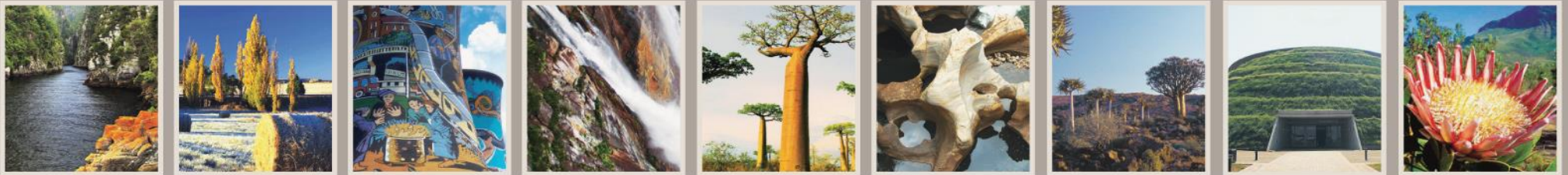


PFMA
2015-16



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



Briefing to the Portfolio Committee: Higher Education and Training Audit outcomes of the portfolio

12 October 2016

1

The AGSA's promise and focus



Reputation promise

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

Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Higher Education and Training portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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Our annual audits examine three areas

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1

FAIR PRESENTATION AND
RELIABILITY OF FINANCIAL
STATEMENTS

2

RELIABLE AND CREDIBLE
PERFORMANCE INFORMATION
FOR PREDETERMINED
OBJECTIVES

3

COMPLIANCE WITH KEY
LEGISLATION ON FINANCIAL
AND PERFORMANCE
MANAGEMENT



AUDITOR-GENERAL
SOUTH AFRICA

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements; and
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP); and
- observed/complied with key legislation in conducting their day-to-day to achieve on their mandate.

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

- align their performance reports to the predetermined objectives they committed to in their APPs; and/or
- set clear performance indicators and targets to measure their performance against their predetermined objectives; and/or
- report reliably on whether they achieved their performance targets; and/or
- determine which legislation they should comply with and implement the required policies, procedures and controls to ensure compliance.

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Qualified opinion



Auditee:

- had same challenges as those that were unqualified with findings but, in addition, they could not produce credible and reliable financial statements.
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.
- did not comply with key legislation in certain instances.

Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

Disclaimed opinion



Auditee:

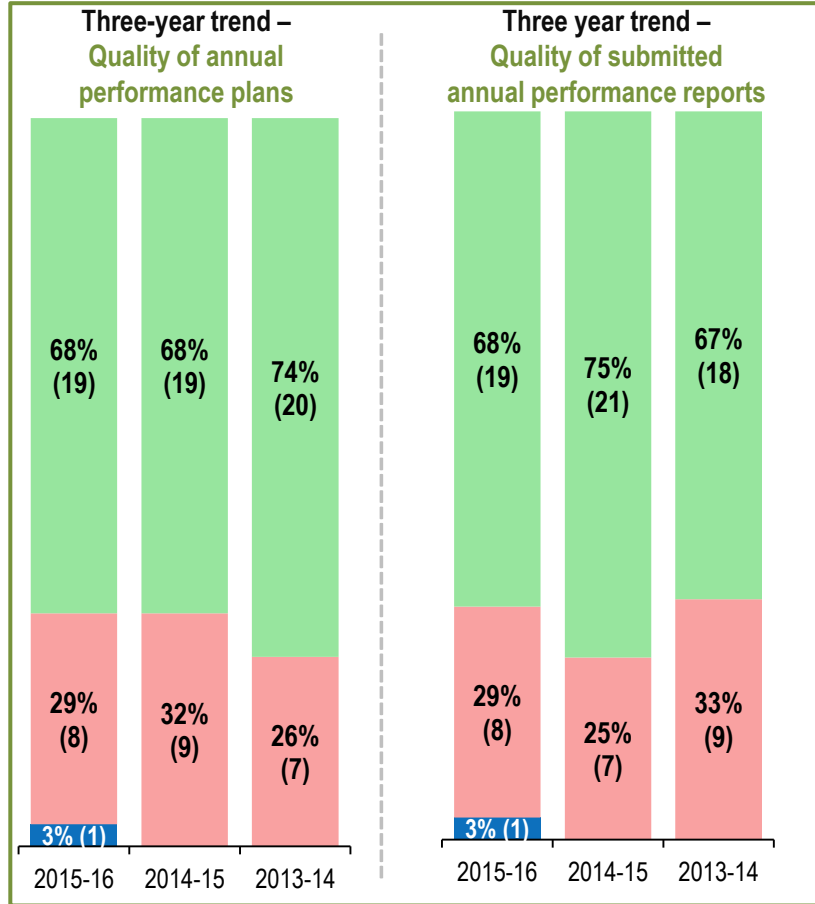
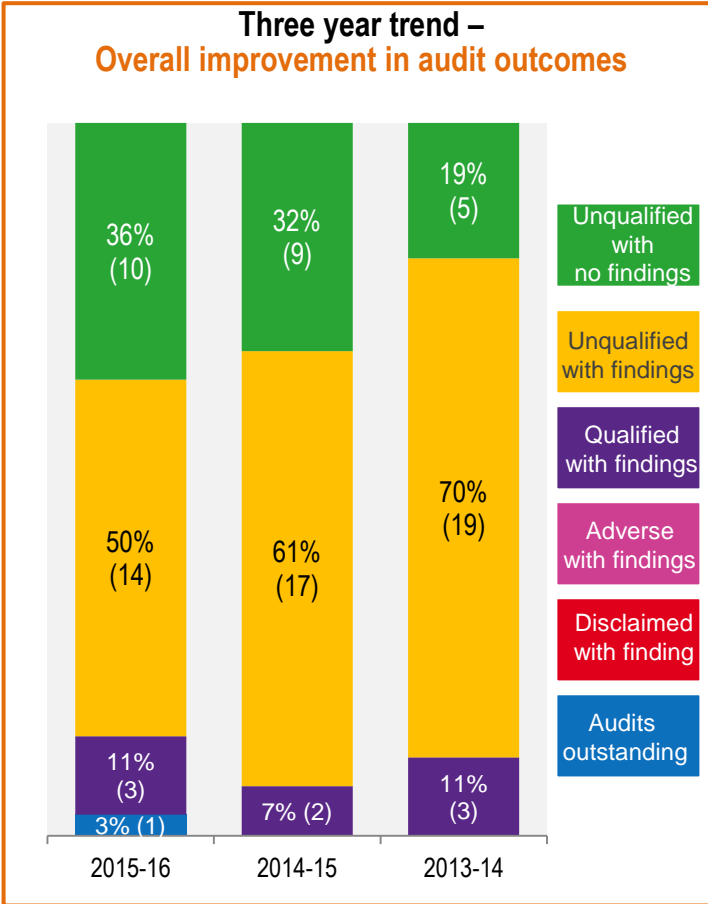
- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

