



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Employment and Labour

17 November 2021



Our mission and vision



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

Mandate for the AGSA and portfolio committees

AGSA mandate

Constitution section 188

AGSA must audit and report on accounts, financial statements and financial management of government institutions

PAA section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on:
 - the fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- Auditor-General has the power :
 - to take an appropriate remedial action
 - where an accounting officer/authority has failed to comply with remedial action, to issue a certificate of debt, as prescribed.

Portfolio committees

National Assembly Rule 227

Portfolio committees may, amongst other things, perform the following functions:

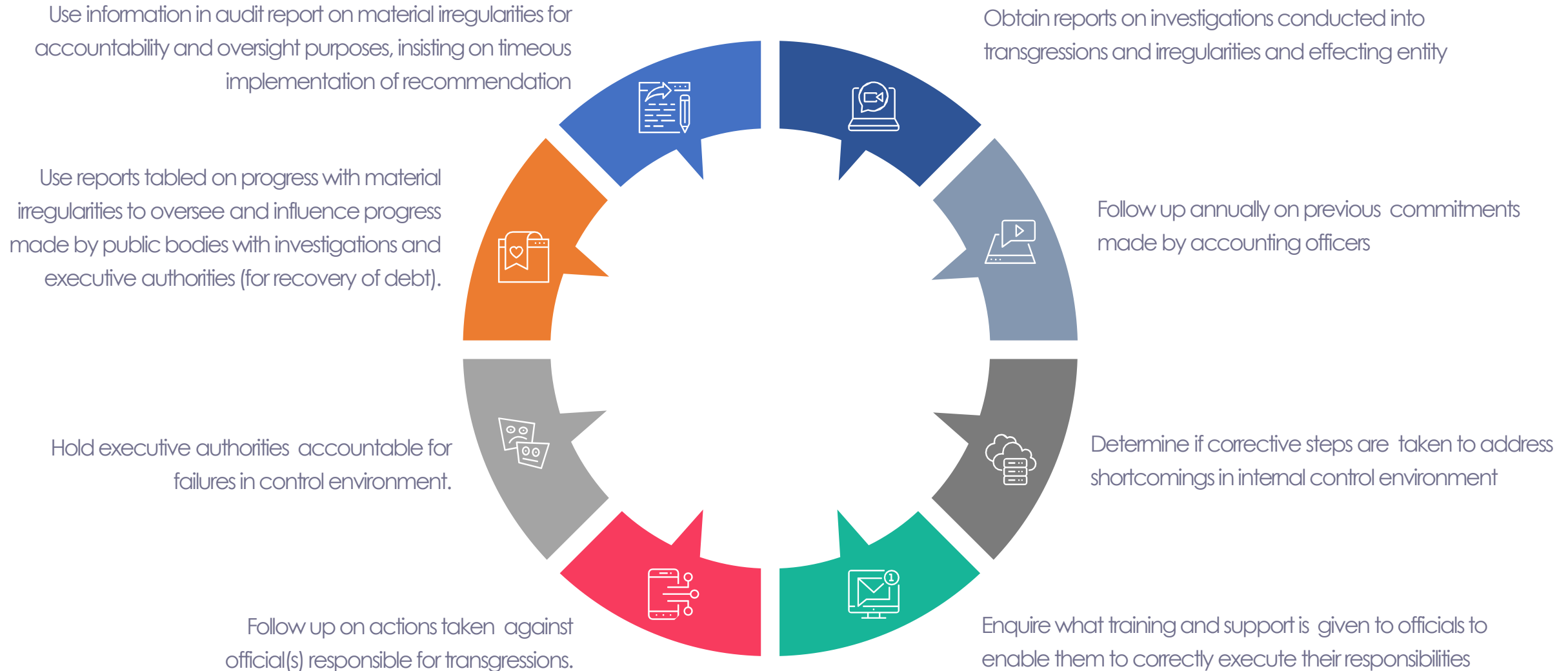
- Deal with bills and other matters falling within their portfolio, as referred to them in terms of the constitution, legislation or rules, or by resolution of the Assembly
- Maintain oversight of their portfolios of national executive authority, including implementation of legislation
- Consult and liaise with any executive organ of state or constitutional institution
- Monitor, investigate, enquire into and make recommendations concerning any such executive organ of state, constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution
- Consult and liaise with any executive organ of state or constitutional institution

Role of the AGSA in the reporting process

Our role as the Auditor-General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of entities, taking into consideration the committee's objective to produce a *Budgetary review and recommendations report (BRRR)*.



What we understand as the role of oversight










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Focus

AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of 4 auditees**, unless indicated otherwise.

Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
 <p>Auditee:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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. 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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 	 <p>Auditee:</p> <ul style="list-style-type: none"> 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 AG’s annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:



Improved



Unchanged



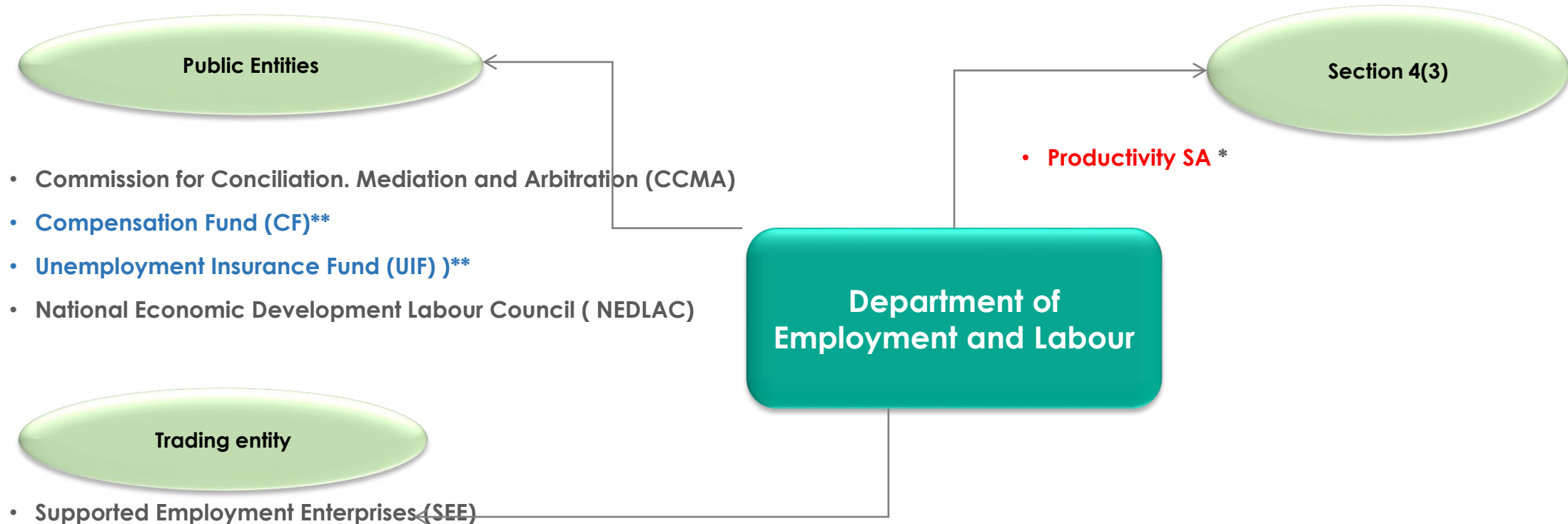
Regressed



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Portfolio outcomes

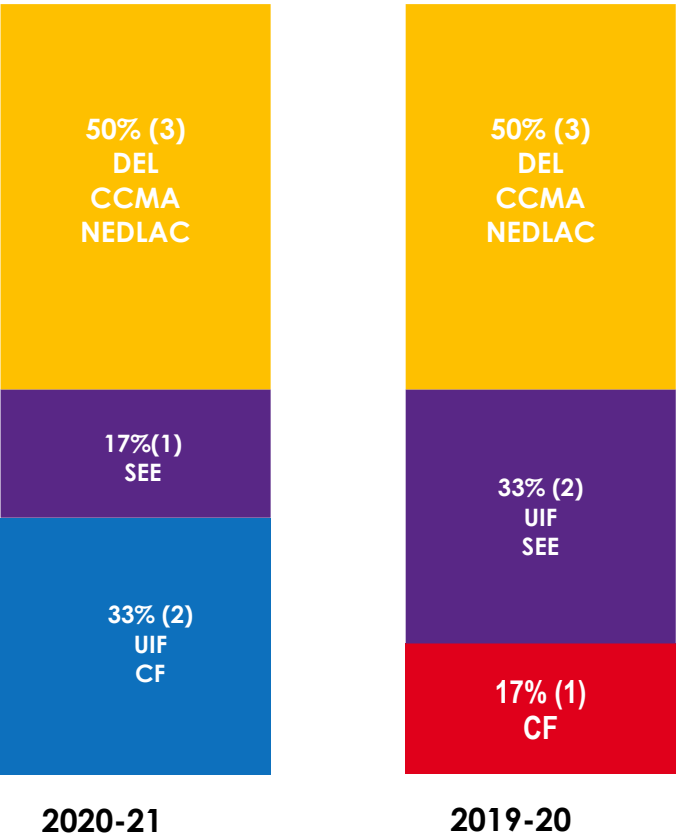
Employment and Labour portfolio auditees



*The Section 4(3) entity is not included in the analysis

**UIF and CF audits are not finalised and therefore not included in the detailed analysis

Audit outcomes of the portfolio over 2 years



Movement	
	0
	0
	4

Outstanding audits
2 (UIF and CF)

- The overall outcomes in the portfolio have remained stagnant, with most audits receiving an unqualified audit opinion with findings.
- The **CF and UIF** audits, remain outstanding.
- The **SEE** obtained a qualified opinion with findings on compliance, similar to that of the prior year.

