



**PFMA
2022-23**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on Science and Innovation**

13 October 2023



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.

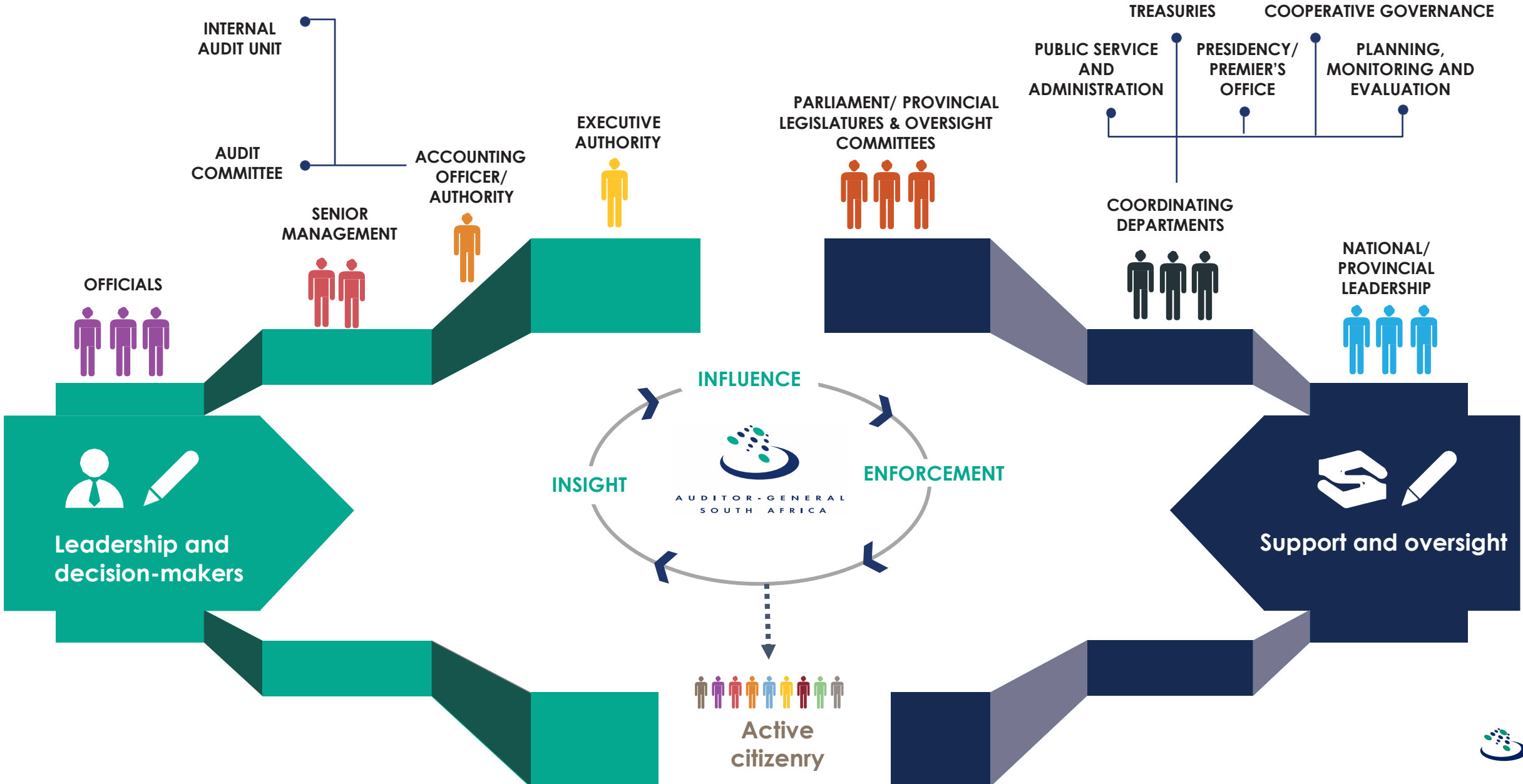


VISION





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



All have a role to play in the accountability ecosystem



In 2021-22, we recommended the following:

-  The portfolio committee should obtain and actively track commitments made, specifically in relation to the HSRC AA on implementation of action plans to address shortcomings in the leave system and other corrective measures, with a view to improvement in the portfolio's audit outcomes.
-  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).
-  The portfolio committee should ensure that best practices and preventative controls are implemented by management in the key risk areas (should be maintained in the portfolio and improved at HSRC).
-  The portfolio committee should request regular feedback from the HSRC board on the finalisation of long-outstanding cases concerning the implementation of consequence management in relation to HSRC irregular expenditure and monitor the action that the HSRC board is taking to resolve the material irregularity (MI).