2

The 2015-16 audit outcomes and key messages



Improvement in audit outcomes over 3 years

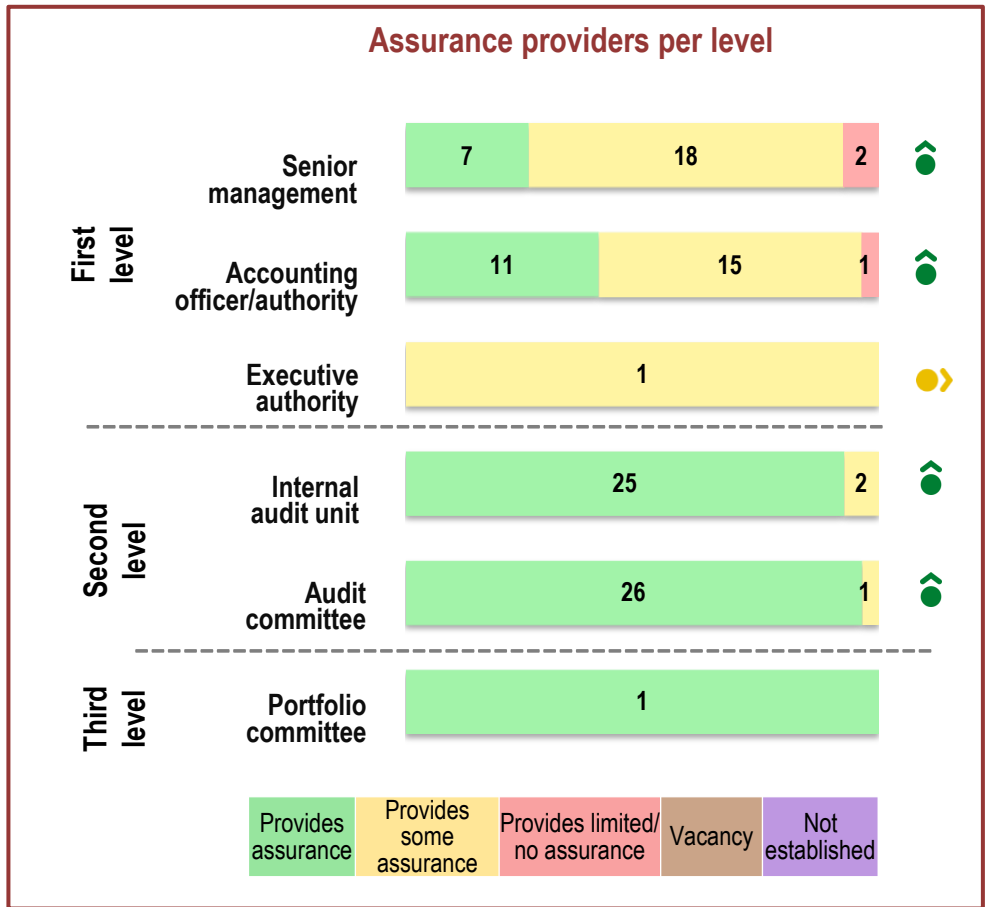
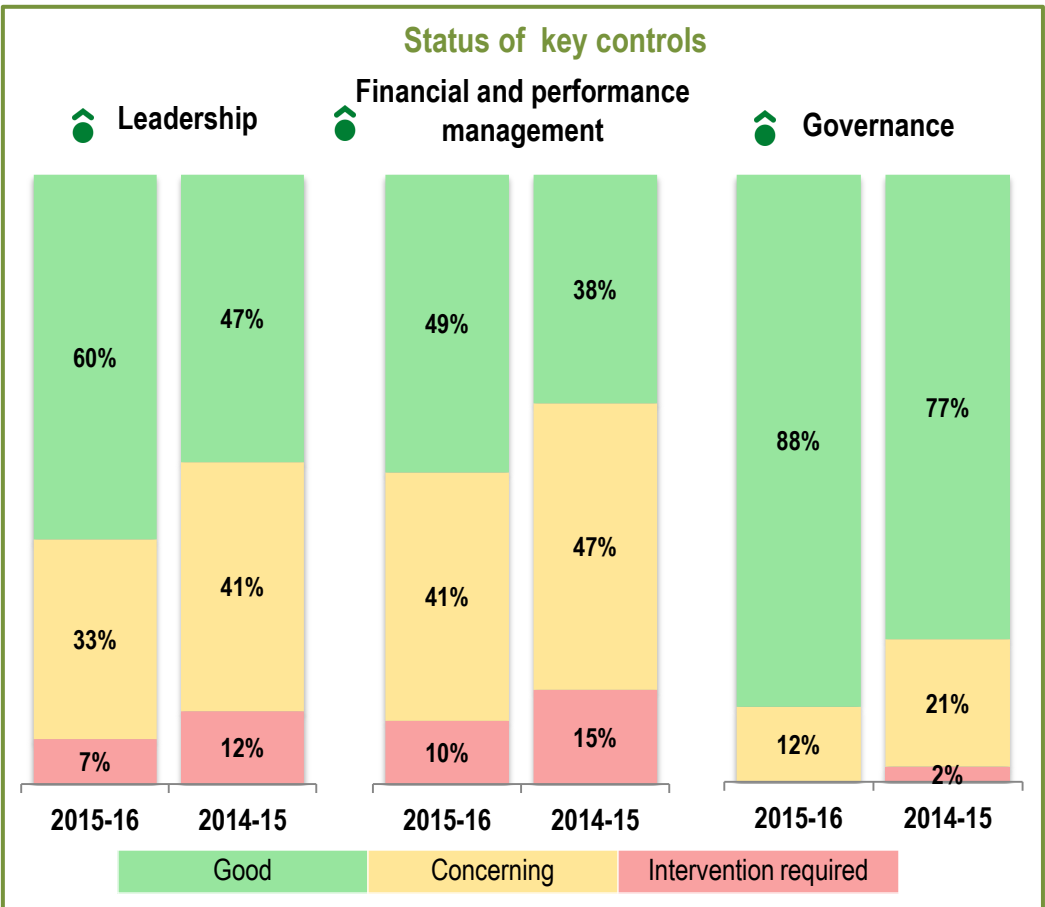


