

Budgetary review and recommendations report (BRRR) Portfolio Committee on Higher Education, Science and Innovation

PFMA
2021-22

19 October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

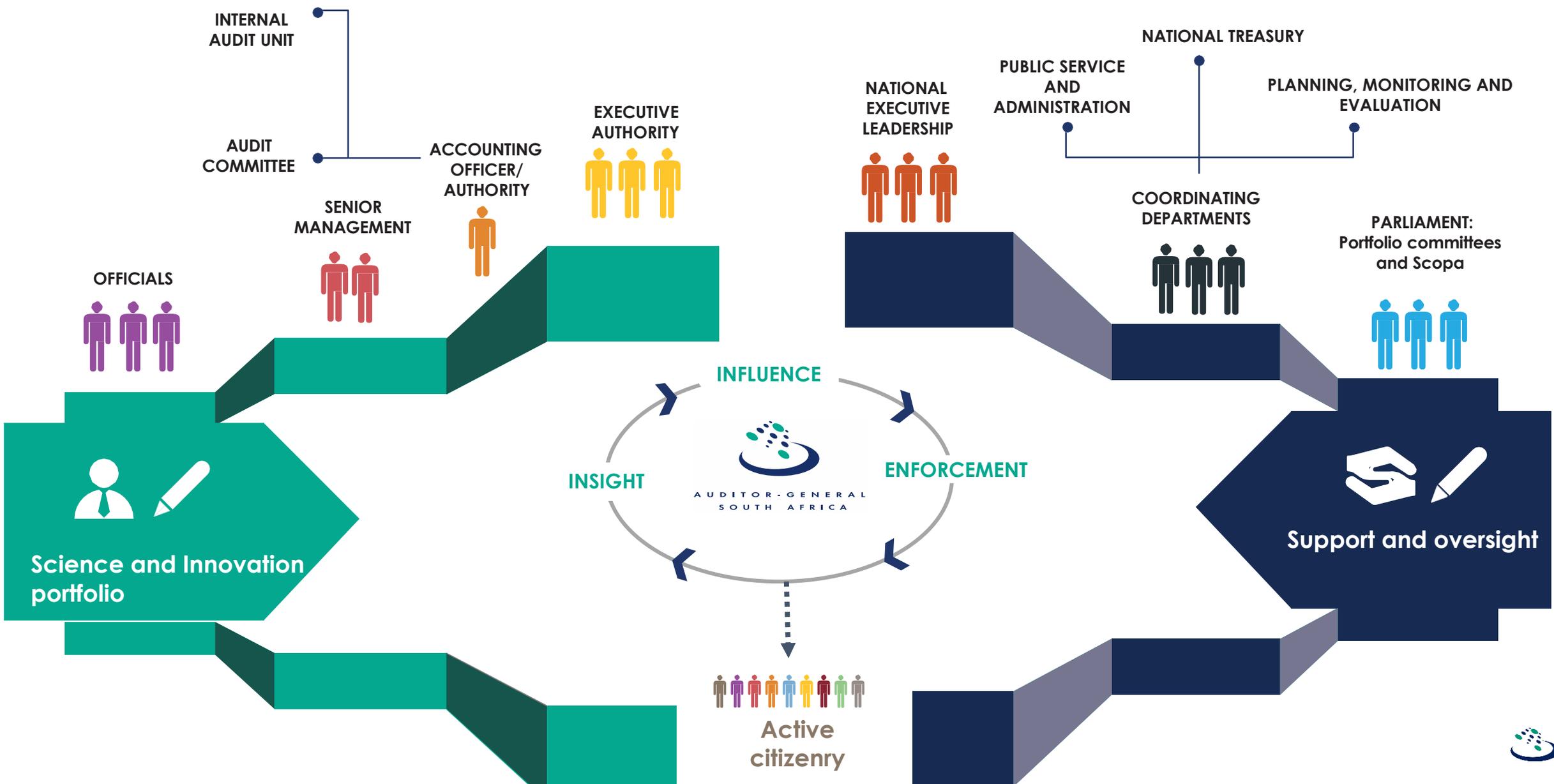
The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

