



**NSFAS**

National Student Financial Aid Scheme

# NSFAS/SCOPA

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**DESCRIPTION:**

CEO Report to SCOPA

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## **Governance**

Board fully appointed with 2 vacancies, however not hindering the functionality of the Board

An updated ARC Committee is in place and meeting

Board formed additional sub committee

Operations Committee – focused on the mandate of NSFAS

ICT Committee – focused on IT matters and Cyber Security

HR, Ethics and Remuneration Committee

## **Audit**

Financial statements submitted to AGSA on 31 May 2021

Audit conclusion extended @ AGSA request and not NSFAS

Most of the material finding have been resolved, waiting for AGSA outcome on 31 August 2021

The Audit action has been institutionalized.

## **Irregular expenditure**

The disclosure of irregular expenditure in the 2020/ 2021 annual financial statements reflects a substantial increase in irregular expenditure incurred by the entity.

The term, “irregular expenditure”, has come to be associated with losses to the state. However, in the case of NSFAS, the sharp increase in irregular expenditure incurred relates to the eligibility criteria that were not published in terms of the Regulations on Additional Functions Assigned to the National Student Financial Aid Scheme (Government Notice 413 dated 3 April 2018). This regulation has since been repealed in February 2021.

The impact of this non-compliance resulted in all bursary payments to DHET funded students for the 2018, 2019 and 2020 academic years, including valid eligible students paid at the correct amount. The fact that amount to valid, eligible students are classified as irregular expenditure due to an administrative non-compliance lead NSFAS to deliberate the definition of irregular expenditure with the National Treasury. The deliberation concluded that the definition was largely aimed at supply chain related expenditure and the inclusion of bursary expenditure (to valid and eligible students) was not initially contemplated when the definition was formulated.

The impact to NSFAS is significant in that where an administrative non-compliance occurs, NSFAS would be faced with the risk of having to cease payments to students until the administrative non-compliance is cleared.

As a result, National Treasury has invited NSFAS to submit alternative definitions for irregular expenditure for the consideration of National Treasury.

Due to the retrospective impact of this matter, the irregular expenditure opening balance had to be adjusted. The opening balance was also adjusted to correct errors in prior year calculations of irregular expenditure.

The irregular expenditure incurred may thus be categorised as ***administrative***, ***institutional***, and ***internal control*** in nature.

### ***Administrative matters***

This constitutes the most significant proportion of irregular expenditure and relates to matters of non-compliance which did not result in payments to an ineligible student or an incorrect payment. The lack of issuing regulations in terms of Government Gazette notice (Government Notice 413 dated 3 April 2018) and the system failure to generate bursary agreements during the 2020 academic year are examples of matters in this category.

### ***Institutional matters***

NSFAS is highly dependent on the receipt of valid and accurate data from institutions in order to fund students correctly and determine accurate allowance and tuition payments. There have been instances where institutions provided NSFAS with incorrect course information and determined incorrect allowances for students, resulting in irregular expenditure incurred by NSFAS. NSFAS has initiated processes to recover these amounts from institutions.

### ***Internal control matters***

As reported in previous annual reports, NSFAS systems and processes did not enforce eligibility rules, resulting in incorrect funding decisions and inaccurate payments. Improved system and processes controls have been implemented since 2019, reducing irregular expenditure incurred. Continued effort is being directed at improving systems and processes further to prevent irregular expenditure from being incurred in the future.

## **Performance Information**

Submitted for the revision of Strategic Plan and Annual Performance Plan @ inception of Board – Results to be seen in 2021 / 2022

Slight improvement of achievement of targets, however this is in agreement with AGSA.

Standard operation proceedings on completion of APP targets have been implemented for the 2021/2022 financial year.

## **Risk & Compliance**

NSFAS has established an independent Audit and Risk Committee (ARC). The ARC has been in operation since July 2019. Both strategic risk assessment and operational risk assessments have been completed for the year under review. Quarterly risk forums are held to maintain the risk registers and risk management reports are submitted to the ARC

on a quarterly basis. These reports include risk incidents and emerging risks, where these are identified.

The enterprise risk management functions work closely with the operations and ICT units to enhance operational controls and supporting ICT systems and processes that impact on service delivery and manage identified operational and strategic risks.

An audit improvement project was initiated in January 2021 to drive the closure of audit issues. This has resulted in a reduced number of audit findings for the 2020/ 2021 financial year. For the 2019/ 2020 financial year, the auditors issued NSFAS with 70 findings. The number of findings for the current year currently totals 29.

Phase two of the audit improvement project has now been launched and redefined to include outstanding audit finding not yet addressed, internal audit findings that require attention and the current year external audit findings.