Audit outcomes are depicted as follows:



Unqualified with no findings



Unqualified with findings



Qualified with findings



Adverse with findings



Disclaimed with findings



Outstanding audits



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Quality of financial and performance reporting

Quality of financial and performance reporting

Quality of submitted financial statements

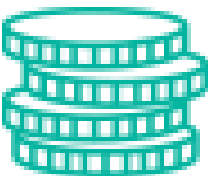
- **NEDLAC**, submitted financial statements that did not contain material misstatements and we wish to commend the entity.
- Three auditees (**DEL, SEE and CCMA**) submitted financial statements that contained material misstatements.
- The material misstatements identified are mainly due to inadequate review of financial statements by the management.
- Furthermore, the **SEE** did not ensure that they adequately assess compliance with the accounting framework when reporting financial information.

Quality of performance reporting

- **We are encouraged as all auditees within the portfolio did not have findings on usefulness.**
- In the current year, there has been an improvement in the quality of performance information submitted for auditing in the portfolio.
- **SEE and NEDLAC** submitted annual performance reports that were free from material misstatements.
- **DEL** had material uncorrected misstatements on the annual performance report due to invalid achievements being reported. The misstatements were as a result of manual registers being used by the department and inadequate review controls which could not prevent or detect the misstatements. Due to the magnitude of the errors in the reported achievements, management could not correct the misstatements.
- **CCMA** corrected all material misstatements identified during the audit, consequently, no material findings were reported in the audit report.

First focus area: credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors (**NEDLAC**)

Quality of final submission after audit (**DEL, CCMA**)

Movement



2020-21

2019-20

4

4

1

1

2

2

Root cause analysis

- Material misstatements were due to inadequate review of financial statements by management.
- The CCMA's commitments register was inaccurate, as it did not take into account all payments made in determining the future commitments balance.
- DEL - various errors were identified mainly on intangible assets, capital commitments, key management disclosures and operating lease commitments. These were as a result of errors in the schedules that support financial statements.
- The findings raised at SEE are recurring. These findings are due to the action plans not being timeously implemented.

Cost of sales and inventory – Reports could not be produced to support the value of inventory. Management has indicated that the system utilised cannot accurately record the information. Management has not implemented a process that will ensure accuracy of the amounts disclosed, by performing reconciliations to ensure compliances with the reporting framework.

Property, plant and equipment - The remaining useful lives and residual values were not assessed for assets still in use and fully depreciated.

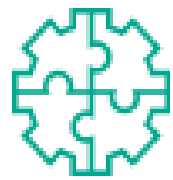
Service- in- kind impacting **revenue and expenditure , cash flow statement**. The value of benefits that are derived from utilising assets paid by the department, have not been appropriately disclosed as required by the accounting framework.

Recommendations

- Underlying schedules that support the financial statements must be adequately prepared and reviewed to support the amounts disclosed.
- Senior management must adequately review the financial statements before submission for audit.
- Effective monitoring is critical to ensure that repeat findings are prevented in the next financial year

Second focus area: credible performance reporting

Performance report



Performance report submitted without errors (NEDLAC, SEE)

Performance report adjusted for material misstatements to improve reliability (CCMA)

Reliable reporting of achievements (CCMA)

Usefulness of performance indicators and targets (DEL, CCMA, SEE, NEDLAC)

Movement



2020-21

2019-20

2	2
1	1
1	1
4	4

Root cause analysis

There were material findings identified in the performance reports of CCMA and DEL.

- CCMA corrected the misstatements which were due to errors identified on recorded information against submitted supporting documentation from regional offices. Appropriate reviews were not conducted by management.
- DEL remained with uncorrected misstatements after the audit process. The findings identified on DEL are recurring. Manual registers being used by the department were not adequately reviewed to ensure reliable performance reporting.

Recommendations

- Management should enhance the review controls to ensure that misstatements are prevented or detected and corrected.
- Implement effective performance management processes that ensure that all role players implement their duties adequately.



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Compliance with legislation

Third focus area: compliance with legislation

In the current year there has been a stagnation in compliance with legislation as all four auditees received an unqualified audit opinion with findings on compliance. In most instances, the non-compliance identified is similar to that reported in the prior year and the nature is as follows:

Annual financial statements: material misstatements and /or limitation in submitted AFS (DEL, CCMA and SEE)

Procurement and contract management: The bid documentation did not stipulate the minimum threshold for local production and content (SEE).