1 To improve/maintain the **overall audit outcomes**, financial statements processes, The portfolio's overall outcomes have improved over the three year period with a noticeable increase in clean audits. Six SETAs sustained their clean audit status over the last two years (four SETAs sustained clean audits over the last three years). Although the quality of AFS improved over the period there is still reliance on the audit process to identify and correct material misstatements in the AFS and performance reports to avoid qualifications and/or material findings. MQA, PSETA and W&R SETA should address identified root causes to resolve their qualifications.

2 **compliance** with key legislation and.... Compliance with legislation has improved from the prior year, although this is still an area of great concern. Half of the auditees in the portfolio had significant findings on non-compliance in the current year compared to two-thirds in the prior year. The main areas of compliance related to material misstatements in submitted financial statements, SCM, and non-prevention of irregular, fruitless and wasteful expenditure. Monitoring of compliance at auditees should be enhanced to prevent recurring findings.

3 **performance planning and reporting** must be improved by.... The quality of submitted annual performance reports remained mainly unchanged with fluctuating outcomes over the last three years over the usefulness and reliability of performance information. Seven (7) auditees avoided material findings in their audit reports only because they corrected all the misstatements identified during the auditing process. Improvement is required over the management of performance information which includes, amongst others, adequate reviews of performance reports against relevant supporting information to ensure reported achievements are accurate and complete.

Improvement in audit outcomes over 3 years - continued



4 ... providing attention to the **key controls** by...

There have been improvements in the status of key controls for the portfolio which supports the overall improvement in audit outcomes. Significant deficiencies in internal controls should be addressed as a matter of urgency to address matters that affect the audit report. Effectiveness of internal controls should be evaluated on a continuous basis and enhanced where required to ensure improvement in audit outcomes. Action plans should be developed that address reported root causes and implementation thereof should be monitored to ensure implemented controls are sufficient to prevent recurring audit findings. Staff should be held accountable to implement actions plans. Daily and monthly processing and reconciling of transactions should take place throughout the year to ensure that accurate and complete financial statements and performance reports are prepared at regular intervals. Adequate reviews of reports should take place and record management should be enhanced. Compliance monitoring should also be enhanced.