 Implemented

 In progress

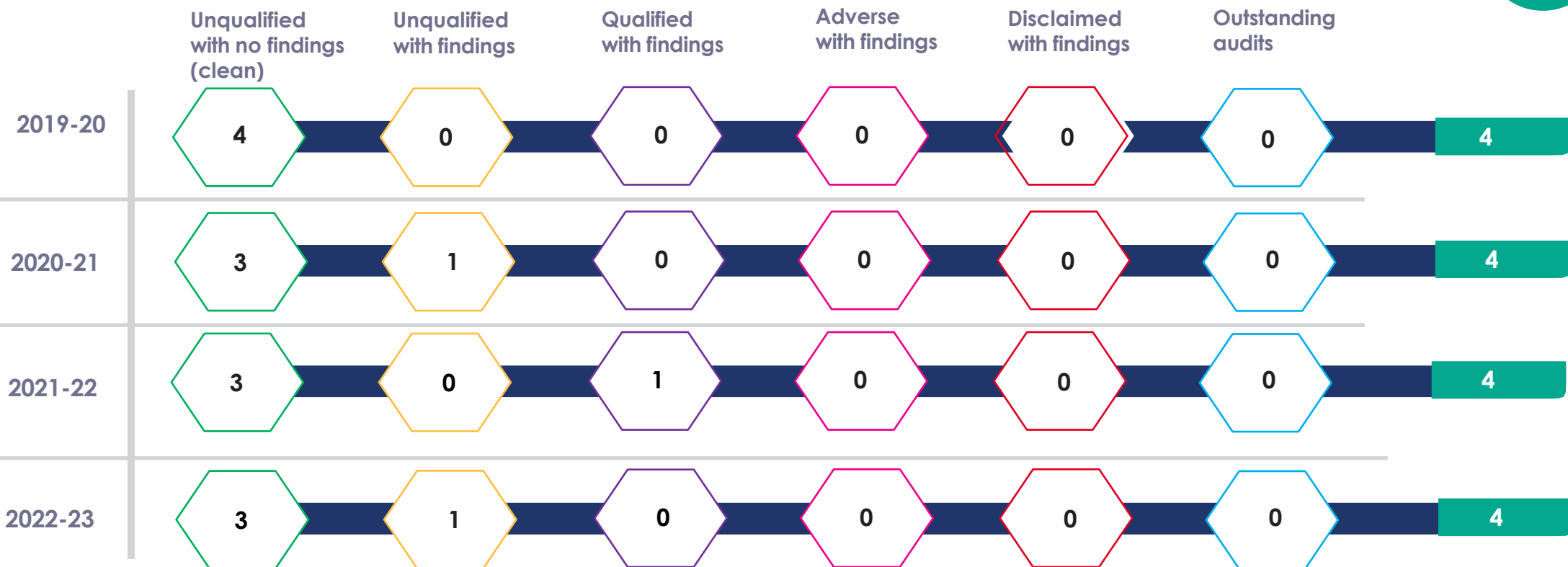
 Not implemented

Overall reflections on implementation of recommendations:

- The portfolio committee regularly meets and provides oversight, which promotes accountability and provides guidance and advice to the departments and entities within the portfolio.
- Most of the entities within the portfolio continued to attain clean audit outcomes and there was improvement in audit outcomes and internal controls at HSRC.



Regression in audit outcome over the administration term



MOVEMENTS DURING THE ADMINISTRATION :
 0 ↑ 1 ↓

MOVEMENTS FROM PREVIOUS YEAR
 1 ↑ 0 ↓

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

Human Sciences Research Council (HSRC)

None

None

None

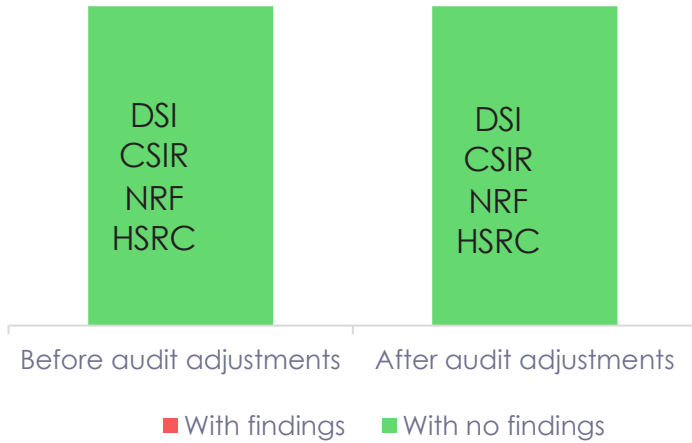
There were no outstanding audits in the portfolio. All financial statements were submitted by the legislated date for the portfolio.
 This presentation does not include audits of entities within the portfolio that were not conducted by the AGSA. A separate slide was added



