

Briefing to Portfolio Committee on Employment and Labour

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 department and its entities, taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report* (BRRR).



The 2018-19 audit outcomes



Our annual audit examines three areas

THE AG's
ANNUAL
AUDITS
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND
ABSENCE OF SIGNIFICANT
MISSTATEMENTS IN
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE
PERFORMANCE
INFORMATION FOR
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL
LAWS AND REGULATIONS
GOVERNING FINANCIAL
MATTERS

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

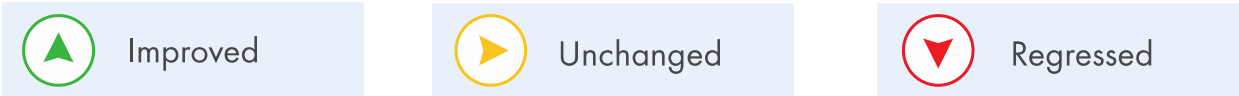
Important to note

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

Audit outcomes are indicated as follows:



Movement from the previous year is depicted as follows:



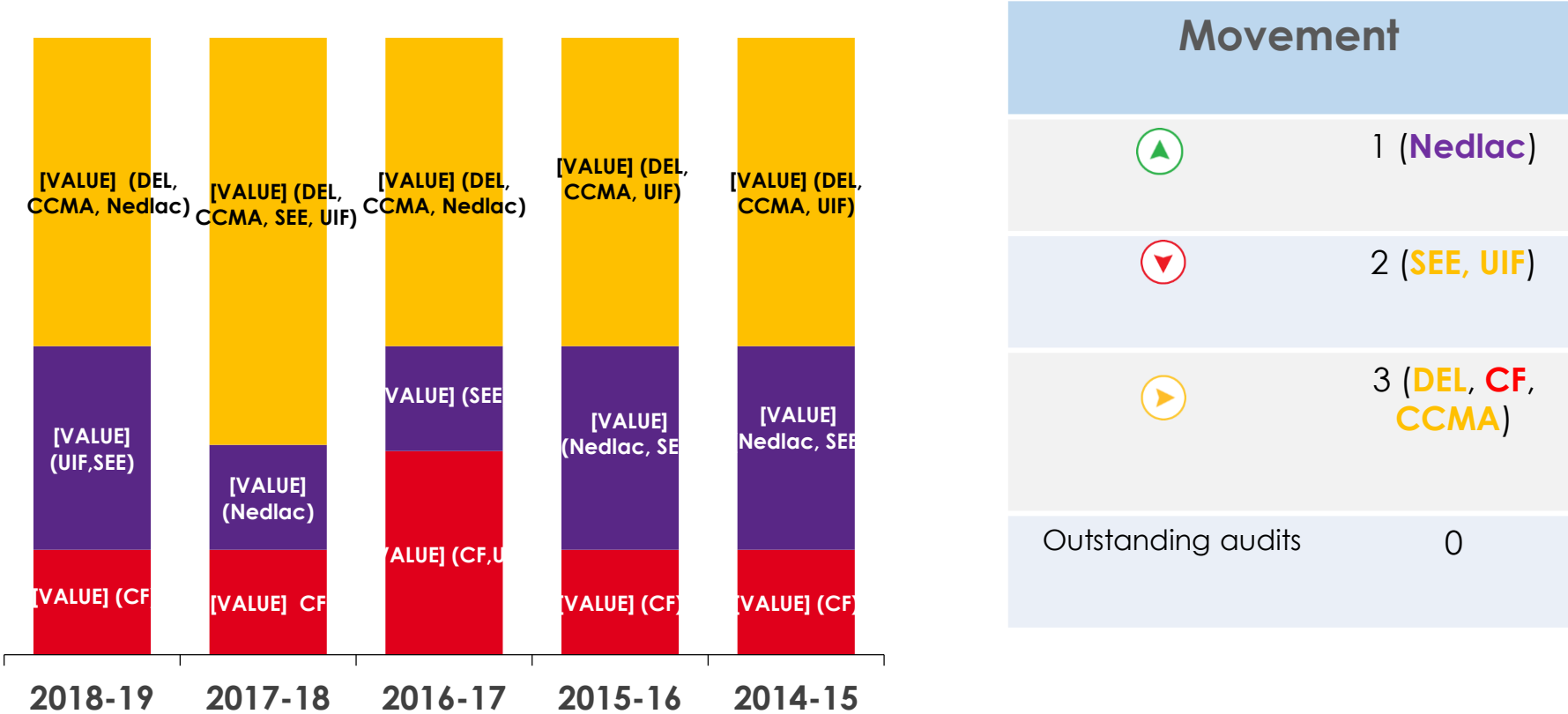
- DEL – Department of Employment and Labour
- CF - Compensation Fund
- UIF- Unemployment Insurance Fund
- CCMA- Commission for Conciliation, Mediation and Arbitration
- SEE- Supported Employment Enterprises
- NEDLAC- National Economic Development and Labour Council

