



AUDITOR - GENERAL  
SOUTH AFRICA



*07 February 2024*

*Briefing document on the  
audit outcomes of the  
National Skills Fund (NSF)*

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# 1. Introduction

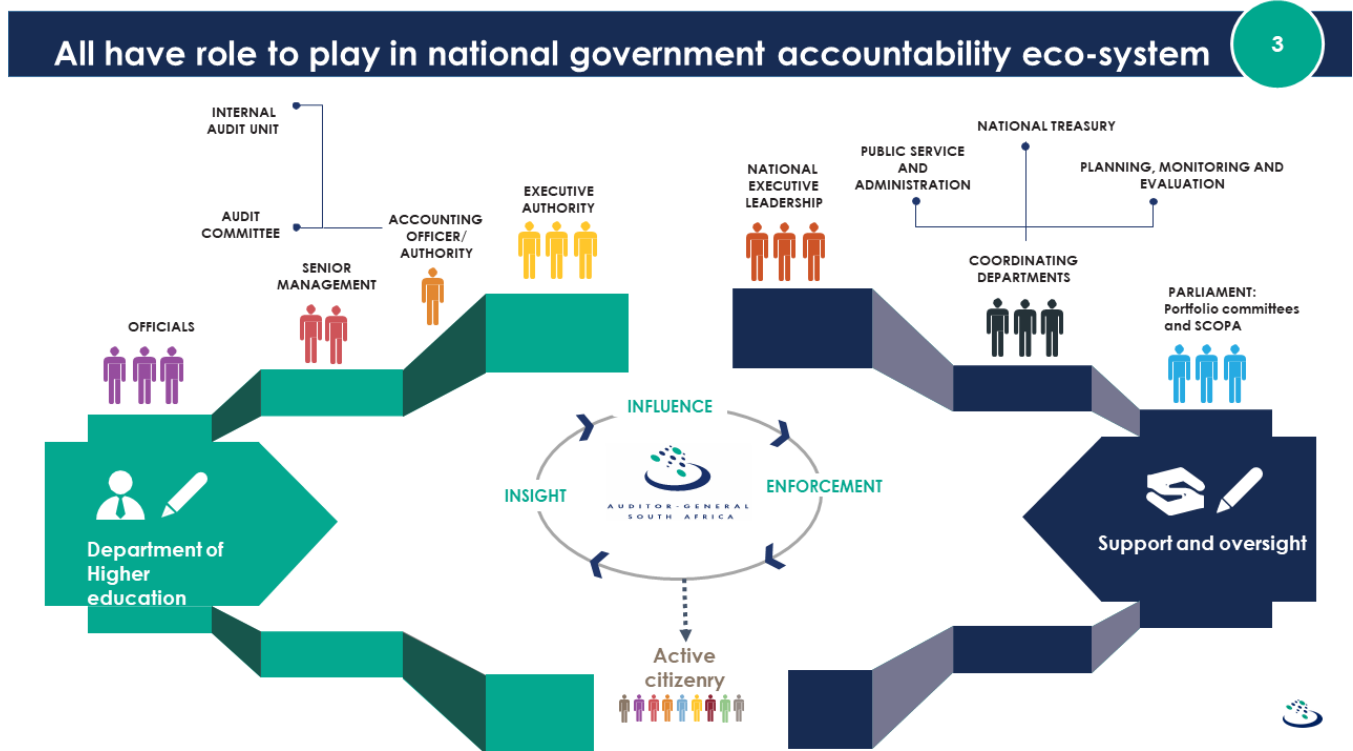
## 1.1 Reputation promise of the Auditor-General of South Africa

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

## 1.2 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes of the financial audit, the audit of performance information and the audit of compliance with key legislation of the National Skills Fund (NSF) for the financial year ended 31 March 2023.






## 1.3 Shifting the public sector culture through the accountability ecosystem



- The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.
- A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.
- Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.

- Given the nature of the AGSA’s mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.
- Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.

