



BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | **PFMA**
2017-18

Briefing to the Portfolio Committee on Labor

5 September 2018

PFMA audit outcomes of the 2017-18 financial year



AUDITOR-GENERAL
SOUTH AFRICA

CONTENTS

1. Introduction	1
2. The 2017-18 audit outcomes and key messages	2

1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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

1.2 Purpose of document

To provide additional detail in support of the slides detailing the audit outcomes

2. The 2017-18 audit outcomes and key messages

Audit outcomes of portfolio over five years

Overall, the Labour portfolio has experienced a slight improvement in audit outcomes over the compared to previous year. However, the auditees still did not improve on the quality of financial statements submitted, therefore relying on the audit process to identify and correct the material errors. In addition, there were material findings on the annual performance reports as well as non-compliance with key legislations. UIF and SEE particularly addressed material misstatements identified in the previous years resulting in improvement of the audit outcomes whilst the audit outcomes of DoL and CCMA remained stagnant.

Compensation Fund:

The control environment including the existing accounting systems are still not adequate to produce complete and credible financial statements. Furthermore, there is poor record management as such appropriate supporting documentation was not always available. As a result, we were unable to express an audit opinion on the financial statements. This has been the case for the past six financial years.

The areas where the material misstatements were identified were revenue and receivables; administrative contributions by exempted employers; unlisted investments property, plant and equipment; benefits; provision for outstanding claims; payables; unclaimed monies; cash and cash equivalents; statement of comparison of budget and actual amounts; loans to economic entities; prior period error; related parties; contingencies; irregular expenditure and fruitless and wasteful expenditure.

NEDLAC material misstatements on irregular expenditure that were not corrected resulting in a qualified opinion due to the lack of daily and monthly controls.

Annual performance report

The portfolio had an improvement in terms of the quality of the annual performance report (APR) and annual performance plan (APP) submitted for audit. UIF and SEE implemented responsive action plans to address internal control deficiencies identified in previous years and therefore there were no material findings relating to performance information identified in the year under review. Adequate reviews of performance information were not done at CF, CCMA and DoL. In some instances management was slow in addressing internal control deficiencies.

Compliance with legislations

The portfolio did not improve on compliance with legislations from the prior years as material findings were identified mainly relating to the following areas:

Expenditure and contract management: The portfolio did not take effective steps to prevent irregular and fruitless and wasteful expenditure. Furthermore, the supply chain prescripts were not followed when awards were made. The regression continues to remain a

concern as in the current year all entities in the portfolio have findings in this area. The portfolio incurred irregular expenditure of R113million during 2017/18 financial year, with the major contributors being the UIF and CCMA at R45.million and R58.5million respectively. We were unable to verify the completeness of the irregular expenditure as disclosed by the NEDLAC and CF for both the current periods. The portfolio further incurred fruitless and wasteful expenditure of R13.9million of which R9.5million (86 new instances in 2017/18) and R4million was incurred by the CF and the department respectively. Analysis of disclosed irregular and fruitless & wasteful expenditure:

Current year irregular expenditure

Auditee	Amounts prior to audit (R)	Amounts after the audit (R)	Difference/comment
DoL	459 477	1 236 000	R776 523
UIF	44 943 000	45 734 000	R791 000
SEE	1 513 371	3 267 954.	An irregular amount of R1 754 503 for SEE relates to reversal of incorrect condonment.
CCMA	56 256 000	58 501 408	R2 245 408
NEDLAC	1 093 631	1 093 631	Completeness of the amount could not be confirmed
CF	2 851 000	2 851 000	Completeness of the amount could not be confirmed

Current year fruitless & wasteful expenditure

Auditee	Amounts prior to audit	Amounts after the audit	Difference/comment
DoL	3 186 000	4 024 000	838 000
UIF	29 000	29 000	0
SEE	24 663	237 302	212 639
CCMA	70 000	70 000	0
NEDLAC	114 550	114 550	0
CF	9 533 000	9 533 000	Completeness of the amount could not be confirmed

Consequence management: Transgressions are not always investigated and effective and appropriate disciplinary steps taken as required by treasury regulation 33.1.1. As previously indicated the number of investigations taking place at CF is significant.

CF: The Special Investigation Unit investigated an allegation of financial misconduct at the request of the minister. This was a further investigation based on the outcome by an independent consulting firm relating to the allegation of financial misconduct involving previous key officials. The investigation has been completed and the report was finalized and issued in the year under review. The report is still under consideration by the accounting authority to determine the appropriate action to be taken.

Revenue management: CF and SEE did not establish systems, procedures and processes to ensure efficient and effective revenue management. This included collecting revenue when it was due and pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable was collected.

Claims and payables management: CF: The accounting authority did not maintain an effective control environment to accept, adjudicate, and make payments to the injured as required by section 22 and 29 of COIDA.

Control environment and assurance providers

UIF has turned around the audit outcomes from a disclaimer to unqualified mainly due to management commitment to improving control environment and extensive involvement during the audit process. Both UIF and SEE have been working on addressing the weaknesses in control environment and clearing the qualification areas since prior year. The recommendation of internal audit, audit committee as well as those from external audit were given appropriate consideration and implemented to larger extend.

For the remaining auditees there were instances where action plans were not appropriately developed and monitored on a regular basis to ensure improvement on the overall control environment. Daily and monthly controls were not effective in that there was inadequate reviews of financial and performance information. The effectiveness of internal audit function and the audit committee was hampered by the non-availability of credible information in

some instances as well as lack of implementation of recommendations made by these governance structures.