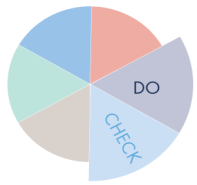


ACCOUNTABILITY = PLAN + DO + CHECK + ACT



Audit outcomes of portfolio over five years





Credible financial reporting



Financial statements

Submission of financial statements by legislated date (all auditees)

Financial statements submitted without material errors (CCMA, NEDLAC)

Quality of final submission after audit

Movement



2018-19

2017-18

100%

100%

33%

0%

50%

67%

17%(DEL) achieved unqualified opinions only because they corrected all misstatements identified during the audit

Various qualification areas

- Unlisted investments (CF and UIF)- credibility of data in respect of valuations performed could not be validated for completeness and accuracy
- Limitations on revenue and claims at CF
- At SEE , cost of sales were inaccurately recorded and inventories were valued at an incorrect amount.





Credible performance reporting



Performance report

Performance report submitted without errors
(Nedlac, UIF)

Quality of final submission after audit

Movement



2018-19

2017-18

	33%		17%
--	-----	--	-----

33%

50%

0% had no material findings only because they corrected all misstatements identified during the audit

Reliable reporting of achievements (DEL,
CF,CCMA, SEE)

67%

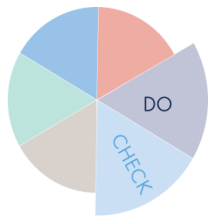
50%

Usefulness of performance indicators and targets
(SEE)

17%

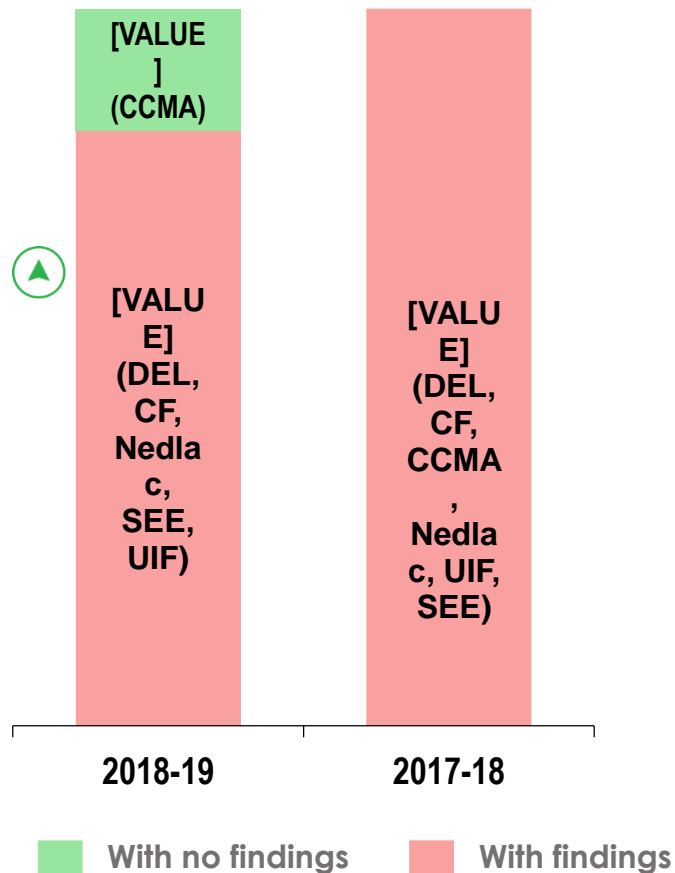
0%





Disregard for compliance with legislation

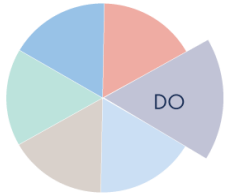
Findings on compliance with key legislation