5 ... the key role players as part of their role in **combined assurance**

There have been improvements over the assurance provided by the first and second levels of assurance providers which supports the overall improvement in audit outcomes for the portfolio. The first levels of assurance should be further improved by implementing the recommendations of external and internal audit to strengthen the internal control environment. Consequence management should be implemented to hold staff accountable for improvement and maintenance of internal controls. Regular self-assessment of the status of key controls should be performed. The second level of assurance can be further strengthened by focusing the internal audit unit and directing the work of the audit committee towards evaluating the adequacy of action plans, reliability of progress against action plans, status of key controls, credibility of monthly financial statements and quarterly performance reports and compliance with legislation. The PC assessment was based on legislative oversight requirements.

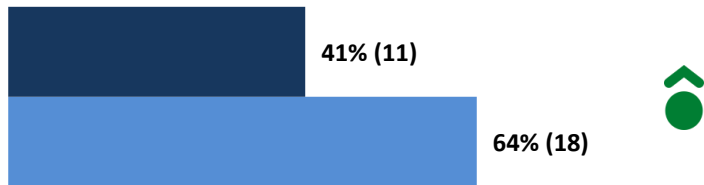
3 Financial management



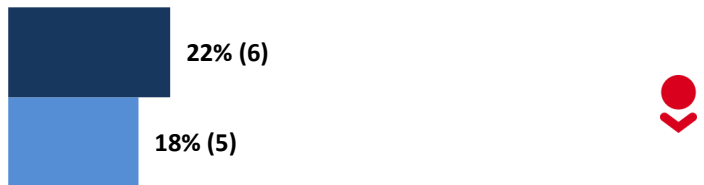
Improvement in compliance with legislation quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

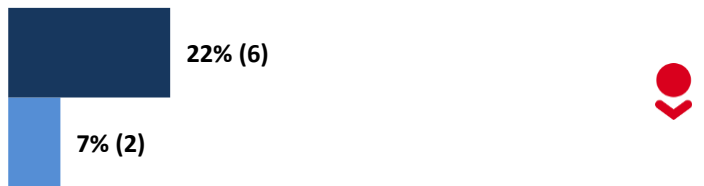
Material misstatement or limitations in submitted AFS



Procurement management



Unauthorised, irregular, as well as fruitless and wasteful expenditure

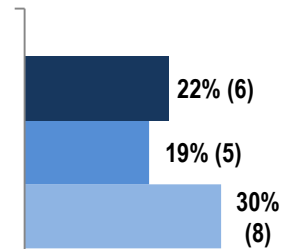


Revenue management

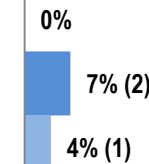


Figure 2: Findings on compliance with key SCM legislation – all auditees

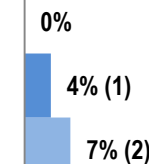
Uncompetitive or unfair procurement processes



