Budgetary review and recommendations report | PFMA 2017-18

Briefing to Portfolio Committee on Labour

AUDITOR-GENERAL
SOUTH AFRICA

Reputation promise

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

Role of the AGSA in the reporting process

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

1 Our focus

Our annual audit examines three areas

1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)

Auditee:

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

Financially unqualified opinion with findings

Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

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

Qualified opinion

Auditee:

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

Adverse opinion

Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion

Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

The percentages in this presentation are calculated based on the completed audits of 6 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

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

Movement over the previous year is depicted as follows:

- Improved
- Unchanged
- Regressed

Movement of 5% or less: slight improvement, slight regression

DOL – Department of Labour

CF – Compensation Fund

UIF – Unemployment Insurance Fund

CCMA – Commission for Conciliation, Mediation and Arbitration

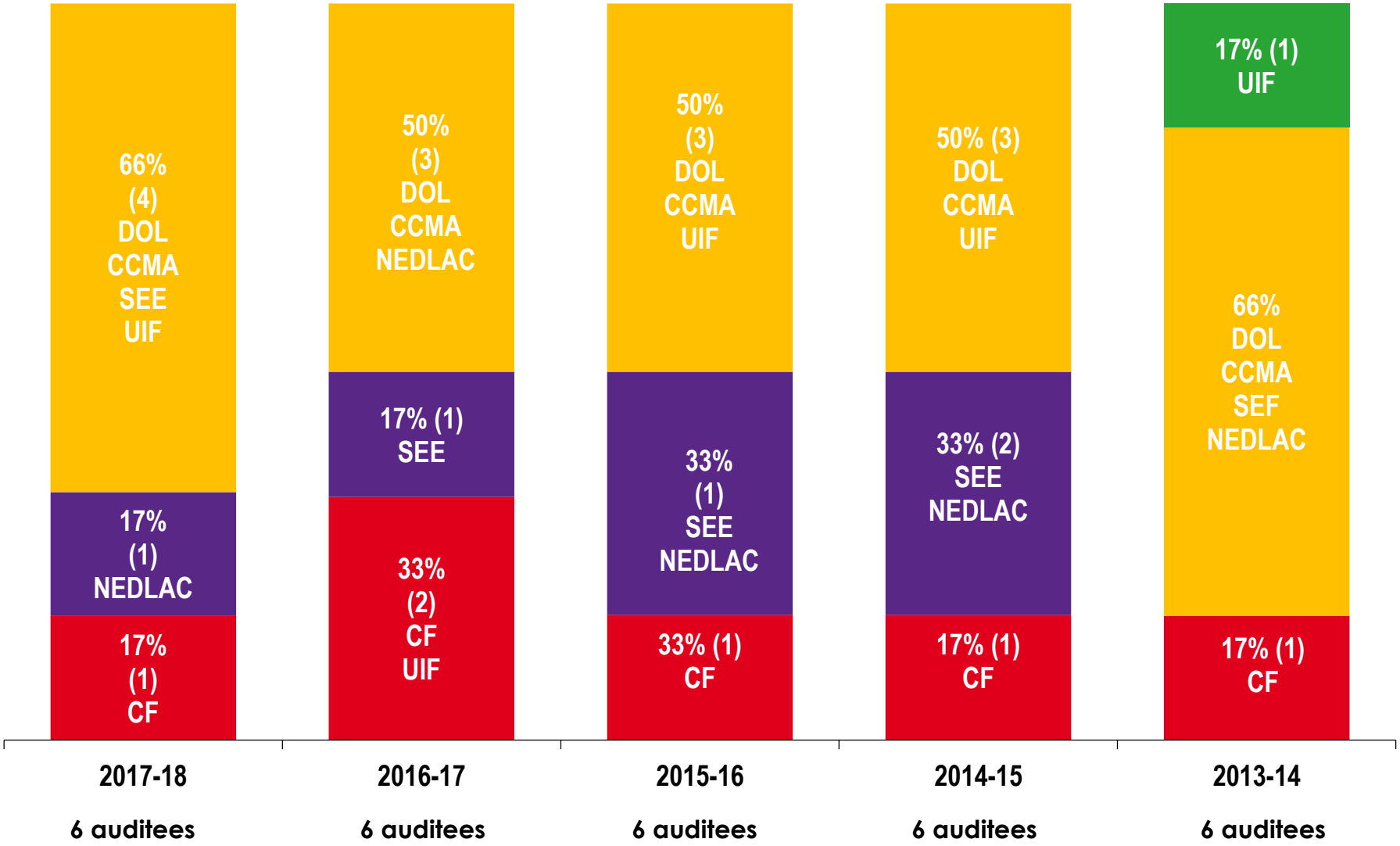
SEE – Supported Employment Enterprises

NEDLAC – National Economic Development and Labour Council

2 The 2017-18 audit outcomes

PLAN
DO
CHECK
ACT
1
ACCOUNTABILITY
2
DEFINE TARGET
3
INTERNAL CONTROLS & SUPERVISION
IMPLEMENT THE BASICS
4
MONITORING by ALL ASSURANCE PROVIDERS
5
CONSEQUENCES
HANDBOOK ON ACCOUNTABILITY
6
OUTCOMES
BETTER AUDIT RESULTS
7
IMPACT
BETTER LIFE FOR CITIZENS

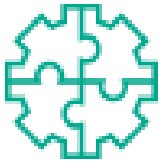
Audit outcomes of portfolio over five years



Portfolio snapshot (2017-18)

Clean audits: 0%
(2016-17: 0%)

Quality financial statements: 0%
(2016-17: 0%)



Quality performance reports: 33% (2) (UIF & SEE)
(2016-17: 17%)

No findings on compliance with legislation: 0%
(2016-17: 0%)

Irregular expenditure: R111m
(2016-17: R65m)

3 Financial management

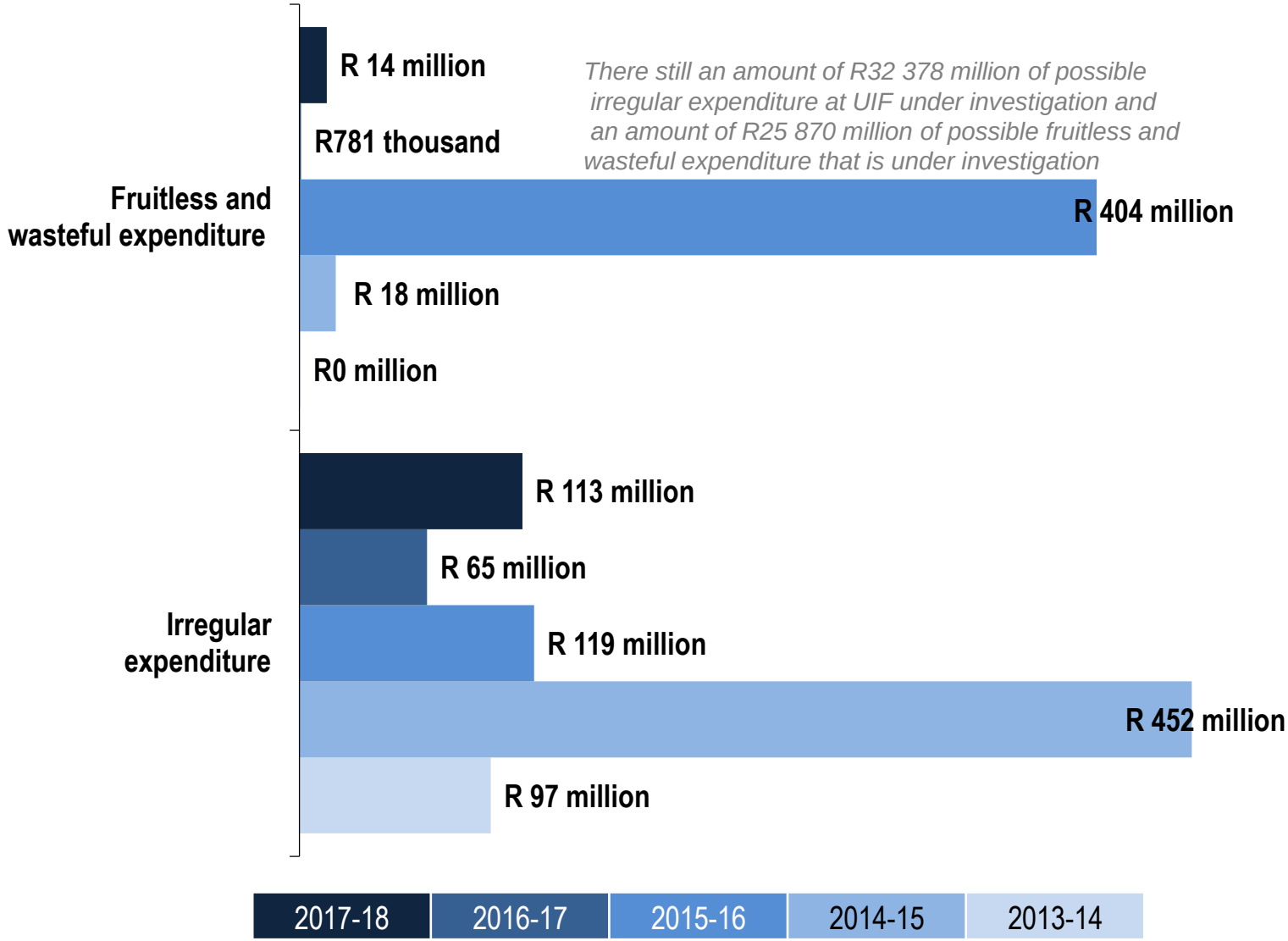
Unauthorised, irregular as well as fruitless and wasteful expenditure decrease over 5 years

