

# Budgetary review and recommendations report (BRRR):

## Audit outcomes of the Employment and Labour Portfolio

12 October 2022

PFMA  
2021-22



AUDITOR-GENERAL  
SOUTH AFRICA



## MISSION

“The Auditor-General of South Africa 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.”

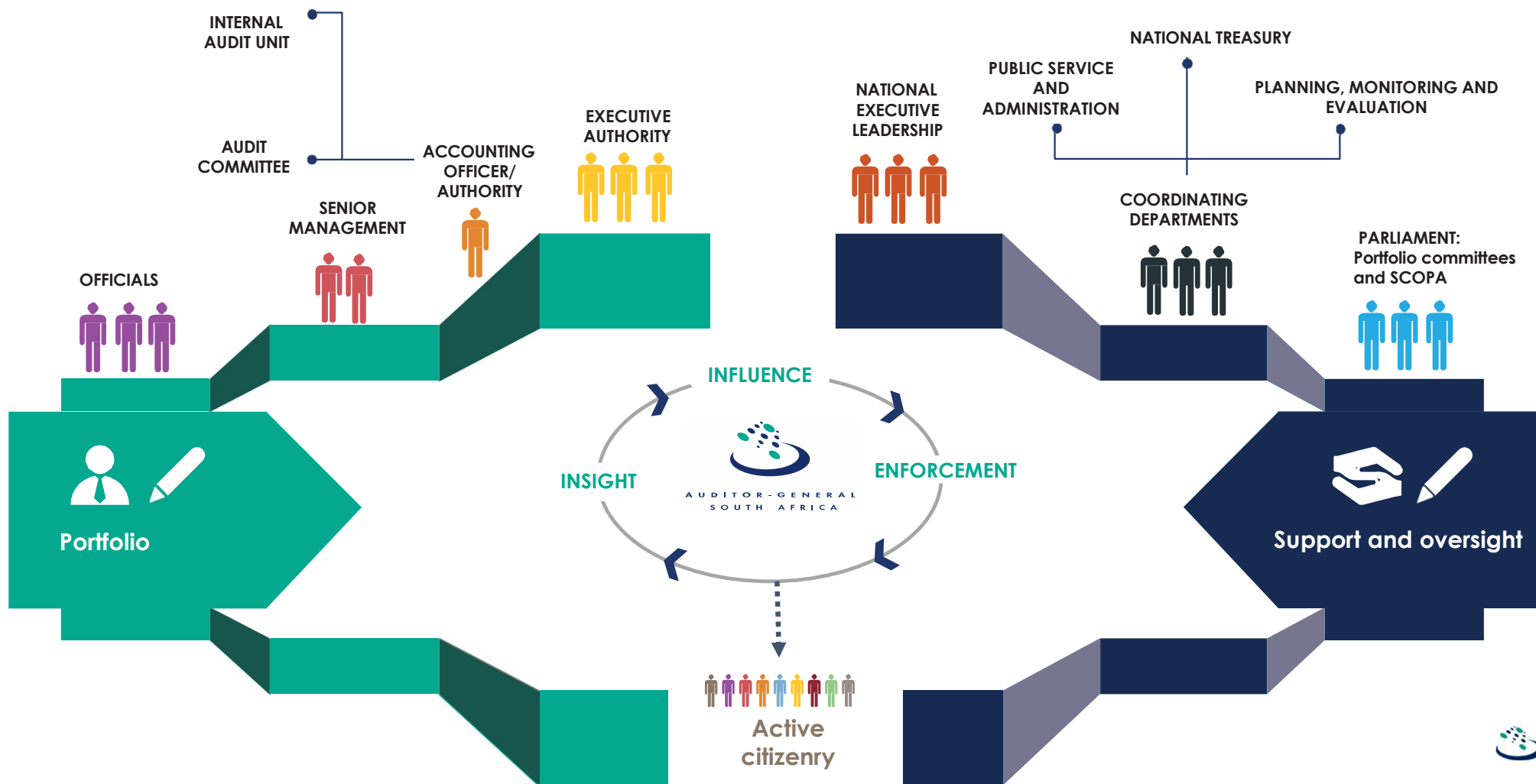


## VISION

“To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.”



# All have a role to play in the national government accountability eco-system



# Improvement over administration term



**MOVEMENTS FROM PREVIOUS YEAR:**  
 1 ↑ 0 ↓

**FROM FIRST YEAR OF ADMINISTRATION:**  
 2 ↑ 2 ↓

Commission for Conciliation, Mediation and Arbitration (CCMA)

Department of Employment and Labour (DEL)  
 National Economic Development Labour Council (NEDLAC)

Supported Employment Enterprises (SEE)

None

None

Compensation fund (CF) and Unemployment Insurance Fund (UIF):  
 The entities have not submitted the financial statements and annual performance reports for the 2021/22 audit.

CCMA- Unqualified with findings to unqualified with no findings  
 NEDLAC- Qualified to Unqualified with findings  
 SEE- Unqualified with findings to qualified  
 UIF- Unqualified with findings to qualified



# Overview of the outcomes

The overall outcomes in the portfolio have slightly improved when compared to the prior year, with one auditee receiving an unqualified opinion with no findings (**CCMA**), two auditees received unqualified audit opinions with findings (**DEL and NEDLAC**), one received a qualified opinion (**SEE**).

We commend the **CCMA** for obtaining an unqualified opinion with no findings, which is an improvement from the prior year.

The material errors identified on **DEL, NEDLAC and SEE** are mainly due to inadequate review of financial statements by the management. 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 still not implemented effectively.

The **SEE** did not ensure that they have processes and systems to support the value of the stock. Furthermore, daily and monthly controls, such as reconciliations are inadequate to ensure compliance with the accounting framework.

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

The department and its entities within the portfolio should ensure implementation of daily and monthly reconciliations as well as the preparation of in- year monitoring reports that are supported by accurate and complete schedules.

- The **CF and UIF** audits, remain outstanding.

