
Moving forward

Trends in annual reporting by South African public universities



*A review of annual reporting by South African
public higher education institutions 2010-2012*

September 2014

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Terminology used in this publication

For the purposes of this publication:

- The Higher Education Act (Act No 101 of 1997) is referred to as ‘the Act’.
- The Standard Institutional Statute (published in Government Gazette No 23061, January 2002) is referred to as ‘the Statute’.
- The Regulations for Annual Reporting by Higher Education Institutions published in 2007 under the Higher Education Act is referred to as ‘the Regulations’
- The Implementation Manual published in the Regulations for Annual Reporting by Higher Education Institutions published in 2007 under the Higher Education Act is referred to as ‘the Manual’.

We have also aggregated the results of our analysis in terms of the three categories of universities found in the South African higher education environment. The 23 public universities are categorised as follows:

- **Traditional universities:** North-West University, Rhodes University, Stellenbosch University, University of Cape Town, University of Fort Hare, University of KwaZulu-Natal, University of Limpopo, University of Pretoria, University of the Free State, University of the Western Cape and University of the Witwatersrand;
- **Universities of technology:** Cape Peninsula University of Technology, Central University of Technology, Durban University of Technology, Mangosuthu University of Technology, Tshwane University of Technology and Vaal University of Technology; and
- **Comprehensive universities:** Nelson Mandela Metropolitan University, University of Johannesburg, University of South Africa, University of Venda, University of Zululand and Walter Sisulu University.

The report of the Ministerial Committee for the Review of Funding of Universities released in February 2014 identifies three clusters of universities for purposes of determining research development funding norms for the 2013/14-2015/16 cycles. The clusters proposed are:

- **Cluster 1:** Stellenbosch University, University of Cape Town, Rhodes University, University of Pretoria, University of the Witwatersrand, University of Fort Hare and University of the Western Cape;
- **Cluster 2:** University of KwaZulu-Natal, University of Johannesburg, University of the Free State, Nelson Mandela Metropolitan University and North-West University;
- **Cluster 3:** University of South Africa, University of Zululand, University of Venda, Tshwane University of Technology, University of Limpopo, Cape Peninsula University of Technology, Central University of Technology, Vaal University of Technology, Durban University of Technology, Mangosuthu University of Technology and Walter Sisulu University.

Dear reader

Public universities in South Africa are under pressure to perform and report on that performance – while meeting the expectations of a range of stakeholders in an increasingly challenging environment.

PwC has worked closely with universities over a number of years and has had the privilege to establish itself as a leader within the higher education sector, with all 23 public universities in South Africa being served by us. The scope of our services ranges from external audit, internal audit and tax consulting to organisational structure reviews and transformation processes, to mention a few. Within the external audit market, we serve more than 50% of the market.

In light of our deep knowledge of the sector, we have undertaken this value-adding review of the annual reports of public universities in South Africa to identify useful insights for the sector and its stakeholders.

This report presents an analysis of the publicly available annual reports of the 23 public universities that were in existence in December 2012. It covers the December year ends of the 2010, 2011 and 2012 annual university reports that were publicly available.

The Regulations for Annual Reporting by Higher Education Institutions published in 2007 under the Higher Education Act, prescribe a consistent framework for annual reporting. Universities would score highly by complying with the format and disclosure obligations required by the Regulations. Our analysis covers four of the six reports on governance and operations required by the Regulations.

Although most universities followed the format prescribed in the Implementation Manual that accompanies the Regulations, the content of the reports lack consistency. This reflects the fact that the 23 universities are at different levels of maturity with different priorities as far as corporate governance is concerned.

The annual financial reviews by the chief financial officers are of a high quality and communicate the salient points on financial performance to stakeholders. There is commonality in the major issues raised by chief financial officers with five main themes standing out. The emphasis in these reports is, however, on short-term performance and not on future sustainability. For the most part the audit opinions of the external auditors reflect unqualified audit reports for the years under review, which is a feather in the cap of the higher education sector.

The most consistent part of the annual reports is the consolidated annual financial statements. The look and feel, which is set out in the Regulations, is similar and clearly communicates to the reader.

The only inconsistency during the period under review has been the use of two different accounting frameworks, which can affect comparability of financial results slightly. With the phasing out of South African Statements of Generally Accepted Accounting Practice, these reports should be more consistent in the future.

Despite this inconsistency, we were able to calculate and compare various ratios to highlight trends in higher education. The review of the consolidated annual financial statements made us conclude that South African public universities:

- Remain very dependent on state grants and tuition fees, with third-stream income becoming more important for sustainability in the sector;
- Focus on keeping staff costs within the norms of the Department of Higher Education & Training;
- Saw their liquidity levels deteriorate over the last three years;
- Improved their sustainability, although the number of universities with annual losses increased;
- Increased their exposure to student debtors, but decreased their provisioning against such debtors; and
- Are experiencing an increase in post-retirement obligations.

Between January 2003 and December 2013 there have been three sets of reporting regulations either in place or under discussion. Having perused almost 50 annual reports in the sector covering a three-year period and having observed a variety of strengths and weaknesses in the reporting, we are wondering whether a change in reporting regulations is the only remedy available to improve the quality and consistency of reporting.

Annual individual feedback by the Department of Higher Education & Training as well as sharing or highlighting best practice reporting in the industry, will also contribute to better quality reporting.

At the same time, we must also acknowledge that no one-size-fits-all in higher education. Different groupings of universities are experiencing different challenges, priorities and opportunities.

We trust this publication will stimulate discussion about consistent annual reporting in this critical sector in South Africa.

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About the authors



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Professor Loyiso Nongxa is a PwC specialist education advisor. He was the Vice-Chancellor and Principal of the University of the Witwatersrand (Wits) in Johannesburg from 2003 to 2013. During his term as Vice-Chancellor, he was on the steering committee that developed a proposal for the merger of the former Committee of Technikon Principals and the South African University Vice-Chancellors' Association. He also served as the co-Chairperson of the Research and Innovation Strategy Group.

Professor Nongxa is a mathematician who has lectured at the University of Fort Hare, the National University of Lesotho, the University of Natal and the University of the Western Cape (UWC). He holds a B.Sc (cum laude) and M.Sc (cum laude) from Fort Hare and a D.Phil from the University of Oxford.

In 1978, Professor Nongxa became South Africa's first African Rhodes Scholar. Professor Nongxa is an established researcher and enjoys international recognition for his high quality research outputs. His research interests include Abelian Group Theory.

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Introduction

In November 2012 the Minister of Higher Education & Training gave notice of his intention to repeal the Regulations for Annual Reporting by Public Higher Education Institutions released in August 2007. He invited all interested parties and organisations to comment on the proposed new regulations and the deadline for submitting written comments was 31 January 2013. The new Reporting Regulation of Higher Education Institutions was released in June 2014.

The 2007 Reporting Regulations replaced previous regulations that were published in August 2003. Thus, between January 2003 and December 2013, three sets of reporting regulations were either in place or under discussion. The 2007 Reporting Regulations are the basis for the annual reporting by the South African universities on which the commentary in this report is based.

Chapter 1 of Government Gazette No 30132 of August 2007 provides an eloquent rationale for annual reporting by public higher education institutions:

The aim of this report is to contribute to the debate around reporting by higher education institutions by analysing and evaluating the quantity and quality of the information disclosed by institutions in their annual reports.

Rather than implementing frequent changes to existing reporting regulations, we believe much could be gained by encouraging institutions to improve the quality of the content of their annual reports, through sharing or highlighting best practice that already exists within the system.

This could be achieved, for example, if the Department of Higher Education & Training were to provide annual feedback to each institution on any areas that need attention in their reporting and providing practical advice on how this can be achieved.

*“Public higher education institutions (HEIs) in South Africa enjoy considerable statutory autonomy. This autonomy makes it important that the structures of governance and management of these institutions should account to both internal and external stakeholders in a consistent and **prescribed manner** [own emphasis]... [they]... are required to provide such account to the state through the Minister of Education and, according to accepted practice, to report to other stakeholders, which would normally include staff and students of the institution, its donors and alumni and members in which it is located. (Government Gazette No 30132 1, August 2007).”*

Scope of analysis

This report presents our analysis of the annual reports submitted by the Councils of South Africa's 23 public universities to the Department of Higher Education & Training. At least two annual reports from each institution were examined. For all 23 institutions, we were able to access the annual reports for 2012 and the other report was either for 2010 or 2011.

The first question we considered is whether these documents are (supposed to be) in the public domain. We were able to download 36 reports directly from the websites of the universities and in only 10 instances did we approach the institution directly with a request for a copy of the annual report. These were provided.

The reports were scrutinised on three levels:

- Firstly, the *'Implementation Manual for Annual Reporting by Higher Education Institution (Second Edition)'* asserts that "This manual comprises the specifications for annual reporting by all public higher education institutions". It requires that an annual report should comprise six elements:

1. Reports and statements on governance and reports on operations;

2. Annual financial review;

3. Report of independent auditors on the consolidated financial statements;

4. Consolidated annual financial statements;

5. Report of independent auditors on the supplementary financial data and financial performance indicators; and

6. Supplementary financial data and financial performance indicators.

- Secondly, "the minimum content of each of these six sections is prescribed in this manual"¹. In Chapter 3 of the Manual, it is stated that "This example and those that follow are for guidance only". In other instances the Manual asserts that the respective report must address or must include disclosure of particular issues. Our analysis suggests most universities used the Manual for guidance and disclosed what was appropriate for their institution.
- Thirdly, the reports were evaluated for the quality of the information provided, the depth of coverage and the details provided. We acknowledge that this is a subjective process to some extent.

Of the 46-plus annual reports we examined, we only accessed reports that covered items 1 to 4 above, as reports 5 and 6 do not form part of the main body of the annual report and are submitted directly to the Department of Higher Education & Training.

¹ Government Gazette No 30132, August 2007, Page 21

2.2 Annual Report of a Public Higher Education Institution (King 1/7-20; 49-50; 91-101; 147-151)

2.2.1 The Annual Report must comprise of the following:

- REPORTS AND STATEMENTS ON GOVERNANCE AND REPORTS ON OPERATIONS
- ANNUAL FINANCIAL REVIEW
- REPORT OF INDEPENDENT AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS
- CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
- REPORT OF INDEPENDENT AUDITORS ON THE SUPPLEMENTARY FINANCIAL DATA AND FINANCIAL PERFORMANCE INDICATORS
- SUPPLEMENTARY FINANCIAL DATA AND FINANCIAL PERFORMANCE INDICATORS

Source: Regulations for Annual Reporting by Public Higher Education Institutions, 2007, page 21

Reports and statements on governance and operations

There are eight reports or statements that are supposed to be included in this section. We found coverage and reporting in this section was not uniform. In most instances, institutions adopted the format suggested by the Manual. In a few cases, the report was organised around an institution's strategic plan and/or organisational structure.

Those with knowledge of the higher education sector (such as officials in the Department of Higher Education & Training) would be able to conclude whether matters expected in terms of the Manual, had been adequately covered or addressed. In three cases we were unable to satisfy ourselves that all eight reports required in this section had been adequately covered.

It should be noted that at least four of the annual reports were prepared during a period when the Department of Higher Education & Training had appointed an administrator to take over some or all of the responsibilities of council and/or senate at certain universities.

In these instances the administrator had a mandate to address specific issues identified in a brief by the Department of Higher Education & Training. Notwithstanding the challenges faced by a few institutions, overall South African public universities score very highly in terms of their compliance with the reporting requirements of the Manual.

We now turn to the individual reports in this section.

3.1 Reports and statements on governance and operations

These statements comprise of the following:

(King II: 7-20; 32-41; 91-142)

- Report of the Chairperson of the Council
- Statement on corporate governance
 - Council committees
 - Conflict management
 - Worker and student participation - co-operative governance
 - Code of ethics
- Report of the Senate to the Council on teaching, research, and extension
- Report of the Institutional Forum
- Report of the Principal on management/administration
- Report on internal administrative/operational structures and controls
- Report on assessment of exposure to risk and the management thereof
- Annual financial review

Source: Regulations for Annual Reporting by Public Higher Education Institutions, 2007, page 21

Report of the chairperson of council

These reports varied considerably in length, style and depth. In line with the requirement of the Manual, most contained council's statement on corporate governance and a statement on the code of ethics.

It is worth noting that as far back as 2010, some institutions had already decided to conduct an independent assessment of the extent to which they were compliant with the recommendations of the King III Report on Governance (2009), while the Manual only encouraged compliance with the King II Report on Governance (2002). This is a good example of the commitment shown by many institutions to remain up to date and compliant on matters of governance.

Among other requirements, four statements are expected to be included in the chairperson's report. These concern:

- A self-assessment of achievement of the council;
- Council and council committees;
- Conflict management; and
- Worker and student participation.

Statement of self-assessment of achievement of the council

In the majority of cases, items meant to be addressed in this report are covered in the report of the principal or senate's report to the council. In the great majority of reports the chairperson's report provides an overview of "matters of significance considered by the council during the period".