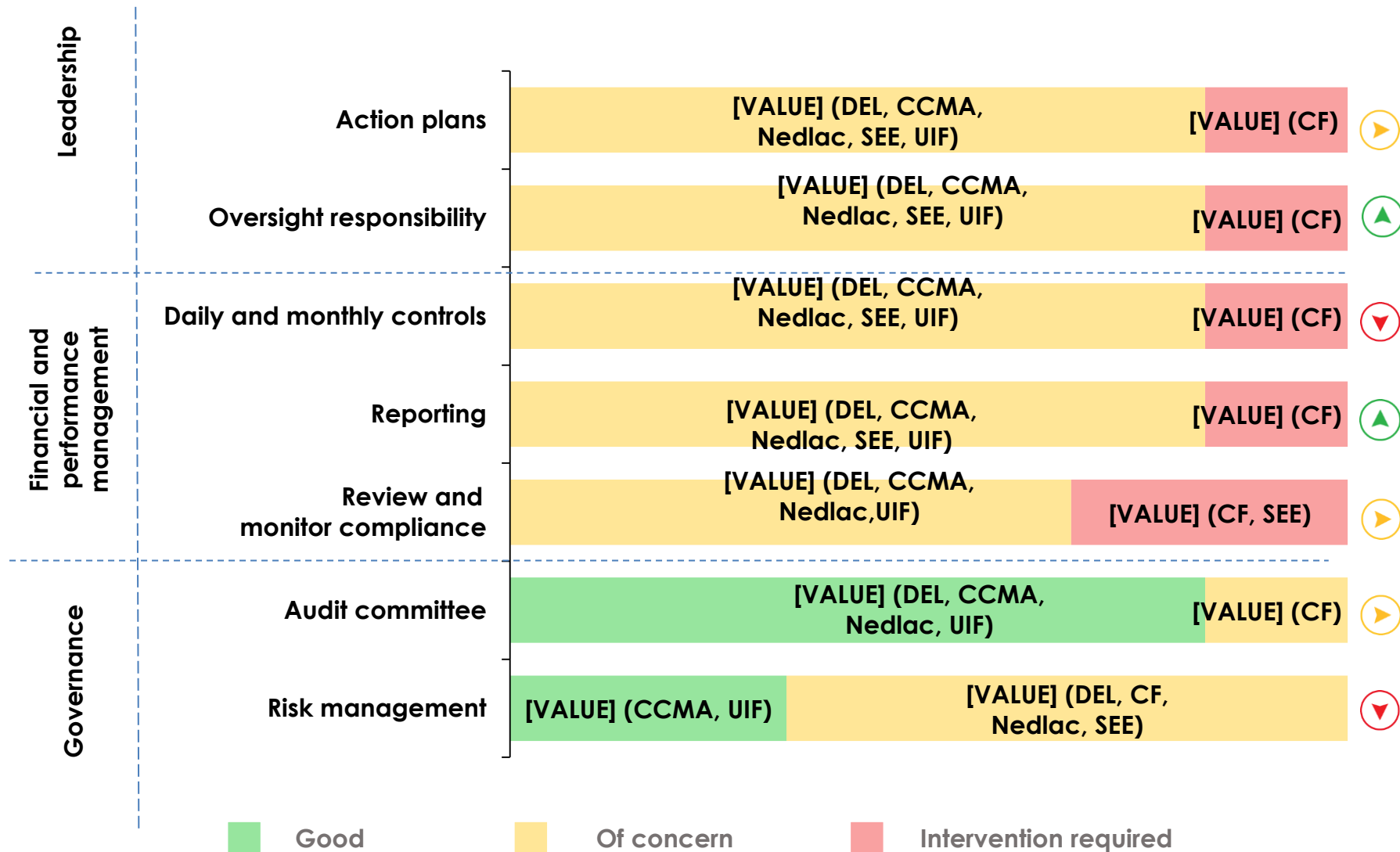
Top five non-compliance areas

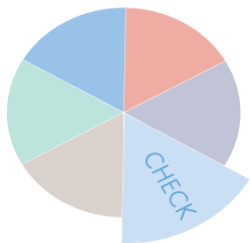
- Quality of financial statements with material misstatements corrected (DEL), and material misstatements not corrected (CF, SEE, UIF)
- Prevention of irregular expenditure (DEL, CF, Nedlac)
- Prevention of fruitless and wasteful expenditure (DEL, CF)
- Revenue Management –inability to collect debts (CF- lack of regular follows ups on debtors raised, SEE- clients not paying due to economic conditions)
- Consequence management- Information not provided (CF, Nedlac) or disciplinary steps not taken for irregular/ fruitless and wasteful expenditure (DEL and UIF)