Portfolio performance



Quality of performance reports before and after audit



Findings: Planning for service delivery and reporting

- No material findings were reported

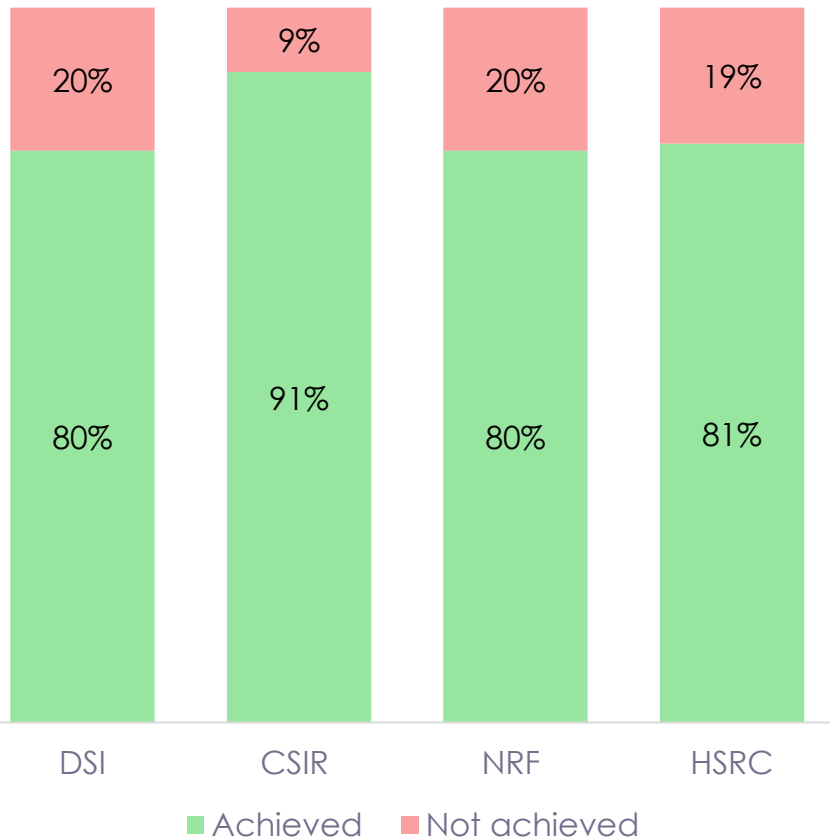


Key targets in medium-term strategic framework for portfolio

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) – 2022-23



Key targets not achieved include the following:

DSI

- Number of UoT and TVET graduates offered experiential learning opportunities in the energy sector
- Number of disclosures received from publicly financed research and development institutions as reported to NIPMO
- Number of research infrastructure grants awarded
- 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 (including SIF) and the green economy (STI for the circular economy).

CSIR

- Number of technology licence agreements signed.

HSRC

- The number of peer-reviewed journal articles published per HSRC researcher
- The number of peer-reviewed journal articles and scholarly book chapters published with at least one non-HSRC co-author from an African country other than South Africa (HSRC used rollover funds).

NRF

- Foreign income (R million) derived from NF activities
- Number of patient doses generated from radioisotopes produced by iThemba LABS.

Impact of targets not achieved

- Some targets are driven by external demand; however, non-achievement could result in a shortage of skilled resources in certain critical science and innovation areas, which in turn could impact key initiatives and development of our country.
- The non-achievement of targets affects the department's ability to contribute to the human capital and economic development of South Africa at the required level. This has an impact on the citizens of South Africa who utilise the education and skills development initiatives of the department to enhance their employability.
- 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

CSIR

Performance indicator	Target	Actual performance	Reason for non-achievement (as disclosed in the annual report)
KPI 05: Number of technology licence agreements signed.	18	10	Target not met due to delays in execution of licence agreements and loss of key resources, causing capacity restraints.