Definition

Expenditure not in accordance with the budget vote/ overspending of budget or programme

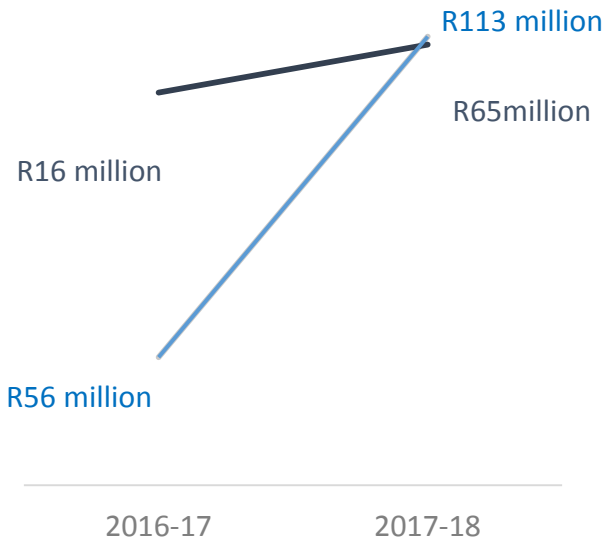
Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



Irregular expenditure and supply chain management

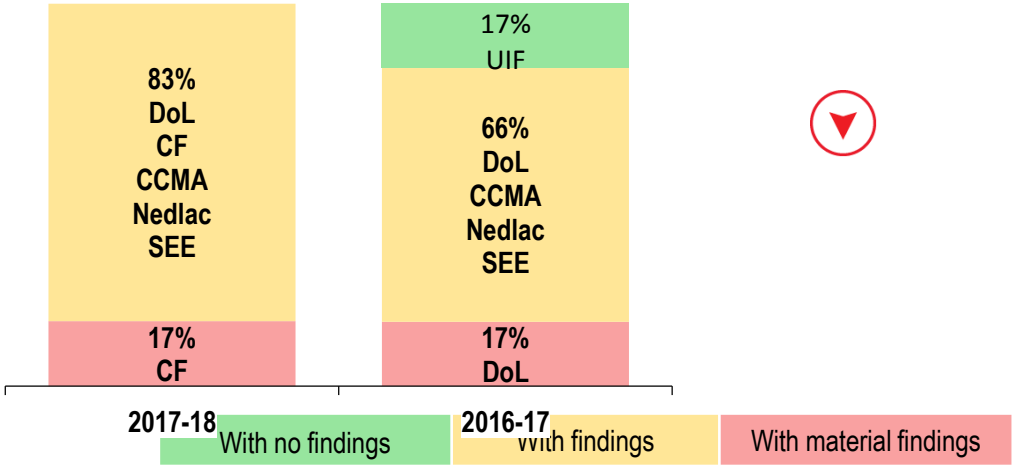
Irregular expenditure increased from R65million to **R113 million (a 71% increase)**