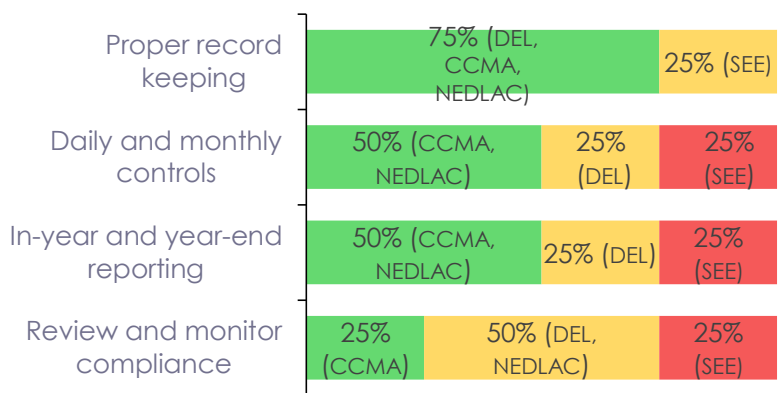


# Financial management and compliance

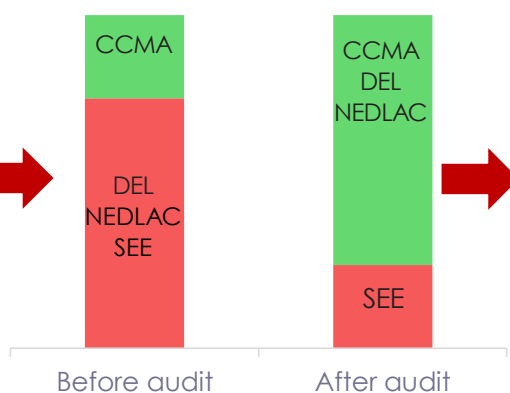


# Quality of financial reporting

## Financial management controls



## Impact on quality or financial statements submitted for audit



■ Good   
 ■ Of concern   
 ■ Intervention required

■ Unmodified   
 ■ Modified

### Main qualification areas

- SEE: Cost of sales, inventory, receivables from exchange transactions, payables from exchange transactions and operating expenses comparative figures.

### Impact

- The non-compliance with the PFMA due to financial statements that are not prepared in accordance with the applicable reporting frameworks negatively impacting the strategic decision-making processes by relating to these entities by stakeholders.
- Failure by SEE to correctly account for cost of sales, inventory and receivables may lead to poor collection of revenue which will impact the entity's ability to deliver on its mandate. Furthermore, the above has resulted in fruitless and wasteful expenditure due to loss of inventory (R0.58 million) and penalties on late deliveries (R0.09 million).



## Revenue



## Expenditure



Debt- collection period >90 days at **4** auditees

- NEDLAC
- DEL
- CCMA
- SEE

Average debt- collection period = **356 days**

More than 10% of debt irrecoverable at **3** auditees

- SEE
- CCMA
- NEDLAC

**R27 million** of expenditure was **fruitless and wasteful** (4 auditees)

- DEL
- CCMA
- SEE
- NEDLAC

**Creditor- payment period > 30 days** at **3 auditees**

- CCMA
- NEDLAC
- DEL

**Creditors greater than available cash** at year-end at **0** auditees

**Average creditor-payment period = 38 days**

## Impact



**SEE** ended the year in **deficit** (expenditure is more than revenue)

**None of the** auditees disclosed or should have disclosed significant doubt in financial statements about ability to continue **operating as a going concern** in foreseeable future





# Compliance with key legislation



2021-22



CCMA None

No material findings Material findings

Most common areas of non-compliance	Auditees
Procurement and contract management	<b>DEL</b> : non-compliance with the SITA Act <b>SEE</b> : Local content
Quality of financial statements	<b>DEL and NEDLAC</b> : material errors <b>SEE</b> : material errors and instances where supporting documents could not be provided to support the financial statements
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure	<b>DEL and NEDLAC</b> : Irregular expenditure not prevented <b>SEE</b> : Fruitless and wasteful expenditure not prevented
Consequences management	<b>DEL and SEE</b> : Investigations into instances of IFWE not conducted



# Procurement and payments

## Status of compliance with legislation on procurement and contract management

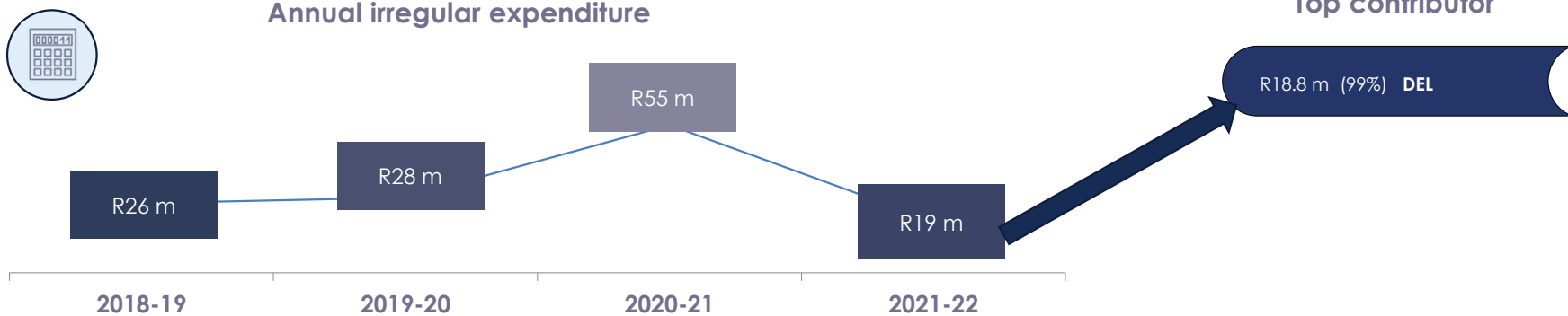


-  With no findings
-  With findings
-  With material findings

Details of procurement findings	Auditee
IT related goods and services, classified as mandatory, were not procured through SITA as required by Treasury Regulation 16A6.3(e) and section 7(3) of the SITA Act	DEL
Local content: The bid documentation did not stipulate the minimum threshold for local production and content	SEE



# Irregular expenditure



## Nature of irregular expenditure incurred

The nature of the 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 (R17 million), and contracts were not awarded to the highest scoring bidders (R1.19).
- R0.05 million relates to expenditure incurred on ongoing multi year contracts at CCMA in relation to security and background check services.
- At SEE, R0.04 million was identified in respect of internet and hygiene services which were procured without following SCM prescripts.
- Supplier appointed without following the proper SCM processes for group life cover and services procured outside the approved scope of work at NEDLAC (R0.195 million).

## Impact assessment of irregular expenditure incurred

**Breach of five pillars of procurement – Equitable, Fairness, Cost effectiveness, Transparency and Competitiveness:** DEL, SEE and NEDLAC (R0.7 m)).

**Other (Awards not approved by the BAC):** DEL R16.9 m- the amount relates to an extension of the SAP enterprise contract for maintenance and support.