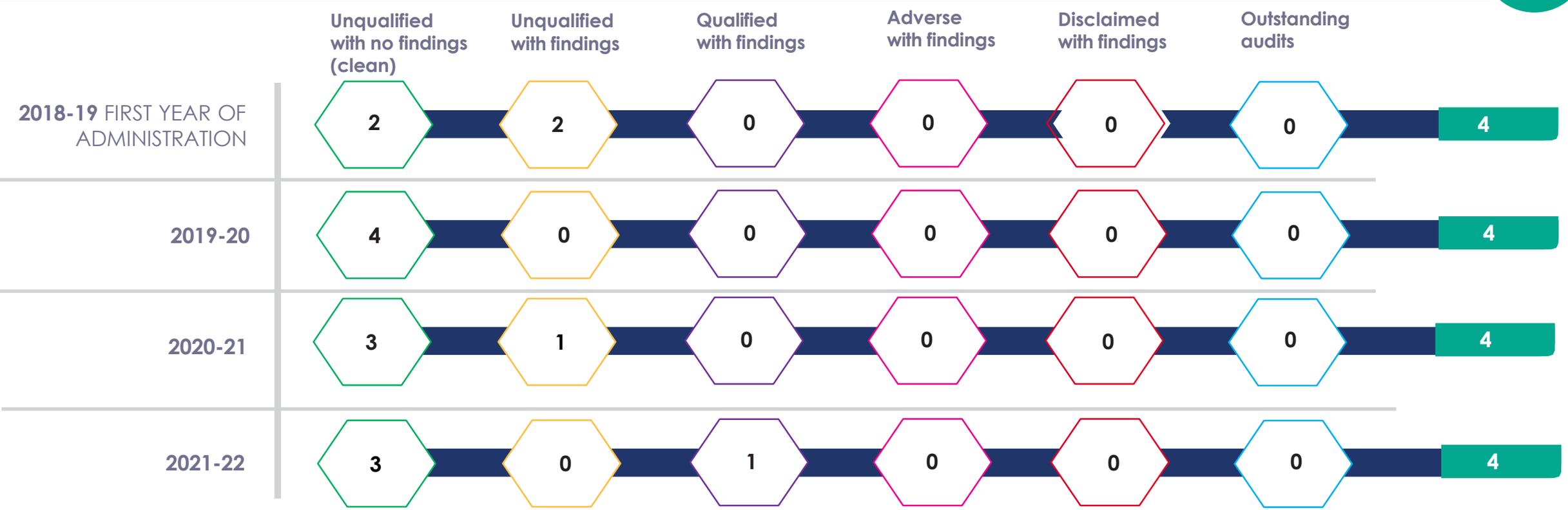




Portfolio Audit Outcomes



Initial improvement over administration term, thereafter regression in outcomes



MOVEMENTS FROM PREVIOUS YEAR:
0 ↑ 1 ↓

FROM FIRST YEAR OF ADMINISTRATION:
1 ↑ 1 ↓

Department of Science and Innovation (DSI)
Council for Scientific and Industrial Research (CSIR)
National Research Foundation (NRF)

None

Human Sciences Research Council (HSRC)

None

None

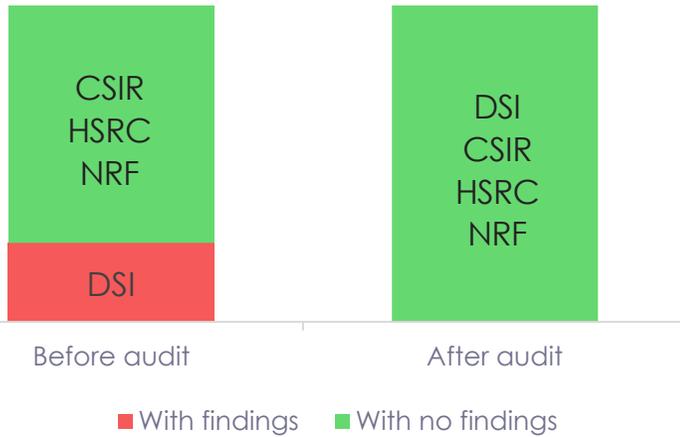
Outstanding audits
There were no outstanding audits in the portfolio as all audits were concluded by 31 July 2022. This presentation does not include audits of entities within the portfolio that were not conducted by the AGSA.