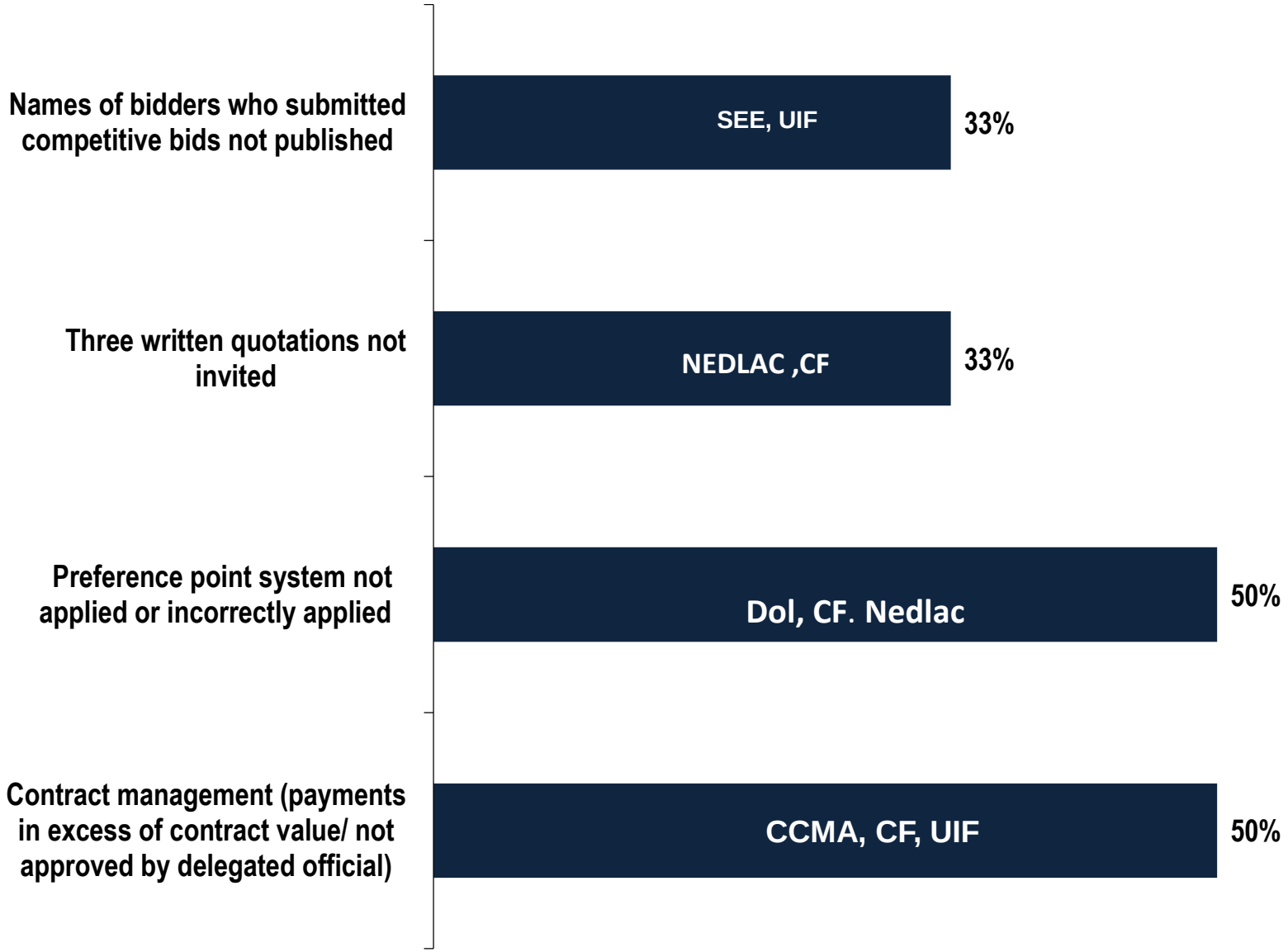
49,5% (56 million) of the irregular expenditure was payments/ expenses in previous years only disclosed for the first time in 2017-18

37,5% (R21 million) of the irregular expenditure includes payments made on contracts irregularly awarded in a previous year however there was no payments made on these contracts in the previous years.