NRF

Performance indicator	Target	Actual performance	Reason for non-achievement (as disclosed in the annual report)
Foreign income (R million) derived from NF activities.	R171	R152	Interruption of radioisotope production schedule and operations due to frequent power dips. The loss of isotope supplier contract. Timing of recoveries for SKAO work.
Number of patient doses generated from radioisotopes produced by iThemba LABS.	225 000	164 433	Interruption of radioisotope production schedule and operations due to frequent power dips. The loss of isotope supplier contract.



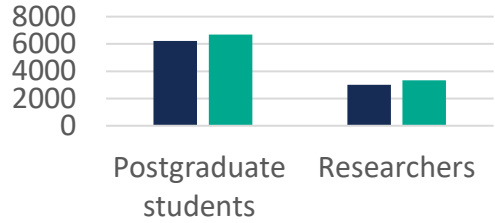
Achieving key performance targets – summarised information from performance report

HSRC

Performance indicator	Target	Actual performance	Reason for non-achievement (as disclosed in the annual report)
The number of peer-reviewed journal articles published per HSRC researcher.	1,1	0,87	It is not always easy to predict exactly when a journal article publication will be released and not all publications in the pipeline were realised by year-end.
The number of peer-reviewed journal articles published with at least one non-HSRC co-author from an African country other than South Africa.	15	12	

DSI

Performance indicator	Target	Actual performance	Reason for non-achievement (as disclosed in the annual report)
Number of UoT and TVET graduates offered experiential learning opportunities in the energy sector.	15	12	Since this is a completely new indicator, there was no existing baseline available to inform the target setting process.
Number of new disclosures, received from publicly financed research and development institutions as reported to the National Intellectual Property Management Office (Nimpo).	235	217	The target was established by considering the accomplishments in previous years. However, it is important to note that the number of new disclosures is not directly within the control of Nimpo.
Number of research infrastructure grants awarded.	25	21	The variance occurred due to the forfeiture of funding for two research, development and innovation (RDI) projects because of non-expenditure. Additionally, two projects that were initially planned to receive funding from the high end were deferred to the 2023-24 financial year, contributing to the observed deviation from the original plan.
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 (including SIF) and the green economy (STI for the circular economy).	332	238	In the verification of the evidence provided for the green economy HCD component, some of the students mentioned in the letter did not comply with the technical indicator descriptions. The students who were counted are highlighted in green in Register 4, which also gives the reasons why certain individuals were not counted. As a substantial amount of the industrial funding had been routed to technology diffusion and not technology development, there was less funding for students. The target in the 2023-24 APP has therefore been reduced to 200.

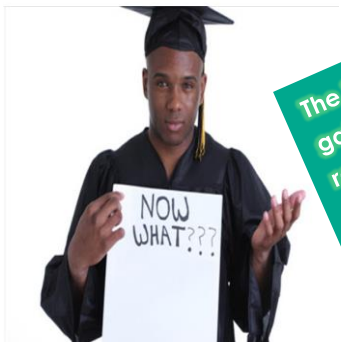


Budget: 2.37 Billion
Actual: R2.25 Billion

DSI/NRF grants

■ Target ■ Actual

DSI contributes to the education and skills sector by providing financial support to more than 10 000 postgraduate students and researchers, focusing on science, technology and innovation through NRF. Investment in the programme facilitated by NRF amounts to R2,25 billion.



The insights and knowledge gathered from the LMIP and LMI research should be used to direct the investment in skills, research and academics that the country needs and where employment opportunities exist.

Observations

- NRF and DSI do not track if postgraduate qualifications are completed timeously.
- NRF and DSI do not track the funded postgraduates and researchers after completion of their studies if they are employed or that their science discoveries are making an impact
- The DSI portfolio did not participate in the presidential employment stimulus; however, other employment initiatives were implemented but not tracked.

Recommendations

- The NRF and DSI should consider tracking the funded students' study and career progression and the impact on employment, thus contributing to eradicating poverty, unemployment and inequality
- The funded researchers' output and their impact should be measured to assess how it benefits South African citizens.
- The portfolio should consider tracking the investment made in science and innovation to measure its contribution on the lived experiences of the citizens.