### 1.4 Audit outcomes explained

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• produced credible and reliable financial statements that are free of material misstatements</li> <li>• reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)</li> <li>• complied with key legislation in conducting their day-to-day operations to achieve their mandate</li> </ul>	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> <li>• align performance reports to the predetermined objectives they committed to in APPs</li> <li>• set clear performance indicators and targets to measure their performance against their predetermined objectives</li> <li>• report reliably on whether they achieved their performance targets</li> <li>• determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements</li> <li>• had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements</li> </ul>	 <p>Auditee:</p> <ul style="list-style-type: none"> <li>• had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements</li> </ul>

## 2. Audit outcomes

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	Outstanding audits
2020-21	0	0	0	0	1	0
2021-22	0	0	1	0	0	0
2022-23	0	0	1	0	0	0

The National Skills Fund still obtained a qualified audit opinion in the current financial year. The qualifications areas of the entity mainly relate to project management of skills development projects.

Controls around the project monitoring and expenditure approval processes at the NSF have improved over the years, however they are not consistently applied at all skills development projects. As a result, there was still inadequate supporting evidence to confirm the occurrence of expenditure for some skills development activities that the NSF has advanced funds towards. Inadequate supporting documentation was provided as evidence to substantiate that some skills development services have been received by the NSF. Due to insufficient project monitoring processes, the NSF did not accurately account for the provision recognised.

*Key internal deficiencies observed in the project management process:*

Inadequate monitoring that the service provider timely submits supporting documentation.

Lack of sufficient and adequate project visits to ensure that physical verifications are performed.

Inadequate verification of supporting documentation prior to processing payments.

It would be important for the leadership of the entity to take into consideration the recommendations by other institutions such as the SIU in implementing controls around project management of the skills development programmes.

The following areas were qualified in the current year:

### **Skills development funding**

*I was unable to obtain sufficient appropriate audit evidence that skills development funding for the current and previous year has been properly accounted for, as evidence that services had been received could not be provided. This was due to inadequate project monitoring and expenditure approval processes. I was unable to confirm the skills development funding by alternative means. Consequently, I was unable to determine whether any adjustments relating to skills development funding of R1 166 484 000 (2022: R4 694 294 000) disclosed in note 20, as well as the related deferred expenditure of R1 229 391 000 disclosed in note 8, accruals from non-exchange transactions of R2 159 617 000 disclosed in note 12 and the corresponding figure of trade and other payables from non-exchange transactions of R196 412 000 disclosed in note 10 to the financial statements were necessary.*

### **Provisions**

*The public entity did not have adequate systems in place to account for provisions from skills development funding in accordance to GRAP 19, Provisions, contingent liabilities and contingent assets as the provisions were not calculated correctly. Consequently, provisions reported in the statement of financial position and note 14 to the financial statements are overstated by R22 636 465. This also has an impact on the surplus for the period and the accumulated surplus.*

## **2.1 Audit of Predetermined Objectives**

### **Programme 2: Skills development funding** **Various indicators**

The actual achievement for two indicators did not agree to the achievement reported.

<b>Indicator</b>	<b>Target</b>	<b>Reported achievements</b>
2.1.2 Number of NSF-funded beneficiaries who completed their education and training	31 690	3 917
2.1.4 Number of NSF-funded learners who completed their education and training towards occupations in high demand (OIHD)	11 000	1 271

### Programme 3: PSET system improvement funding

The actual achievement for two indicators did not agree to the achievement reported. Consequently, it is likely that the achievement against the target was lower than reported.

Indicator	Target	Reported achievements
3.2.1 Number of capacity development projects funded	39	28
3.2.2 Number of NSF -funded PSET capacity development projects which achieved more than 60% of the envisaged outputs	35	12