Portfolio performance



Quality of performance reports before and after audit



Findings: Reporting

- No findings on the reporting of indicators for the audited programmes/objectives were raised for CSIR, HSRC and NRF
- DSI had a material finding on the consistency of a reported indicator but was able to correct the performance report during the audit

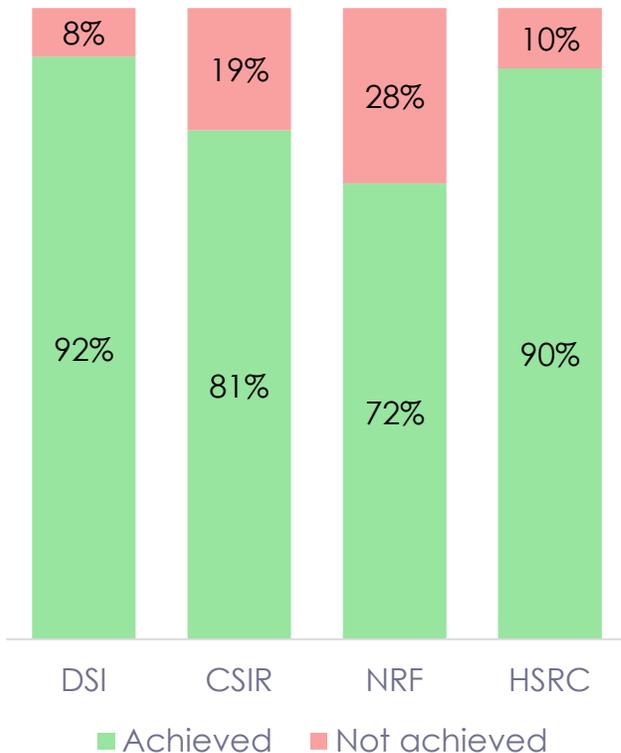


Key targets in medium-term strategic framework (MTSF) for portfolio

The DSI's portfolio focus and commitments are mainly on priorities 2 and 3:

- Priority 2: economic transformation and job creation
- Priority 3: education, skills and health

Achievement of annual targets as reported in annual performance report (all indicators) – 2021-22



Key targets not achieved include:

DSI

- Number of pipeline postgraduate students awarded bursaries
- Number of high-level research students fully funded or co-funded

CSIR

- New priority patent applications filed
- Number of technology licence agreements signed

HSRC

- Number of scholarly book chapters published by HSRC researchers

NRF

- Number of NRF-funded researchers
- Number of peer-reviewed publications produced by NRF-funded researchers

Impact of targets not achieved

- Some targets are driven by external demand; however, non-achievement could result in shortage of skilled resources in certain critical science and innovation areas, which could impact on key initiatives and development of our country.
- The department and its entities should reflect on their indicators and targets against the MTSF and NDP aspirations.



Achieving key performance targets – summarised information from performance report

DSI

Performance indicator	Target	Actual performance	Reason for non-achievement as per annual performance report
Number of pipeline postgraduate students awarded bursaries annually as reflected in the reports from the NRF and other relevant entities	6200	5643	Actual performance fell short of the target by 8,9%. It is difficult to make accurate projections of the number of PhD students versus pipeline (honours and master's) students to be supported as such numbers are ultimately dependent on the demand, i.e. the number of applications in each category.
Number of high-level research students (honours, master's and doctoral students) fully funded or co-funded in designated niche areas (advanced manufacturing, aerospace, chemicals, mining, advanced metals, ICTs the Industry Innovation Programme (incl. SIFs) and the green economy	392	287	Significant funds from technology development projects (e.g. the Advanced Metals Initiative and the Advanced Manufacturing Technology Strategy) were allocated to technology diffusion projects (e.g. the Technology Stations Programme and the Technology Localisation Implementation Unit). There were also difficulties in verifying the number of students.

