Budgetary review and recommendations report

XX Month XXXX

Briefing to Portfolio Committee on Science and Technology
Reputation promise

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.
Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report* (BRRR).
1 Our focus
Our annual audit examines three areas

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
The AGSA expresses the following different audit opinions

<table>
<thead>
<tr>
<th>Unqualified opinion with no findings (clean audit)</th>
<th>Financially unqualified opinion with findings</th>
<th>Qualified opinion</th>
<th>Adverse opinion</th>
<th>Disclaimed opinion</th>
</tr>
</thead>
</table>
| **Auditee:**  
  • produced credible and reliable financial statements that are free of material misstatements  
  • reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)  
  • complied with key legislation in conducting their day-to-day operations to achieve their mandate | **Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:**  
  • align performance reports to the predetermined objectives they committed to in APPs  
  • set clear performance indicators and targets to measure their performance against their predetermined objectives  
  • report reliably on whether they achieved their performance targets  
  • determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance | **Auditee:**  
  • had the same challenges as those with unqualified opinions 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 | **Auditee:**  
  • 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 | **Auditee:**  
  • 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 |
The overall audit outcomes are indicated as follows:

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

Movement over the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

Movement of 5% or less: slight improvement

Auditees in Portfolio:

- DST – Department of Science and Technology
- HSRC – Human Sciences Research Council
- NRF – National Research Foundation
- CSIR – Council for Scientific and Industrial Research
- Included not audited by AGSA
- SANSA – South African National Space Agency
- TIA - Technology Innovation Agency
- ASSAf – Academy of Science of South Africa
The 2017-18 audit outcomes
Portfolio snapshot (2017-18)

Clean audits: 75% (NRF unqualified w/findings) (2016-17: 25%)

Quality financial statements: 100% (2016-17: 100%)

Quality performance reports: 100% (2016-17: 50%)

No findings on compliance with legislation: 75% (NRF) (2016-17: 75%)

Irregular expenditure: R52.5m (DST, NRF, CSIR, HSRC) (2016-17: R12.1m)
ACCOUNTABILITY

1. IMPACT
   BETTER LIFE FOR CITIZENS

2. DEFINE TARGET
   INTERNAL CONTROLS & SUPERVISION

3. IMPLEMENT THE BASICS
   MONITORING by ALL ASSURANCE PROVIDERS

4. CONSEQUENCES
   HANDBOOK ON ACCOUNTABILITY

5. ACT
   BETTER AUDIT RESULTS

6. OUTCOMES
   IMPACT
Audit outcomes of portfolio over four years

2017-18: 4 auditees
2016-17: 4 auditees
2015-16: 4 auditees
2014-15: 4 auditees
## Movement table (2017-18 over 2016-17)

<table>
<thead>
<tr>
<th>Audit outcome</th>
<th>MOVEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Improved</td>
</tr>
<tr>
<td>Unqualified with no findings = 3</td>
<td>DST</td>
</tr>
<tr>
<td>Unqualified with findings = 1</td>
<td></td>
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<tr>
<td>Qualified with findings = 0</td>
<td></td>
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<tr>
<td>Adverse with findings = 0</td>
<td></td>
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<tr>
<td>Disclaimed with findings = 0</td>
<td></td>
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</tbody>
</table>

Colour of the number indicates the audit opinion from which the auditee has moved.
Management has ensured that controls around proper record keeping as well as the controls around preparing regular, accurate and complete performance reports have improved resulting in an improved audit outcome at DST.

Management of HSRC has ensured that controls around reviewing and monitoring compliance have improved resulting in an improved audit outcome.

Proper supply chain processes are not always followed to ensure compliance with relevant legislation and the prevention of irregular expenditure at NRF.
### Assurance provided

<table>
<thead>
<tr>
<th>Assurance</th>
<th>Provides assurance</th>
<th>Provides some assurance</th>
<th>Provides limited/ no assurance</th>
<th>Not established</th>
</tr>
</thead>
<tbody>
<tr>
<td>First level</td>
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<tr>
<td>Senior management</td>
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<tr>
<td>DST, HSRC, NRF</td>
<td>3 (75%)</td>
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<tr>
<td>Accounting officer/authority</td>
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<tr>
<td>4 (100%)</td>
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<tr>
<td>Executive authority</td>
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<tr>
<td>1 (100%)</td>
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<td>Second level</td>
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<tr>
<td>Internal audit unit</td>
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<tr>
<td>4 (100%)</td>
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<tr>
<td>Audit committee</td>
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<tr>
<td>4 (100%)</td>
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<tr>
<td>Third level</td>
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<tr>
<td>Portfolio committee</td>
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<tr>
<td>1 (100%)</td>
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Evaluation per plan-do-check-act cycle

**PLAN**
- Status of audit action plans **Improved**
- Usefulness of performance indicators and targets **Improved**

**DO**
- Overall internal controls **slightly improved**
- Basic financial and performance management controls **are unchanged**
- ICT controls **Improved**
- No vacancies in CFO positions **Improved**

**CHECK**
- Assurance provided by:
  - Senior management and accounting officers **remain unchanged**
  - Minister **remain unchanged**
  - Internal audit units and audit committees **remain unchanged**
  - Portfolio committee **remain unchanged**

**ACT**
- Compliance with consequence management legislation **remain unchanged**
- Investigation of previous year UIFW **remain unchanged**
- Investigations into SCM findings we reported in previous year **remain unchanged**
Financial health and financial management
**Financial health**

**Key comments**

- The financial health of the portfolio is good. The portfolio is financially viable and should be able to continue normal operations in the foreseeable future.