## 2.2 Compliance with Laws and Regulations

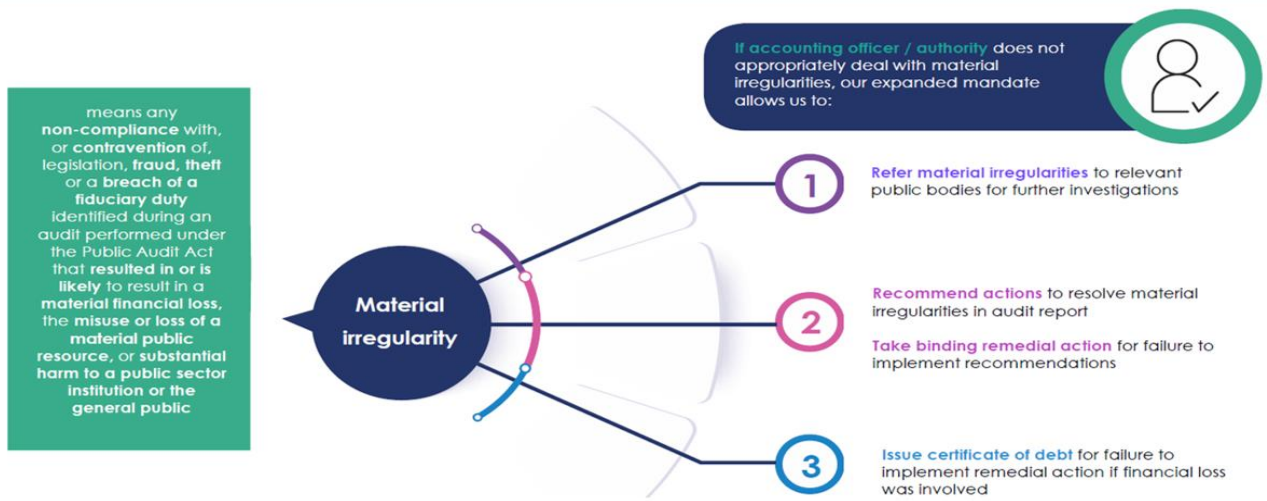
Most common areas of non-compliance	Description
Quality of financial statements	Financial statements submitted contained material misstatements of non-current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified opinion.
Consequence management	I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure were not performed

## 2.3 Irregular expenditure

The prior year irregular expenditure disclosed (Note 40) amounts to R1.3 billion as at 31 March 2023. The entity has indicated that the matter is with Internal Audit at determination stage.

## 2.4 Material Irregularities (MI)

### Implementation of material irregularity process



#### Payments made for duplicate unit standards.

The notification of a Material Irregularity (MI) was issued during the 2020-21 audit cycle to the accounting authority.

The material irregularity was not adequately addressed by the accounting authority. We therefore proceeded to the recommendations stage of the MI process. These recommendations were included in the audit report. In the current year’s audit report, the recommendations read as follows:

*The National Skills Fund entered into a project funding agreement with a skills development service provider. The objective of the project was to benefit 1 000 learners by enrolling them for a Security Officer Learnership programme (NQF level 3).*

*The National Skills Fund approved and paid for three credits that are already included in the original modules as additional modules. This resulted in additional costs with no additional benefit, in contravention of section 57(b) of the PFMA. The non-compliance is likely to result in a material financial loss if it is not recovered from the supplier.*

*I notified the accounting authority of the material irregularity on 9 August 2021 and invited the accounting authority to make a written submission on the actions taken and that will be taken to address the matter.*