Regression in SCM compliance (2016-17: 17% with no findings))

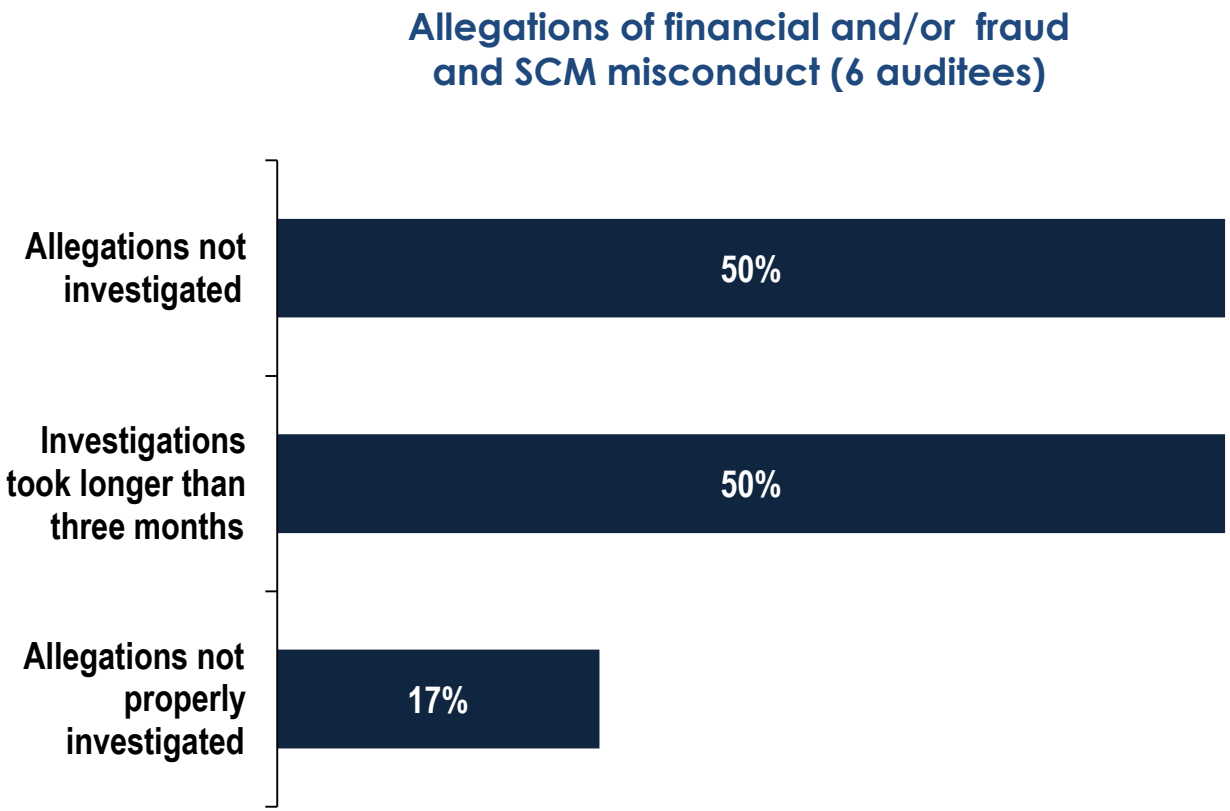


Most common findings on supply chain management



Fraud and consequence management

- One auditee (CF) had findings on non-compliance with legislation on consequence management



Entities included in the portfolio not audited by AGSA: Productivity SA

Three year audit outcome of auditees within the Labour portfolio which are not audited by the AGSA in terms of PAA section 4(3):

Auditee:	Three year Trend	Audit Outcomes 2018-17			Audit Outcomes 2017-16			Audit Outcomes 2015-16		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
Productivity SA										

- The auditee received an unqualified audit opinion, with material findings financial statements and compliance with legislation .The auditee has maintained this same audit outcome for the prior 3 years , however it should improve the quality of the financial statements and annual performance reports. In addition, the auditee should closely monitor the deviations from supply chain management processes to avoid incurrence of irregular expenditure.
- The quality of the financial statements submitted for audit remain a concern as material errors were identified on current liabilities, revenue and expenditure and irregular expenditure and fruitless and wasteful expenditure.
- The entities liabilities exceed its assets , and therefore, it cast significant doubt on the entity's ability to continue as a going concern.