Inadequate SCM controls



Inadequate contract management



Awards to close family members of employees

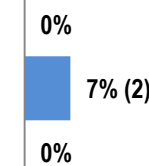


Figure 3: Qualification areas over three years

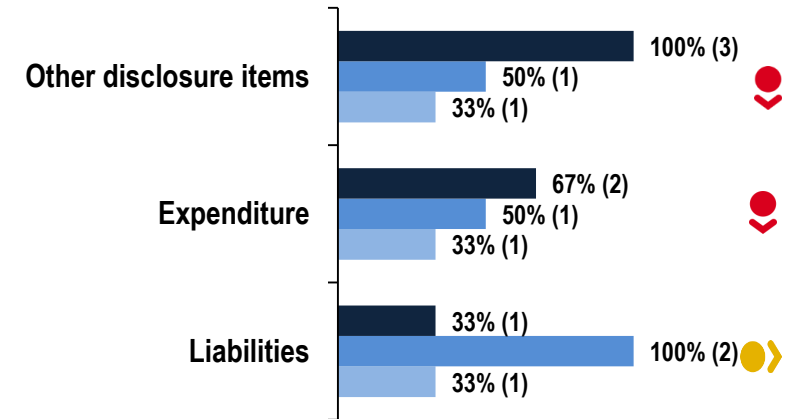
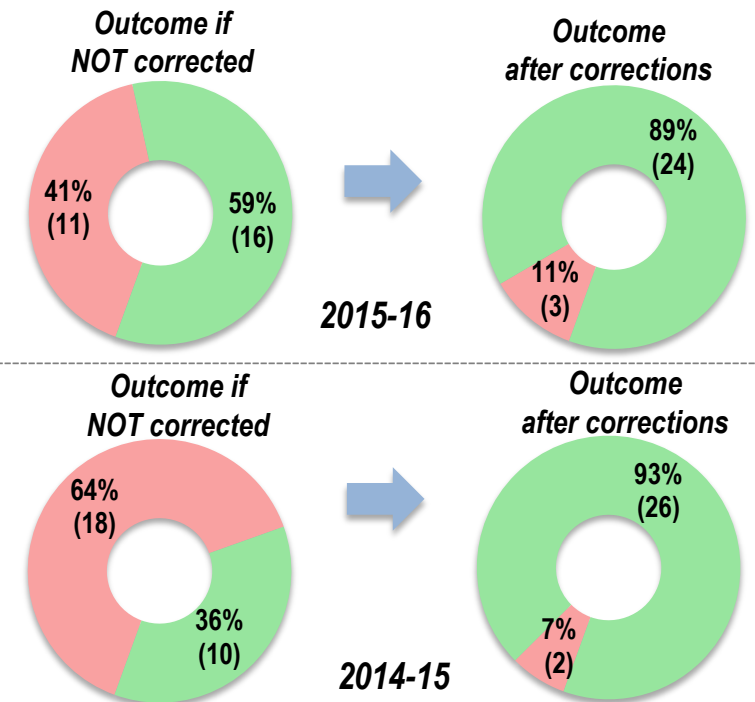
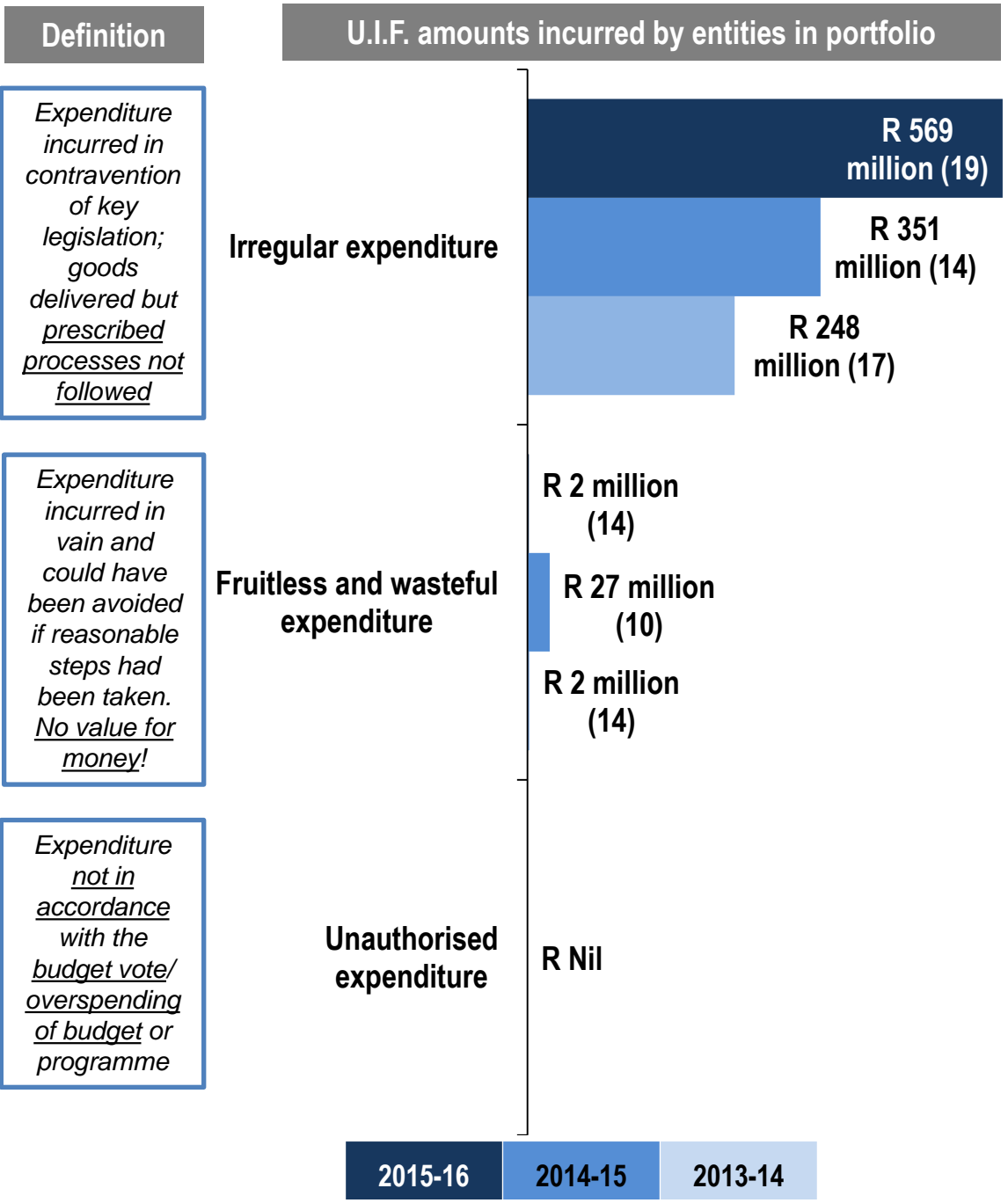


Figure 4: Auditees who avoided qualifications due to the correction of material misstatements during the audit