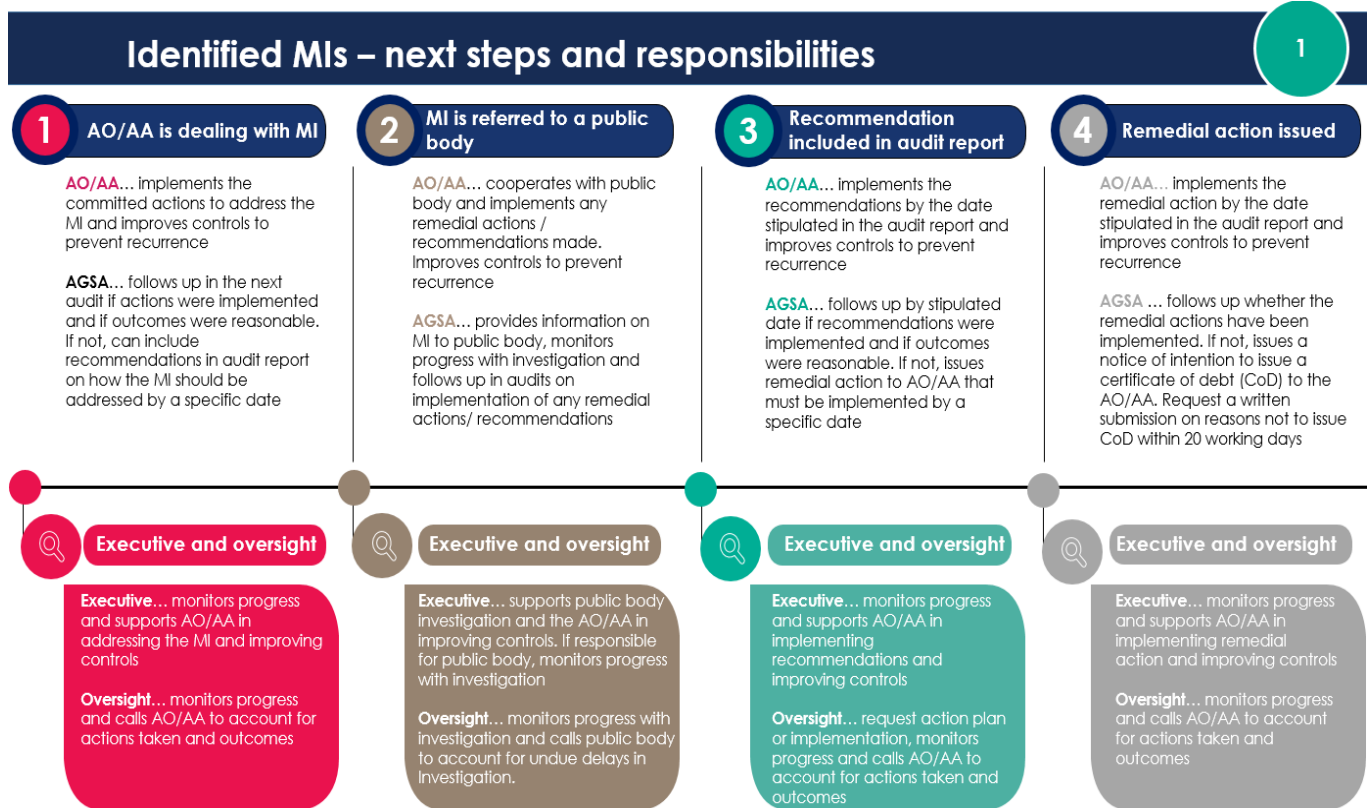
*The accounting authority did not take appropriate action in response to being notified of the material irregularity and I recommended that the accounting authority take the following actions to address the material irregularity by 2 December 2022:*



- a) *Appropriate action should be taken to finalise the investigation into the non-compliance with section 57(b) of the PFMA in order to determine the circumstances that led to the non-compliance for the purpose of taking appropriate corrective actions and to address control weaknesses.*
- b) *The financial loss relating to the duplicated modules should be quantified.*
- c) *Appropriate action should commence to recover the financial loss. The recovery process should not be unduly delayed.*
- d) *Effective and appropriate disciplinary steps should be initiated without undue delay, against any official that the investigation found to be responsible, as required by section 51(1) (e) of the PFMA.*

*The accounting authority submitted a written response with substantiating documentation on the implementation of the recommendations. I assessed the written response and substantiating documentation submitted and concluded that although an investigation was conducted, the outcome is not addressing the material irregularity. The accounting authority was notified of the outcome of the assessment.*

*The accounting authority is in the process of addressing the shortcomings in the investigation report and requested an extension for the implementation of the recommendations. I have granted the accounting authority an extension until 31 October 2023 to implement the recommendations. I will follow up on the implementation of the recommendations by 31 October 2023.*



### Progress to date

There was a request for extension by the National Skills Fund to submit responses and evidence for actions taken to address the material irregularity, we have since received the response from NSF on 29 November 2023. We subsequently requested supporting evidence and are continuing to evaluate information provided.

We intend to reach our conclusion on this material irregularity during the 2023-24 financial year.

## 2.5 Recommendation to the Committee

The following are our key recommendations to the committee as part of continuous accountability processes.