Very few reports explicitly addressed "achievements in meeting social responsibility commitments". In most cases, this social responsibility was covered in the report of senate to council. Very few of council chairpersons' statements included "a statement that those [council subcommittees] with a mandate of strategic or financial significance are chaired by individuals with appropriate skills and experience".

Almost all reports included a summary of attendance by members at meetings of the council and most included attendance of meetings of council subcommittees. It appears there are different interpretations of the required "self-assessment" or "self-evaluation" of the council. In the majority of cases, this would appear to be interpreted as demonstrating that the council complied with the appropriate standards of accountability.

In other cases the council reported that it had adopted an institutional plan with clear objectives and reported on progress against these objectives. At five universities, the council reported that a formal assessment of its performance had been conducted.

This was achieved either by means of a questionnaire completed by members of council and analysed by an independent organisation or by council engaging an independent organisation or respected figure knowledgeable about the higher education sector to conduct such an assessment.

Statement on council and council committees

Except in one case (where the council consisted of 33 members), councils have a maximum of 30 members with at least 60% of the members of the council reported to be "persons who are not employed by or students of the higher education institution".

In almost all cases, there were four full council meetings per year at regular (mainly quarterly) intervals. Instances of special meetings or emergency meetings being convened were not mentioned in any of the reports. In the past, this has been one of the issues highlighted in reports of external assessors appointed by the Minister to advise on underlying problems at troubled institutions.

In most cases, the executive committee of council meets between the full council meetings to deal with matters delegated by council or those that may not require a full council meeting.

The Standard Institutional Statute [Government Gazette No 23061, January 2002, Section 18(4)] stipulates that "The chairperson of a committee may not be an employee or a student of the higher education institution". In only a minority of reports was it explicitly mentioned that the chairperson was an external member of council.

The Statute [Section 9(1)] also stipulates that "The Council, as contemplated in section 27 of the Higher Education Act, consists of... (c) five members appointed by the Minister". The membership of a great majority of councils satisfied this requirement, but six had fewer. We understand that in these instances, the Institutional Statutes submitted to and approved by the Department of Education state these Councils will have **no more** than five members appointed by the Minister, making this permissible.

In terms of Paragraph 18 of the Standard Institutional Statute, council appoints at least four committees. For most of the institutions, we found, at a minimum, that the following committees had been established:

- a. *Executive committee;*
.....
- b. *Finance committee;*
.....
- c. *Human resources committee;*
.....
- d. *Audit committee; and*
.....
- e. *Nominations committee.*
.....

The Manual explicitly requires the establishment of (b), (d) and (e) as well as a **planning and resources committee**. The latter “is concerned with medium and long term strategic plans, together with providing input for the preparation of the annual budget by the Finance Committee. It is responsible, amongst other things, for ensuring that all financial implications of both capital programmes and the annual operating budget, including **the implications of resource allocation to strategic objectives** [own emphasis], are referred to the Finance Committee”.

A number of the annual reports make no mention of the existence of such a committee. However, several institutions appear to formally align their finance committees with other strategic activities and portfolios. Moreover, within its annual financial review, the Manual recommends every institution:

“Should provide an overview of the institution’s budget process and indicate the means whereby the process, specifically as regards to resource allocation, promotes the attainment of the strategic goals and objectives of the institution and intends to promote operational sustainability in the foreseeable future.”

Paragraph 18 of the Statute also empowers councils to appoint other committees as may be required. We identified the following committees that had been established by a number of institutions:

- Appeals or dispute/conflict management committee (to deal with appeals against staff disciplinary findings or student exclusions on academic or financial grounds);
- Tender committee;
- Governance committee;
- Investment committee; and
- Student services advisory committee.

In certain instances, there has been a conscious effort or objective on the part of a council to bring about alignment amongst its different committees. This is achieved through different mechanisms, which include:

- The executive committee of council consists of all chairpersons of the different committees of council;
- Joint meetings of council committees (for example, joint meetings of the finance committee and the audit committee); and
- Joint committees:
 - Audit and risk committee (in all but one case); and
 - Finance and general purposes committee, finance and facilities committee, finance and building committee, finance and physical planning committee, (strategic) planning and resources (allocation) committee.

Paragraph 28 of the Statute empowers council “...in consultation with senate, [to appoint] such joint committees of the council and the senate as may be necessary for the performance of particular tasks”.

Only one institution lists or mentions joint senate and council committees – such as the human resources committee, university research committee, strategic planning and resources allocation committee as joint committees of senate and council. Such joint committees may be an effective mechanism to bring about better alignment between the two important statutory structures within public universities, namely the council and the senate.

Statement on conflict management:

A small majority of the annual reports explicitly addressed conflict management, although their statements were for the most part rather brief. In a few instances, where an administrator had been appointed, did the report mention some of the tensions that could have led to such an intervention by the Minister.

Statement on worker and student participation (co-operative governance)

Most annual reports address this by mentioning the statutory structures (council, senate and institutional forum) with student and staff representation. Over and above this, some annual reports mention recognition agreements between the institution and recognised staff unions, which might include formal union representation on some committees. Others mention regular meetings scheduled between senior management of the institution and the student representative council and/or workers within the institution.

Report of the institutional forum to the council

A very large majority of the reports examined contained this report duly signed by the chairperson of the institutional forum. In a few instances these were in an acting capacity. The Manual states that “the report of the Institutional Forum must include all instances of advice sought by and advice given to the council by the Institutional Forum. The composition of the Forum should be listed”.

On the latter requirement, the reports either had detailed information on the names of members, constituencies they represent and include an attendance register; or simply comment that the membership met with the requirements of the Statute or were simply silent about the membership.

The themes around which advice was given to council mainly concerned those mentioned in the Statute, especially:

- Race and gender equity policies; and
- The selection of candidates for senior management positions.

A few reports mentioned challenges regarding scheduled meetings. These either had to be postponed or were not quorate. In other instances, the reports mentioned requests to council that the institutional forum should be represented on council. A few mentioned dissatisfaction with the lack of feedback from council on advice that had been provided by the institutional forum.

Report of the principal

Without exception, all reports contained a fairly detailed and lengthy report by the principal addressing most of the issues specified in the Manual. A large majority also provided additional information on a whole range of other issues.

However, the quality of the information provided varied. Here, we wish to comment in some detail on two of the issues that the report of the principal must address:

- **The extent to which equity targets in the workplace have been realised**

All public higher education institutions are required to submit Employment Equity Plans to the Department of Labour, which, amongst other things, include targets to be achieved over a three-year period. While the Manual specifically requires disclosure of the extent to which equity targets have been realised, most reports only provide the current demographic profile of the institution in terms of race and gender. Only a minority provide information on the targets to be met.

A number of the reports provide an analysis of progress made over a period of time – for example the increase in the proportion of female students over five years. In many cases the demographic profile is provided by faculty or by programme students are registered for.

Very few reports explicitly address or provide data on disabled persons. However, we wish to highlight that one university reported that it has collaborated with the South African Disability Association and the National Council for Persons with Physical Disabilities in South Africa (NCPDPSA). It also places advertisements on the NCPDPSA website to ensure that various organisations in this domain are aware of employment and other opportunities at the university.

This is an example of good practice that can be emulated by others if they do not already have similar initiatives in place. In instances where the demographic profile is given by division (for example faculty) or by individual campus, for multi-campus institutions, it would be illuminating to show aggregated information for the entire institution.

Statement of self-assessment of the achievement of the principal

Most vice-chancellors are reticent about providing a self-assessment of their own achievements. The situation is aptly captured in the following quotes by two vice-chancellors:

“Much of my performance must be measured by the day-to-day management and functioning of the university since all the senior officers – both academic and support staff – ultimately report to me. Thus the performance of the university as reflected in the financial statements, the teaching and learning report, the research report, the report on [name of institution] responsiveness to local and global issues are all a direct or indirect reflection of my performance.”

The other vice-chancellor states:

“The institutional plan constitutes the performance agreement between council and the vice-chancellor and, at the same time, is appropriately applied in agreements of managers at all levels at [name of institution].”

In this light, an examination of the annual reports reflects a number of trends:

- The report of the principal does not explicitly provide a statement of self-assessment;
- As suggested in the quotes above, the statement of self-assessment can be inferred from principals’ reports as a whole and whether they report that the institution has made progress during the period under review;
- The report of the principal would highlight projects within the institutional plan that he or she was personally responsible for and achievements against these goals or objectives; and
- Principals provides information not only on the achievements of the institution during the period under review, but also their own contribution both within and outside the institution – such as serving on task teams, accepting invitations to deliver guest lectures and leading associations within the broader higher education sector.

Senate's report to council

All the annual reports examined, with the exception of a few, provide much more information in the senate's report to council than is required by the Manual. This is to be commended since, stakeholders like parents, funders, employers in the public and private sectors and professional associations would arguably be more interested in activities covered in this report than those covered elsewhere.

We found that this report tends to consist of a number of sub-reports: each faculty submits a separate report, which in turn consists of reports compiled by academic units (departments, schools, research entities) that fall under the management or administration of the faculty concerned.

The downside could be that data may not be aggregated at the institutional level, that for someone not familiar with an institution's academic structures, it would be difficult to find the particular information they are interested in.

In addition, the terminology, acronyms and definitions used may only be comprehensible to someone familiar with the higher education sector in South Africa. In a nutshell, although the reports are information-rich, they are not written in plain English and are therefore inaccessible to many of the people who might be interested in learning how South African higher education institutions are discharging their core responsibilities in teaching, research and community engagement.

Noteworthy issues brought up by the reports:

- **Limitations of access to certain courses**

It was surprising to note that very few of the reports we examined disclose information about this issue, which is one of great public interest. For example, the demand for places in medicine and other professional qualifications is much higher than there are places available and medical schools, for example, have been under tremendous pressure to revise their admission criteria and admit more students.

Laboratory space and availability of equipment may lead institutions to limit the number of admissions to some honours programmes or engineering degrees.

A related issue that has attracted much public and official scrutiny is the admissions points systems used by universities. These are viewed as limiting access to university education in general and to certain programmes in particular.

- **Levels of academic progress in different disciplines and levels of study**

Institutions provide this information in many different ways that may be incomprehensible to people not familiar to the terms used or may lead to erroneous conclusions.

The 'graduation rate' which is the proportion of students graduating as a percentage of total enrolments is sometimes interpreted in the public domain as the percentage of students who graduate out of those that were initially registered.

The 'course pass rate' may not reveal much about academic progress if one does not know the promotion rules in a programme – failing a pre-requisite course, even if a student has passed more than 90% of the courses registered, might lead to a student taking an extra year to graduate.

All the annual reports provide information on headcount graduations during the period under review. A few provide data on dropouts, which is also related to the contentious issue of academic and financial exclusions.

An issue that has attracted the attention of the Department of Higher Education & Training and other interested parties in recent years is that of students who have satisfied the academic requirements for graduation, but who owe fees to the institution. None of the reports we analysed addressed this issue in any way.

- **Access to financial aid and the provision thereof**

All reports we examined provide information on grants made under the National Students Financial Aid Scheme. In a number of cases, the reports also provide information on scholarships and bursaries that have been awarded from various other sources. What is very commendable is level of information provided about grants that are provided by individual institutions from their own sources to support academically deserving students.

- **Research performance**

All annual reports we examined provide detailed information and data on the research performance of the institution. The information provided in these reports can be categorised into 10 themes:

- Research output in terms of units awarded by the Department of Higher Education & Training. In almost all the cases, institutions highlight progress by giving the percentage increase over a certain period. Others highlight how they have improved their 'ranking' either in terms of sheer volume or per-capita productivity. In appropriate instances (2), institutions mentioned that their research output exceeds national targets.
- Only in a very few cases is information not provided on the number of academics who have been granted an NRF rating. In the great majority of cases, reports provide data on the number of rated academics in each category – A; B; C; P and Y.
- The majority of institutions provide information on research income from different sources:
 - Government;
 - University's own budget;
 - Industry; and
 - International funders.
- **Partnerships:** The majority of reports provide information on the agreements and partnerships that institutions have entered into. This could be interpreted as a proxy for the international standing/ recognition or the research footprint of the institution.
- **Research entities:** The annual reports provide detailed information on groupings around which research may be organised within the institution either in the form of centres or institutes. They would naturally mention DST/NRF centres of excellence that they host or are members of.
- **South Africa Research Chairs Initiative:** Institutions highlight their success in securing research chairs under this initiative, which is a competitive process.
- Annual reports often give information on research themes or research priority areas that an institution has identified. This provides insights on areas where an institution believes it might enjoy a competitive advantage or hopes to be known for.
- **Postdoctoral fellowships:** These are either funded from the institution's own funds or have been allocated by the National Research Foundation or have been won through a competitive process.
- **Research development:** The majority of institutions provide information on investments they are making in developing the next generation of academics. This is either programmes providing opportunities for academic staff to work towards their PhDs or training that is provided in proposal writing or writing for publication.
- **Awards:** Reports often provide names of staff members who have won awards, whether these are awarded by the institution to its own staff or national and international awards.