Expenditure management: irregular, fruitless and wasteful expenditure not prevented (DEL, NEDLAC)

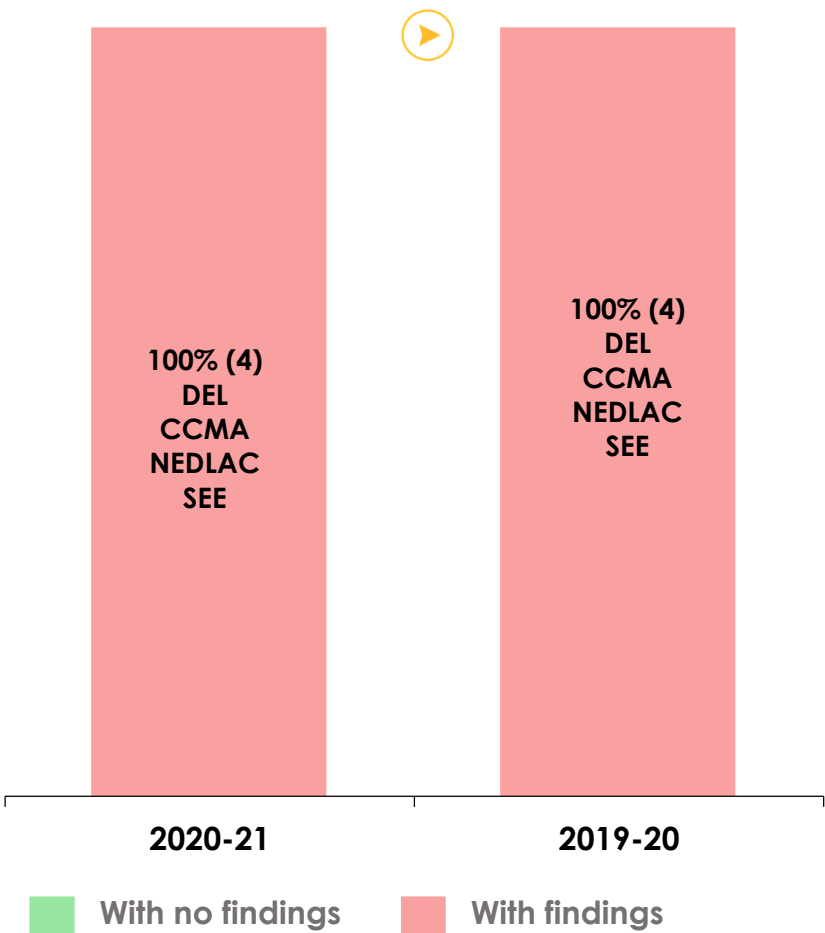
Consequence management: We could not confirm that disciplinary steps were taken due to lack of complete and proper records to support investigations(DEL, SEE)

Revenue management: Effective and appropriate steps not taken to collect all money due and interest was not charged at the approved rates (SEE)

These auditees did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation

We will further unpack the matters relating to compliance in three sections, i.e. expenditure management, procurement and contract management and consequence management

Findings on compliance with key legislation

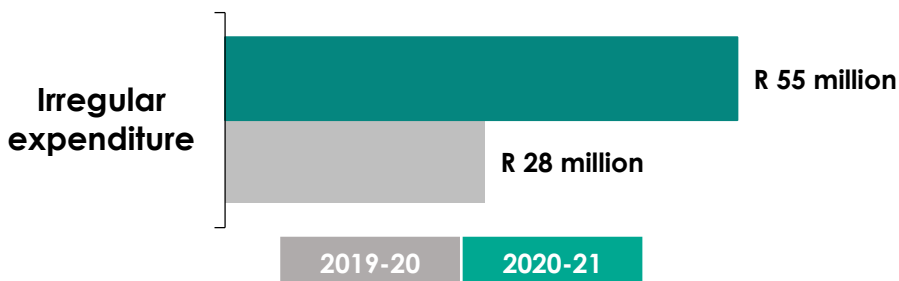


Irregular expenditure over 2 years

Definition

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

Irregular expenditure incurred by the department and entities in portfolio



- R55 million – non-compliance in 2020-21
- R28 million – non-compliance in 2019-20

Nature of irregular expenditure

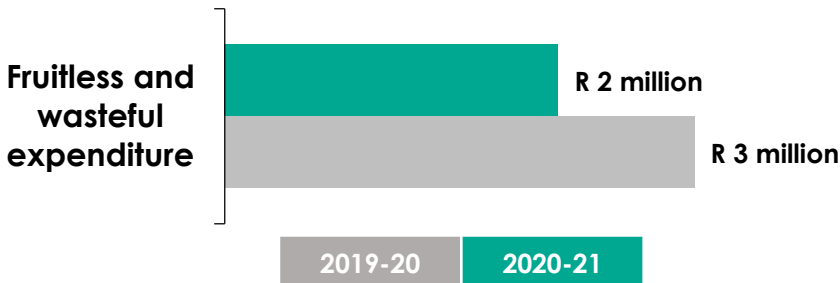
Highest contributors to irregular expenditure in the portfolio related mainly to the non adherence to SCM prescript and the effective monitoring thereof:

- IT related contracts were extended without approval by the appropriate authority at the Department of Employment and Labour (R27 million).
- R11.3 million relates to expenditure incurred on ongoing multi year contracts at CCMA
- At SEE, R4.6 million was identified in respect of prior years' contracts where SCM processes were not followed and R1,2million related to local content guidelines not followed.
- Advertising was not in line with the National Treasury guidelines at NEDLAC. (R3.7 million)

Fruitless and wasteful expenditure over 2 years

Definition *Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!***

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



- R2 million – non-compliance in 2020-21 financial year
- R3 million – non-compliance in 2019-20 financial year
- A decrease of 33% (R1million) from the prior year

Nature of fruitless and wasteful expenditure

- R0,7 million was incurred by the department on the de-scoping of IT related projects for SEE in respect of the SAP Hana project. Adequate planning should have been performed to properly assess SEE's ability to fund the project.
- R0,9 million of the fruitless and wasteful expenditure incurred by SEE mainly related to losses in respect of assets and inventories written off due to lack of adequate controls over assets.