CSIR

Performance indicator	Target	Actual performance	Reason for non-achievement Reason for non-achievement as per annual performance report
KPI 02: New priority patent applications filed	9	7	Target unachieved due to pipeline issues
KPI 05: Number of technology licence agreements signed	19	12	Target unachieved due the pervasive uncondusive economic environment for the uptake of early stage technologies



Achieving key performance targets – summarised information from performance report

NRF

Performance indicator	Target	Actual performance	Reason for non-achievement as per annual performance report
Number of NRF-funded researchers	4521	3201	Fewer applications for various instruments that fund mobility such as Knowledge Interchange and Collaborations (KIC), the Conference Fund and Incentive Funding and lower uptake of Postdoctoral fellowships, BAAP and nGAP development grants, Research Equipment due the ongoing pandemic and restricted international travel.
Number of peer-reviewed publications produced by NRF-funded researchers (including from NNEP, NEP and SREP)	9250	9116	As a result of COVID-19 restrictions, researchers undertook fewer field trips and attended fewer international conferences and workshops, thus produced fewer number of papers.

HSRC

Performance indicator	Target	Actual performance	Reason for non-achievement as per annual performance report
The number of scholarly book chapters published by HSRC researchers	47	40	It is not always easy to predict exactly when a book (and therefore also book chapter) will be released. The high volume of book chapters released in the final quarter of the prior year impacted on the pipeline of publications for the current year. The HSRC remains committed to producing meaningful research outputs on an ongoing basis.