Report on internal administrative/operational structures and controls

Section 3.1.6 of the reporting manual provides wording that could be adapted in preparing this report. It is meant to be prepared and signed by the chairperson of the audit committee and (possibly) somebody internal to the institution and responsible for the internal audit function. In almost all reports studied, the report submitted is adapted from Section 3.1.6 and in quite a number of cases there is a great deal of overlap between Section 3.1.5 and the report submitted. This reflects routine compliance with the Manual's minimum requirements.

Report on risk exposure assessment and the management thereof

All reports examined address this although they vary in many aspects, including length, depth and detail. The risk portfolio appears to be at different levels of maturity across the 23 public universities in South Africa. There is potential for a great deal of improvement in the quality of reporting through the sharing of good practice across the higher education sector.

Almost all reports mentioned an individual, a division or a committee that is responsible for the identification, interpretation and assessment of risks. Most institutions assert that every manager has a responsibility for the identification of risks within their areas of responsibility.

In (almost) all the cases, the senior management of the institution has overall oversight over all aspects of risk assessment, management and control. Most universities reported that they had drawn up a risk register that was updated continually. It is commendable that in some instances, institutions provided detailed information on the major risks that they felt they faced.

Statement on code of ethics:

All universities refer to a code of ethics that binds their council members. In one instance, a university reprinted their code of ethics in the annual report. In the context of the amendments to the Higher Education Act in 2011, there has been a renewed focus on the declaration of conflicts of interest and the actions taken when this fiduciary responsibility is being breached. Several universities point out their adoption of a policy on conflicts of interest.

Statement on corporate governance:

The King Committee on Governance issued the second King Report on Governance (King II) in 2002. The intention was that King II would apply to all entities, including higher education institutions. In 2007, the Regulations for Annual Reporting by Public Higher Education Institutions were updated and referred to King II. In 2009, The King Committee on Governance released the third King Report on Governance (King III). Our review of the corporate governance reports of the 23 public universities found that 13 universities refer to King III. Ten universities make no reference either to King II or King III in their reports. This includes three that were under administration at the time their annual report/s were prepared.

A small number of the universities indicate that they have used outside consultants to assess their compliance with King III and report on their progress in this regard in the corporate governance report. King III requires that statutory financial information and sustainability information be integrated in an annual integrated report. Only one university has produced an integrated report for the period under review.

King III tasks the audit committee with the responsibility to monitor the appropriateness of an entity's combined assurance model and to ensure that significant risks are addressed. In addition, King III requires the audit committee to report to stakeholders on the effectiveness of internal financial controls, but without mandating external attestation of these controls.

More than two-thirds of the universities (16) shared information regarding financial and non-financial risks that face their institutions. Most refer to risk awareness training and the compilation and reviewing of risk registers that took place during the year.

A small number of universities explicitly refer to a combined assurance model to ensure increased levels of comfort to address risks identified. We noted further comments in the audit committee reports regarding control weaknesses identified by external and internal auditors and plans to address these. In a limited number of cases institutions also obtained independent assurance of their internal financial controls.

Level of disclosure

Implicit in our assessment above is that some annual reports provide more information than is prescribed in the Manual. On the other hand, there are topics or issues that some constituencies might expect to see covered in the annual reports, but which are noticeably absent. For example:

- None of the reports provide commentary on the universities' progress in meeting the targets set out in their Employment Equity Plans, for which they are required to submit an annual report on their progress to the Department of Labour.
- None of the reports provided reference to adherence to the Occupational Health and Safety Act. This would appear to be a serious gap that requires further investigation. Universities own buildings that have to conform to safety requirements. They produce toxic and hazardous materials, especially in science laboratories and research experiments and these need special care in handling and disposal. There are significant financial implications for institutions to meet and satisfy the requirements and there is a possibility of falling short in this regards.
- We found no statements by senior management in any of the reports on progress made to address issues raised in the Higher Education Quality Committee Improvement Plan and audit report.
- Reporting on environmental issues was absent in all the reports we examined. Universities would be expected to lead by example in embarking on activities to respond to environmental concerns. These could include 'green campuses', reducing an institution's carbon footprint and energy efficiency, especially in view of the escalation in electricity costs.
- We found no mention of a formal delegation of authority document that clarifies the degree and levels of delegation of authority to faculties, schools/departments and the leadership of these entities. It would be an interesting exercise, where/if they exist, to examine these documents for any commonalities.
- Information technology (IT) governance and strategy is recognised by King III as fundamental to the support, sustainability and growth of an organisation. Accordingly, it is recommended that:
 - The council assume responsibility for IT governance;
 - IT controls and risk mitigation should safeguard the integrity of information;
 - IT performance should be measured and reported to the council;
 - The council should consider appointing an IT steering committee or similar function to assist with its governance of IT;
 - The risk committee has the responsibility to oversee the broader risk implications of IT; and
 - The audit committee should consider IT as it relates to sound financial reporting and the going concern assumption.

While some reports say that IT governance is being addressed, we believe it would be instructive to explore the extent to which universities are practising these recommendations.

- King III recognises alternative dispute resolution as an important element of effectively governing stakeholder relationships. The institutional forum provided for in the Act offers a mechanism for resolving disputes. Many stakeholders would like to know whether an institution has an agreed to process or mechanism in the event that a deadlock were to arise between the statutory or semi-autonomous entities within the institution.

Allied to this would be a broad outline of co-operative decision-making within the institution, clear indications of mandatory and optional consultation situations, opportunities for participation and comment and rules of 'sufficient consensus' and feedback after a consultative exercise to those whose opinion or views have been solicited.

Annual financial review

3.1.8 Annual financial review – Report of the chairperson of the Finance Committee and the Chief Executive: Finance (*King II: 91-124*)

The review should provide an overview of the institution's budget process and indicate the means whereby the process, specifically as regards to resource allocation, promotes the attainment of the strategic goals and objectives of the institution and intends to promote operational sustain ability in the foreseeable future. The effect of the budgetary control mechanism in maintaining financial discipline throughout the institution should be addressed. The review should also address salient features in the financial statements in relation to the financial condition of the institution and the extent to which the achievement of primary strategic objectives is reflected in these statements. There should be a statement distinguishing between the financial consequences of the use of assets representing restricted and those representing unrestricted (Council-controlled) funds. This report should be treated as a thorough financial analysis of the institution using all data contained in the financial statements, and any other additional financial records.

The Chairperson of the Finance Committee and the Chief Financial Officer sign this report.

Source: Regulations for Annual Reporting by Public Higher Education Institutions, 2007, page 31

The Regulations state that “This report should be treated as a thorough financial analysis of the institution using all data contained in the financial statements, and any other additional financial records”. Although the annual financial reviews we analysed vary considerably in length, depth, quality and coverage of items, the majority of reports are of a high quality and communicate salient information about financial performance to stakeholders.

All universities commented on their financial results during the previous financial year in their annual financial reviews. This consisted of explanations of movements in the accounts disclosed on the face of the statement of financial position and also the statement of comprehensive income.

A number of institutions provided the information in a three-year or five-year table, while several used ratios such as liquidity, solvability, pie charts of their revenue sources and staff costs as a percentage of total expenditures, to assist readers of the financial statements to better understand the institutions' financial successes and challenges.

The five most common topics that chief financial officers provided additional information on were:

- Infrastructure grants (details of the buildings that were constructed as well as comments on the difficulty of sourcing additional funding externally);
- Student debtors (commentary about the growth in the debtors book and the deterioration of the quality/recoverability of student debtors);
- National Student Financial Aid Scheme (comments regarding the universities' own contributions to support unfunded NSFAS students);
- Staff costs (commentary about reducing the ratio of staff costs versus overall costs to an acceptable level within the norms of the Department of Higher Education & Training);
- Post-retirement medical obligations (commentary on the growth in this liability and the ability of universities to settle this in the normal course of business);

The comments in the annual financial review are very focused on the current year's performance and in a very few instances did the chief financial officers comment on their plans to remain sustainable in the long term. Certain institutions targeted less dependency on state grants in future, whilst others emphasised the importance of growing their third-stream income. In addition, little comment was made on cash-flow management and targeting a specific free cash position, in the light of the significant cash flow swings during the financial year. These are areas in which disclosure can be improved.

Report of independent auditors on the consolidated financial statements

The following statements and reports comprise the sections of the Annual Report on which the auditors present an opinion (report of the auditors on the annual financial statements):

- Statement of accounting policies relevant to the financial statements
- Consolidated balance sheet
- Consolidated statement showing all changes in equity/funds
- Consolidated income statement
- Consolidated cash flow statement
- Notes, explanations, and elaborations to the annual financial statements

Source: Regulations for Annual Reporting by Public Higher Education Institutions, 2007, page 32

The audit opinions in all the reports reviewed were expressed in terms of Section 41 of the Act, as amended up to and including the Regulations. The Regulations allow for universities to choose between two possible accounting frameworks:

- International Financial Reporting Standards (IFRS); and
- South African Generally Accepted Accounting Practice (SA GAAP).

Since 2011, the Public Audit Act (Act no 205 of 2004) also became applicable to higher education institutions and requires the auditors to report on the reliability of predetermined objectives, compliance with laws and regulations and also internal control deficiencies relevant to the external audit.

A review of the opinion sections of the independent auditors' reports indicated that all the audit opinions for the December 2012 year end were unqualified. This is a feather in the cap of public universities in South Africa. In two instances the external auditors emphasise significant matters that they want to bring to the attention of readers of the annual financial statements. On five occasions they highlight significant breaches in laws and regulations as well as internal controls.

We noted that seven universities were still applying SA GAAP as at the end of December 2012. Since the Accounting Practices Board and the Financial Reporting Standards Council withdrew SA GAAP, these universities will have to convert from SA GAAP to IFRS for the December 2013 financial statements.

Consolidated annual financial statements

CHAPTER 4

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

4.1 Content of the Annual Financial Report component of the Annual Report
The report comprises: (King II: 135-137)

- Council's statement of responsibility for the financial statements
- Report of the auditors

The following statements and reports comprise the sections of the Annual Report on which the auditors present an opinion (report of the auditors on the annual financial statements):

- Statement of accounting policies relevant to the financial statements
- Consolidated balance sheet
- Consolidated statement showing all changes in equity/funds
- Consolidated income statement
- Consolidated cash flow statement
- Notes, explanations, and elaborations to the annual financial statements

Source: Regulations for Annual Reporting by Public Higher Education Institutions, 2007, page 32

We reviewed the consolidated financial statements of the 23 public universities for the 2010-2012 period, specifically the statements of financial position and the statements of comprehensive income, with the intention of analysing trends and converting them into learnings for the industry.

As of 31 December 2012, there were 23 public universities in South Africa. These comprise 11 'traditional' universities, six universities of technology (previously known as technikons) and six comprehensive universities (combining the functions of traditional universities and universities of technology).

In addition, two new public universities in Kimberley and Mbombela, opened their doors for students in 2014. These institutions are not included in this analysis.

+21%
Total revenue

+20%
State grants

Revenue sources

All universities derive their income from at least three sources of funding: state grants, tuition fees and third-stream income. The latter category includes a number of subcategories such as donations, consultancy fees and research grants.

Total revenue in the sector increased from R41.1 billion in 2010 to R49.9 billion in 2012. This represents a 21% increase in total revenue.

Figure 1: Total revenue (R billions)



Source: PwC analysis

State grants

State grants during this period increased from R16.6 billion in 2010 to R19.9 billion in 2012, a 20% increase. Universities continue to be highly dependent on state grants. State grants' contribution to total revenue remains in the region of 40% for the sector as a whole and there is a significant variation when one looks at individual institutions ranging from 25% of total revenue to as much as 63%.