Contribution to SMMEs

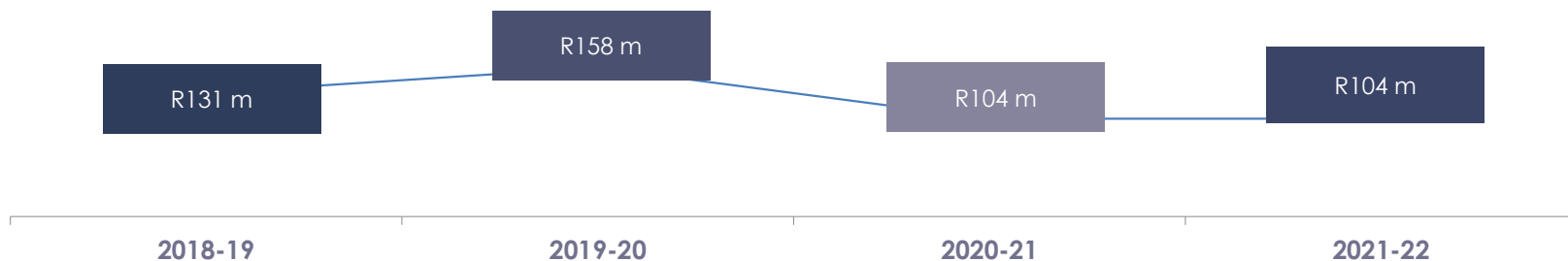
Inadequate contract management

Losing competitive costs available in the market



# Consequence management – dealing with irregular expenditure

Closing balance of irregular expenditure continues to be high



How have auditees dealt with irregular expenditure



**Top 2 contributors (R84.3 million) to irregular expenditure not dealt with constitute 99.9% of the R84.4 million**



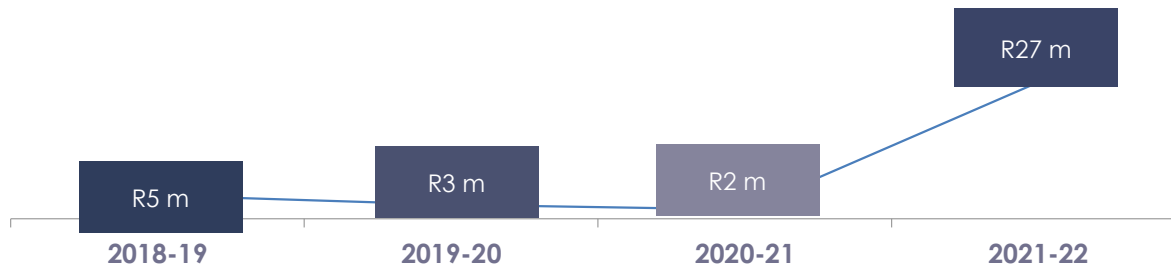
Reasons for IE not dealt with:

- DEL and SEE: Investigations are still in progress



# Fruitless and wasteful expenditure

## Annual fruitless and wasteful expenditure



## Top contributor

R26 m (96%) DEL

## Nature of the fruitless and wasteful expenditure

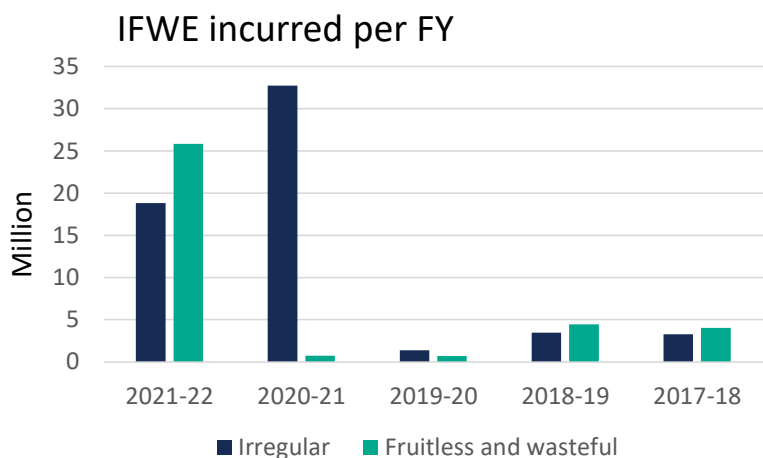
The highest contributor to the fruitless and wasteful expenditure in the portfolio is DEL with R25.8 million expenditure:

- R23 million was incurred by the department on the S/4 Hana (SAP) project. This was due to payments made in relation to licenses that were not utilised. Furthermore, R2,5 million was incurred for payments made to a supplier for services that were not received.



# DEL Insights: Irregular, Fruitless and Wasteful Expenditure (IFWE)

Section 38 of the PFMA states that—(1) The accounting officer for a department, trading entity or constitutional institution (c ) (ii) must take effective and appropriate steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct;  
 (iii) must take effective and appropriate disciplinary steps against any official in the service of the department, trading entity or constitutional institution who makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure.



Programme 1	
APP: Output	Detection and reporting of irregular and fruitless and wasteful expenditure to the Accounting Officer and National Treasury
APP: Target	Percentage reporting of all detected IFWE cases per financial year to the Accounting Officer
APR: actual achievement	Achieved

The department continues to incur IFWE over the years which is in contravention of the PFMA.

The desired output and target for the detection and reporting of IFWE does not assist the department in ensuring that IFWE is prevented as required.

## Investigations

	Irregular expenditure	Fruitless and wasteful
<b>Total audited</b>	81	91
<b>Investigated</b>	30 (37%)	62 (68%)
<b>Investigation not done or evidence not provided</b>	51 (63%)	29 (32%)

### Ageing of the IFWE 2021-22 closing balance

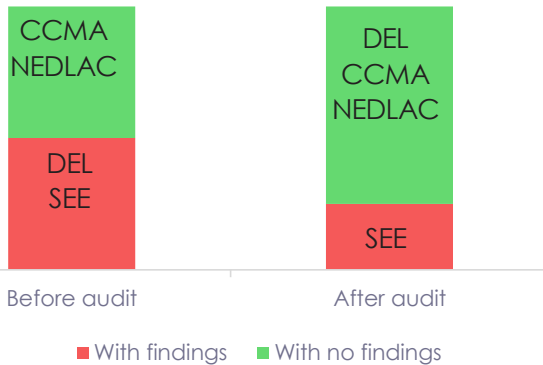
	Irregular	Fruitless
Within 1 year	R18.8 m	R26 m
1-2 years	R32.7 m	R1.18 m
Older than 2 years	R37.9 m	R1.14 m