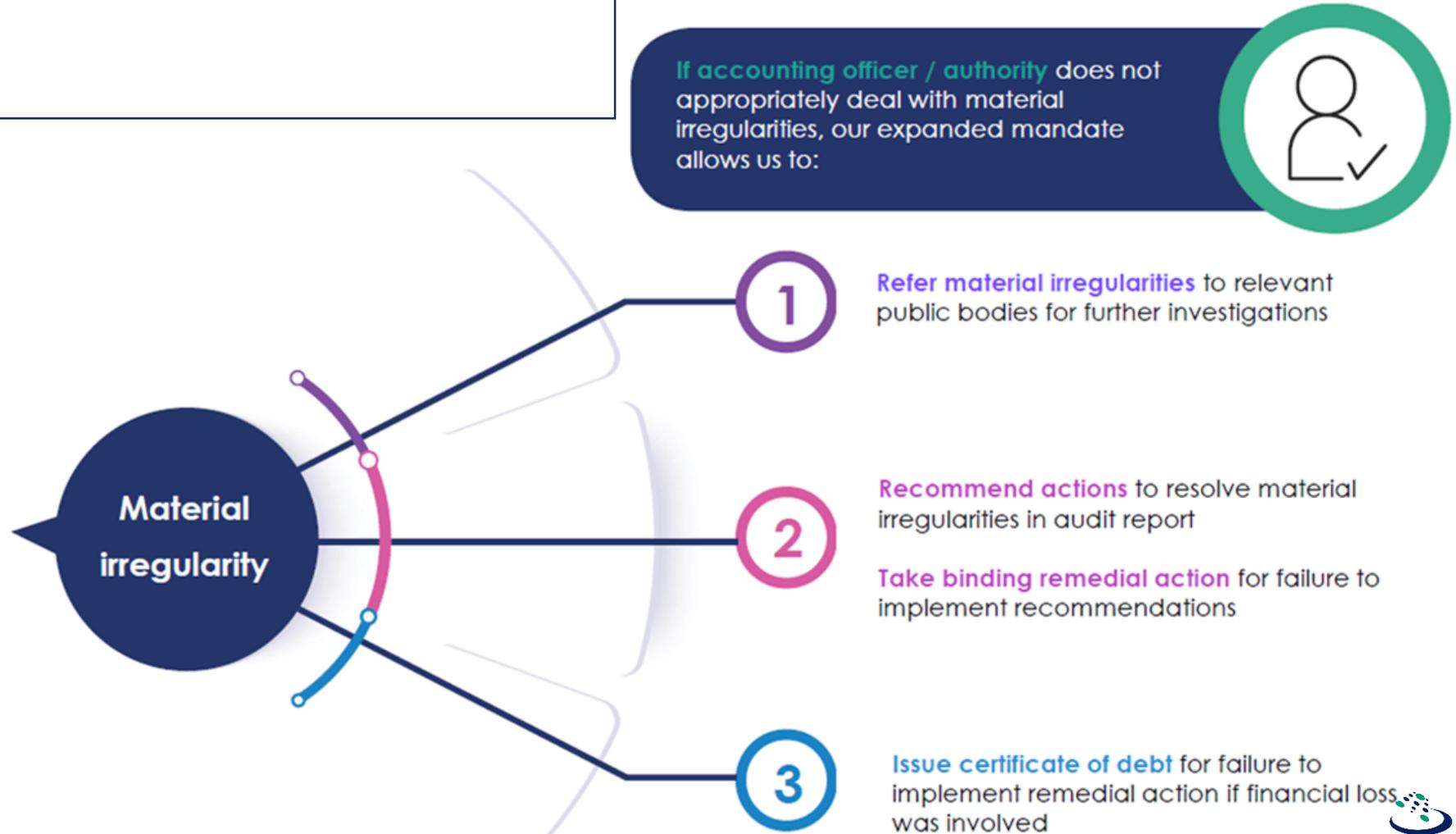
Material irregularities



The MI process was implemented at the following auditees:

- DSI
- CSIR
- HSRC
- NRF

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss**, the **misuse or loss of a material public resource**, or **substantial harm to a public sector institution or the general public**



1 AO/AA is dealing with MI

AO/AA... implements the committed actions to address the MI and improves controls to prevent recurrence

AGSA... follows up in the next audit if actions were implemented and if outcomes were reasonable. If not, can include recommendations in audit report on how the MI should be addressed by a specific date

2 MI is referred to a public body

AO/AA... cooperates with public body and implements any remedial actions / recommendations made. Improves controls to prevent recurrence

AGSA... provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/ recommendations

3 Recommendation included in audit report

AO/AA... implements the recommendations by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA... follows up by stipulated date if recommendations were implemented and if outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date

4 Remedial action issued

AO/AA... implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence

AGSA ... follows up whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission on reasons not to issue CoD within 20 working days



Executive and oversight

Executive... monitors progress and supports AO/AA in addressing the MI and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation

Oversight... monitors progress with investigation and calls public body to account for undue delays in Investigation.



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing recommendations and improving controls

Oversight... request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes



Executive and oversight

Executive... monitors progress and supports AO/AA in implementing remedial action and improving controls

Oversight... monitors progress and calls AO/AA to account for actions taken and outcomes



HSRC

Notified	Type	MI description	Status of MI	Status description
3 June 2022	Debt not recovered	Payroll system not updated to align with tax changes, resulting in payroll benefits to staff without deducting the associated taxation from employees, resulting in a possible financial loss since the correct tax has not been deducted from employees.	Evaluation of response	<p>The notification was issued to the accounting authority(AA) on 3 June 2022</p> <p>On 4 July 2022 , a response was received from the AA disagreeing with the MI.</p> <p>On 25 July 2022, AGSA met with the AA to discuss the salient points of the MI.</p> <p>On 5 October 2022, the AA responded to the AGSA confirming that appropriate actions are taken to address the MI.</p>