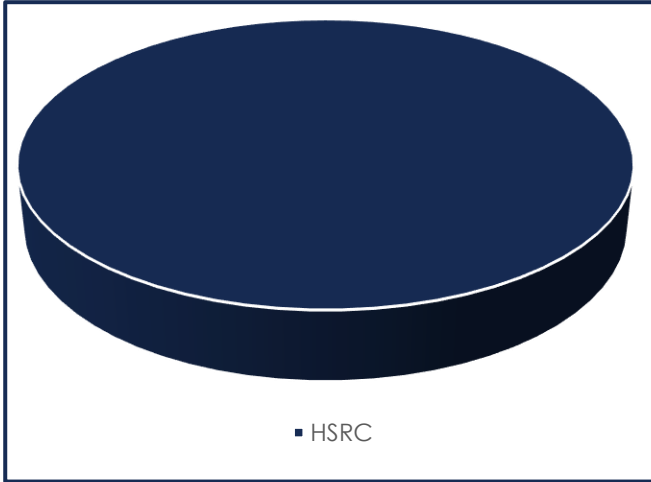


We assessed the completeness of relevant indicators and no issues noted



The portfolio does not track the investment made in science and innovation vs impact on lived realities of citizens

MATERIAL IRREGULARITIES



MI DESCRIPTION

The HSRC payroll system was not updated to align with tax changes, which resulted in payroll benefits being paid to employees without deducting the associated taxation and, ultimately, in a possible financial loss as the correct tax had not been deducted from employees and was owed to Sars. This was due to non-compliance with section 57(a) of the PFMA by the responsible official.



ACTIONS TAKEN BY AUDITEES

R2,41 million

Financial loss **in process of recovery**

R4,08 million

Financial loss **recovered**

1

Investigations instituted

1

Internal controls and processes improved to prevent recurrence

Observations from MI process

The accounting authority took appropriate steps to deal with the MI, resulting in the recovery of financial losses. The entity applied to Sars for a voluntary disclosure programme and paid tax liability with interest of R2,5 million. The interest resulted in fruitless and wasteful expenditure.

The accounting authority appointed a third party to investigate. The investigation was completed, and the next steps are still being considered.

Recommendations for portfolio committee

The portfolio committee should continue to engage the accounting authority to determine the progress made in recovering the remaining potential losses; the requirements to determine whether recovery is not feasible; and the action to be taken when recovery is not possible, especially relating to the interest paid.