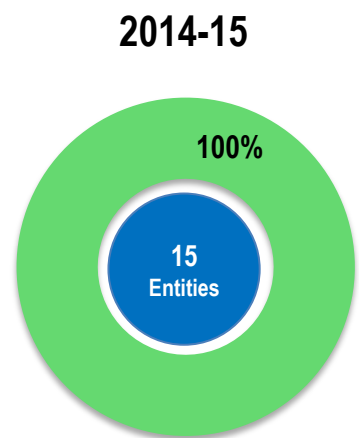
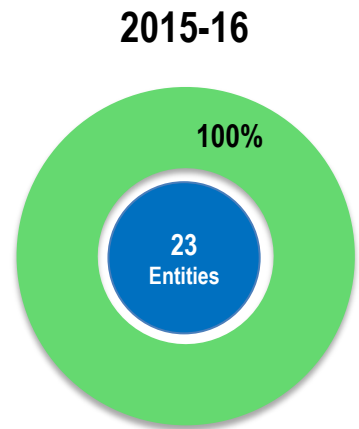


Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years and follow up action



Investigations of U.I.F expenditure

All auditees lodged investigations to determine root cause and consequences of U.I.F incurred



■ Investigated
 ■ Not investigated

4

Top three root causes, follow up on commitments and proposed recommendations



Top three root causes, follow up on commitments and proposed recommendations

1

... the following **root causes** must be addressed ...

Root causes

Slow response by management
(Accounting officer and senior management)

(10/17)
(18/19)



Lack of consequences for poor performance and transgressions

(7/17)
(9/19)



Instability or vacancies in key positions

(6/17)
(4/19)



■ 2015-16 ■ 2014-15

Slow response by management should be addressed through timely compilation of action plans that address root causes arising from audits and are communicated to all levels of staff. Regular monitoring of progress against action plans and effectiveness of implemented controls should be performed, including independent quarterly assessment by internal audit.

The performance management processes of staff should be strengthened to incorporate internal controls responsibilities in performance contracts for staff. Consequence management should be implemented for non-performance.

All funded vacant positions should be filled with individuals who have the appropriate qualifications and skills. A gap analysis should be performed in relation to the current level of skills and competencies. An action plan should be put in place to address the gaps identified.

2

... through honouring the following **commitments** made by the executive authority.....

Status of key commitments by minister

- 1) Improve the performance and consequence management system.
- 2) Revision of SETA landscape before March 2018, including evaluation of SETA board composition to improve governance and oversight.
- 3) Issuing of regulations for supply chain management (SCM) processes at TVET colleges (*policy issued*); issuing of requirements to report on performance information (*circulars issued for limited reporting only*)
- 4) Assess the performance of accounting authorities of TVET colleges and perform regular performance reporting (*policy framework developed*)

- 5) Implement measures to streamline information systems at TVET colleges (*data standards gazetted*)

- 1) Develop policies and procedures for collation, verification and reporting on performance targets achieved
- 2) Improve monitoring responsibilities of DHET over its entities, universities and TVET colleges (*policies developed*)
- 3) Issuing of regulations for universities to report on performance information
- 4) Appointment and monitoring of services delivered by administrators at entities and institutions (*framework developed*).
- 5) Monitor the rotation of auditors of universities every 5 years.

Not implemented In progress Implemented New

We met with the minister on 19 July 2016. The outcomes and status of implementation of commitments was discussed with the minister. Progress was made with implementation of prior years' commitments although some alternative actions were taken. Although some commitments were assessed by the department as implemented, it has not yet had the desired impact on audit outcomes. Monitoring and/or enhancements of the commitments will be required to achieve a positive impact on future audit outcomes. Issuing of regulations for TVET colleges rather than policies that are not enforceable, are recommended. Alignment of performance indicators between entities/institutions within DHET portfolio and DHET performance indicators and targets are recommended.

3

... and implementation of the following **proposed commitments** by the Portfolio Committee

Slow response by management

PC must request management to provide feedback on the implementation and progress of the action plans to address audit findings during quarterly reporting.

PC must request management to provide quarterly feedback on status of key controls.

PC must also get independent assurance from internal audit and audit committee that completeness and credibility of information presented to the PC on a quarterly basis has been verified or at least that the controls systems used to produce quarterly reports are reliable and credible. This includes obtaining independent assurance regarding the status of action plans and key controls presented by management.

Lack of consequences for poor performance and transgressions

The accounting officers/authorities and senior management should intensify their focus on ensuring that transgressors are held accountable and that action is taken as required by the PFMA (consequence management). List of action taken against transgressors must be provided quarterly to PC for follow up.

Instability or vacancies in key positions

PC must be request quarterly feedback on the filling of key vacancies and actions taken to address instability.