Figure 2: State grants (R billions)

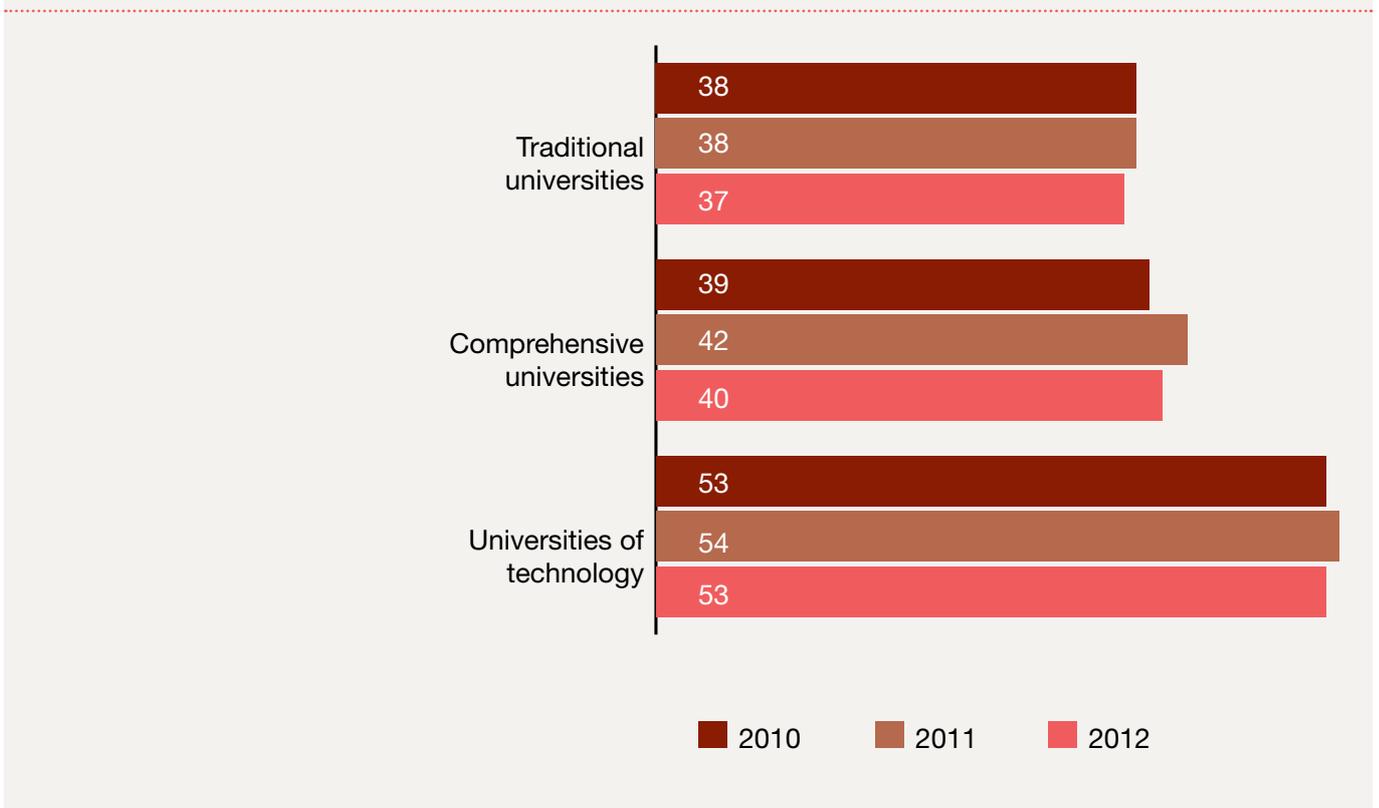


Source: PwC analysis

Universities of technology are highly dependent on state grants

As Figure 3 shows, universities of technology are highly dependent on state grants since these contribute an average of 53% of total revenue. Traditional universities and comprehensive universities are also very dependent on state grants. The rand value of state grants amounted to R11 billion for traditional universities, R5 billion for comprehensive universities and R3.9 billion for universities of technology.

Figure 3: State grants as a percentage of total revenue



Source: PwC analysis

+27%
Tuition fees

Tuition fees

Tuition fees remain an important source of funding for universities. Tuition fees' contribution to the combined revenue of all universities remained constant at 31% during the period under consideration as can be seen in Figure 5.

Looking at individual universities, the contribution of tuition fees ranges from 25% to 44% of total revenue. Between 2010 to 2012 value of tuition fees increased from R12.2 billion to R15.5 billion, an increase of 27% over the three-year period.

During this period student enrolments increased by 7% from 892 936 in 2010 to 953 373 in 2012. These figures suggest that the introduction of tuition-free university education, or even the capping of tuition fees, would present universities with major challenges for which they would need creative and innovative strategies to generate income just to maintain current levels of activity.

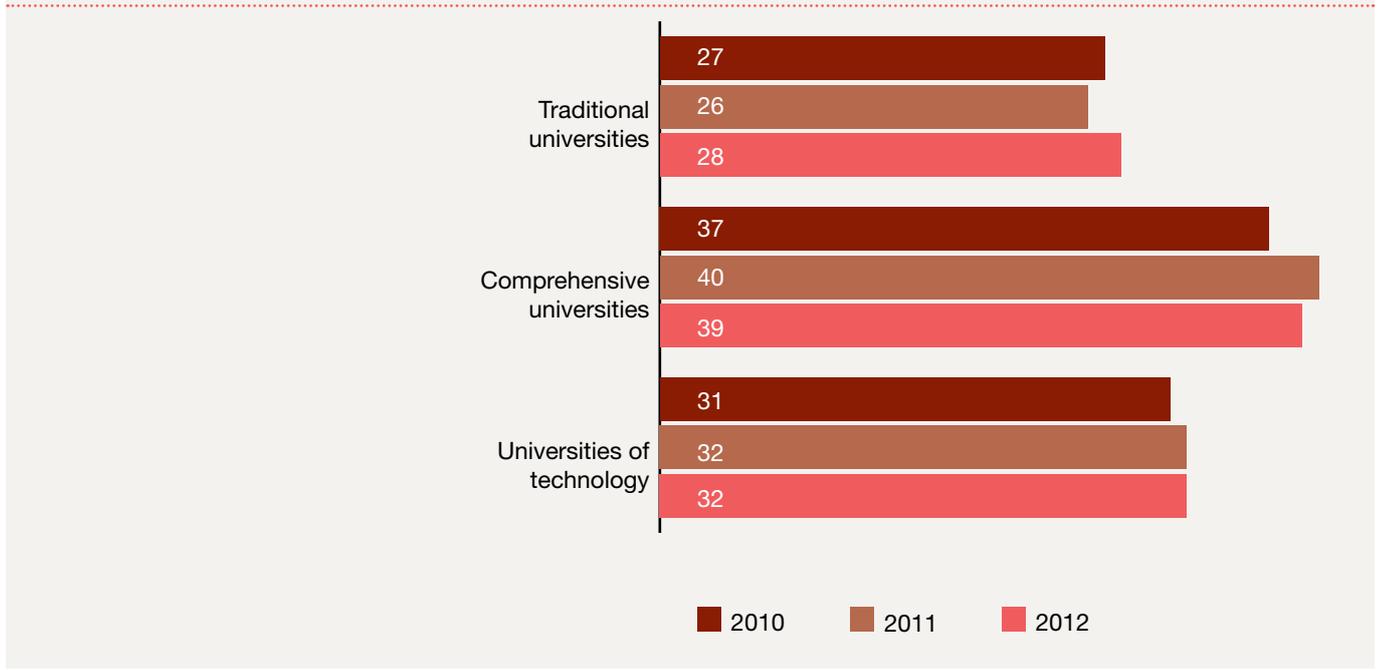
Figure 4: Tuition fees (R billions)



Source: PwC analysis

In 2012, income from tuition fees totalled R8.2 billion among traditional universities, R5 billion among comprehensive universities and R2.3 billion among universities of technology.

Figure 5: Tuition fees as a percentage of revenue



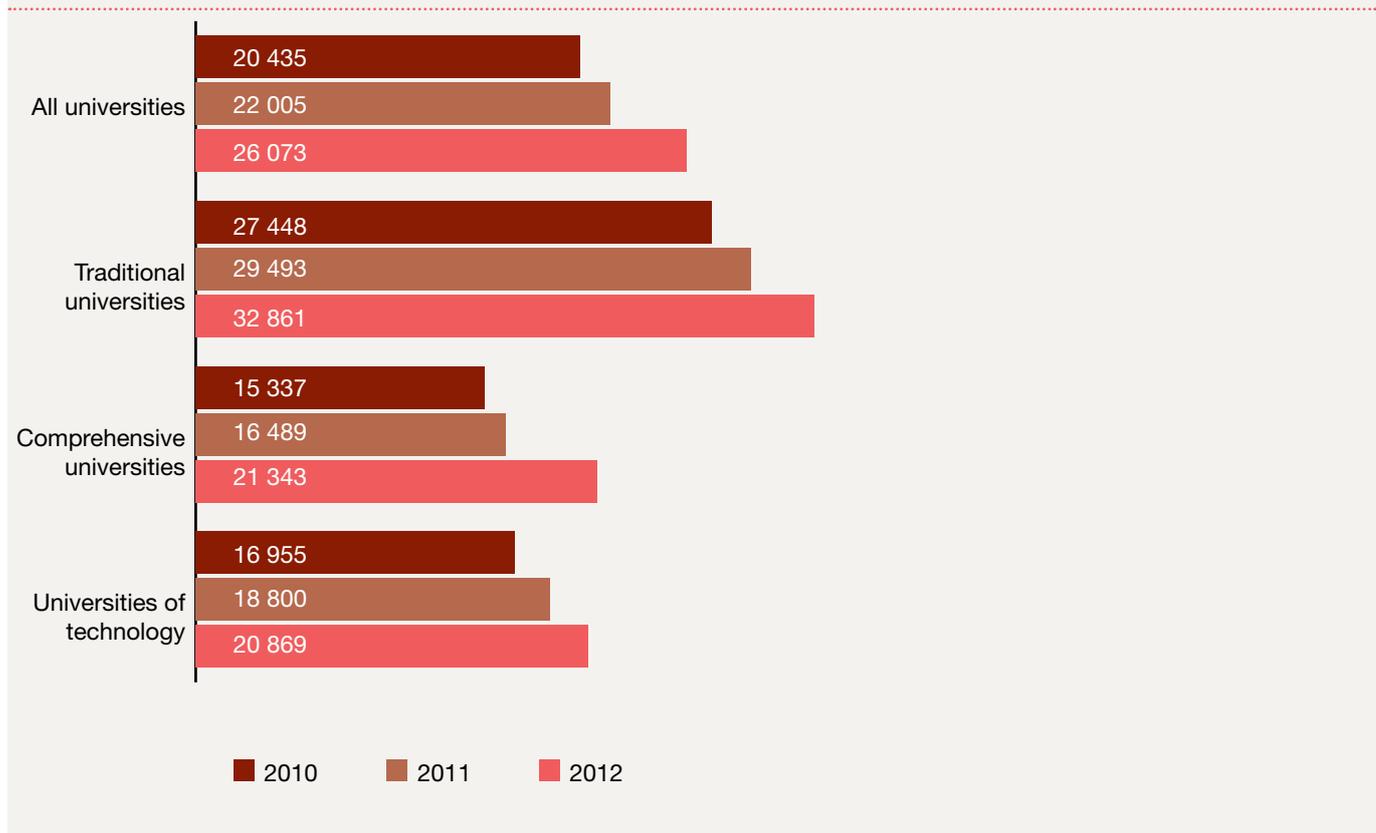
Source: PwC analysis

+27%
All universities

+19%
Traditional universities

Tuition fees per full-time equivalent (FTE) student increased by 27% over the three-year period. Average tuition fees are less than R30 000 at all but six of the 23 South African universities and exceeds R50 000 at three universities.

Figure 6: Average tuition fee per FTE student (R)



Source: PwC analysis

The biggest average increase in total tuition fees was seen at the comprehensive universities, which grew by 39% over the three years. The average increase at universities of technology was 23% and 19% at traditional universities.

Student enrolments increased by 10% over the three years at comprehensive universities, while student enrolments only increased by 1% at universities of technology and by 5% at traditional universities.

Average tuition fees at comprehensive universities and universities of technology are approximately 60% of tuition fees at traditional universities.

+39%
Comprehensive universities

+23%
Universities of technology

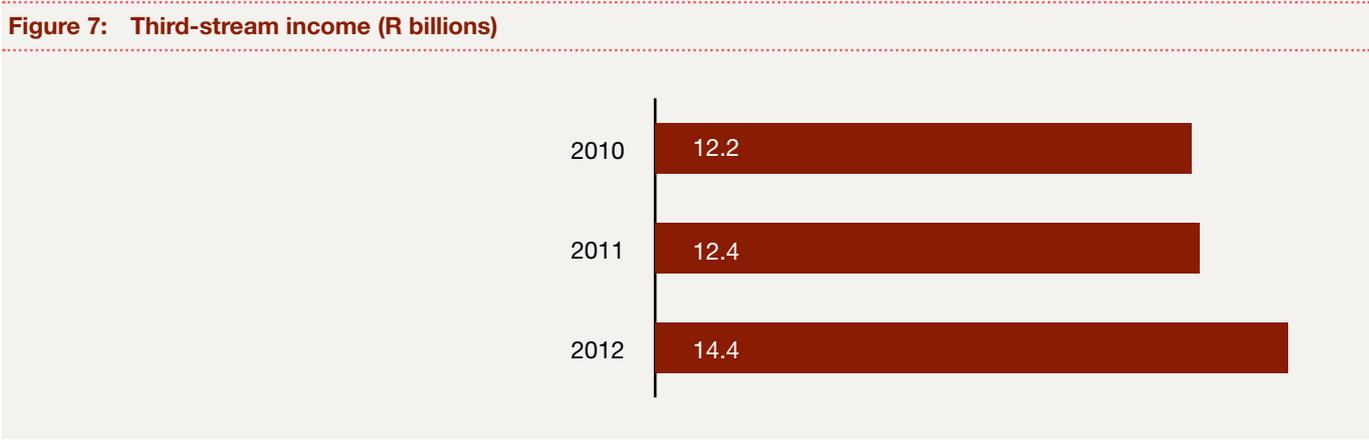
+18%
Third-stream income

Third-stream income

Third-stream income has risen from being an insignificant portion of total income a decade ago to becoming a substantial part of most universities' revenues. Third-stream income consists of donations, research grants, consultancy fees and other revenues generated from engagements with broader society that go beyond the core academic streams of teaching and research.