Status of internal control





Assurance provided

Assurance

First level	Senior management	[VALUE] (DEL, CCMA, NEDLAC, UIF)	[VALUE] (CF; SEE)	▶
	Accounting officer/authority	[VALUE] (CCMA)	[VALUE] (DEL, CF, Nedlac, SEE, UIF)	▲
	Executive authority		[VALUE] (DEL, CF, CCMA, Nedlac, SEE, UIF)	▶
Second level	Internal audit unit	[VALUE] (DEL, CCMA, Nedlac, SEE, UIF)	[VALUE] (CF)	▲
	Audit committee	[VALUE] (DEL, CCMA, Nedlac, SEE, UIF)	[VALUE] (CF)	▶



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

Three year audit outcome of Productivity SA which is not audited by the AGSA in terms of PAA section 4(3):

Auditee:	Three year Trend	Audit Outcomes 2018-19			Audit Outcomes 2017-18			Audit Outcomes 2016-17		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
Productivity SA	●➤									

- The auditee received an **unqualified audit opinion**, with material findings on compliance with legislation. The auditee has maintained the audit outcome for the prior 3 years, however there was an improvement on the submission of the financial statements as there were no material adjustments identified on the submitted financial statements.
- The material non-compliance related to the prevention of fruitless and wasteful expenditure that was identified
- The entity's liabilities exceeded its assets, and therefore, it cast significant doubt on the entity's ability to continue as a going concern

Financial health and financial management



Financial health

Overall

- **The overall financial health in the portfolio is favourable due to the following:**
- The entities (CF and UIF) have sufficient reserves from the mandatory revenue (Workmen's Compensation (WCA) and Unemployment Insurance Funds (UIF) respectively) to payout WCA claims and UIF benefits when they become due in the foreseeable future.
- Nedlac, CCMA and SEE – receives transfer payments from DEL in order to carry out their roles and responsibilities in terms of their mandates.
- There were no material uncertainties highlighted at the department and its entities
- **The entities can improve in the following areas:**
- At SEE and DEL debt collection need to improve as the debtor outstanding days remain high.
- At Nedlac and SEE the expenditure should be closely monitored to ensure that there are no deficits.
- * *The above should be read within context with the reported misstatements included in the audit reports*



Good



Of concern



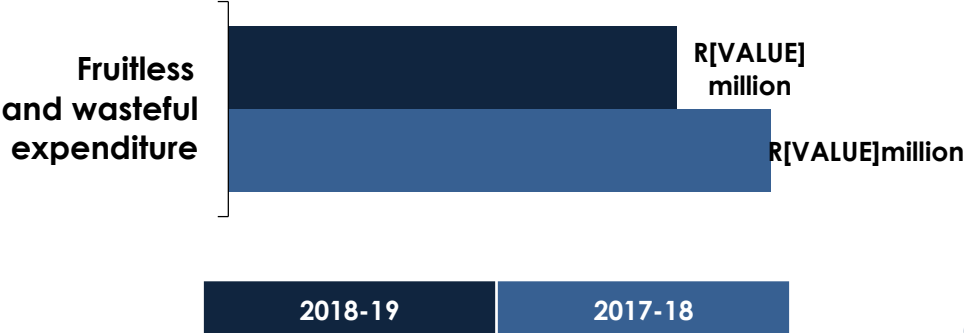
Intervention required

Fruitless and wasteful expenditure expenditure decrease over 2 years

Definition

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

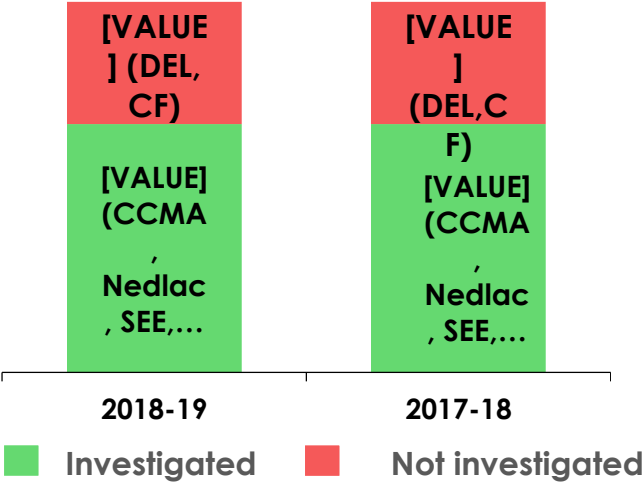
Fruitless and wasteful expenditure incurred by the department and the entities in portfolio