Consequence management



Consequence management

Overall, the portfolio have processes in place to investigate irregular expenditure.

However, we could not confirm whether disciplinary steps were taken at the following auditees due to lack of complete and proper records to support actions:

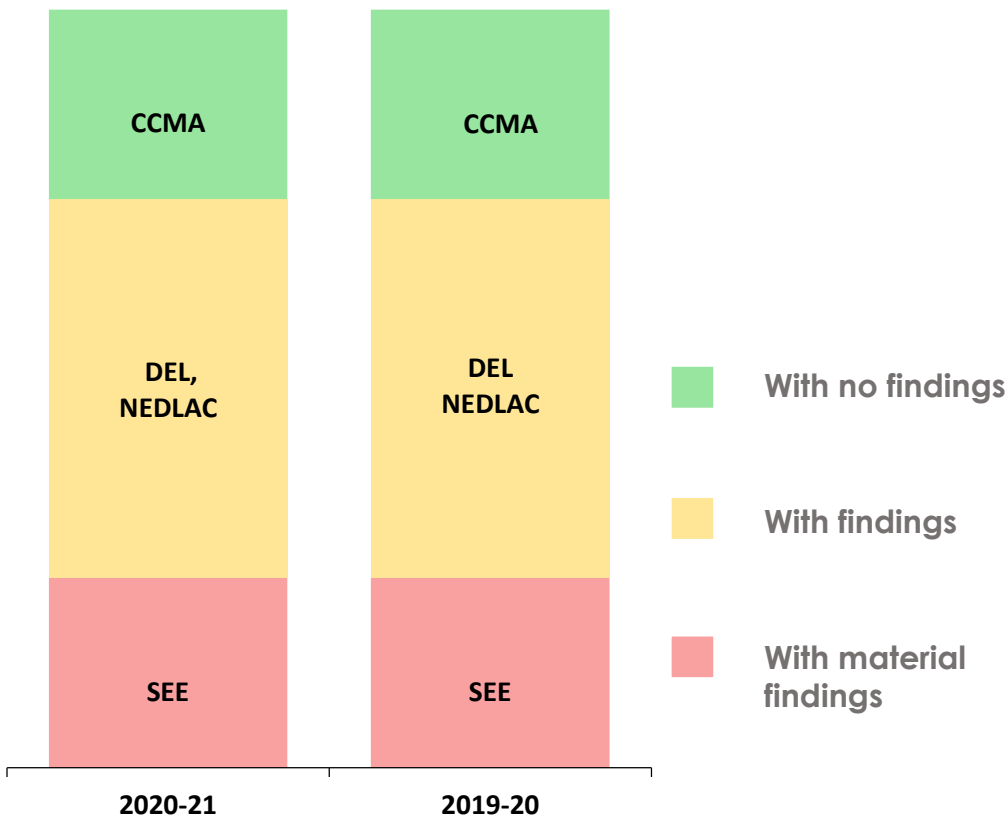
- **Department of Employment and Labour**
- **Supported Employment Enterprises**

Recommendations

- The accounting officer must ensure that complete and proper records must be kept to support the investigations that have been conducted and disciplinary steps taken.

Supply chain management


Overall stagnation in SCM compliance
 All SCM findings should be investigated



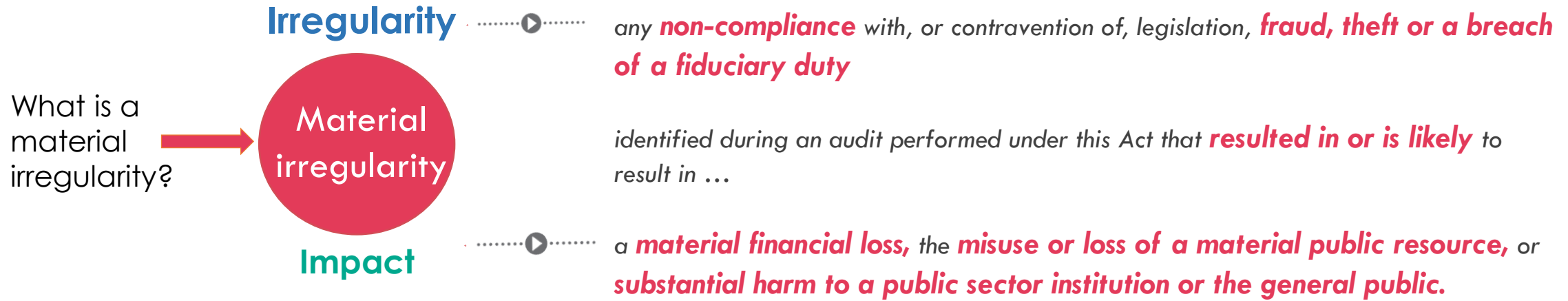
Most common findings on supply chain management	Recommendations
<p>Uncompetitive or unfair procurement processes followed:</p> <ul style="list-style-type: none"> Three written quotations not obtained (DEL and NEDLAC). Local content: The bid documentation did not stipulate the minimum threshold for local production and content (SEE) 	<ul style="list-style-type: none"> Preventative controls should be strengthened to ensure that no irregular/ fruitless and wasteful expenditure is incurred