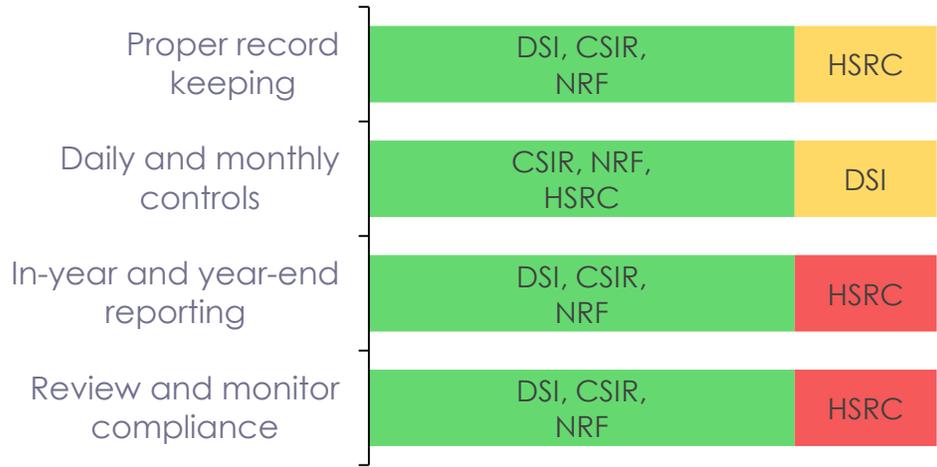


Financial management and compliance

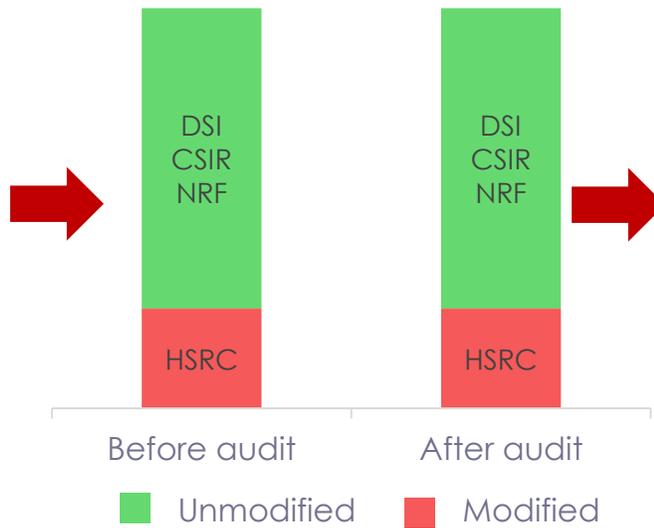


Impact on quality of financial statements submitted for audit

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Main qualification areas

- Valuation of leave accrual liability due to use of system generated report without validating if it valid, accurate and complete

Impact

At HSRC, the leave accrual amount in the financial statements was not reliable and credible to inform decisions made by management and other stakeholders



Revenue



Expenditure



Debt-collection period > 90 days at **3** auditees (DSI, HSRC, NRF)
Average debt-collection period = **152 days**
More than 10% of debt was impaired at **1** auditee (CSIR)

R31 000 of expenditure was **fruitless and wasteful** (**4 auditees**)
Creditor-payment period > 30 days at **2 auditees** (CSIR, HSRC)
Average creditor-payment period = 45 days

Doubt whether auditees can continue as a going concern

All reported-on entities in the portfolio were assessed as being able to continue as a going concern





2021-22

DSI, CSIR, NRF

HSRC

● No material findings ● Material findings

MOVEMENTS FROM PREVIOUS YEAR:

0 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:

1 ↑ 0 ↓

Most common areas of non-compliance	DSI	CSIR	HSRC	NRF
Quality of financial statements			X	
Procurement and contract management			XX	
Consequences management			X	

X Previous year's finding addressed X New finding identified in 2021-22 X Repeat finding



Status of compliance with legislation on procurement and contract management



2021-22



● With no findings
 ● With findings
 ● With material findings

MOVEMENTS FROM PREVIOUS YEAR:
 0 ↑ 0 ↓

FROM FIRST YEAR OF ADMINISTRATION:
 0 ↑ 1 ↓

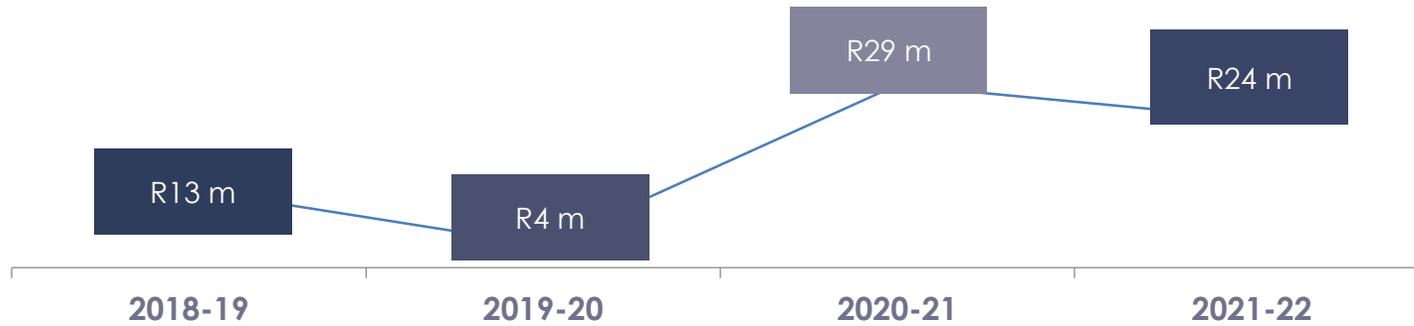
Details of procurement findings HSRC

Bids advertised for shorter period than required	X
Final approval for winning bid not made by delegated authority	X
Local content procurement requirements not followed	X