Previous years fruitless and wasteful expenditure reported for investigation

Nature of the fruitless and wasteful expenditure

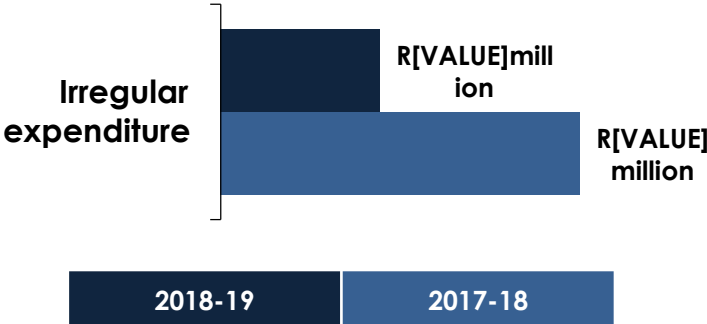
- The majority of the disclosed fruitless and wasteful expenditure for the current year was caused by:
- litigation and claims of R6.7million at CF,
- damages to vehicles of R4.1 million at DEL
- R0,2million on lease payments for parking at UIF



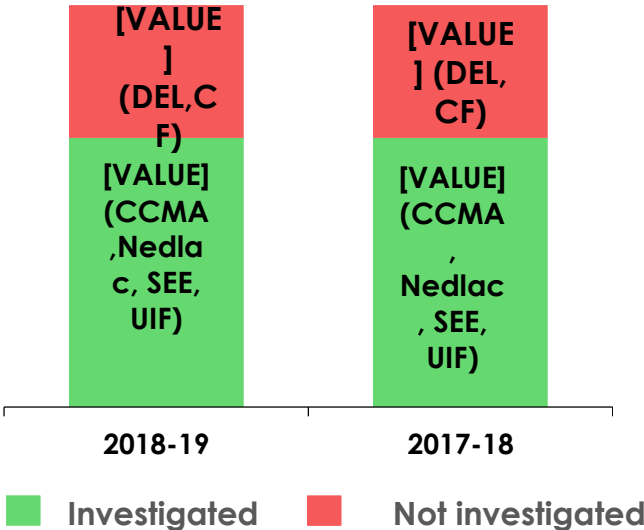
Irregular expenditure expenditure decrease over 2 years

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

Irregular expenditure incurred by entities in portfolio



Previous year irregular expenditure reported for investigation



Nature of irregular expenditure

- The majority was caused by the non adherence to procurement and contract management processes of R43 million at the department and all entities.
- Of the R43 million, R10,7 million is expenditure on ongoing multi-year contracts at CCMA.
- Overspending on the approved budget of R6.2 million at Nedlac without the Ministers approval



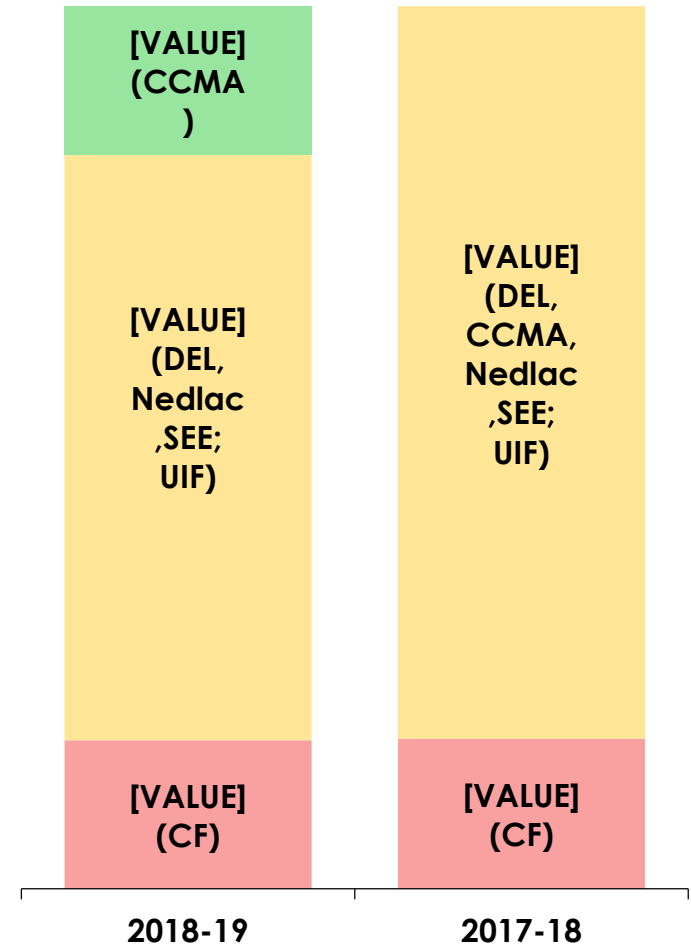
Supply chain management

▲ Improvement in SCM compliance (2018-19: 17% with no findings)