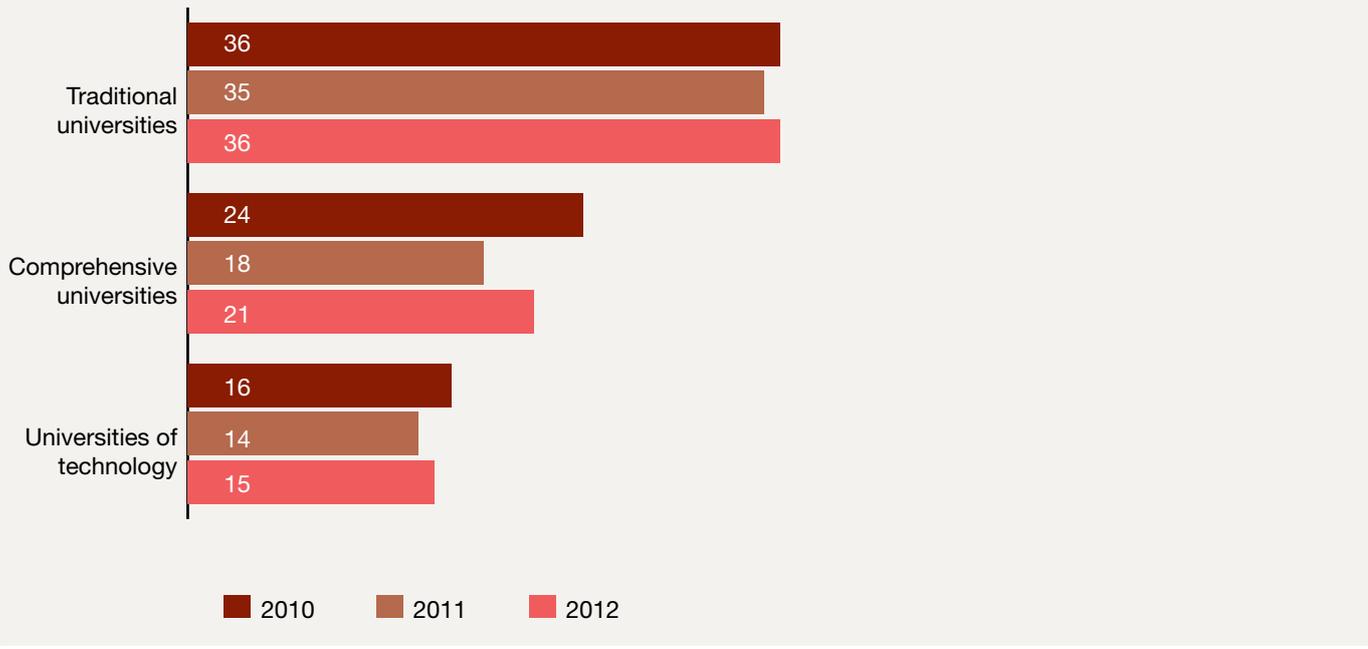
On average third-stream income now constitutes 30% of the sector's total revenue. Third-stream income increased from R12.2 billion in 2010 to R 14.4 billion in 2012, an 18% increase. Only one university has third-stream income contributing less than 10% of total revenue.

Third-stream income contributed between 10% and 20% of total revenue at eight institutions, between 20% and 30% at eight institutions, between 30% and 40% at three institutions, and above 40% at three institutions.



Source: PwC analysis

Figure 8: Third-stream income as a percentage of revenue



Source: PwC analysis

So far traditional universities have been more successful at generating third-stream income compared to comprehensive universities and universities of technology.

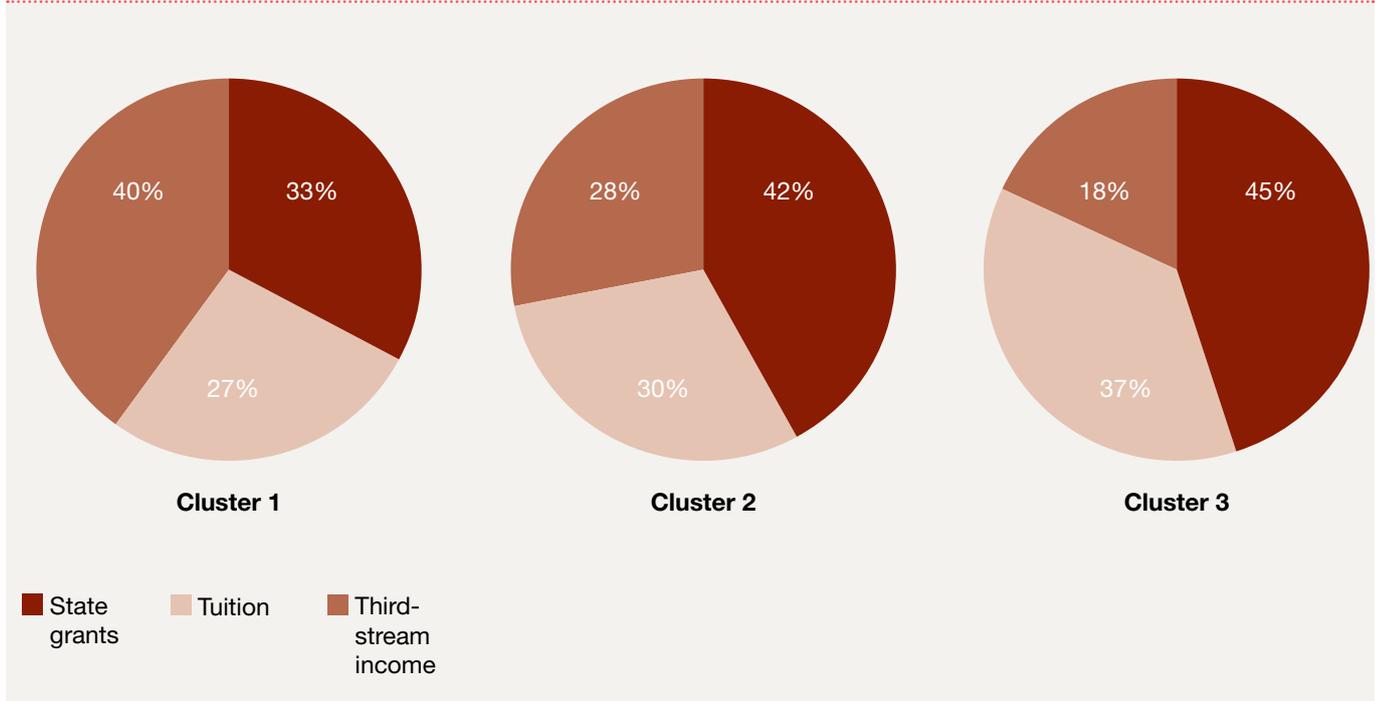
The value of third-stream income at traditional universities amounted to R10.5 billion in 2012, while comprehensive universities generated R2.7 billion and universities of technology R1.1 billion during the same period.

One finding worthy of further debate and discussion is the observation that universities of technology that (would be expected to) work closely with industry have the lowest proportion of their income coming from third-stream sources. For traditional universities, the largest contribution could be from large research grants from local science councils and international funding agencies and foundations.

Cluster analysis

Universities in Cluster 1 are the least dependent on state grants, while their third-stream income has been a significant revenue source since 2010. Universities in Cluster 3 are the most dependent on state grants and generate only 18% of their revenue from third-stream income. All universities are heavily dependent on tuition fees, with Cluster 3 universities most dependent on tuition fees as a revenue source.

Figure 9: Revenue sources by cluster



Source: PwC analysis

+24%
Total expenditure

+24%
Total staff costs

Total expenditure and staff costs

Expenditure by the universities increased from R36.9 billion in 2010 to R 45.8 billion in 2012, a 24% increase. At the same time, total staff costs increased from R19.8 billion in 2010 to R24.6 billion in 2012, also an increase of 24%.

Total staff costs as a percentage of total expenses averaged about 54% from 2010 to 2012. Across individual universities, this ratio ranged from 45% to 65% in 2012. In 2012, five universities had total staff costs above 60%, which was consistent with the previous three years. Four universities had total staff costs below 50% in 2012, compared to five in 2010.

Figure 10: Total expenditure (R billions)



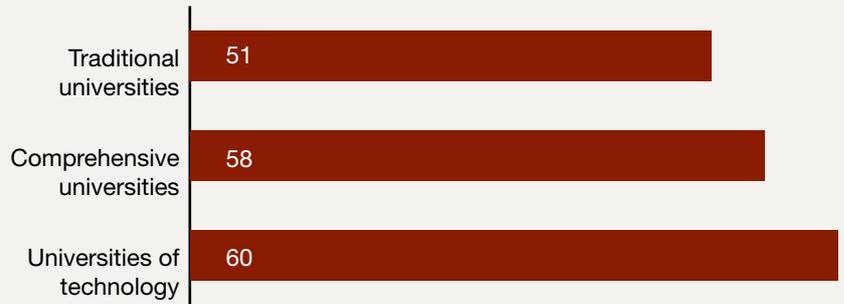
Source: PwC analysis

Figure 11: Total staff costs (R billions)



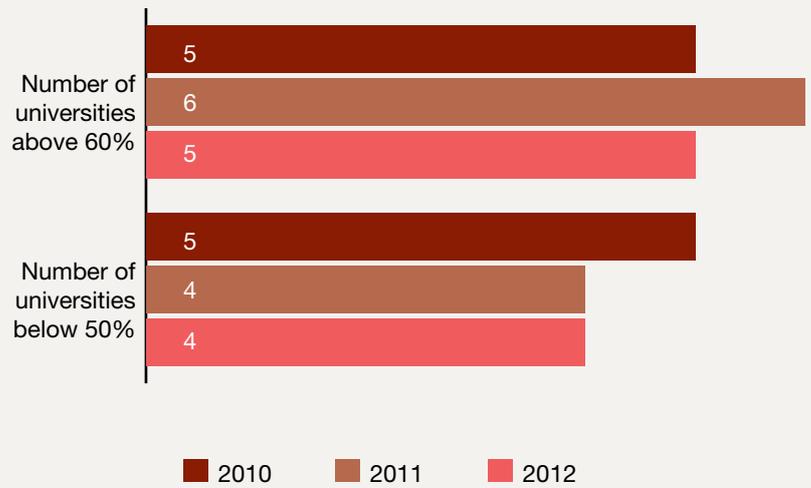
Source: PwC analysis

Figure 12: Total staff costs as a percentage of total expenditure



Source: PwC analysis

Figure 13: Number of universities with total staff costs ratios above 60% and below 50%.



Source: PwC analysis

Average academic staff costs per FTE academic staff member

Average academic staff cost per FTE academic staff member increased by 11% in the sector from R451 036 to R501 959 during the period under review. The average FTE academic staff member cost more than R550 000 per annum at five of the 23 universities, with the cost exceeding R650 000 per annum at one university.