PAA amendments – material irregularity



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At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we followed a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Selection criteria

Any non-compliance in line with the definition stated above.

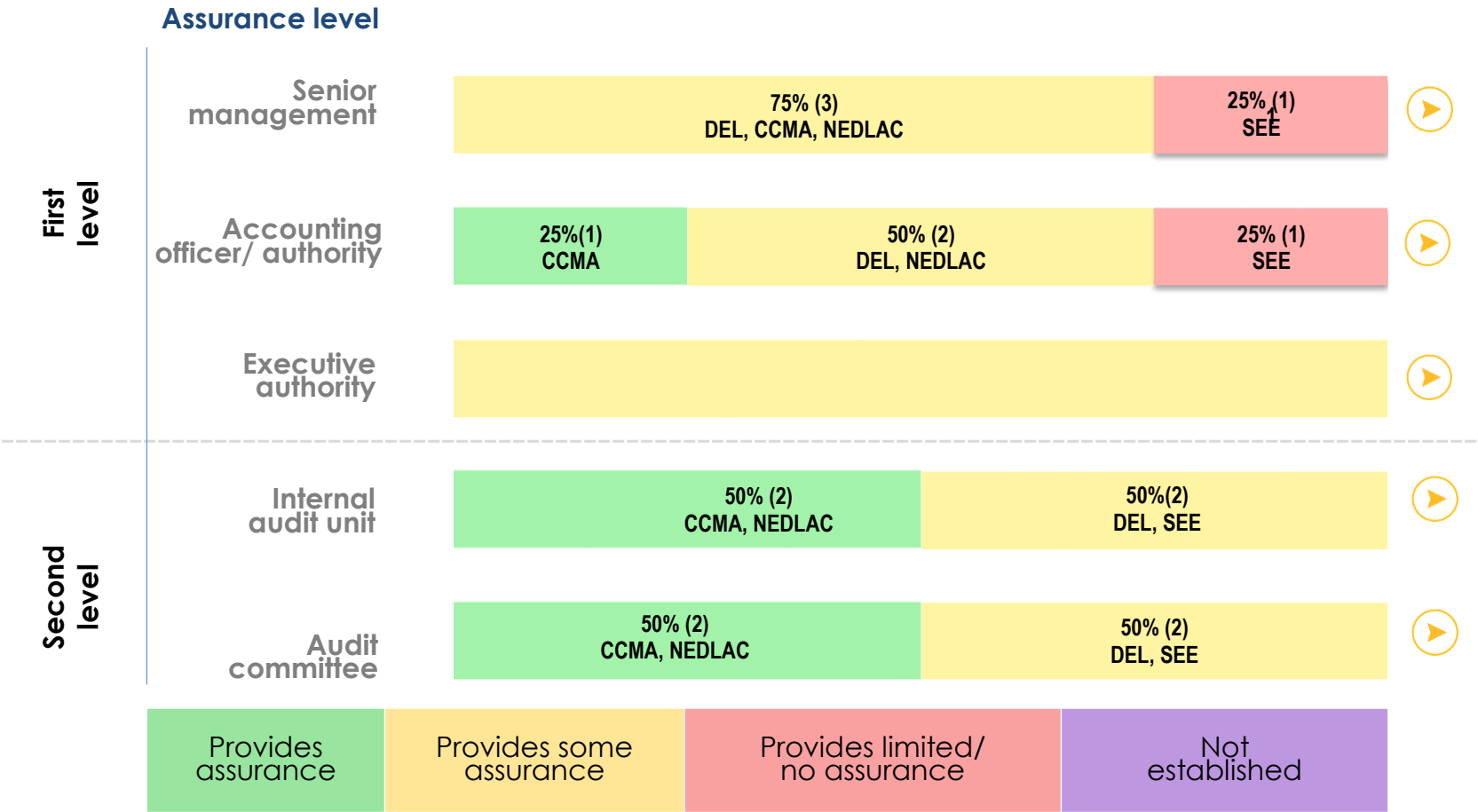
The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. **For 2021, the Compensation Fund and Unemployment Insurance Fund were selected for MI implementation in the portfolio.**



