



AUDITOR-GENERAL  
SOUTH AFRICA



*20 April 2018*

*Auditing to build public confidence*

## Matters for discussion with the Portfolio Committee of the Department of Labour

# Our reputation promise/mission

The Auditor-General of South Africa 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.



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## A. Purpose of the briefing



To provide the chairperson of portfolio committee (PC) and the portfolio committee with audit insights on the audit areas of the department and its entities in order to add value to oversight functions as well the audit of the 18/19 annual performance review.



## B. Review of draft annual performance plans for 2018/19



- A review was performed on the draft annual performance plans for the 2018/ 19 financial year before final sign off.



## Background and applicable legislation



# Background and applicable legislation

- National Development Plan (NDP) 2030
- Medium Term Strategic Framework (MTSF) 2014-2019
- Framework for Managing Programme Performance Information (*FMPPi*)
- Framework for Strategic Plans and Annual Performance Plans (APPs)
- National Treasury, Instruction Note No 33 - Framework for strategic and APPs



# AGSA review of the draft 2018-19 APPs



## Review process

- Assessed the process followed by departments to prepare and submit strategic plans and APPs.
- Assessed the **measurability and relevance** of the final draft indicators and targets planned for selected programmes

## Reporting

- Findings relevant to the interim review do not have an impact on the audit conclusion on usefulness or reliability of the selected programmes for the PFMA 2017-18 year end audit.