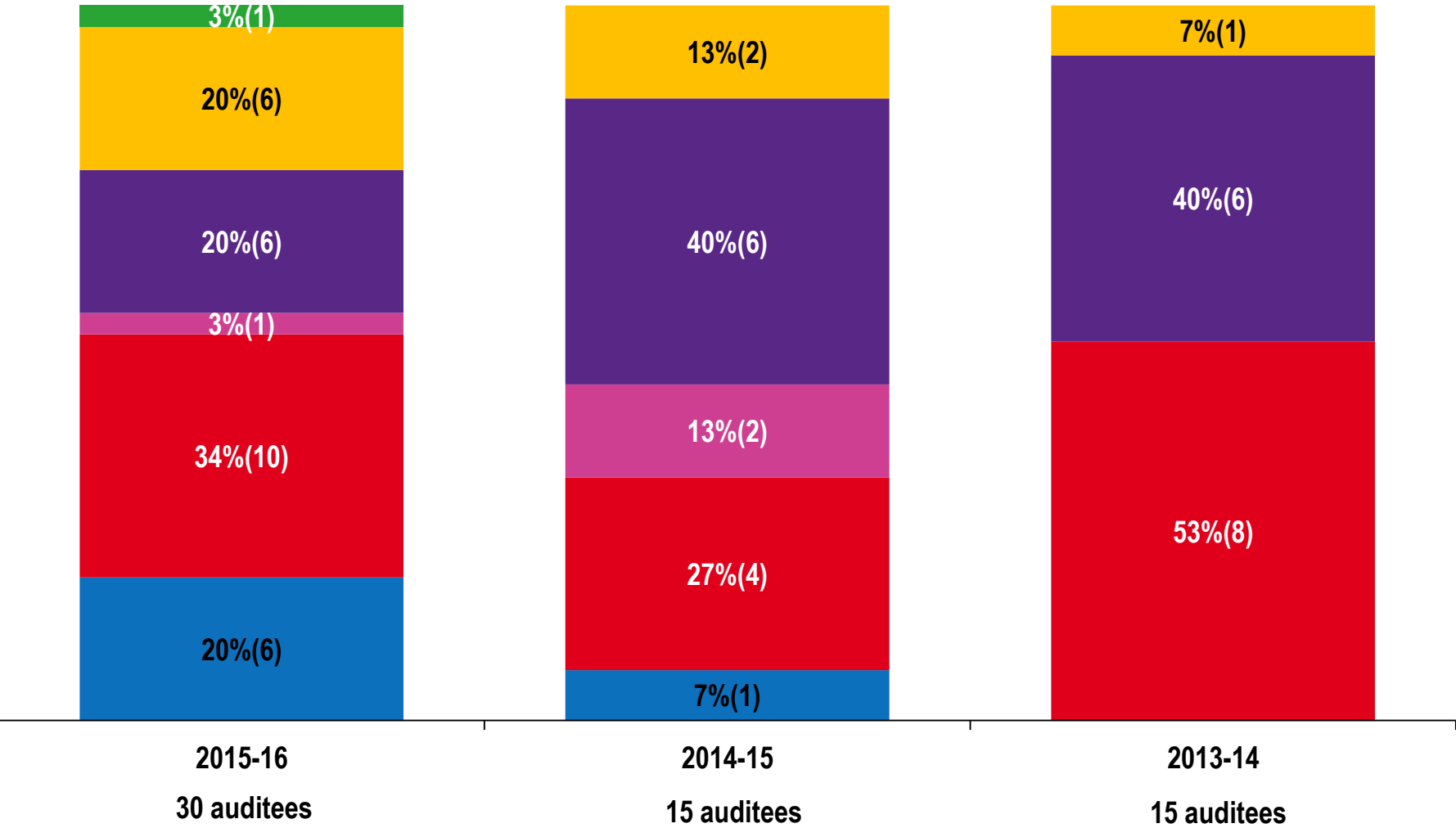
Other

PC must commit to request the department and entities to report on their impact and include a requirement that APPs of the department and entities must indicate the impact to be achieved by the department and entities.