Payment for goods and services not received or of poor quality
 No overpayments or payments for goods and services not received or of poor quality were identified



Annual irregular expenditure



Top contributors

R20 m HSRC

R4 m CSIR

Impact of irregular expenditure incurred

No value for money: None of the irregular expenditure incurred resulted in value for money not received

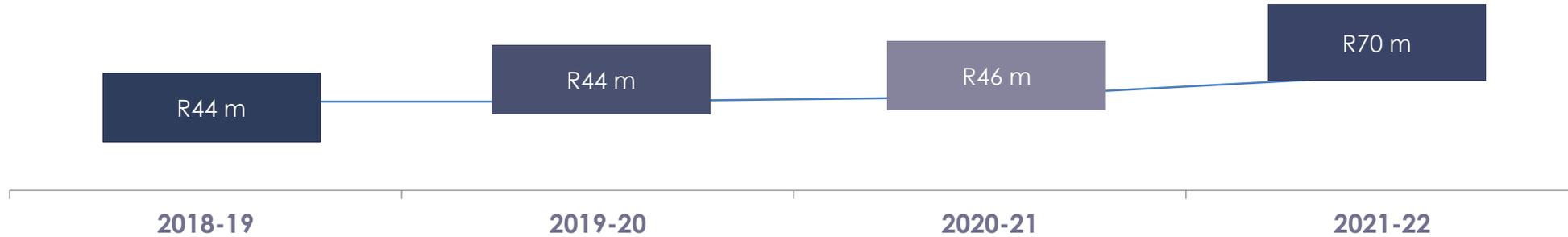
Breach of five pillars of procurement (equitable, fair, cost effective, transparent and competitive)

- CSIR: R4 m (prior approval not obtained from National Treasury when deviating from competitive bidding)
- HSRC: R20 m (local content requirements not met and contracts deviated from normal bidding processes without proper approval)

Limitation of scope: No limitations of scope were experienced during the audit



Closing balance of irregular expenditure continues to increase



Top contributors (2020-21: R46 million) to irregular expenditure not dealt with constitute 99% of R46 million



How have auditees dealt with irregular expenditure



Reasons for IE not dealt with:

- Cases are not finalized as some are awaiting condonation from National Treasury at DSI and CSIR. Consequence management implemented.
- Approval by the NRF Board for removal from the annual financial statements was obtained on 26 July 2022. Consequence management implemented.
- At HSRC, no investigation was performed on prior year irregular expenditure resulting in a material consequence management finding.