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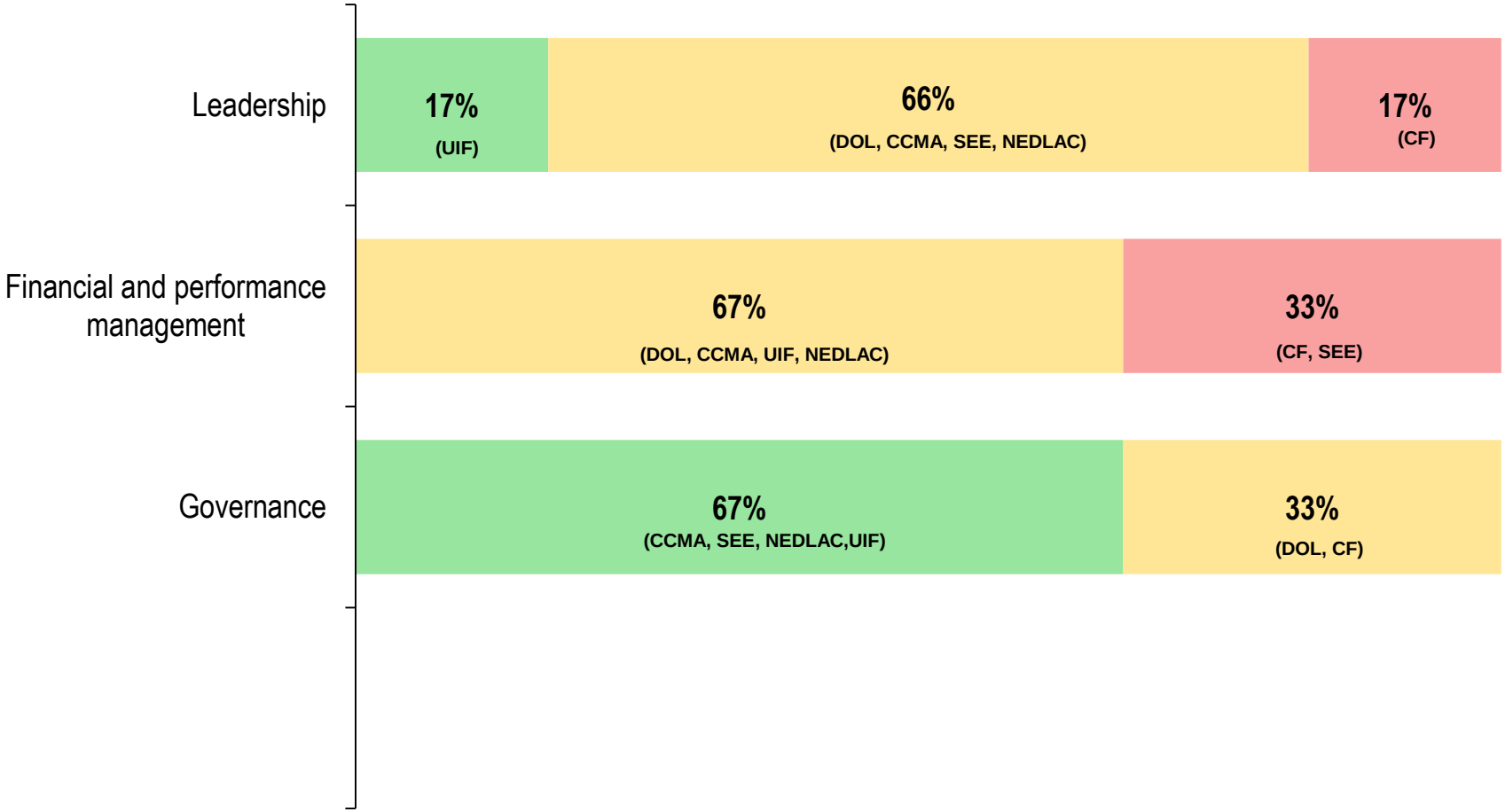