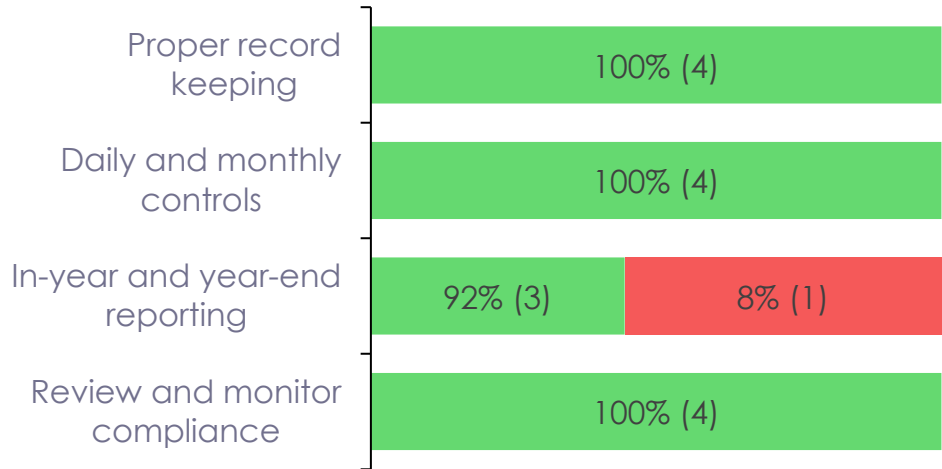


Financial management and compliance

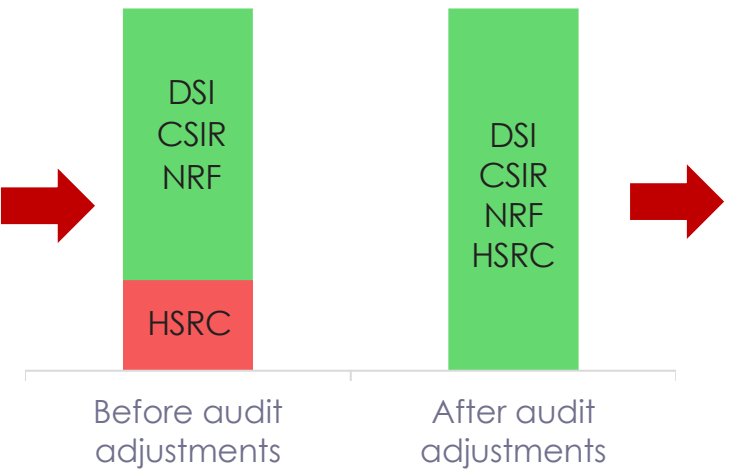


Impact on quality of financial statements submitted for auditing

Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required



■ Unmodified
 ■ Modified

Main qualification areas

- None

Impact

- DSI, CSIR and NRF produced financial reports that were free from material misstatements.
- HSRC had a material adjustment to the submitted financial statements which prevented a qualified audit opinion.
- This resulted in reliable and credible audited financial statements to inform decisions made by management and other stakeholders.



Revenue



Expenditure



Average debt-collection period for the portfolio = **48,7 days**

There were no entities with more than 10% of debt irrecoverable.

R2,6 millions of expenditure was **fruitless and wasteful (HSRC)**.

Creditor-payment period > 30 days at **DSI & CSIR**.

Creditors greater than available cash at year-end at **DSI**.

Average creditor-payment period for the portfolio = **39,2 days**.

Impact



DSI & HSRC ended the year in **accrual-adjusted deficit** (expenditure more than revenue).

None of the auditees incurred **unauthorised expenditure**.

None of the auditees disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as a going concern** in the foreseeable future.



Compliance with key legislation



2022-23



● No material findings ● Material findings



Most common areas of non-compliance

Quality of financial statements

DSI

CSIR

NRF

HSRC

X

Although there has been substantial improvement at HSRC, submission of financial statements that are credible and reliable remains a challenge.

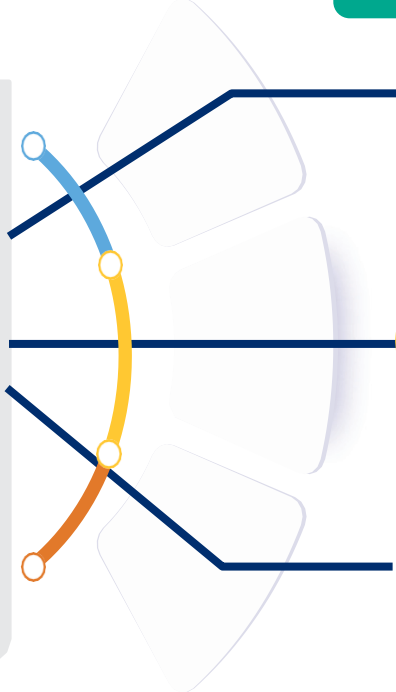


National Treasury Instruction No. 4 of 2022-23: **PFMA compliance and reporting framework** (Instruction) which came into effect on **3 January 2023**, was issued in terms of section 76(1)(b), (e) and (f), (2)(e) and (4)(a) and (c) of the PFMA.

The public objective of the Instruction Note is to prescribe the **principles and compliance reporting requirements** for institutions subject to the PFMA regarding **unauthorised, irregular and fruitless and wasteful expenditure** (UIF&WE).

Framework

The new framework brought **significant changes** in relation to the disclosure of **irregular, and fruitless and wasteful expenditure** (IFWE). These changes are as follows:




- 1** **Movement** in the disclosure note of IFWE has been moved from annual financial statements to the annual report.
- 2** **PFMA institutions** will only disclose IFWE incurred in the current year, with a one-year comparative analysis.
- 3** **Historical balances (i.e., opening balances)** have been entirely removed from the annual financial statements.

Message to portfolio committee

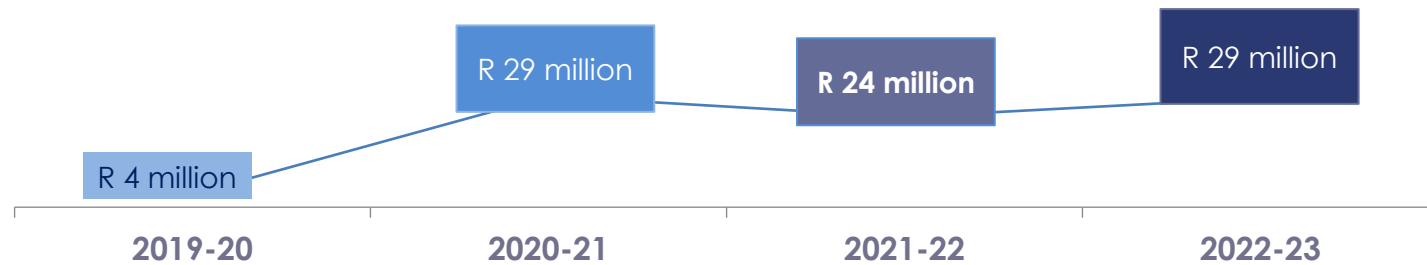
The fact that the disclosure of IFWE (historical balances and movements) is **no longer on the annual financial statements** and **no audit assurance is provided** thereon, the oversight structures would need to engage **directly with the information disclosed in the annual report** to exercise their oversight responsibility.