TVET college audit outcomes



Audit outcomes of TVET colleges audited by AGSA



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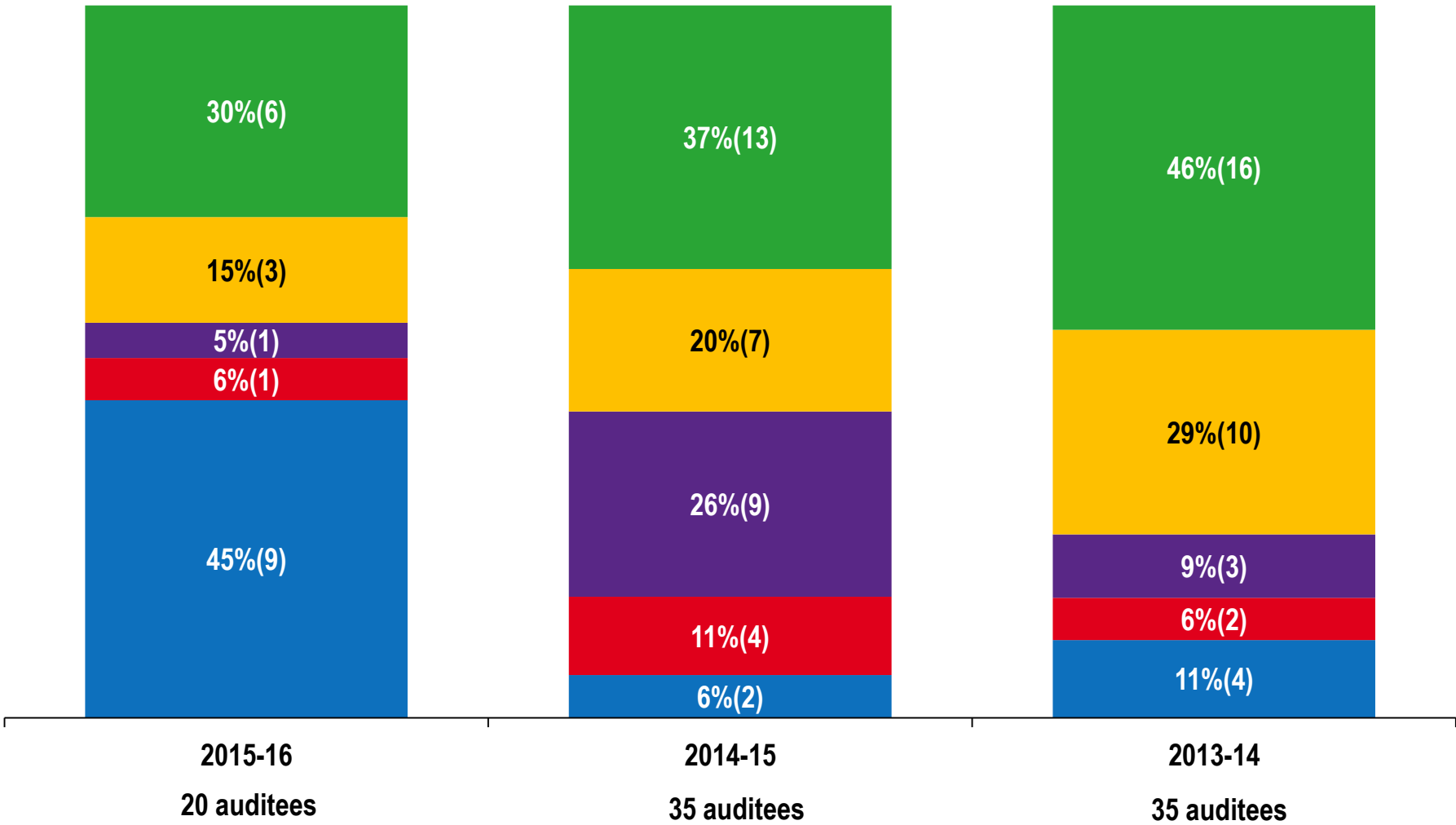
AFS outcome legend

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

- The trend in audit outcomes over the past three years indicates that the colleges have started to make some headway in the quality of their financial statements, resulting in improvement in the overall audit outcomes. Improvement in outcomes is attributable to improving skills and capacity within finance units, record keeping, controls over daily and monthly processing and reconciliation of transactions, implementation of action plans and governance. The large percentage of colleges with qualified, disclaimed and/or adverse opinions (71%) is still of great concern. These were mainly due to the failure by affected colleges to produce sufficient, appropriate evidence supporting financial statements as a result of inadequate systems, processes and/or poor records management practices. Significant improvements in controls are still required.
- Compliance with legislation has shown little improvement in the past two years. The main area of non-compliance was the failure to keep complete and adequate accounting records impacting the high number of qualified and disclaimed opinions. Internal audit and risk management systems at most colleges were also not of the required standard. TVET colleges are not subject to procurement requirements of the PFMA, TR and PPPFA.
- Colleges are not required to report on their performance against predetermined objectives.



Audit outcomes of TVET colleges not audited by AGSA



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AFS outcome legend

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

- The trend in audit outcomes over the past three years indicates that the colleges have regressed in the quality of their financial statements resulting in more qualified and/or disclaimer of opinions. It is difficult to pin down the exact cause of the regression - it could partly be due to the difference in audit approaches adopted by different auditors as some of the colleges have changed auditors in recent years.
- Compliance with legislation has also regressed over the past 2 years. Partly, this is attributable to recent legislative developments around conflicts of interest for council members and members of staff whereby colleges have not yet established adequate policies and procedures and implemented adequate controls to comply with these additional requirements. The failure to keep proper records to support the financial statements remains the main area of non-compliance. Internal audit and risk management systems at most colleges are also not yet of the required standard.
- TVET colleges are not subject to procurement requirements of the PFMA, TR and PPPFA.
- Colleges are not required to report on their performance against predetermined objectives.



University audit outcomes



Audit outcomes of universities (not audited by AGSA)



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AFS outcome legend

- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

- The new auditee is the Sefako Makgatho Health Sciences University
- The trend in audit outcomes over the past three years indicates that the quality of financial statements and compliance with legislation has slightly regressed.
- UNISA has received a qualified opinion in each of the past 2 years. University of Limpopo also received a qualified opinion in the previous year, and its current audit is not yet finalised
- The regression in compliance with legislation is mainly due to legislative developments of the past 2 years in the areas of conflicts of interest for members of council and staff and also reporting on performance against predetermined objectives. Some of the universities have not yet established adequate policies and procedures and strengthened the internal control environment to ensure compliance with the new requirements.



Questions