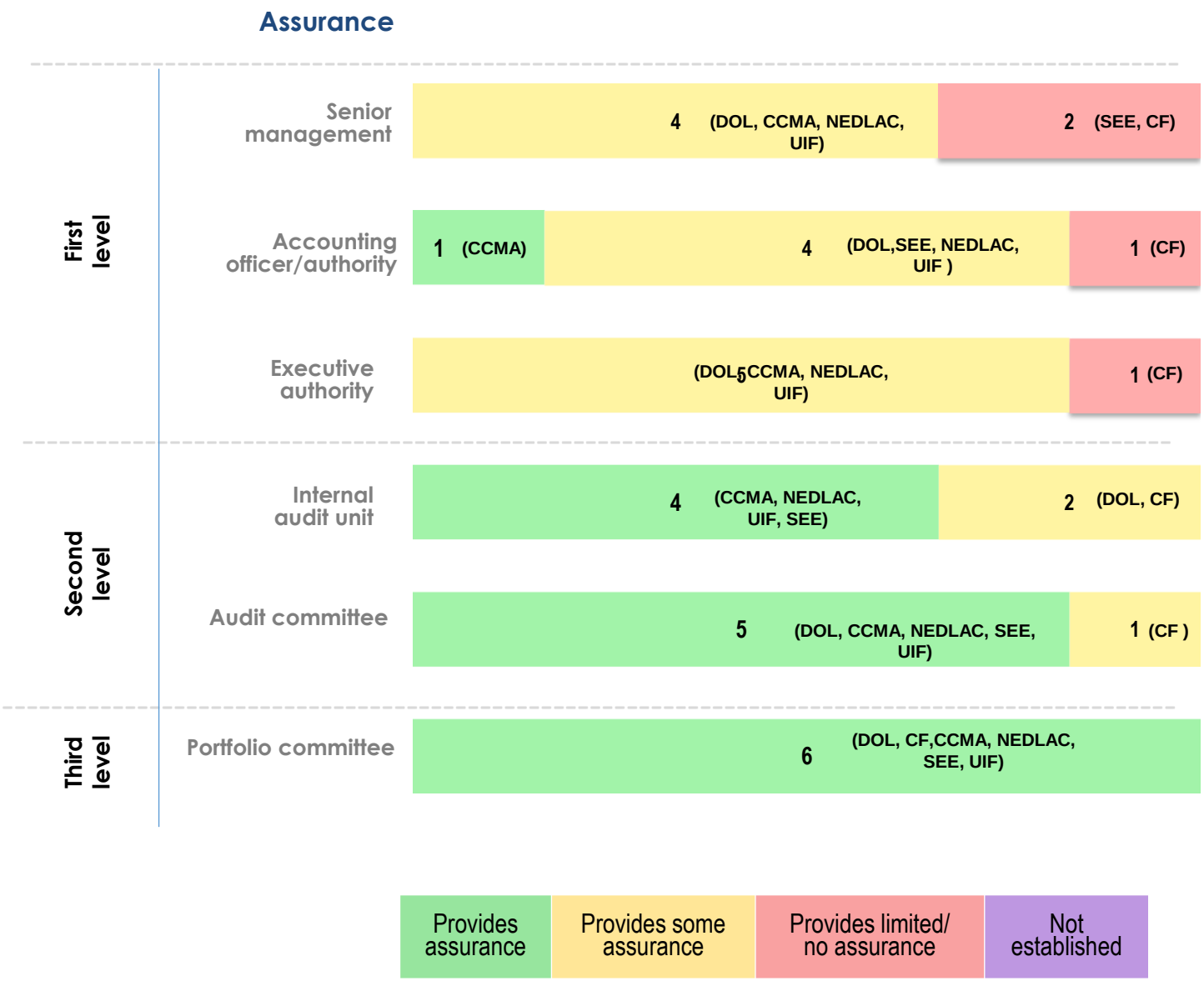
Status of internal control