# Portfolio performance



## Quality of performance reports before and after audit



## Findings: Reporting

- The supporting evidence for the reported achievements materially differed from the reported achievement for SEE

## Priorities for the portfolio

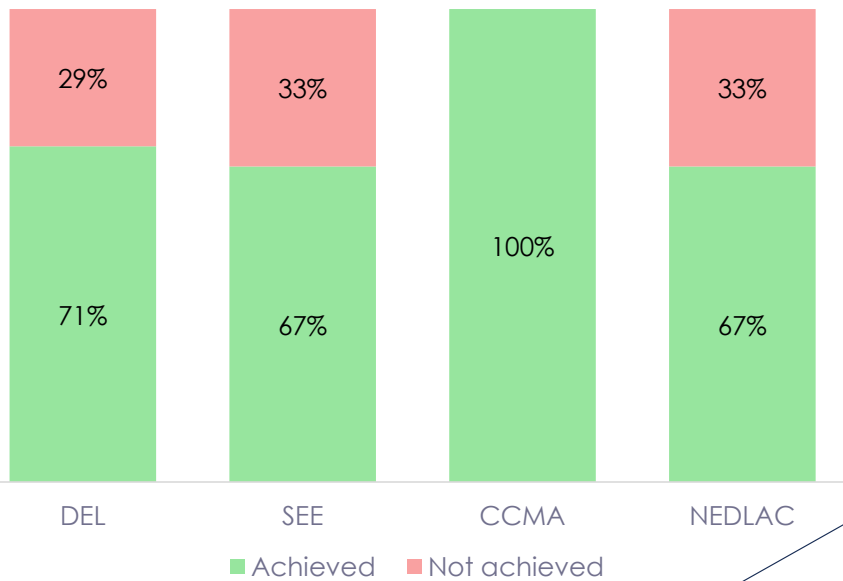
- A capable, ethical and developmental state
- Economic transformation and job creation
- Education, skill and health
- Consolidating the social wage through reliable and basic services
- Social cohesion, safer communities
- A better Africa and a better world
- Spatial development, human settlement and local government





# Performance against target

Achievement of annual targets as reported in Annual Performance Report (all indicators) – 2021-22



## Impact

5 years  
strategic  
journey

Timeous  
delivery

Integration between  
the entities

The following targets were not achieved by the portfolio

### SEE:

- 5% increase in sales revenue

### DEL:

- P1- Vacant funded posts maintained at 3% or less per quarter
- P2- Number of employers /workplaces / users inspected per year to determine compliance with employment law
- P2- Percentage of non-compliant employers/workplaces/users received by Statutory Services referred for prosecution within 30 calendar days
- P2 Number of formal Advocacy sessions conducted per year to increase awareness of employment law
- P3- Number of policies developed and approved
- P4- Amendments to the Employment Equity Act promulgated and implemented per annum

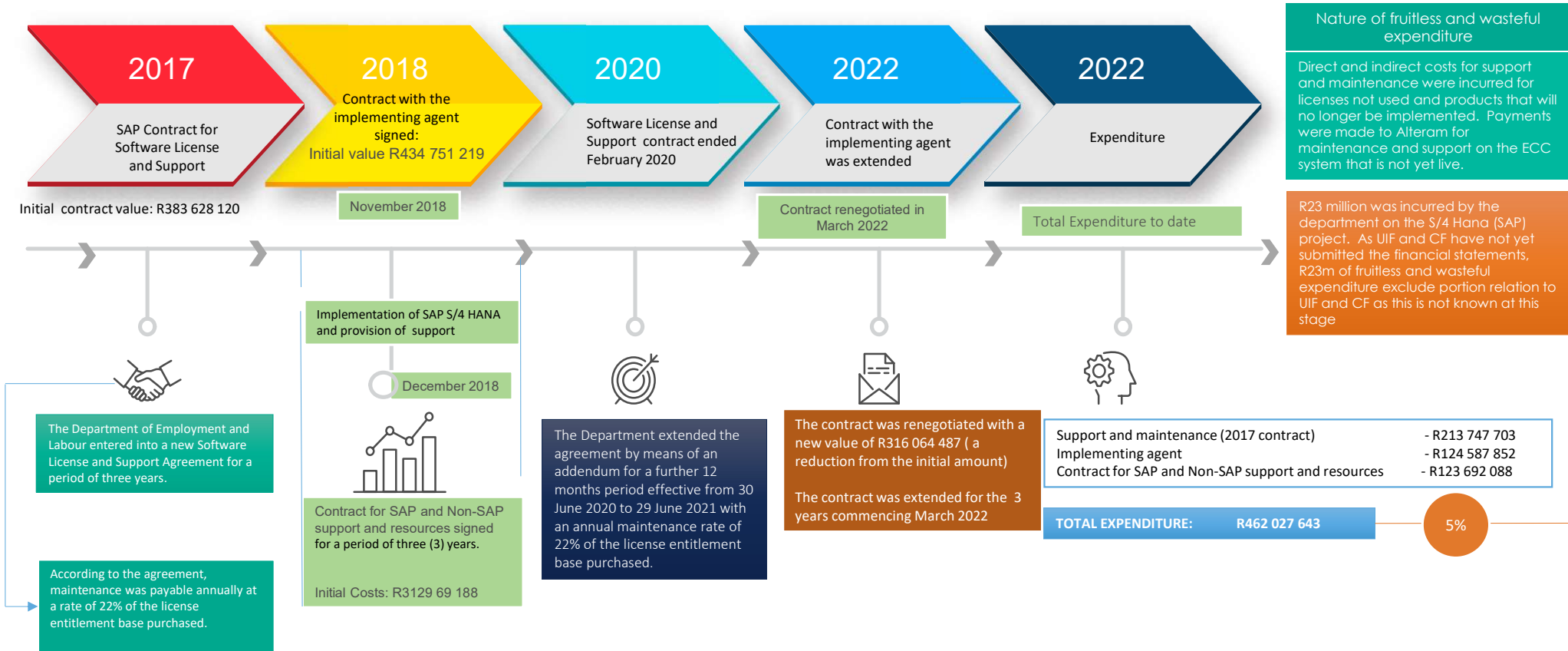
### NEDLAC

- 1.4 Percentage of reasonable IT- related complaints resolved as per set timeframes for each complaint
- 1.6 Percentage of planned training interventions delivered annually in relation to Nedlac training plan
- 1.8 Number of planned M&E products set out in the M&E framework delivered as per set timelines
- 2.3 Percentage of reports on processes concluded within six months from the date of tabling at the relevant Nedlac structure, except where stipulated exclusions apply
- 3.2 Percentage of technical assistance initiatives agreed to a plan between Nedlac and social partners provided by 31 March 2022

# STATUS OF THE ICT ENVIRONMENT DEL



# DEL IT PROJECT- SAP HANA IMPLEMENTATION TIMELINES



# Overall ICT environment

## IT Governance

The Information and Communication Technology projects were not driven by the ICT strategic plan due to delays in ICT strategy development/ update, with the current Leadership instability in ICT unit.