The AGSA refined its **audit approach to uphold transparency by continuing to audit the IFWE disclosure in the annual report.**

There is clear **messaging in the audit report on the reliability of the IFWE disclosure in the annual report.**

The objective was to ensure that we can still be in a position to report to users of the AFS in cases where these historic balances of IFWE are not complete and accurate. This had no impact on the audit opinion. 

Annual irregular expenditure



Top contributors

R28 million	HSRC
R1 million	CSIR

Impact of irregular expenditure incurred

No value for money: No irregular expenditure was incurred that did not provide value for money.

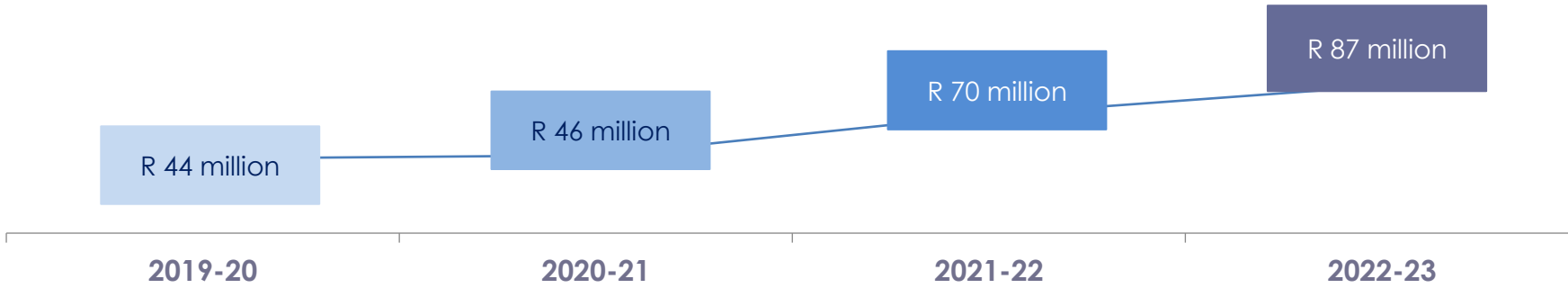
Breach of five pillars of procurement – equitable, fair, cost-effective, transparent and competitive:
HSRC: R28 million_ Prior approval not obtained from National Treasury when deviating from competitive bidding. Most of this irregular expenditure emanated from prior years.
CSIR: R1 million _Prior approval not obtained from National Treasury when deviating from competitive bidding and variation.

Limitation of scope: No limitations of scope were experienced during the audits.

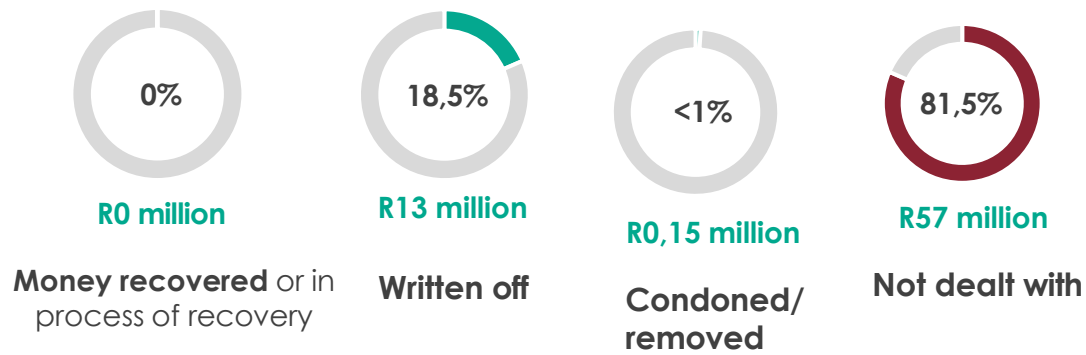


Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to increase



How have auditees dealt with irregular expenditure



Top contributors (R70 million) to prior-year irregular expenditure closing balance



Reasons for IE dealt / not dealt with:

Closing balance amounting to R57 million has been investigated and awaiting condonement/removal at HSRC, CSIR and DSI.