Figure 14: Average academic staff cost per FTE academic staff member (R)



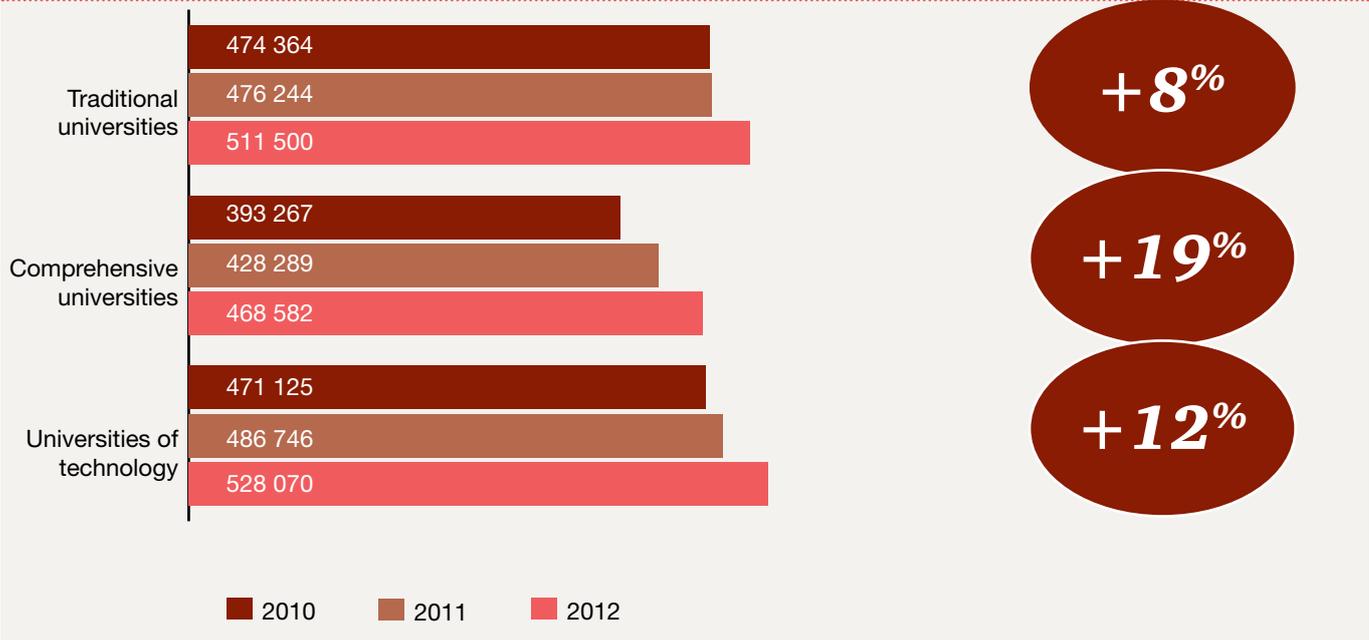
Note: Two universities have been excluded from this calculation, due to incomplete information.

Sources: PwC analysis, Higher Education Information Management System (HEMIS)

Average academic staff cost per FTE academic staff member are the highest at universities of technology at R528 070 per annum. Increases in average academic staff costs have been the highest at comprehensive universities, averaging 19% over the last three years.

The majority of FTE staff (56%) in 2012 were employed at traditional universities, while comprehensive universities employed 28% and universities of technology employed 16%.

Figure 15: Average academic staff cost per FTE academic staff member (R)



Note: Two universities have been excluded from this calculation, due to incomplete information.

Sources: PwC analysis, Higher Education Information Management System (HEMIS)

Liquidity ratio

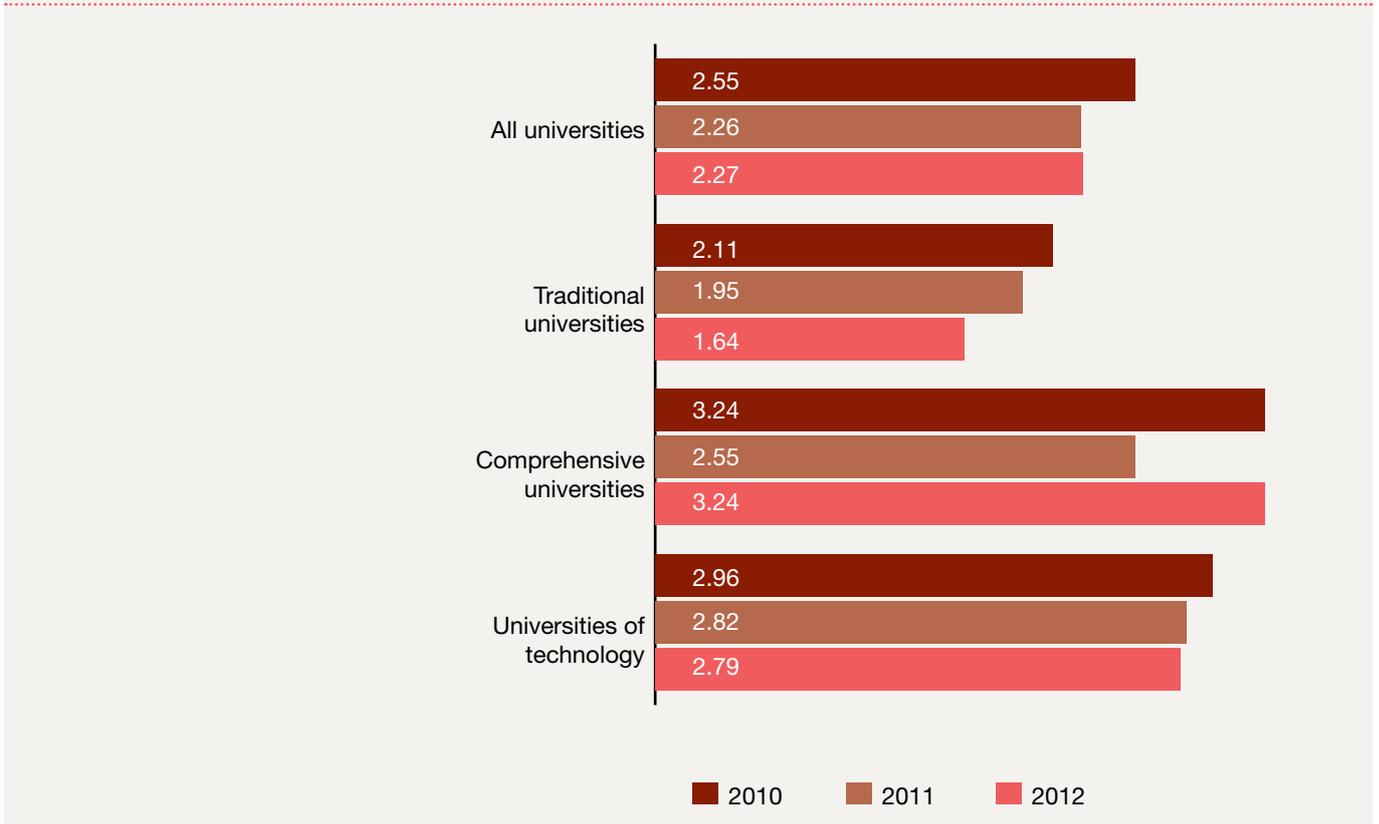
Liquidity refers to the ability of an institution to be able to settle its short-term debtors with short-term assets. We calculated the current ratio as a measure of liquidity and used a 2:1 ratio as an indicator of good liquidity.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Liquidity for the sector deteriorated over the three-year period from 2.55 in 2010 to 2.27 in 2012.

More revealing is the fact that only eight universities had a liquidity ratio below 2.0 in 2010, which increases to 11 in 2012.

Figure 16: Liquidity ratios



Source: PwC analysis

Figure 17: Number of universities with liquidity ratios below 2.0



Source: PwC analysis

Comprehensive universities had the highest liquidity ratio with the traditional universities having a liquidity ratio below 2. There is a declining trend in liquidity at the traditional universities.

Annual surpluses

Collectively, the universities have generated surpluses in excess of R4 billion each year since 2010. As these surpluses demonstrate, most universities spend within their means.

However, closer analysis shows that two universities made annual losses in 2010 and in 2011. The number of universities with annual losses doubled to four in 2012, all of which are Cluster 3 institutions.

It should be noted that the cumulative reserves in the sector, amounting to R62 billion as at December 2012, are tied up in non-current assets (mainly land and buildings).

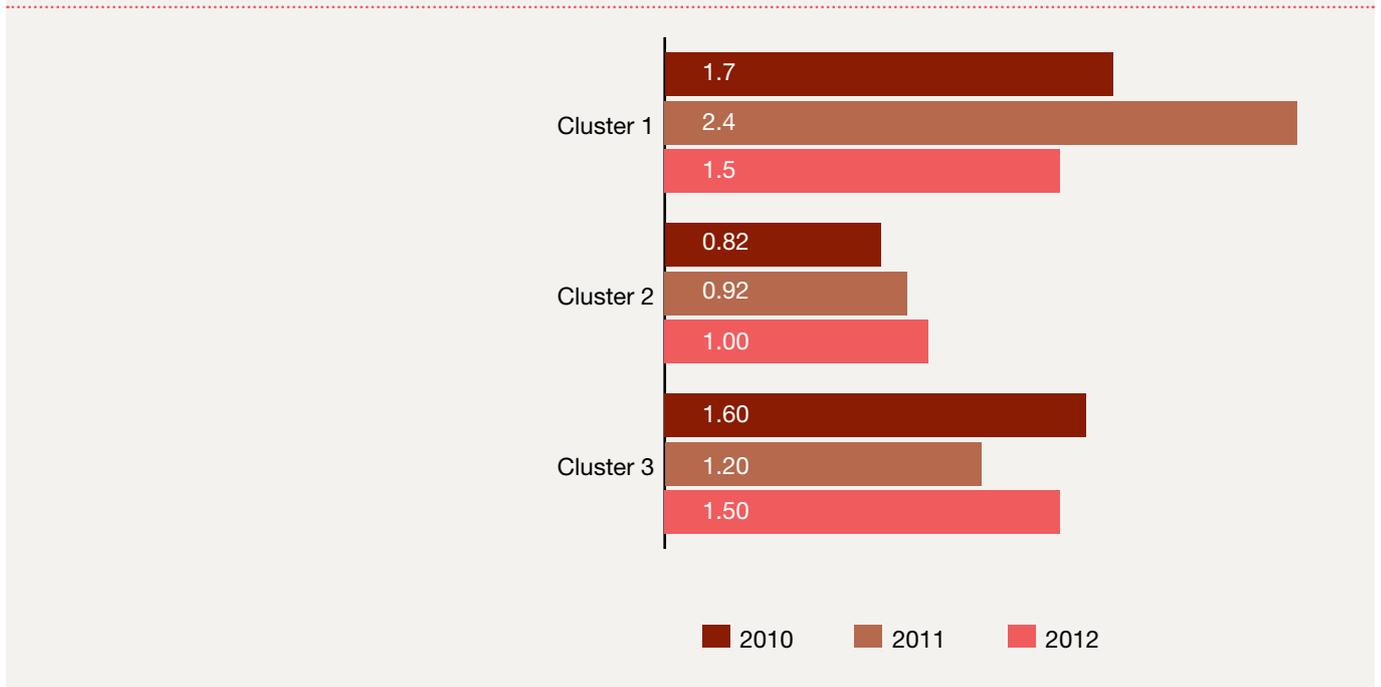
Figure 18: Number of universities making losses



Source: PwC analysis

The reserve level increased from R800 000 to R1 million from 2010 to 2012 at Cluster 2 universities, while the reserves level within Cluster 1 and Cluster 3 universities varied considerably over this period.

Figure 19: Annual surpluses by cluster (R billions)



Source: PwC analysis

Council-controlled reserves remained at 38% of cumulative reserves in the sector for the three years, growing from R19 billion to R24 billion.

Sustainability ratio

For the purposes of this set of calculations, we view ‘sustainability’ as the ability of an institution to continue with its core business without additional new funding in the next financial year.

$$\text{Sustainability ratio} = \frac{\text{Cumulative reserves}}{\text{Annual expenditure}}$$

We calculated the ‘sustainability ratio’ by comparing a university’s cumulative reserves to its annual expenditure level. A ratio of 1.0 therefore indicates that a university will be able to cover a year’s expenses without needing additional funding. A ratio below 1.0 means a university will not be able to cover the following year’s expenses without new funding.

We found nine universities with a sustainability ratio below 1.0 in 2010. This declined to eight in 2011 and six in 2012. This improvement can be attributed to the fact that more universities are spending within their means.

Figure 20: Universities with sustainability ratios below 1.0

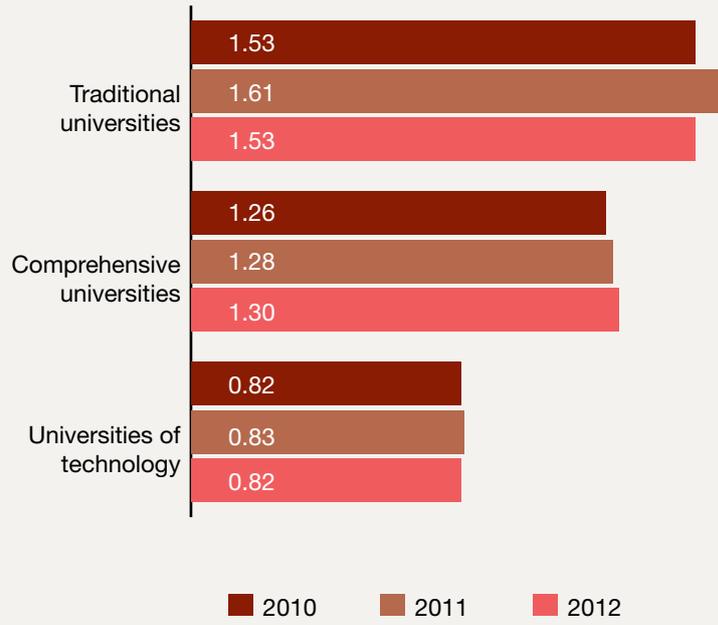


Source: PwC analysis

Analysing sustainability ratios across all three categories of universities reveals that traditional universities and comprehensive universities would, on average, be able to continue operating for more than one year without additional state funding, tuition fees or third-stream income.