We identified license types that were either not utilised or under-utilized due to lack of an internal assessment conducted to assess the actual requirements of SAP products, covering both current and future needs.

There were inadequate controls in place to mitigate potential delivery risks in relation to the SAP HANA project due to insufficient risk management and governance processes to mitigate. Furthermore, there was no remediation and recovery plan to address the risks.

There were indirect project costs incurred from unused SAP licenses due to a lack of proper planning prior to purchasing SAP licenses, ineffective project and vendor management, as well as inefficient project delivery by the implementing agent and the lack of governance thereof. Furthermore, there was expenditure incurred on maintenance and support for non-live system due to poor project management which resulted in delays in the implementation of the SAP S/4 HANA project. This resulted in fruitless and wasteful expenditure.

There was wasteful expenditure on the implementation of a legacy system (SAP ECC) due to the lack of adequate risk and technical assessments as well as a cost/benefits analysis in making the decision to implement ECC instead of SAP S/4 HANA in the UIF environment.



## Recommendations

- The department should fill all key positions within its IT unit.
- 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.
- IT projects should be aligned to and directed by the ICT Strategic plan inline with organizational objectives.

## Security management

There was lack of an approved Information Security Incident Management Policy due to ICT management prioritising the revising of the overall Information Security Policy which includes all the security elements and will also address cyber security Incident management procedures

## Program change management

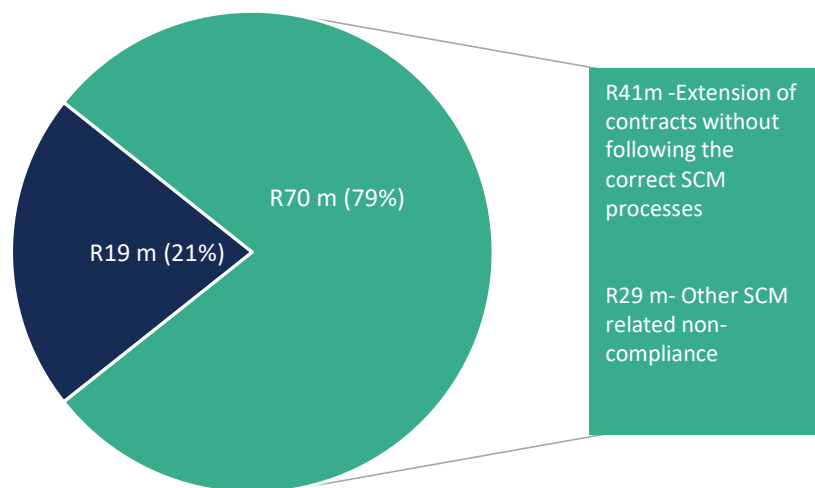
Audit logs were not enabled and maintained for the ESSA application as the system did not have the capabilities of logging changes and as a result, the department could not extract reports of all the changes that took place on the ESSA application system.

## Service continuity

There is no disaster recovery plan, impacting disaster recovery and efforts for the department and its entities.



2021-22 Closing balance of IE R89 mil



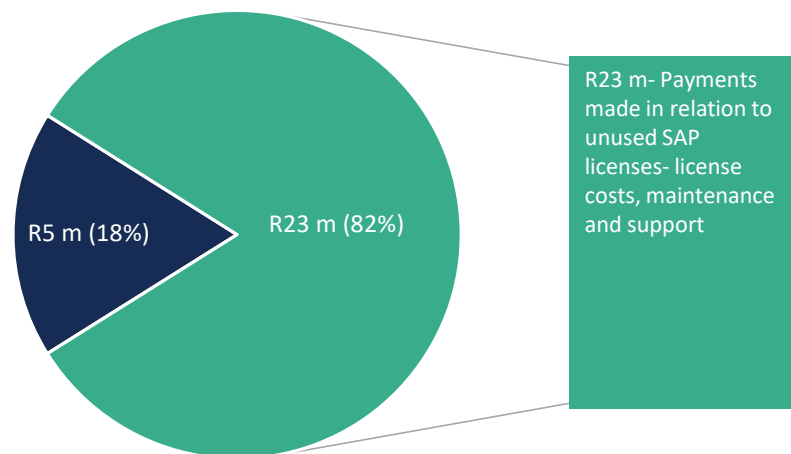
R41m -Extension of contracts without following the correct SCM processes

R29 m- Other SCM related non-compliance

■ Other SCM related ■ ICT related



2021-22 Closing balance of FWE R28 mil



R23 m- Payments made in relation to unused SAP licenses- license costs, maintenance and support

■ Other FWE ■ ICT related

- 79% of the total irregular expenditure as at 31 March 2022 relates to ICT.
- 82% of total fruitless and wasteful expenditure as at 31 March 2022 relates to ICT.

Urgent attention must be given to the management of ICT contracts in order to prevent further irregular and fruitless and wasteful expenditure.



# Material irregularities



# Implementation of material irregularity process

The material irregularity (MI) process was implemented at the following auditees

- DEL
- CF
- UIF

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in** or is **likely to result in** 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**

If **accounting officer / authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:



# Material irregularities identified



## 1 (Compensation Fund)

Notified	Type	MI description	Status of MI	Status description
21 July 2021	<b>Payment for goods or services not received</b>	An overpayment was made to a medical service provider between August 2014 and April 2017 due to a lack of effective internal controls around approving and processing payments to medical service providers.	Resolved	<p>The AA recovered the full balance of the financial loss. The AA attempted to institute the disciplinary actions against the officials who permitted the overpayment. Currently, the Fund cannot proceed with the disciplinary action against the officials because most of those officials have since left the Fund or died.</p> <p>However, The Fund has since changed the system that led to the overpayment due to a lack of application control on the system itself, e.g. by preventing the duplicate payment from being processed in the system.</p> <p>The Fund has implemented a new system since 01 October 2019 that assists with processing and payment of the claims. The control environment has since improved. Furthermore, the Fund has provided training to the official in terms of how to capture and process the claims in the new system to eliminate errors. The evidence was requested from management to support the assertion being made. We evaluated the evidence submitted to confirm these official indeed has left the employment of the department/Compensation Fund.</p>
10 September 2021	<b>Payment not made or not made in time, resulting in interest/standing time/penalties</b>	The fund failed to pay medical invoices within 75 days as ordered by the court, resulting in interest being charged.	Unresolved	<p>The matter is currently with the court.</p> <p>The Fund approached the high court on the legality of the agreement used as the basis of the 75 days allowable for the processing of claim and charging of interest anything above 75 days since the submission of the invoice to the Fund.</p> <p>The high court agreed with the Fund that the agreement was only valid for the specific transaction related to medical invoices paid in 2009. However, this agreement was subsequently used for all medical invoices. The service provider has since appealed the decision, and the matter is currently sitting with the supreme court of Appeal. The Fund has halted any investigation and disciplinary process to the matter until the court makes a ruling.</p>