<table>
<thead>
<tr>
<th>2017-18</th>
<th>100% (4)</th>
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<tbody>
<tr>
<td>2016-17</td>
<td>100% (4)</td>
</tr>
</tbody>
</table>

- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses
Irregular and fruitless and wasteful expenditure over 4 years

**Definition**

Fruitless and wasteful expenditure
*Nature:* fruitless and wasteful expenditure was as a result of interest, penalties and cancellation fees.
*Contributors:*
- CSIR R78 942
- HSRC R185 000
- NRF R27 000

Irregular expenditure
*Nature:* 100% of irregular expenditure incurred in the current financial year was as a result of contravention of SCM legislation
*Contributors:*
- CSIR R 7 420 678
- DSTR14 486 000
- HSRC R186 000
- NRF R30 460 000

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>2017-18</td>
<td>R4 million</td>
<td>24.3%</td>
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<tr>
<td>2016-17</td>
<td>R288 thousand</td>
<td>13.6%</td>
</tr>
<tr>
<td>2015-16</td>
<td>R291 thousand</td>
<td>12.1%</td>
</tr>
<tr>
<td>2014-15</td>
<td>R78 thousand</td>
<td>52.5%</td>
</tr>
</tbody>
</table>

Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed.
Irregular expenditure and supply chain management

Irregular expenditure increased from R12 million to **R 52.5 million** (more than 100% increase)

**31%** (R16 million) of the irregular expenditure was payments/ expenses in previous years only identified and disclosed for the first time in 2017-18

**5%** (R2.7 million) of the irregular expenditure includes payments made on contracts irregularly awarded in the previous year- if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

How much of the R 52.5 million then represents **non-compliance in 2017-18**?
Based on analyses, it is estimated to be 64%

**99%** (R52 million) of this R52.5 million irregular expenditure was identified by the auditees
Most common findings on supply chain management

- Three written quotations not invited
  - DST, NRF: 50% (2)

- Competitive bidding not invited
  - DST, NRF: 50% (2)
  - CSIR: 25% (1)

- Declarations of interest not submitted
  - DST, NRF: 50% (2)

- Suppliers' tax affairs not in order
  - NRF: 25% (1)

- Inadequate contract performance measures and monitoring
  - DST, NRF: 50% (2)

2017-18 | 2016-17
--- | ---

Potential fraud and consequence management

- No auditees had findings on non-compliance with legislation on consequence management

Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

<table>
<thead>
<tr>
<th>Year</th>
<th>Investigated</th>
<th>Not investigated</th>
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<tbody>
<tr>
<td>2017-18</td>
<td>100%</td>
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<tr>
<td>2016-17</td>
<td>100%</td>
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Supply chain management findings reported to management for investigation

SCM findings reported for investigation during the 2017-18 audit process (all auditees)

- Supplier(s) submitted false declaration of interest
- DST
- 25% 1 auditee
- 3 suppliers

Legend:
- All investigated
- Some investigated
- None investigated
Management (accounting officers and senior management), do not respond with the required urgency to our messages about addressing risks and improving internal controls.

Root causes

Slow response to improving key controls and addressing risk areas

NRF 25% (1)
AGSA Status of records review:

Engaging accounting officers in conversations that are insightful, relevant and have an impact

Status of records review

Pro-active follow up procedures

Financial and non-financial information (internal and external reports/documents & discussions with senior managers)

Feedback linked to Audit Outcomes

Key matters for attention:

- Policies and processes are not always in place to prevent non-compliances with the procurement and contract management prescripts.

- The review and monitoring processes in relation to performance reporting have improved from the prior year resulting in the improved audit outcomes. This needs to be maintained and improved to ensure accurate and complete annual performance reporting in the future.

- IT controls pertaining to security management, user access management and change control were not effectively designed and implemented.
## Entities included in the portfolio not audited by the AGSA: PAA (section 4(3) audit entities)

Four-year audit outcomes of auditees within the science and technology portfolio which are not audited by the AGSA in terms of PAA section 4(3)

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<td>N/A     ×            ✓</td>
<td>N/A     ×            ✓</td>
<td>N/A     ×            ✓</td>
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- **Unchanged**
- **Unqualified with no findings**
- **Unqualified with findings**
- **No material findings**
- **Material findings**
Status of key commitments

In progress

- Monitor the implementation of the action plans to address audit findings identified.
- Exercise oversight during quarterly reviews with regards to compliance with laws and regulations and performance reporting to ensure achievement of objectives.

Recommendations

- PC should request management to provide feedback on the implementation and progress of the action plans to ensure further improvement in the audit outcomes of the portfolio.
CORRUPTION

C = M + D - A

MONOPOLY
DISCRETION
ACCOUNTABILITY

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#AntiCorruption
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