# Criteria used to assess the draft APP



## Measurability of indicators and targets

Relevance of indicators and targets

Indicators are well-defined

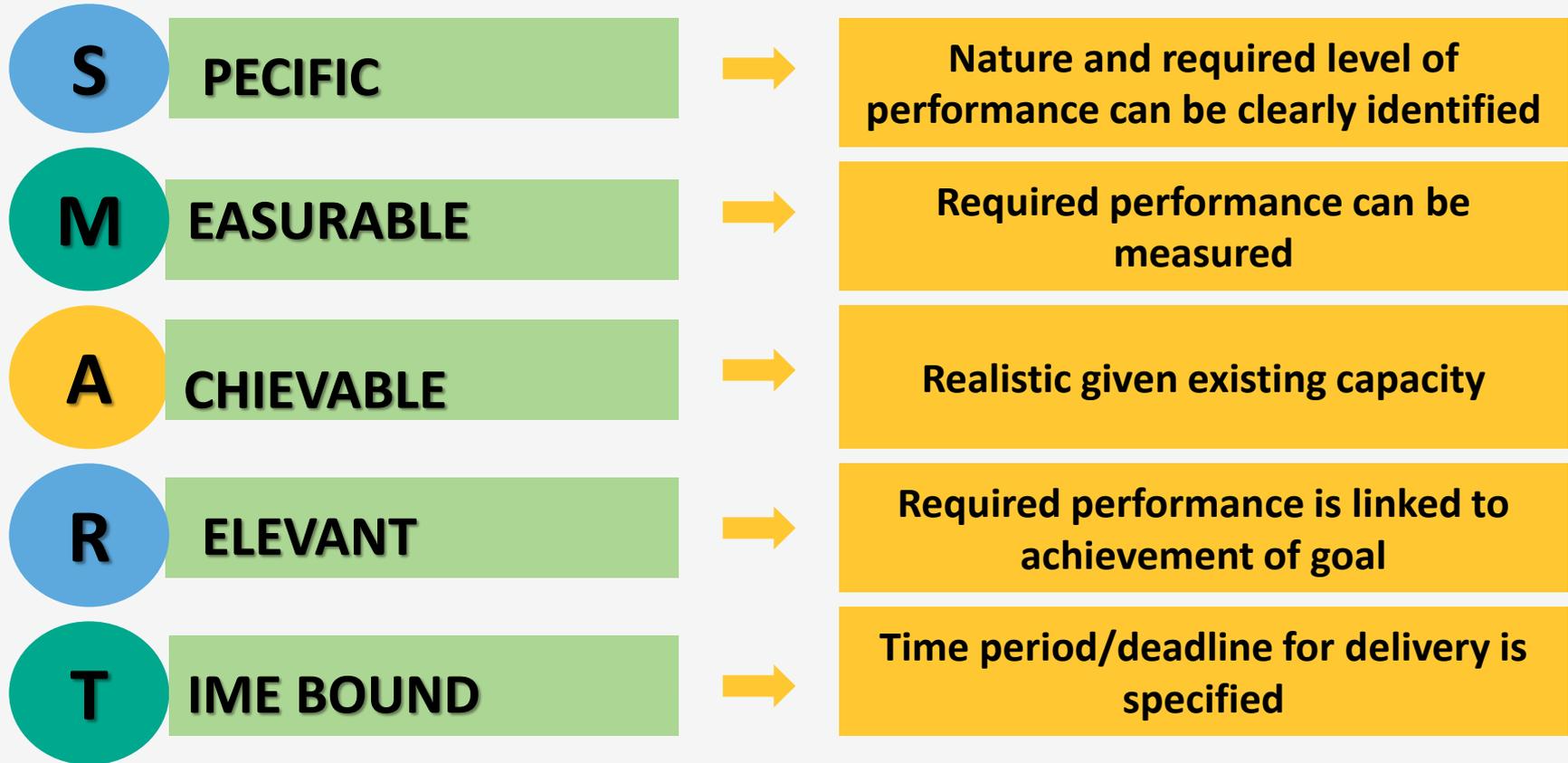
Indicators are verifiable

Targets are specific, measurable and time-bound.

Indicators and targets are relevant to the mandate and realisation of strategic goals and objectives.



# SMART criteria for performance targets



# Review findings on draft 2018/19 APP



Auditee	Measurability	Relevance
Department of Labour	√	√
Unemployment Insurance Fund	√	√
Compensation Fund	√	√
Sheltered Employment Factories	√	√
CCMA	√	√
NEDLAC	√	√

√ - There were no material issues identified

**Note:** The above positive measurability outcomes may be changed by testing performed on reported information.





## Portfolio committee considerations





# Key committee considerations when reviewing the 2018/19 APPs



## C. Status of records review

- The review was performed at the department, CF and UIF for the period ending 31 December 2018.

The outcomes thereof were discussed with the accounting officer on 12 February 2018.

# Objectives of high-level risk assessment

Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans / follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigating risks

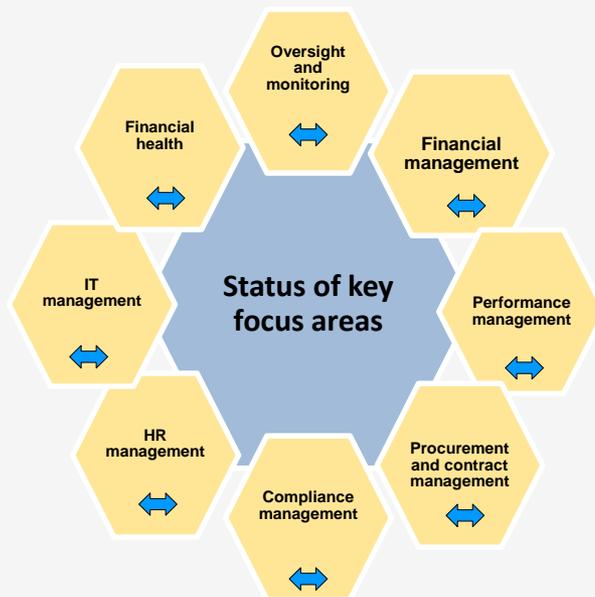




## Status of key focus areas

The status as presented below is based on the review performed and reflects the involvement from the previous assessment/audit