# Identified MIs – next steps and responsibilities

## 1 AO/AA is dealing with MI

**AO/AA...** implements the committed actions to address the MI and improves controls to prevent recurrence.

**AGSA...** follows up in the next audit to determine whether actions were implemented and outcomes were reasonable. If not, we can include recommendations in the audit report on how the MI should be addressed by a specific date.

## 2 MI is referred to a public body

**AO/AA...** cooperates with public body and implements any remedial actions/recommendations made. Improves controls to prevent recurrence.

**AGSA...** provides information on MI to public body, monitors progress with investigation and follows up in audits on implementation of any remedial actions/recommendations.

## 3 Recommendation included in audit report

**AO/AA...** implements the recommendations by the date stipulated in the audit report and improves controls to prevent Recurrence.

**AGSA...** follows up by stipulated date to determine whether recommendations were implemented and outcomes were reasonable. If not, issues remedial action to AO/AA that must be implemented by a specific date.

## 4 Remedial action issued

**AO/AA...** implements the remedial action by the date stipulated in the audit report and improves controls to prevent recurrence.

**AGSA ...** follows up to determine whether the remedial actions have been implemented. If not, issues a notice of intention to issue a certificate of debt (CoD) to the AO/AA. Request a written submission of reasons not to issue CoD within 20 working days.



### Executive and oversight

**Executive...** monitors progress and supports AO/AA in addressing the MI and improving controls.

**Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes.



### Executive and oversight

**Executive...** supports public body investigation and the AO/AA in improving controls. If responsible for public body, monitors progress with investigation.

**Oversight...** monitors progress with investigation and calls public body to account for undue delays in investigation.



### Executive and oversight

**Executive...** monitors progress and supports AO/AA in implementing recommendations and improving controls.

**Oversight...** request action plan or implementation, monitors progress and calls AO/AA to account for actions taken and outcomes.



### Executive and oversight

**Executive...** monitors progress and supports AO/AA in implementing remedial action and improving controls.

**Oversight...** monitors progress and calls AO/AA to account for actions taken and outcomes.

## Observations from MI process

There has been a significant delay in addressing the MI reported at the Compensation Fund. Consequence management and the recovery of funds lost by the entity take a long time to recover, resulting in consequence management not being appropriately implemented. This could also result in a culture of non-adherence to controls.

## Recommendations for the minister

Monitor progress and support the AA in addressing the MI and improving controls.





AUDITOR-GENERAL  
SOUTH AFRICA

# VALUE ADD WORK DONE ON THE ESSA SYSTEM

**DEL**



02.

The scope of the review was limited to the following:

- Review of the planned performance for the 2021-22 reporting period
- Extraction of the reported actual achievements from the annual performance report and ESSA system reports
- Analysis of the planned and reported numbers



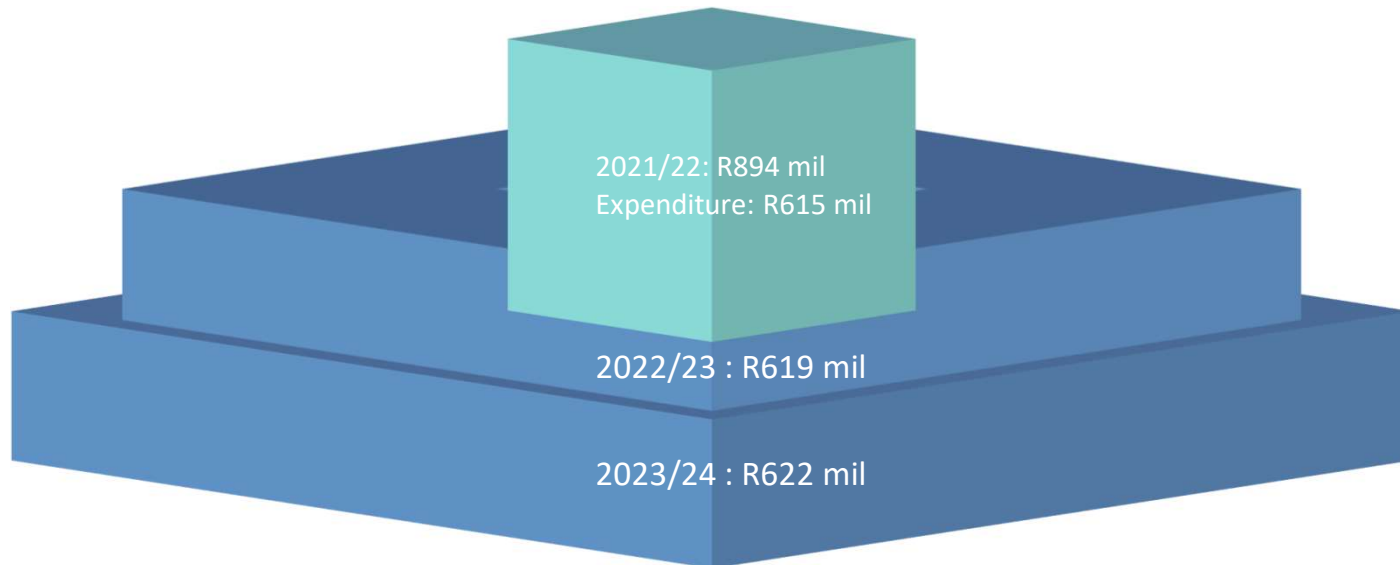
- A value-add review of the ESSA system was done during the 2021-22 audit cycle

The function of the ESSA system includes registering work seekers in a data base, register job vacancies, enabling the process of matching work seekers with employers.