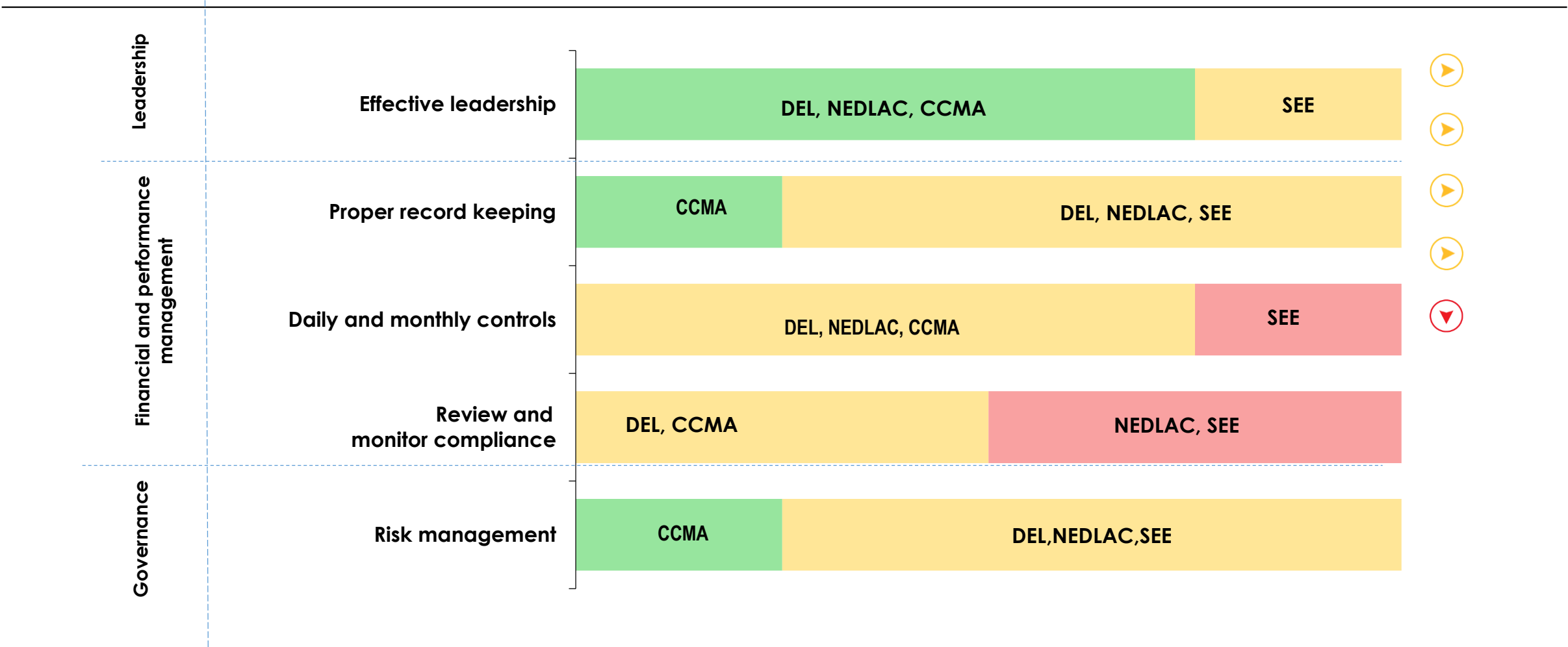
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Governance and internal controls