### DoL



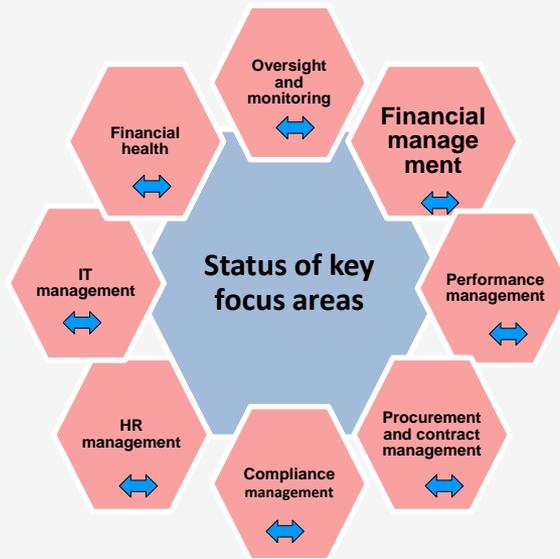
Good	The basics are in place as no concerns were identified.
Concerning	Concerns identified.
Intervention required	Level of concerns identified is an indicator that urgent intervention is required to prevent audit failure.

↑	Improved
↔	Unchanged
↓	Regressed



# Status of key focus areas (continues)

## Compensation Fund



Good	The basics are in place as no concerns were identified.
Concerning	Concerns identified.
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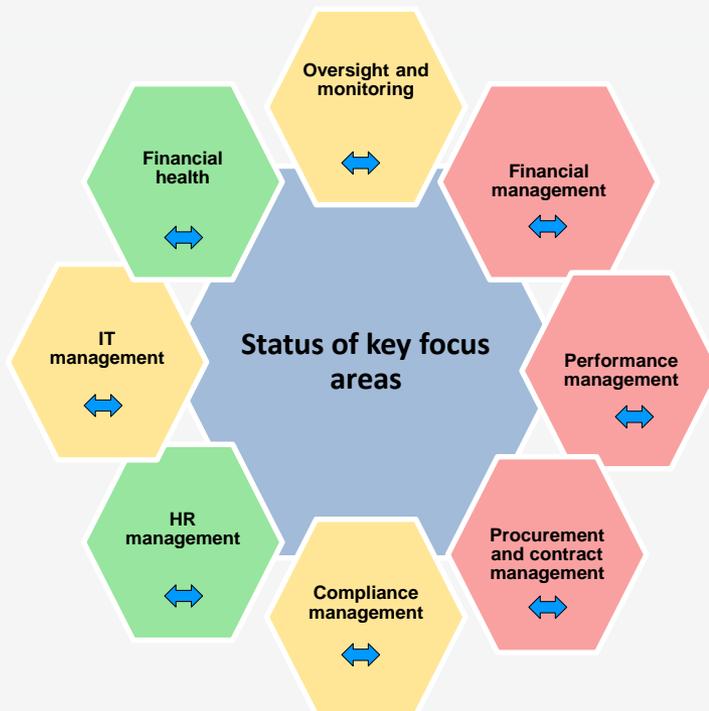
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# Status of key focus areas (continues)



UIF



Good	The basics are in place as no concerns were identified.
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↑	Improved
↔	Unchanged
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# Key matters for attention

We highlight the following matters relating to the key focus areas for attention.

## Financial Health

### *CF*

- It is a challenge to assess financial health due to disclaimer opinion issued.

## Oversight and monitoring

### *DoL, CF and UIF*

- Audit action plan has not been fully effective to enable timely correction of prior year material misstatements and the related internal control deficiencies.



# Key matters for attention ( continued)



## Financial management

### *DOL*

There were still weaknesses in the following areas of the financial statements:

- Finance lease commitments
- Employee benefits- leave entitlements
- Intangible assets



# Key matters for attention ( continued)



## *UIF and CF*

- CF and UIF is in the process of consolidating investments in unlisted companies into financial statements.
- Transaction with a related party at CF may not be at arm's length particularly in view of the fact that there has been no contract management.



## Key matters for attention ( continued)



### Performance management

#### *DOL & CF*

The status of implementing action plans to address prior year findings on performance information was still in progress.



## Key matters for attention

### Procurement and contract management

#### DOL

- There were no material findings from the head office review. However, the department's functions are mainly decentralised therefore processes followed on supply chain management will be assessed at each region to determine if there is material non compliance on the department. This increases the risk of irregular expenditure to the department.

#### CF

- Inadequate contract management to monitor performance lead to IT contract extension and possible fruitless and wasteful expenditure on other contracts.