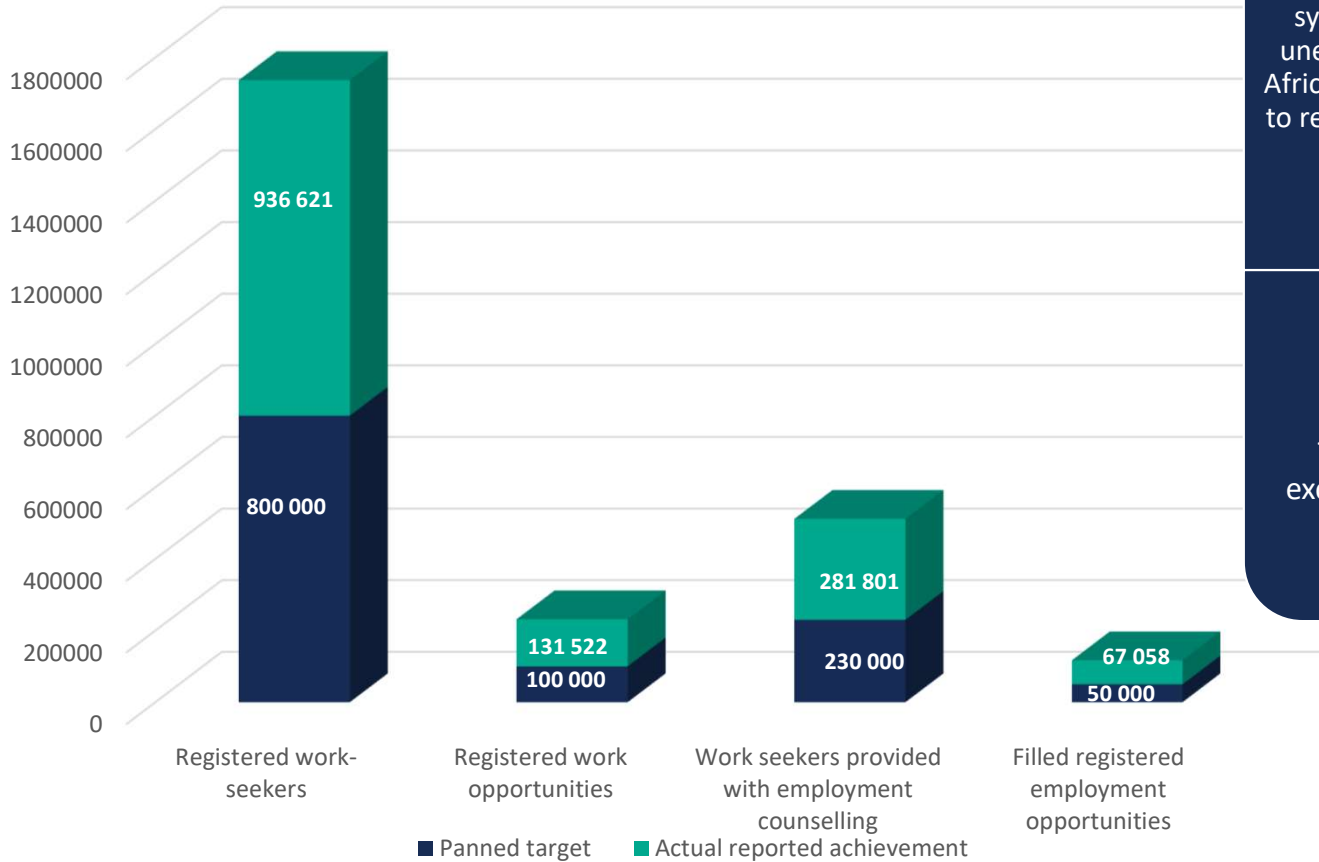
01.



Three -year budget



# Planned targets and reported achievements



**Observations**

The ESSA system has great potential to be used as a system for registering the unemployed youth in South Africa in terms of its capability to register more than 900 000 per year.

Leveraging on technological advance, the public sector could rally around a system that would result in work seekers saving enormously on the application costs.

The department has exceeded all the planned targets for the year.

Of the total number of registered work seekers, under the age of 35 years are 547 063.



# Further analysis on SEE



# Overview of the financial performance

## Mandate



- To provide employment for people with special disabilities in the various factories across provinces that manufacture wood, linen and steel products.
- The entity has planned to employ 400 new additional persons with disabilities by 2025.

## Annual performance plan



- To increase sales revenue each year
- The increase in sales revenue will enable SEE to fund the production costs and maintenance of the factories

## Actual performance



- Generating the sales revenue has been a challenge for SEE as the actual revenue has been below the budget over the years.
- Furthermore, the target to increase sales has not been met. This is mainly due to a decrease in productivity which has also resulted in an increase in idle time.
- A significant portion of the revenue is reported as receivables, which means that the revenue is not being effectively collected
- More than 30% of the revenue is impaired over the years.

### Recommendations

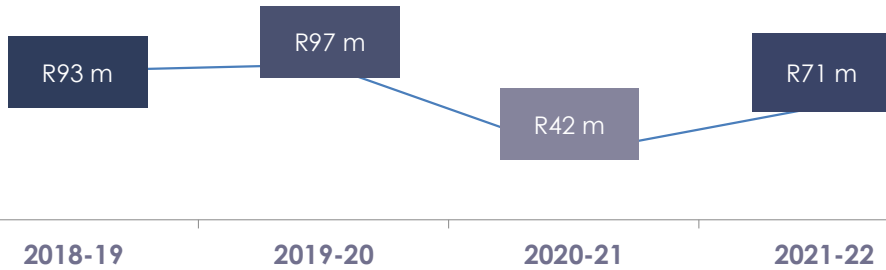
There is an opportunity for SEE to improve their sales revenue by increasing their productivity and customer base.