Other entities within the portfolio

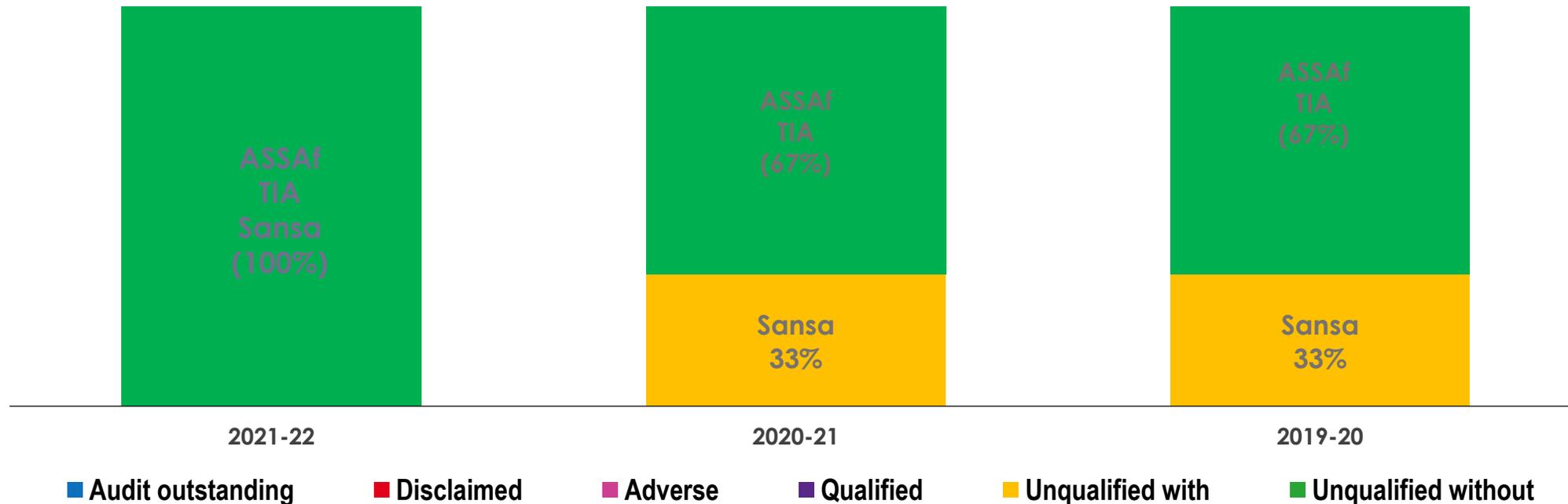


Included in the science and innovation portfolio are the following entities that are not audited by the AGSA in terms of section 4(3) of the Public Audit Act:

- Academy of Science of South Africa (ASSAf)
- Technology Innovation Agency (TIA)
- South African National Space Agency (Sansa)

The audit outcomes of the section 4(3) auditees improved, with all three receiving unqualified audit opinions with no findings (clean audits)

3-year audit outcomes of section 4(3) entities



Conclusions and recommendations



Overall root causes of significant findings

HSRC management did not ensure effective monitoring of compliance with applicable legislation, resulting in irregular expenditure. There were also not adequate controls to prevent material misstatements in the financial statements. In addition, effective and constant consequence management was not always in place.

Key recommendations to, and commitments by, accounting officers and authorities

Recommendations to accounting authority at HSRC

- The board, with the support of the audit committee, should track the audit action plan to ensure that appropriate action is taken to fix the leave system to enable the HSRC to determine the leave liability accurately. This includes monitoring compliance with supply chain management legislation.
- The board should conduct proper and timely investigations into all instances of irregular and fruitless and wasteful expenditure to determine whether any official is liable for the expenditure and institute corrective or disciplinary action. Once investigations have been concluded, disciplinary action and recovery, where applicable, should be instituted without delay. This includes taking appropriate actions to fully address the material irregularity.

Commitment by accounting authority at HSRC

- The board will ensure that effective consequence management has been implemented for all transgressions.
- Track the audit action plan to ensure that appropriate action is taken to ensure that the HSRC is able to accurately determine and record the leave liability.
- Take action to resolve the material irregularity, prevent any financial losses and ensure appropriate consequence management and measures to prevent any similar instances.





Commitments by the executive authority

- Track the HSRC's audit action plan to ensure that appropriate action is taken to enable the HSRC to determine the leave liability accurately.
- Follow up with the HSRC board to ensure that effective consequence management has been implemented for all transgressions.
- Follow up with the HSRC board on the actions taken to resolve the material irregularity and to prevent any financial losses and ensure appropriate consequence management and measures to prevent any similar instances.
- Continue to provide oversight to ensure that the entities with clean audit outcomes maintain best practices implemented by management on the key risk areas in the portfolio by requiring the department and its entities to report quarterly on the effectiveness of internal control environments.



In 2020-21, we recommended the following:

- Monitor the implementation of internal controls to address the root causes identified
- Monitor culture of consequence management (should be maintained in portfolio)
- Monitor best practices implemented by management around key risk areas (should be maintained in portfolio)



Overall reflections on implementation of recommendations:

- The portfolio committee exercised oversight by calling on the accounting officer and authorities to account on action plans

Key messages going forward: science and innovation portfolio

- 1 The portfolio committee should obtain and actively track commitments made, specifically in relation to the HSRC accounting authority on the implementation of action plans to address shortcomings of the leave process and other corrective measures to ensure improvement in the portfolio audit outcomes
- 2 The portfolio committee should monitor the culture of consequence management and the accountability ecosystem to ensure that audit outcomes are sustained (and improved at HSRC)
- 3 The portfolio committee should ensure that best practices and preventative controls are implemented by management around the key risk areas (should be maintained in the portfolio and improved at HSRC)
- 4 The portfolio committee should request regular feedback from the HSRC board on finalising long-outstanding cases relating to the implementation of consequence management in relation to irregular expenditure, and monitor the action the HSRC board is taking to resolve the MI



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