# Key matters for attention

## Compliance management

### CF

#### *Fraud investigations*

- The fund has a high number of fraud cases. Of concern are the cases for which an investigation has not yet started (14 out of 116). Twelve of these cases have been on the register for more than a year and have an estimated value of R6,6 million.

#### *Consequence management*

- The fund keeps a financial misconduct register that currently has 216 cases that have been flagged as either irregular or fruitless and wasteful expenditure. Of these, 168 cases are still under investigation.
- Of concern is the long turn around times for investigations which could take anything from 1 year to 4 years.
- This is indicative of a slow investigative process within the fund and continues to be an impediment to consequence management, because evidence gets lost and the officials responsible for financial misconduct resign.



# Key matters for attention

## Human resource management

### *CF*

- Positions at executive level are filled, however the impact on audit outcomes is yet to be realized.
- According to audit action plan, lack of skill at various levels was identified as the primary root cause for most of the findings raised.

## IT management

### *DOL, CF and UIF*

- Implementation of action plans were in progress within the portfolio to address previously raised findings.



# Additional matters at CF



## Fraud risk indicators

- High number of fraud and financial management investigations.
- Duplicate payments made and loans issued to the medical service providers in the prior years not recovered.
- Source documentation in support to class of transactions and account balances are not always maintained and/or kept for easy retrieval for audit purpose.
- Internal control deficiencies over claims and revenue systems.
- Recent suspected fraud incidents



# Additional matters at CF (continued)



## Key concerns from our review

- There is culture of poor performance and weak internal control environment.
- Lack of urgency and commitment to improve the control environment which may lead to increased instances of fraud and could also result in a possible depletion of funds which would negatively impact service delivery.
- New appointments and some of the existing dedicated hardworking staff may be overworked in the current environment and eventually these staff members may be discouraged and leave the entity or adapt to the culture of poor performance.
- There are no adequate mechanisms in place to monitor consultants who are brought in to assist in improving/ addressing the challenges faced by the entity. This may lead to lack of deliverables by service providers, unnecessary contract extensions and financial loss to the fund.



# Additional matters at CF (continued)



## Overall recommendations from our review

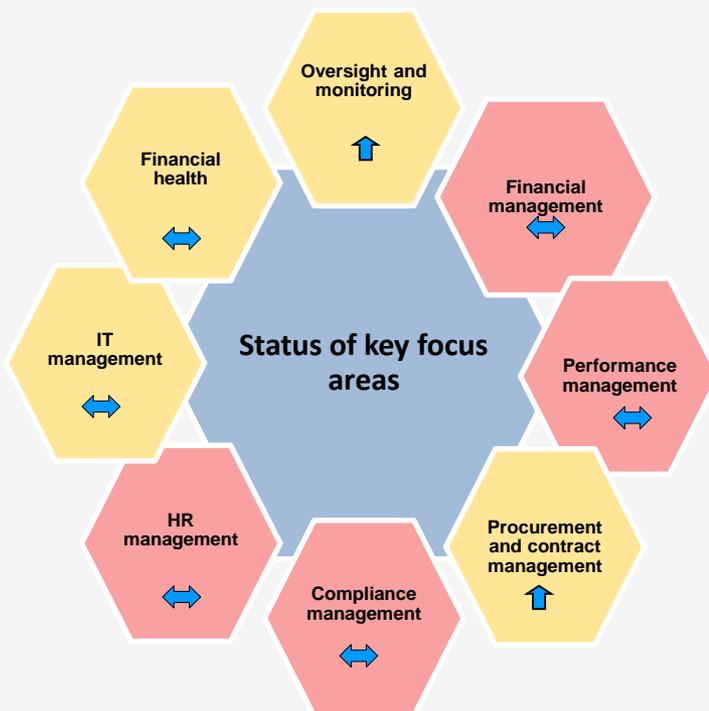
- A culture of a good and strong work ethic that is characterized by an emphasis on quality of work should be demonstrated and cascaded down from top management to the lower staff members.
- Management should communicate clear expectations to staff and hold staff accountable for poor performance at all levels.
- Stabilise IT systems within the CF environment to ensure optimal use of these systems by employees before changing them.