- A thorough costs analysis needs to be done and measures should be put in place to reduce the production costs.
- Strategies to increase the customer base and orders should be put in place. This will result in increased productivity and reduce idle time.
- Processes should be put in place to ensure collection of revenue and manage the existing customer contracts



# Financial sustainability

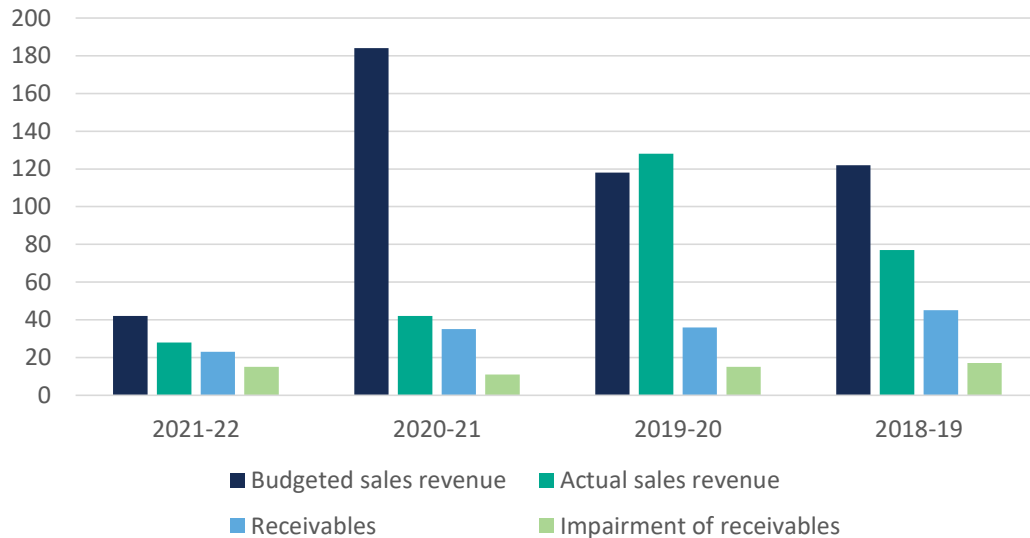
Gross Deficit (Sale v Cost of sales)



	2021-22	2020-21	2019-20	2018-19
Cost of sales as a % of sales	351%	201%	176%	221%

It is a concern that the cost of producing the goods significantly exceeded the sales revenue over the years. This has resulted in SEE realizing a deficit.

Revenue and receivables



	2021-22	2020-21	2019-20	2018-19
Actual revenue as a % of the budget	68%	23%	109%	63%
Receivables as a % of sales	81%	83%	28%	58%
Impairment as a % of receivables	63%	31%	40%	38%


The actual revenue continues to be below budget over the years. Furthermore, a significant portion of the revenue (81% in 2021-22) is not collected and disclosed as receivables. In addition, more than 30% (63% in 2021-22) of the receivables is impaired, indicating that this may not be collected.





# Conclusions and recommendations





## Overall root causes of significant findings in portfolio

- The entities and the department do not ensure daily and monthly controls are adhered to. The process to ensure monthly reconciliations and in- year monitoring is not embedded in the department and entities
- The department and entities were not effective in developing and monitoring implementation of action plans, there is no urgency to address deficiencies identified.
- The entities did not put in place adequate controls to prevent non-compliance with procurement legislation.



## Key recommendations to and commitments by Accounting officers and authorities

- Attention should be provided to the UIF and CF to ensure that they prepare accurate and complete financial and performance report and submit for audit.
- Follow up on progress made by all entities on the implementation of the action plans.
- Regular and accurate reporting must be performed and reviewed against supporting schedules.
- There must be an urgency by the portfolio to finalise investigations into transgressors and consequence management finalised
- The portfolio must ensure that the culture of adherence to daily controls is implemented, where there are transgressors to the controls, this must be swiftly dealt with by the relevant supervisor or management.



# Section 4(3): Productivity SA

note: not audited by the AGSA



# Audit outcomes of Productivity SA

### Quality of financial statements submitted



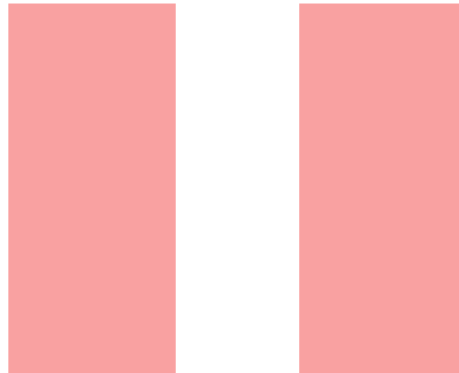
2021-22

2020-21

The audit outcomes for the entity remain stagnant they obtained an unqualified audit opinion with findings on compliance with laws and regulations.

Errors were identified by auditors in the submitted financial statements, relating to, current liabilities and disclosures. These errors were corrected.

### Findings on compliance with key legislation



2021-22

2020-21

#### Annual financial statements

Financial statements submitted for audit contained errors.

#### Procurement and contract management

SCM transcripts were not followed when procuring goods and services.

Contracts were awarded to suppliers who did not submit declarations.

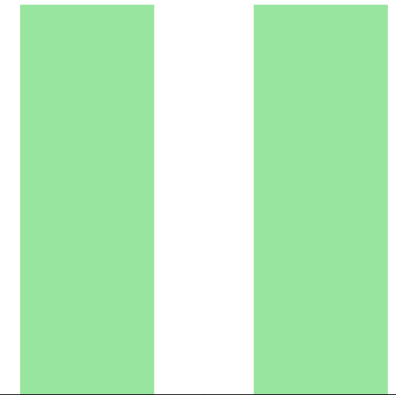
#### Consequence management

Evidence could not be provided that disciplinary steps were taken against officials that incurred irregular, fruitless and wasteful expenditure.

#### Expenditure management (new)

Irregular and fruitless and wasteful expenditure was not prevented.

### Findings on predetermined objectives



2021-22

2020-21

We commend the entity as they did not have findings on performance information.

### Recommendations

There is a need for management to ensure that there is adequate reviews of the financial statements before submitting for audit, monthly controls must be embedded in the finance unit. Preventative controls must be implemented over the procurement processes, to ensure compliance with SCM transcripts before awarding. It is also key that irregular and fruitless and wasteful expenditure is investigated, and transgressors are held accountable timeously.



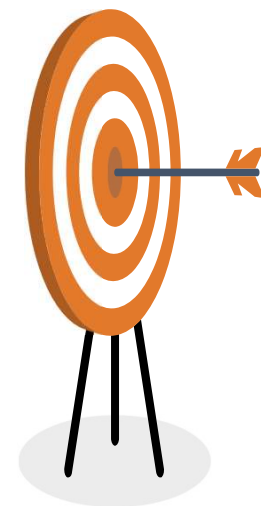


# Recommendations to the committee



- 1 Obtain commitment from the UIF and CF on the submission of the annual financial statements and performance reports.
- 2 Quarterly follow up on the status of consequence management on all cases of irregular and fruitless and wasteful expenditure.
- 3 Follow up on the commitments made by the accounting officer on addressing the material irregularities reported.
- 4 Progress on action plans put in place by the department and its entities to strengthen the controls around financial and performance management.

A **culture of consequence management** in the portfolio will enhance the internal control environment.



# THANK YOU



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