All SCM findings should be investigated

Most common findings on supply chain management

- **Uncompetitive and unfair procurement** processes at **50% of auditees** (DEL, CF, NEDLAC)
- **False declarations** of interest made by **30 suppliers** (DEL, SEE)
- **25 employees** of the department doing business with other state institutions (DEL)
- **Contract management** payments in excess of contract value/ inadequate monitoring of contracts (CF, UIF)



With no findings



With findings

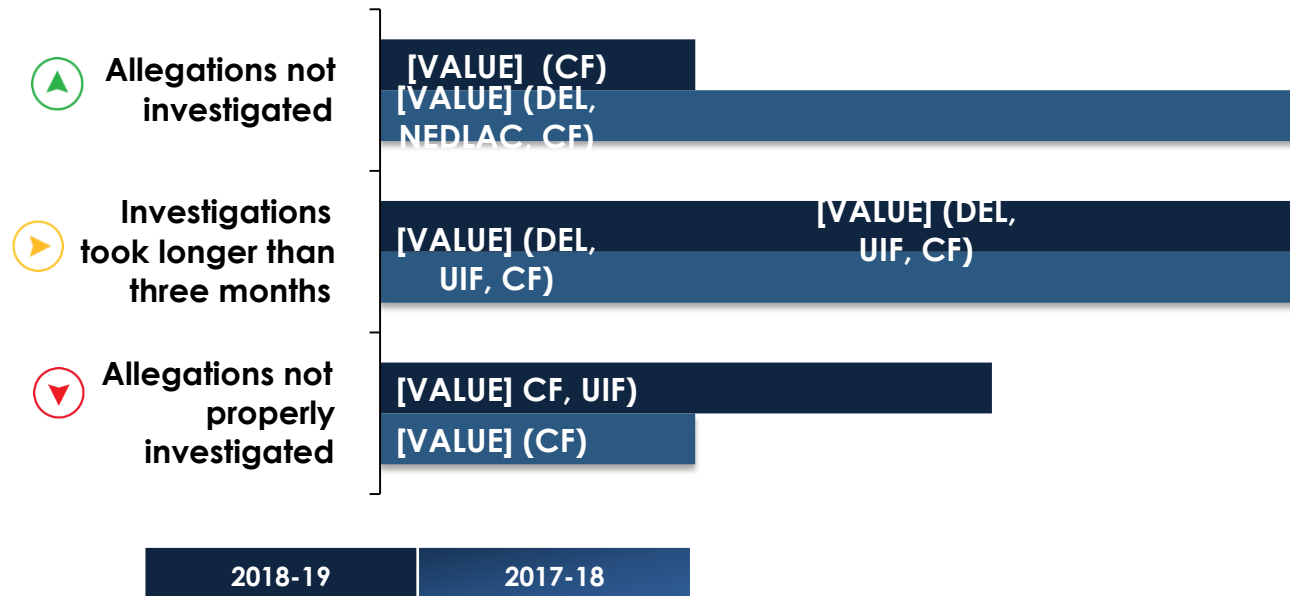


With material findings 20



Fraud and lack of consequences

Allegations of financial and/or fraud and SCM misconduct (6 auditees)



- CF had recurring material non- compliance finding on consequence management

Key expansion of our mandate



Refer material irregularities to relevant public bodies for further investigations



Take binding remedial action for failure to implement the AG's recommendations for material irregularities



Issue a certificate of debt for failure to implement the remedial action if financial loss was involved

What is a material irregularity?

Irregularity



any **non-compliance** with, or contravention of, legislation, **fraud**, **theft** or **a breach of a fiduciary duty**

Material
irregularity

identified during an audit performed under the PAA
that **resulted in or is likely** to result in ...