# Status of key focus areas (continues)



SEE



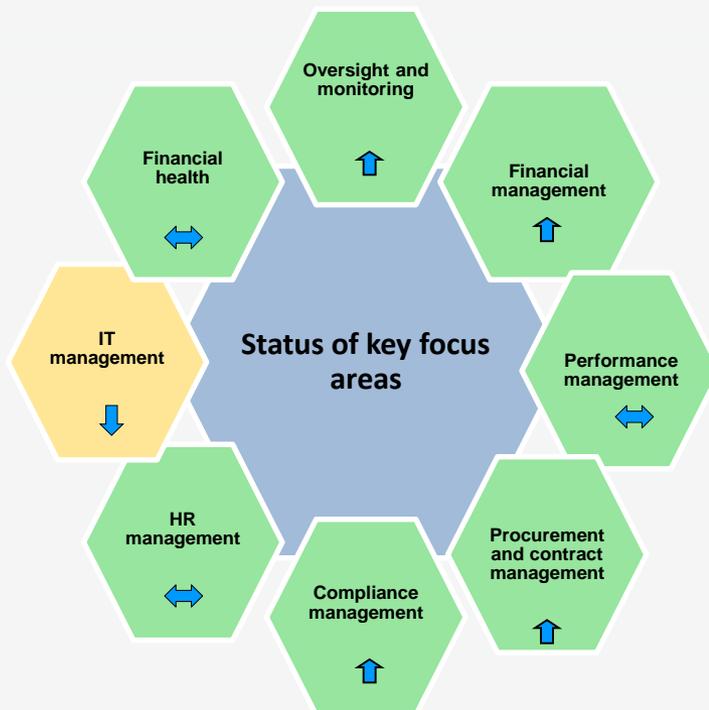
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# Status of key focus areas (continues)

## CCMA



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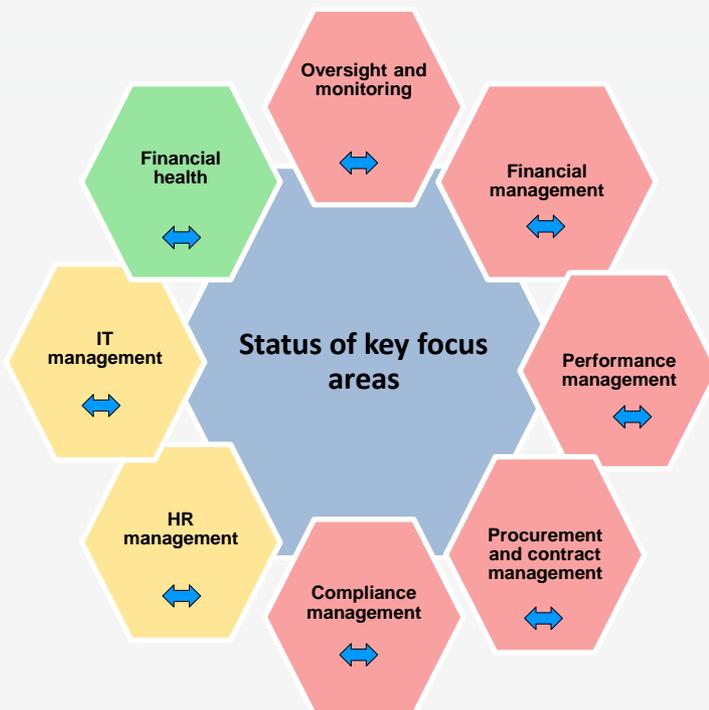
↑	Improved
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# Status of key focus areas (continues)



## NEDLAC



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Intervention required	Level of concerns identified is an indicator that urgent intervention is required to prevent audit failure.

↑	Improved
↔	Unchanged
↓	Regressed



# Status of key focus areas (continues)

- SEE, NEDLAC and CCMA
- Management has demonstrated commitment by developing and monitoring the implementation of action plans to improve the audit outcomes of the prior year.
- If management's efforts are consistent throughout the year then the internal control status and audit outcomes may improve at year end.

# QUESTIONS



# How to get in touch with the AGSA



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