Approval was obtained by the NRF board for removal of irregular expenditure (R13 million) from the annual financial statements.





Other entities within the portfolio



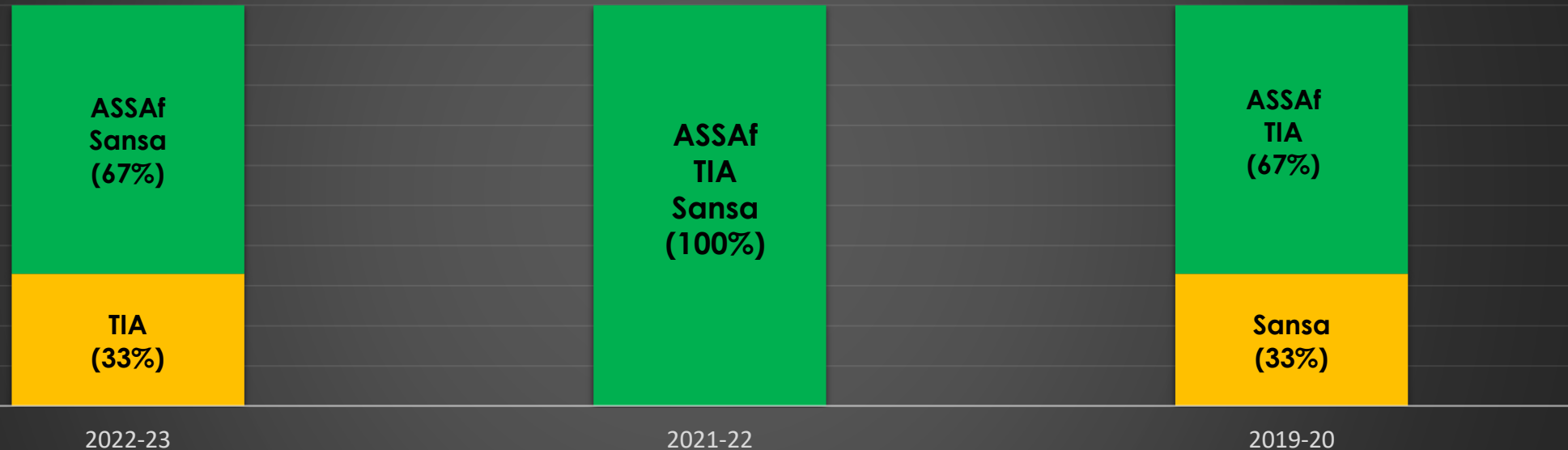
Other auditees in the portfolio

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).

- ✓ Sansa and ASSAf maintained their unqualified audit opinion with no material findings (clean audit).
- ✓ TIA's audit outcome regressed from clean to unqualified with material findings on compliance with legislation. TIA submitted financial statements that contained material misstatements, these were subsequently corrected during the audit.

First year of administration and 2-year audit outcomes of section 4(3) entities



Conclusions and recommendations



Root causes, recommendations and commitments

Key root causes

- There were deficiencies at HSRC, in the preparation of accurate and complete financial reports that are supported and evidenced by reliable information, as well as the review and monitoring of compliance with applicable laws and regulations.
- The HSRC also has an ongoing material irregularity.

Key recommendations

- The HSRC board, with the support of the audit committee, should track the audit action plan to ensure that appropriate action is taken to resolve the internal control deficiencies noted.
- The board should take appropriate actions to fully address the material irregularity and implement consequence management where required.

Commitments by executive authority

- The executive authority will monitor the progress made with the action plans to address deficiencies in the portfolio and ensure that best practices are maintained.
- The executive authority will follow up to ensure that effective consequence management is applied, and appropriate actions are taken to fully address the material irregularity.

Overall message

- 1 Portfolio committee should oversee the implementation of the audit action plan and track progress made with the controls to address the underlying root causes of the findings.
- 2 The portfolio committee should oversee the action that HSRC board is taking to resolve the material irregularity.
- 3 The portfolio committee should continue to provide oversight to ensure that best practices and preventative controls are implemented by management in the key risk areas (should be maintained in the portfolio and improved at HSRC).



THANK YOU



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