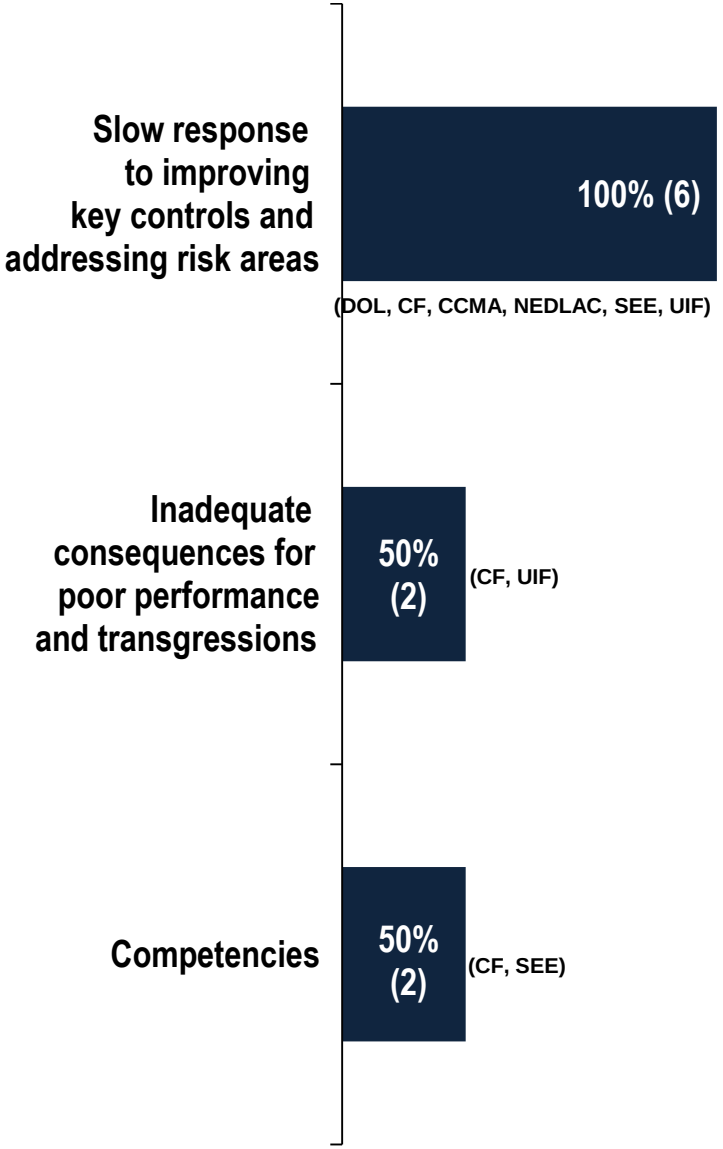


Good Of concern Intervention required

Assurance provided



Root causes



Management and the executive authority do not respond with the required urgency to our messages about addressing risks and improving internal controls.

If officials who deliberately or negligently ignore their duties and contravene legislation are not held accountable for their actions, such behaviour can be seen as acceptable and tolerated.

The competency gaps and affect the rate of improvement in audit outcomes.

Key recommendations

- CF, in particular should implement a business engineering process by fundamentally rethinking and reinventing the way it operates in order to improve its processes.

- The auditees within the portfolio should develop responsive action plans, allocate responsibilities to officials accordingly. These action plans should be monitored regularly to ensure effective implementation. All assurance providers should be properly incorporated in all processes. This will ensure that the reporting by the portfolio is credible thereby environment that is conducive for service delivery.
- performance management processes should be implemented and as such there should be consequences for transgressions. Disciplinary action should be taken against employees who are not performing at the required level, who have committed financial misconduct, are responsible for fraud and corruption, improper conduct in supply chain management as well as irregular and fruitless and wasteful expenditure within a reasonable time.

CORRUPTION

C = M + D - A

MONOPOLY DISCRETION ACCOUNTABILITY

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#AntiCorruption

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