Assurance provided

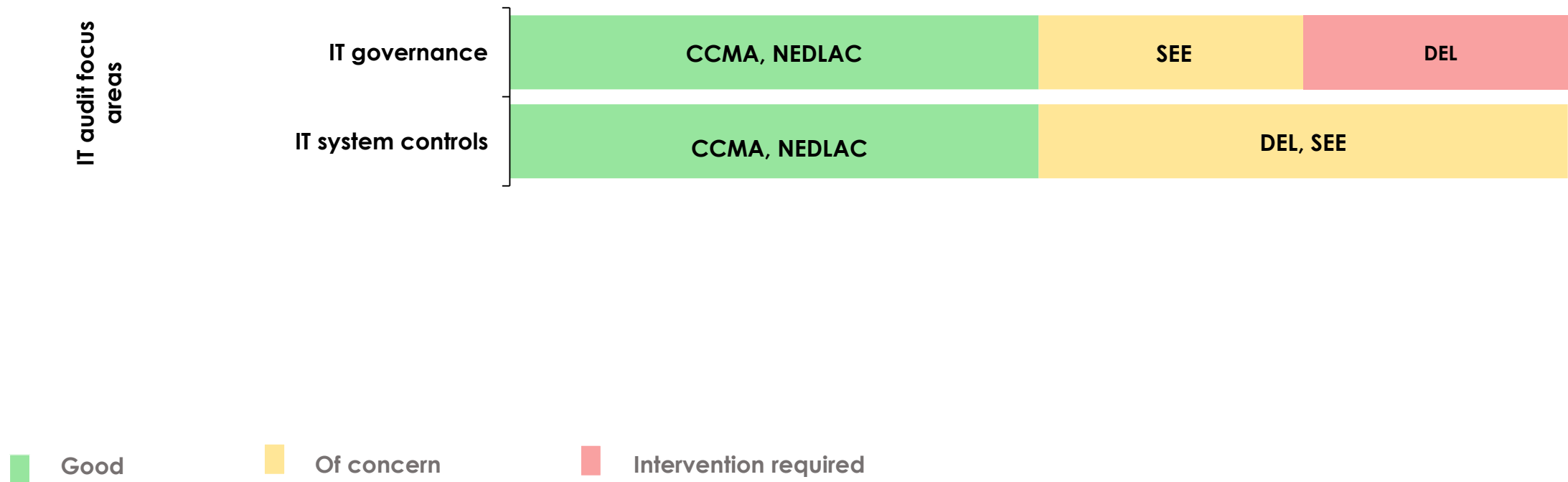


Status of internal control



Status of information technology (IT) environment

- **IT governance** : to ensure that IT is effectively and efficiently used to enable entity to achieve its mandate by specifying decision rights and accountability framework to encourage desirable behavior in using IT.
- **IT system controls** : to ensure that the department's / entity's IT operates as intended to achieve its mandate.
- Effective IT governance and system controls will help ensure that the department and its entities are not vulnerable to cyberattacks and business continuity concerns



Status of information technology (IT) environment

IT Governance

We identified a number of SAP Licences that were paid by DEL and the entities (CF and UIF) that were either under-utilised or not been used.

Poor utilisation of the case management system as a result of poor change management, system not meeting user requirements.

Physical access and environmental management

No weaknesses were identified over physical access and environmental controls

IT service continuity (ITSC)

Lack of disaster recovery plan at DEL, impacting disaster recovery plans and efforts for both the department and its entities.



Recommendations

- Management should review the licenses and understand actual license usage. This assessment should be prioritised across all products to understand actual license requirements for the Department and its entities.
- Management should analyse and quantify the overall financial impact of project delays and subsequent extensions. Furthermore non-performance and penalty measures should be enforced across all service provider contracts.
- Management should develop the disaster recovery plan in line with the overall Business Continuity Plan for the Department and its Entities.

User Account Management

Some weaknesses were identified over user account management (access and termination) to some of the department's systems.

Program change management

Weaknesses identified over monitoring of changes made to the department's system.



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Portfolio snapshot

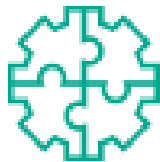
Portfolio snapshot 2020-21



Unqualified with
no findings: 0
(2019 - 20: 0)



Financially
unqualified financial
statements: 3
(2019-20: 3)



No findings on performance
reports: 3
(2019-20: 3)



No findings on compliance
with legislation: 0
(2019-20: 0)



Irregular expenditure:
R55 million
(2019-20: 28million)

Summary of 3 key root causes



The entities did not implement adequate review and monitoring controls over preparation of financial statements and annual performance report.



The entities were not effective in developing and monitoring implementation of action plans.



The entities did not put in place adequate controls to prevent non-compliance with procurement legislation.



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Recommendations

Recommendations: Employment and Labour portfolio auditees

The overall outcomes in the portfolio have remained stagnant when compared to the prior year, with most auditees receiving unqualified audit opinions with findings on compliance with legislation.

Three auditees, **CCMA, DEL, NEDLAC**, received financially unqualified audit opinions with findings on compliance with legislation. **SEE** remained stagnant with a qualified audit opinion.

The prevalent instances of non-compliance are in the areas of expenditure management, supply chain management, consequence management and material misstatements identified in the financial statements submitted for auditing.

In some instances, findings raised are re-occurring, indicating that audit action plans developed do not adequately respond to the root causes and a culture of consequence management is not exercised effectively.

The department and its entities within the portfolio should elevate the implementation of good practices, such as:

- Consistent in- year monitoring of financial and performance management controls whilst remedial actions need to be promptly implemented.
- Tighten the implementation of assurance provider model specifically the reviews required to be performed at senior management level.

Recommendations (continue)



Implement regular and adequate review controls over financial and performance reporting to ensure that errors are timeously detected and corrected.



Enhance the review and monitoring of action plans to ensure that root causes are addressed and actions are timeously implemented.



Enhance controls over compliance with SCM related prescripts and ensure that consequence management is implemented.



Maintain reliable records to support investigations, financial statements and annual performance reports.

Recommendations to the portfolio committee

Monitoring and regular follow up with the executive authority and the accounting officer/ authorities on the following:

- Progress made in implementing the audit action plans that have been put in place by the department and its entities.
- Follow up with department and entities that incurred irregular, fruitless and wasteful expenditure to ensure that consequence management is implemented.

A culture of **consequence management** should be enforced in the portfolio.

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