Universities of technology, in contrast, would not be able to pay all their expenditure for the full year without cash injections in the form of increased state funding, tuition fees or third-stream income. We believe universities of technology should prioritise building up their reserves to a level that will make them more sustainable.

Figure 21: Sustainability ratios by category

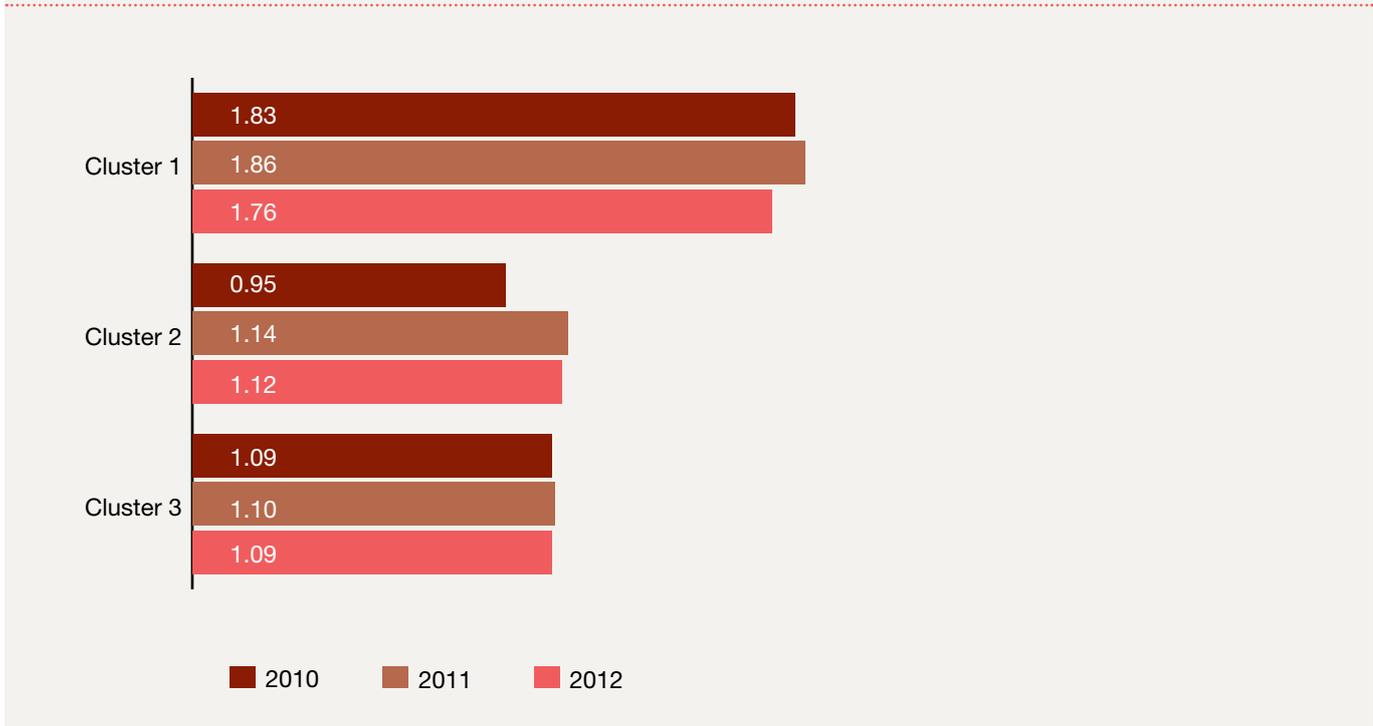


Source: PwC analysis

Cluster analysis

There has been an improvement in reserve levels and sustainability over the last three years. Cluster 1 universities would be able to operate for almost two years without additional state funding, tuition fees or third-stream income. The reserve levels of Cluster 2 and Cluster 3 universities would only be able to sustain these universities for about one year.

Figure 22: Sustainability ratios by cluster



Source: PwC analysis

Council-controlled reserves

If we include only council-controlled reserves in the calculation of the 'sustainability ratio', all university types show a ratio below 1.0.

Comprehensive universities have the highest ratio at 0.66 compared to traditional universities at 0.49 and universities of technology at 0.44.

Cluster 1 universities have the highest ratio at 0.6, while Cluster 2 universities have the lowest ratio at 0.34.

Figure 23: Sustainability ratios of council-controlled reserves by category



Source: PwC analysis

Figure 24: Sustainability ratios of council-controlled reserves by cluster



Source: PwC analysis

Student debt provisions

In this section, we comment on the size of student debt, trends in student debt provisioning and the percentage of total tuition fees that are considered irrecoverable.

The ability to recover outstanding student fees is important to ensuring a university is able to pay its short and long-term debts. Student debt in the sector increased from R2.6 billion in 2010 to R 3.4 billion in 2012, an increase of 31%.

At the same time the provisions against these student receivables increased from R1.5 billion to almost R 1.8 billion. There has, however, been a decrease in overall provisioning against the student receivables from 57% to 52% during the three years. This may be an indicator of better student debt management by universities.

Debtors' provisions at individual universities range from 22% to 97% of the student fee receivable balance in 2012.

Figure 25: Student debt (R billions)



Source: PwC analysis

Figure 26: Student debt provisions %



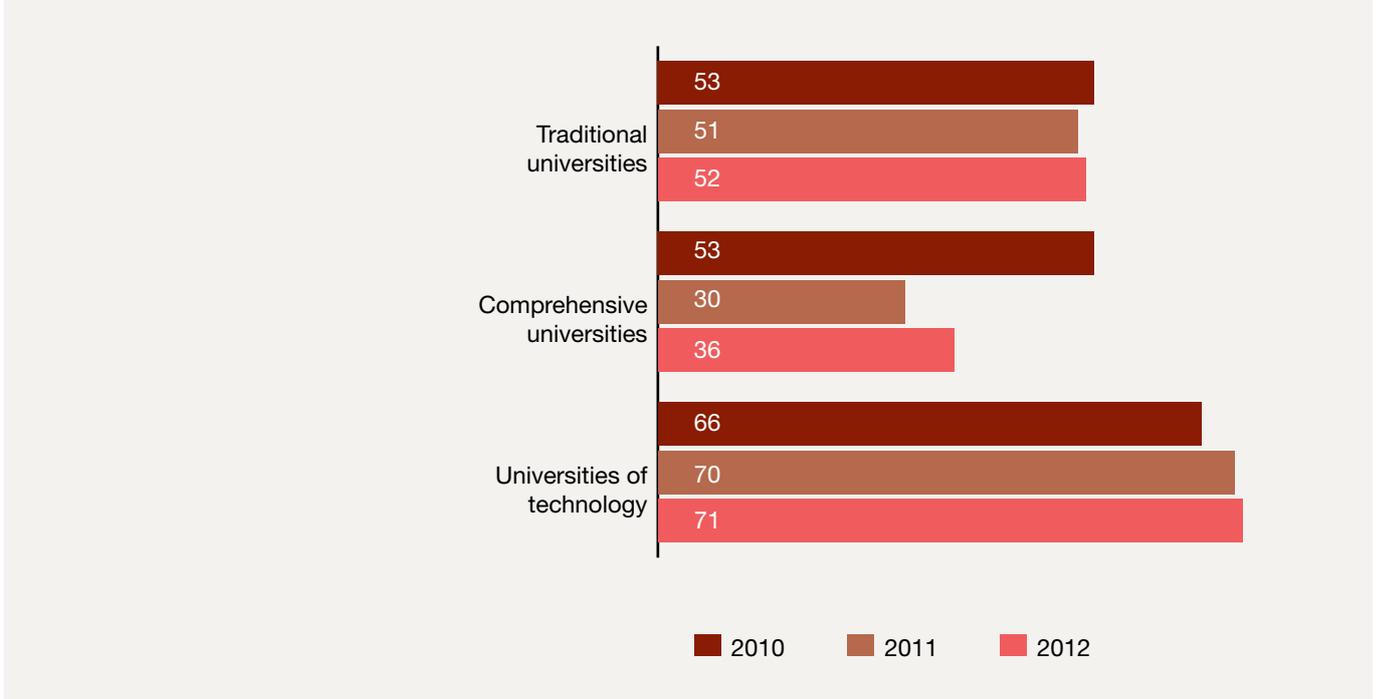
Note: Three universities have been excluded from this calculation, due to incomplete information.

Source: PwC analysis

Cluster analysis

At 71%, student debt provisions are highest at universities of technology, while the lowest provisions are at the comprehensive universities at 36%. The total value of the student debt provision was R3.4 billion in 2012. A significant proportion (48%) of this provision is at the traditional universities, amounting to R1.6 billion, with R872 million (25%) at comprehensive universities and R913 million (27%) at universities of technology.

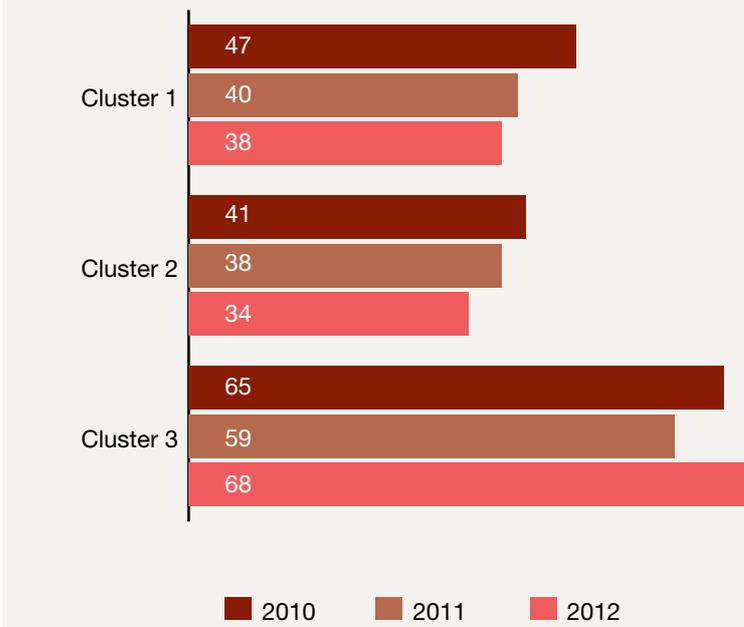
Figure 27: Student debt provisions by category %



Note: Three universities have been excluded from this calculation due to incomplete information.

Source: PwC analysis

Figure 28: Student debt provisions by cluster %



Note: Three universities have been excluded from this calculation due to incomplete information.

Source: PwC analysis

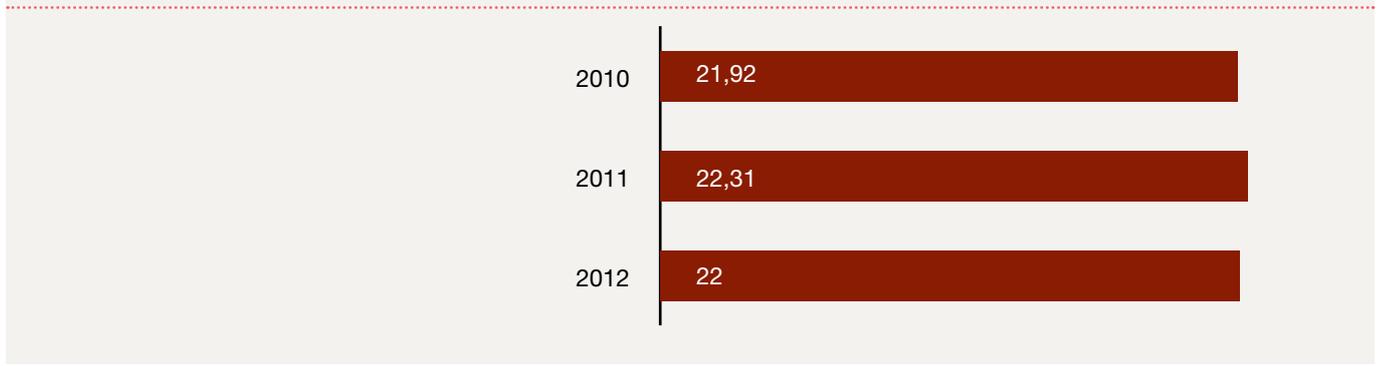
The value of student debtors in Cluster 3 was R1.7 billion in 2012, which represents 51% of the total student debt in the sector.

Student debt provisions are also highest at Cluster 3 universities, at 68%. Cluster 1 and Cluster 2 universities had R1.6 billion in total student debt in 2012.

Gross student debt as a percentage of tuition fees

Gross student debt expressed as a percentage of tuition fees measures the risk associated with non-payment of student fees. This hovered around 22% over the three-year review period.