Impact



a **material financial loss**,
the **misuse or loss of a material public resource** or
**substantial harm to a public sector institution or
the general public**



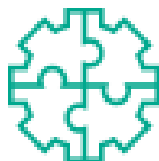
Portfolio snapshot (2018-19)



Clean audits: 0%
(2017-18: 0%)



**Financially
unqualified financial
statements: 50%**
(2017-18: 67%)



**No findings on performance
reports: 33%**
(2017-18: 50%)

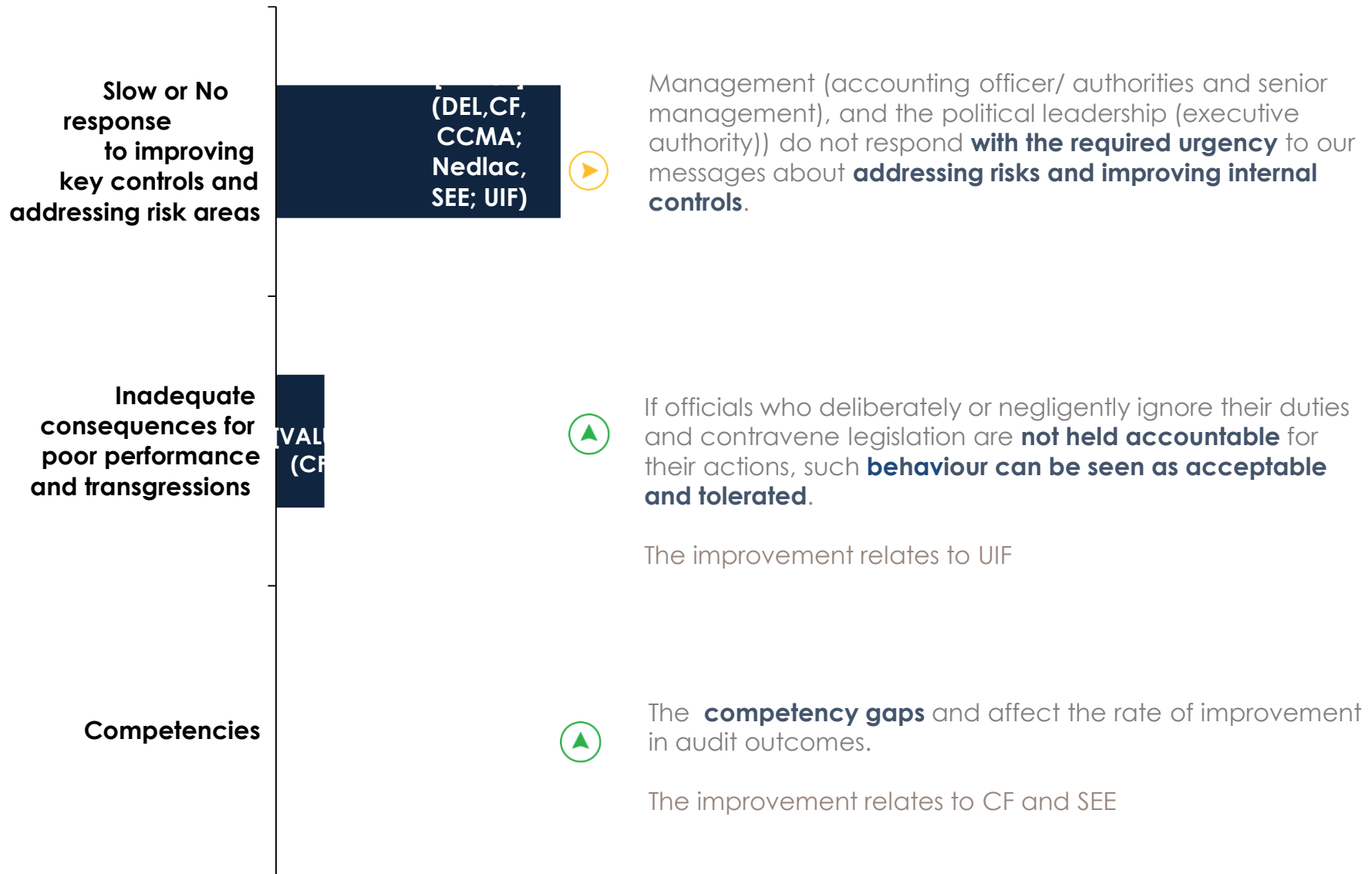


**No findings on compliance
with legislation: 17%**
(2017-18: 0%)



**Irregular expenditure:
R49,3m**
(2017-18: R111,3m)

Root causes



Recommendations

To department and its entities

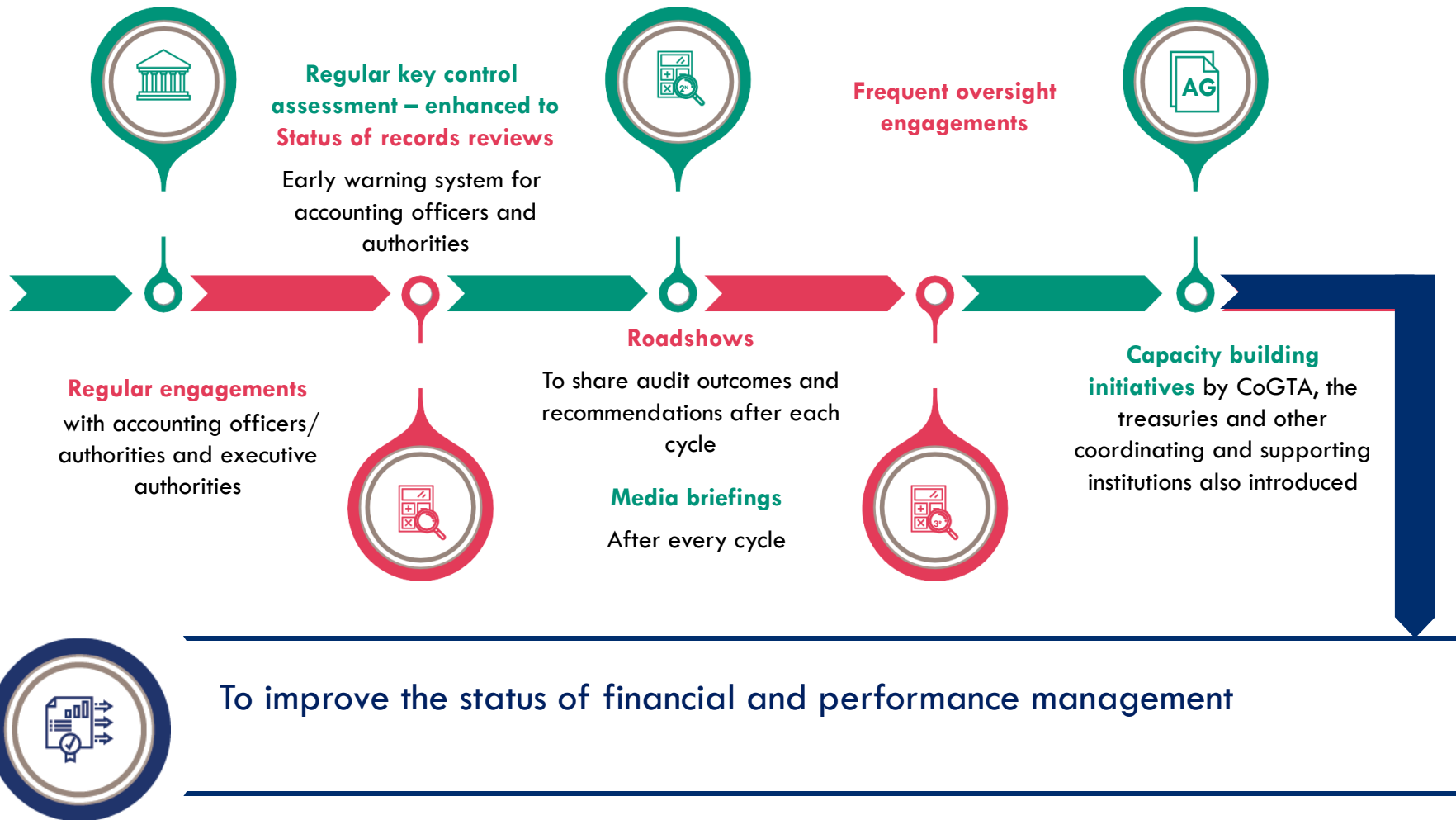
- The findings from the status of records review should be prioritised by ensuring mitigating controls are implemented, to prevent recurring findings as issues identified during the process was not adequately addressed.
- Risk assessment process and action plans should be continuously monitored and assessed for effectiveness to enable timely responses to material issues that impacts reliable and credible financial and performance reporting.
- Consequence management should be implemented and monitored on employees who has transgressed in respect of incurring irregular, fruitless and wasteful expenditure, and financial and other misconduct.

To the portfolio committee

- Ensure that quarterly reports submitted have been verified by internal audit and audit committee.
- Evaluation of the quarterly reports, action plans and measures for consequences and details of how the department and its entities will resolve issues raised that will not result in recurring issues, should be monitored



Additional efforts were introduced



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa