Other Issues Raised by AGSA in the 2019/20 Audit (cont...)

Improving Business Processes and Systems

- The Skills Development Funding Standards Operating Procedure (SOP) has been approved by the accounting authority and an internal workshop is scheduled for 26 May 2021.

SOP maps out the skills development funding process from strategic planning to initiation, implementation, reporting and evaluation.

- The piloting ICT System (Microsoft Dynamic Skills Development Provider Application -MS Dynamics app) commenced in the 2020/21 financial year.
- Implementation of the Skills Development Provider Application (SDP App) to centralise records and store project performance information and supporting documentation for Performance Management and Financial Reporting.

Once fully developed and operational, the system is intended to integrate all NSF functions from initiation to the funding of skills development projects into the financial and performance reporting functions to enable improvement in effective and efficient monitoring and reporting on funded skills initiatives.



5.3 Progress to Address Other Issues Raised by AGSA in the 2019/20 Audit (cont...)

Managing Risks and Ensuring Compliance

- The accounting authority approved key policies in 2020/21 to address the lack of reporting by some funded initiatives, namely:
 - Compliance Policy
 - Restricting of Defaulting SDPs Policy
 - SOP on Non-compliance with the Provision of the Memorandum of Agreement
- NSF Strategic Risk Register Developed and adopted by Management on 5 and 6 May 2021.
- A combined assurance framework circulated to NSF senior management on 11 May 2021.



5.3 Progress to Address Other Issues Raised by AGSA in the 2019/20 Audit (cont...)

Strengthening Project Monitoring and Evaluation and Performance Information Reporting

- Establishment of a dedicated unit for central consolidation and validation of reported project Performance Information.
- Performance information quarterly reporting for all projects was fully implemented in March 2020 and includes the PSET system projects.
- Policies for Performance Information approved and internal control review instruments developed for Performance Information reporting and subject to capacity to undertake control reviews;
- NSF has instituted a project reporting monitoring team to follow up on all outstanding reports and reports monthly to the NSF Executive Committee (Exco) towards ensuring all projects comply with reporting requirements.
- Non-compliance processes have commenced to ensure compliance to MOA and reporting.

COMMUNICATION TO SDPs:

- Issued NSF External Circular 6 of 2020/21 outlining supporting documents requested in preparation for the audit of the 2020/21 financial year
- Issued NSF Internal Circular 8 of 2020/21 regarding the submission of quarter 4 performance information reports



5.3 Progress to Address Other Issues Raised by AGSA in the 2019/20 Audit (cont...)

Other key management actions as identified in the 2020/21 audit action plan:

- Engagements with DHET, specifically Corporate Services, to address serious constraints/delays and limitations in relation to ICT, HRM and SCM. Based on the Internal Audit reports prepared by SNG, indicates that it has taken on average a period of 18 months to fill vacancies and delayed responses to SCM and ICT. While the Service level agreement between DHET and NSF is crucial, it may be prudent to review the dependency and capacity intervention that NSF can implement not only address deficiencies in this area but also support DHET in improving its turn around in these key areas.
- Reperform calculations on the deferred expenditure schedules for 2018/19 and 2019/20.
- Approval of draft policies relating to deferred expenditure, accrual, provision.
- Policy on how the irregular expenditure will be managed has been drafted and to be finalised during 2021/22.
- Develop, review and approve policies and procedures for Skills Development Implementation.
- Perform different levels of review for the commitment schedule (subject to capacity).
- For year-end reporting purposes financial reporting, to prepare related party WP to be checked against the GRAP 20 guidelines.



5.8 Critical Interventions

While the report mainly has focused on the Management of key strategic operational interventions linked to the Audit, the following key intervention have been implemented by the NSF Executive, Accounting Authority and the Executive Authority in order to proactively intervene and address the overarching strategic systemically repositioning of the NSF:

- The Audit Action Plan and root cause analysis and interventions a standing item in Senior Management Meetings with independent audits to identify the adequacy, relevance and assurance on actions identified.
- The Director-General as the Accounting Authority requires reports on Audit Action Plan progress and regular meetings with NSF Senior Management to engage on progress and interventions.
- The Minister of Higher Education, Science and Innovation established a Ministerial Task Team to undertake a strategic review of the National Skills Fund. Given the challenges highlighted in the various evaluation and audit reports, the Minister has determined that a Ministerial Task Team conduct an independent review of the NSF with a strategic focus on its institutional mandate, scope and analysing its capacity, systems and organisational structure in relation to its mandate with the purpose to look at the general operations of the NSF and its efficiency and relevance with regards to the national skills priorities of the country.





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QUESTIONS /
COMMENTS