Additional initiatives to improve the risk and control environment include the following:

- A combined assurance framework has been developed and approved by the ARC for implementation during the 2021/ 2022 financial year.
- An enterprise policy review project has been initiated and is currently underway, with a target completion date set for December 2021. This project is reviewing all the entity's policies, and where required, with update the policies or introduced new ones that are identified as "gaps" in the policy universe.
- A full system review and redevelopment is underway to address anomalous system processing.
- An ISO project is underway to standardise processes and process documentation and implement and embed a disciplined approach to process changes.
- An organisation review project is underway with the aim of clarifying roles and responsibilities and ensuring the that organisational design is such that it is aligned to NSFAS operational requirements for service delivery.
- The compliance universe, assessment tools and capabilities are under development. The capabilities in the area have been assessed as insufficient to meet the needs of the entity and is currently under review as part of the entity's organisational review project.

## **Internal Controls**

The review process and procedures are underway

The policy framework is being reviewed – HR policy are being consulted with labour.

Implementation of Audit finding is institutionalized. Track in bi-weekly management meetings and all Board and Board Subcommittee meetings.

In the process of acquiring key systems, such finance and HR systems however this is hindered by budget limitations.

Internal audit on track with the implementation of the audit plan.

## **ICT**

The Digital strategy has been developed is being consulted with stakeholders.

The core sourcing model is being implemented to improve ICT capacity

Key modules have been developed

- Student disbursement model
- Disbursement calculator module is 90% complete
- Stability of existing system is being maintained

Completed user requirements and tender specifications for substantive core business system.

## **Human Resources**

Performance management is being implemented.

The organisation design and org structure review are underway and is expected to be completed end of October with matching and placing.

Key executive positions in the process of being filled are:

CIO

CFO

Board Secretary

## **Student Funding**

The number of funded students is 768 898 with a value of R35 620 380 919.

*Engagement with stakeholders* - The CEO presented on NSFAS matters to the National Economic Development and Labour Council (Nedlac). The aim of the presentation was to assess the state of NSFAS and to assess whether there is assistance sought from social partners.

The CEO continues to engage key stakeholders, such as, USAF, SACPO, SAUS, SATVETSA, Higher Health and SETA CEO's on a regular basis.

*2022 Funding guidelines* – A draft has been prepared and the consultative process with stakeholders will commence soon.

*Late application window* - The NSFAS Board, after careful consideration of the plight of currently registered university students that were not able to apply for funding during the funding application window due to several reasons, resolved to grant a once-off opportunity for those students to apply. The applications will open from 17 August to 3 September 2021. Communication has been sent out to universities to provide NSFAS with databases of eligible students and the verification process for eligibility will rely on this data.

*Laptop Update - NSFAS had pre-ordered the first batch of 170 000 laptops for NSFAS funded university and TVET college students in February and March 2021. The timeline for the delivery was delayed worldwide shortage of components to build laptops.*

*The 170,000 order is categorized as follows:*

*It's projected that approximately 160,000 of these devices will be to TVET, whereas the balance is earmarked for universities*

*NSFAS has provided an allocation list of 61 808 students to the service provider (59 962 TVET students and 1846 University students)*

*To date 49 100 have been delivered and the balance will be delivered by end of August*

2022 Applications – We are improving the application to enable real-time funding decisions. The application window is envisaged to be opened towards end of October.

## **Admin Budgets**

*The approved administration budget is R398 million against approximately R43 billion budget to fund students (core business), which represent 0.9% of the core business budget and this is way too low compared to the norm. SETAs are allowed to have 7.5% of their budget allocated towards administration and using this as a benchmark would mean that the administration budget should at least be R3.2 billion. NSFAS has experienced significant changes in the recent years with the full implementation of the bursary scheme effective since the academic year 2018, without a corresponding change in the Administration budget. As a result of the changes, student funding increased by 214 % from 2017 to 2021 while the Administration budget only increased by 66 % for the same period. A significant increase was also noted in the number of students funded, increasing from approximately 460 000 in 2017 to more than 760 000 in 2020 (65% increase).*

*It should be noted that there is a direct correlation between the significant deficiencies NSFAS has in its operations, capacity, systems, and controls as highlighted in external and internal audit findings to the administration budget. To put these system and improvements in place requires additional capacity which requires an additional budget. Management has estimated that the required intervention identified to date required at least R567 million over four years, of which R255 million is required in the current financial year. Put differently, the current administration budget has at least a R255 million (64%) shortfall to implement all the key and necessary interventions. Management has begun initial discussion with DHET in this regard and the Chair of the Board has apprised the Minister in this regard. Furthermore, management is preparing a submission to National Treasury through DHET to request to use recoveries money to implement projects that are directly linked to student funding although the chances of approval are considered remote.*