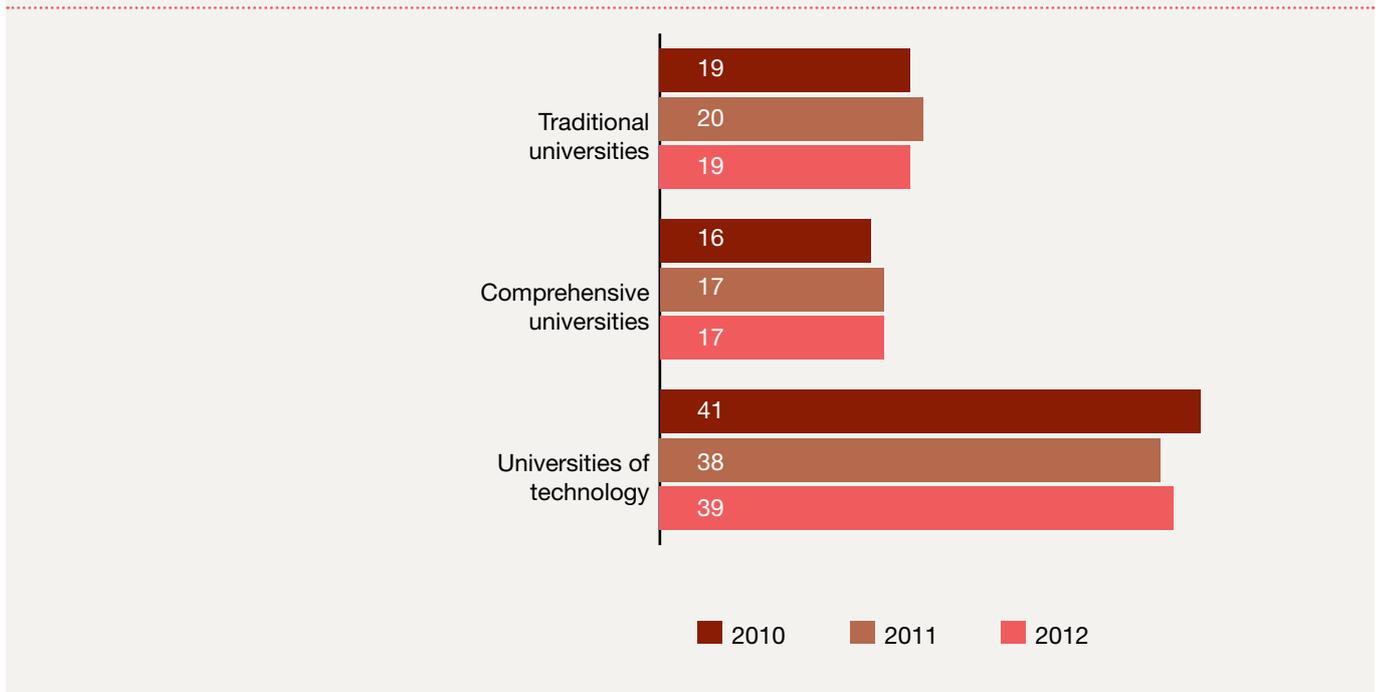
Figure 29: Gross student debt as a percentage of tuition fees



Source: PwC analysis

At traditional universities, 19% of total student fee income for the year was provided against, while at comprehensive universities 17% of total student fees are expected to be unrecovered. At universities of technology almost 40% of total fees are expected to be unrecoverable.

Figure 30: Gross student debt as a percentage of tuition fees by category



Source: PwC analysis

Post-retirement obligations

Post-retirement obligations increased significantly in the higher education sector between 2010 and 2012. The sector's exposure increased from R3.7 billion in 2010 to R5.7 billion in 2012, a 53% increase. Two of the 23 universities had net post-retirement fund assets, while the other 21 had net post retirement fund liabilities.

Figure 31: Total post-retirement liabilities (R billions)

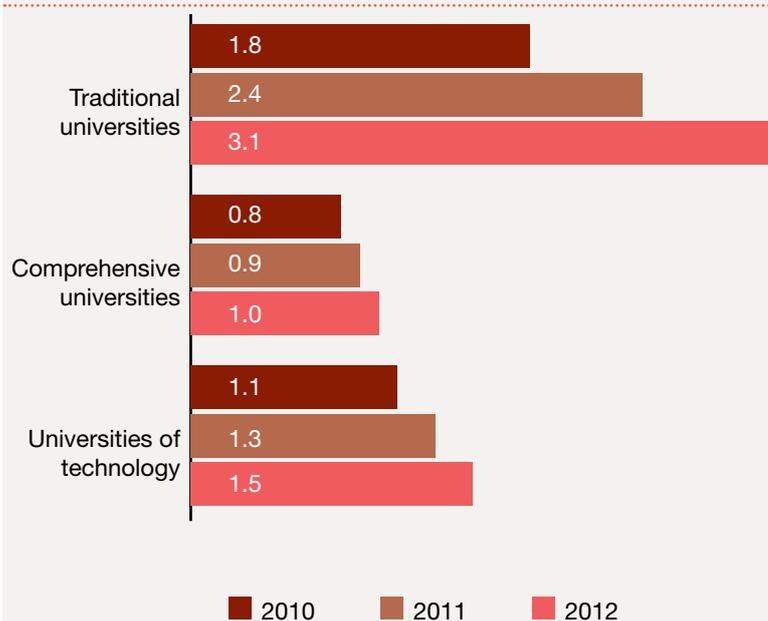


Source: PwC analysis

With the majority of staff being employed at traditional universities, it is not surprising that 55% of post-retirement liabilities are also carried by these universities. The universities of technology carried 27% of the liabilities, while the remaining 18% were carried at the comprehensive universities.

The traditional universities also experienced the biggest increases in liabilities (70%) compared to comprehensive universities (43%) and universities of technology (32%).

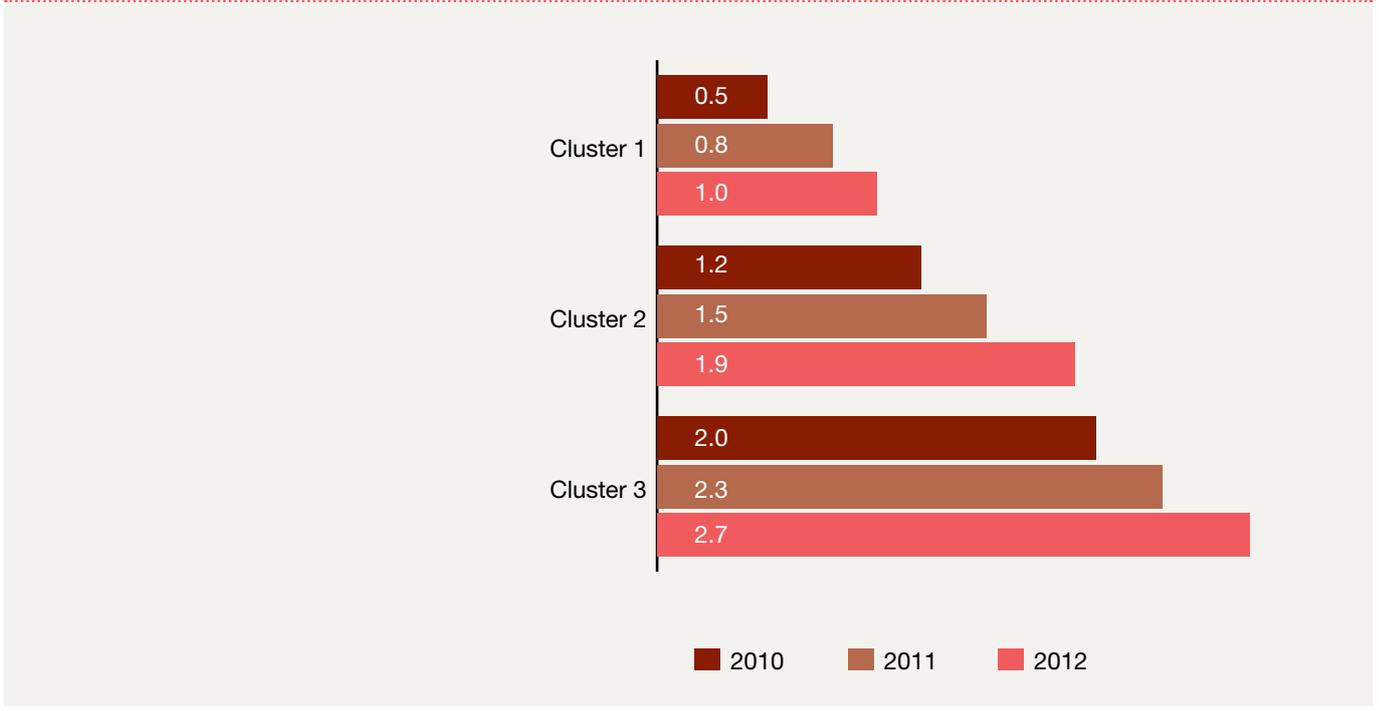
Figure 32: Total post-retirement liabilities by category (R billions)



Source: PwC analysis

As Figure 33 shows, there has been a 100% increase in post-retirement obligations at Cluster 1 universities. The increases in obligations at Cluster 2 and Cluster 3 universities have also been steep at 61% and 35% respectively. At the same time it should be noted that Cluster 3 universities carry the majority of the exposure to this liability at R2.7 billion, which is 47% of the industry's exposure.

Figure 33: Total post-retirement liabilities by cluster (R billions)



Source: PwC analysis

Conclusion

Annual reports submitted by universities are meant to serve two purposes: reporting to the State through the Minister of Higher Education & Training and reporting to “other stakeholders, which normally include staff and students of the institution, its donors and alumni and members of the community in which it is located or serving”.²

It is debatable whether or not the annual reports serve the latter purpose and, to a disinterested observer, would appear to serve only the relationship between the Department of Higher Education & Training and the higher education institution concerned.

Although other interested parties have been invited to comment on the proposed changes in regulations for reporting, it is questionable whether this level of engagements will be effective in canvassing the views of a broad range of stakeholders on what should be reported and how it should be reported. This point is illustrated in the following excerpt from one of the annual reports we reviewed:

“[name of institution] realises that the content and quality of the information included in this report are important to enable stakeholders to make sound and reasonable assessments of our performance, and act accordingly.... Engaging with our stakeholders as part of our regular activities provided useful input for decisions on what to include in this report. In fact, when defining the report content, we kept in mind the reasonable expectations and interests of our stakeholders.”

There should be a conscious effort to reflect on the ‘accessibility’ of the annual reports to ‘other stakeholders’. As observed earlier, most of the reports can be downloaded from the university websites. However, not all institutions have adopted this practice.

Furthermore, two of the six reports required by the Regulations to be submitted to the Department of Higher Education & Training do not appear to be in the public domain. These are:

- The supplementary financial data and financial performance indicators; and
- The report of independent auditors on the supplementary financial data and financial indicators.

For any stakeholder interested in the financial performance of an institution, these are critical reports to peruse.

In a number of instances, certain sections of the annual reports are a compendium of divisional reports from faculties, research entities and administrative units such as the human resource directorate or student affairs division. Knowledge of the organisational structure (which varies from one institution to another) is essential in these cases; otherwise one has to read the entire report, which can run into hundreds of pages.

The language and technical terms render some important information ‘inaccessible’ to people outside the university sector (or even within the sector). For example, ‘levels of academic progress’ are often given in terms of ‘course pass rate’ and ‘graduation rate’. It becomes confusing to find the former around 80% and the latter around 20%. Some people have erroneously come to the conclusion that a graduation rate of 20% means only 20% of registered students successfully complete their studies.

There has been a debate between universities and the Department of Higher Education & Training about the proposed new reporting regulations, requiring more information from institutions and also the frequency of the reporting.

²The Regulations, page 18

Our analysis suggests a lot could be achieved by also focusing on improving the quality of the reporting by universities. In instances where the Department of Higher Education & Training finds a section of the report inadequate, constructive feedback to the institution and suggestions about how to effect changes would be one solution.

The sharing of best practice examples between the universities should also be considered, as there are numerous examples of outstanding and enlightening reporting in the existing reports we reviewed.

In focussing on the quality of reporting, consideration could be given to developing a 'disclosure index' to measure the quality of annual reporting by universities in South Africa. This could be achieved by canvassing and incorporating the views of 'other stakeholders' on the information and data that they find useful in the annual reports.

An annual report would then be evaluated on whether or not an institution had disclosed the information and on the manner in which the issues were reported on. A score could be assigned annually and institutions whose reports had low scores would be given advice on how they could improve.

We have noted that the annual financial reviews dealing with current-year financial performance are of a high quality. However, they lack commentary on plans to remain sustainable in the long-term as well as cash-flow management.

These are areas in which disclosure can be improved and it may be useful to provide more information and guidance in the Reporting Regulations about what should be covered in the annual financial review and how it should be presented.

Finally, more thought could and should be given to the role of higher-education analytics in the university sector in South Africa. The sector is data-rich and better insights could be obtained by integrating data from various sources and on different topics.

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