AUDITOR-GENERAL
SOUTH AFRICA

BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR): EMPLOYEMENT AND LABOUR PORTFOLIO

12 October 2022

Briefing document on the audit outcomes for the Employment and Labour portfolio:

2021-22

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

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.

1.2 Role of the AGSA

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 entities, taking into consideration the committee's objective to produce a budgetary review and recommendations report (BRRR).

1.3 Role of the portfolio committee

Section 5(2) of the Money Bills Procedures and Related Matters Amendment Act 9 of 2009 allows for each committee to compile a BRRR, which must be tabled in the National Assembly. Section 5(3) provides for a BRRR to contain the following:

- An assessment of entities' service delivery performance given available resources
- An assessment on the effectiveness and efficiency of entities' use and forward allocation of available resource
- Recommendations on the forward use of resources

1.4 Mandate of the AGSA and the portfolio committee

AGSA mandate	Portfolio committee mandate
Section 188 of the Constitution The AGSA must audit and report on the accounts, financial statements and financial management of government institutions.	**National Assembly Rule 227** Portfolio committees may, amongst other things, perform the following functions:

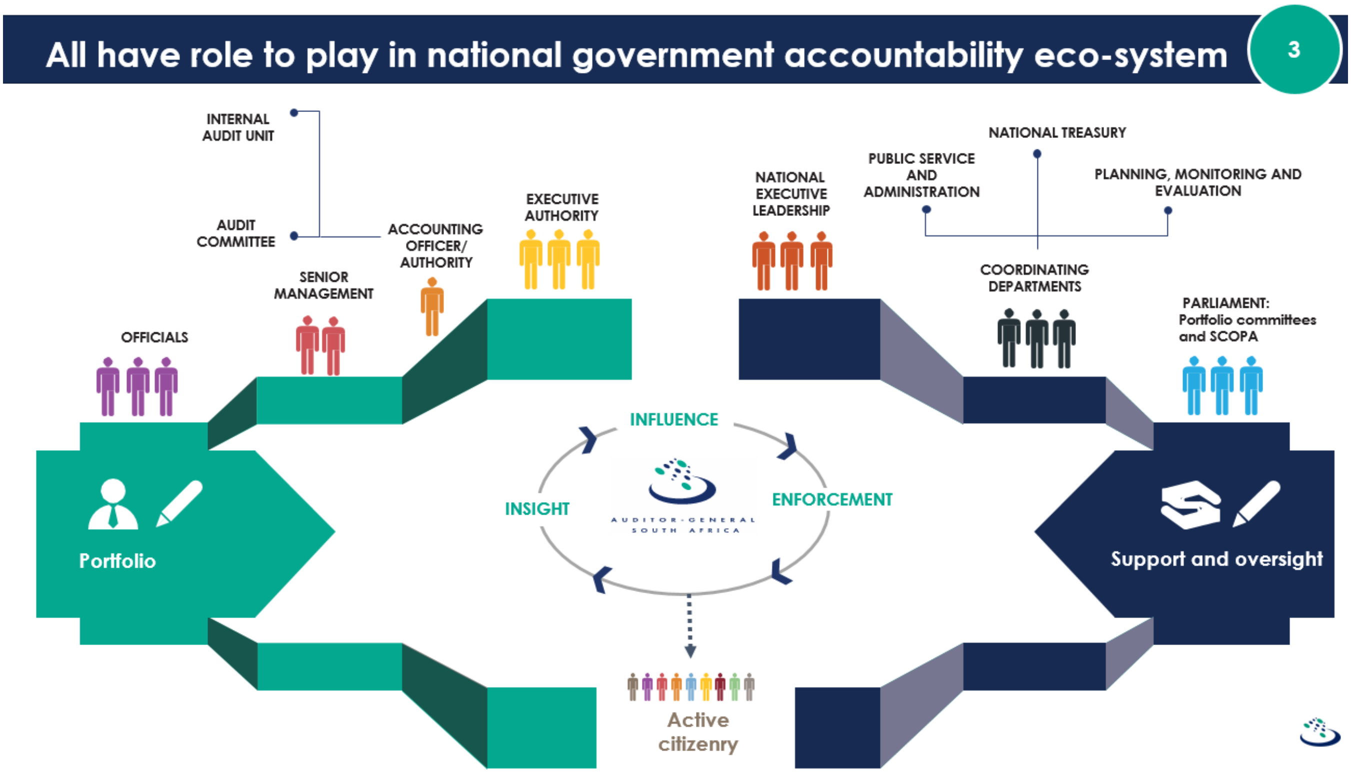
AGSA mandate	Portfolio committee mandate

Section 20(2) of the Public Audit Act (PAA)
• The AGSA must prepare an audit report containing an opinion/conclusion on the:
  o fair presentation of the financial statements
  o compliance with applicable legislation
  o reported performance against predetermined objectives.
• Discretionary audits (including special audits, investigations and performance audits)
 	
Section 5(1B) of the PAA
The auditor-general has the power to:
• issue a material irregularity
• include recommendations in the audit report
• take an appropriate remedial action
• issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.
	• 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, any executive organ of state falling within its portfolio, any constitutional institution falling within its portfolio, and any other body or institution in respect of which oversight was assigned to it
	• 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
	• Perform any other functions, tasks or duties assigned to it in terms of the Constitution, legislation, these rules, the Joint Rules or resolutions of the Assembly, including functions, tasks and duties concerning parliamentary oversight or supervision of such executive organs of state, constitutional institutions or other bodies or institutions.

1.5 Purpose of this document

The purpose of this briefing document is for the AGSA to reflect on the audit outcomes to assist the portfolio committee in its oversight role of assessing the performance of the department and entities, taking into consideration the objective of the committee to produce a BRRR.

1.6 Shifting the public sector culture through the accountability ecosystem



- *The accountability ecosystem is the network of stakeholders that have a mandate and/or responsibility, whether legislative or moral, to drive, deepen and/or insist on public sector accountability.*
- *A more active and engaged accountability ecosystem would add to the much-needed effort of shifting public sector culture and would alleviate the overreliance on the AGSA to assume responsibility for improving audit outcomes and enforcing consequences.*
- *Shifting the public sector culture towards one that is characterised by performance, accountability, transparency and integrity can only be accomplished if all role players in the broader accountability ecosystem fulfil their respective responsibilities and mandates.*
- *Given the nature of the AGSA's mandate, by the time that we audit the financial statements of auditees and report on adverse findings, multiple failures have already occurred along the accountability value chain. After our audits, other steps are required to complete the accountability cycle.*
- *Improvement in sound financial management to enhance the lives of citizens does not only reside within the domain and responsibility of the accounting officer or authority and the auditors. It depends on the entire accountability ecosystem to enable a culture of accountability in a sustainable and meaningful way.*

1.7 Audit outcomes explained

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:

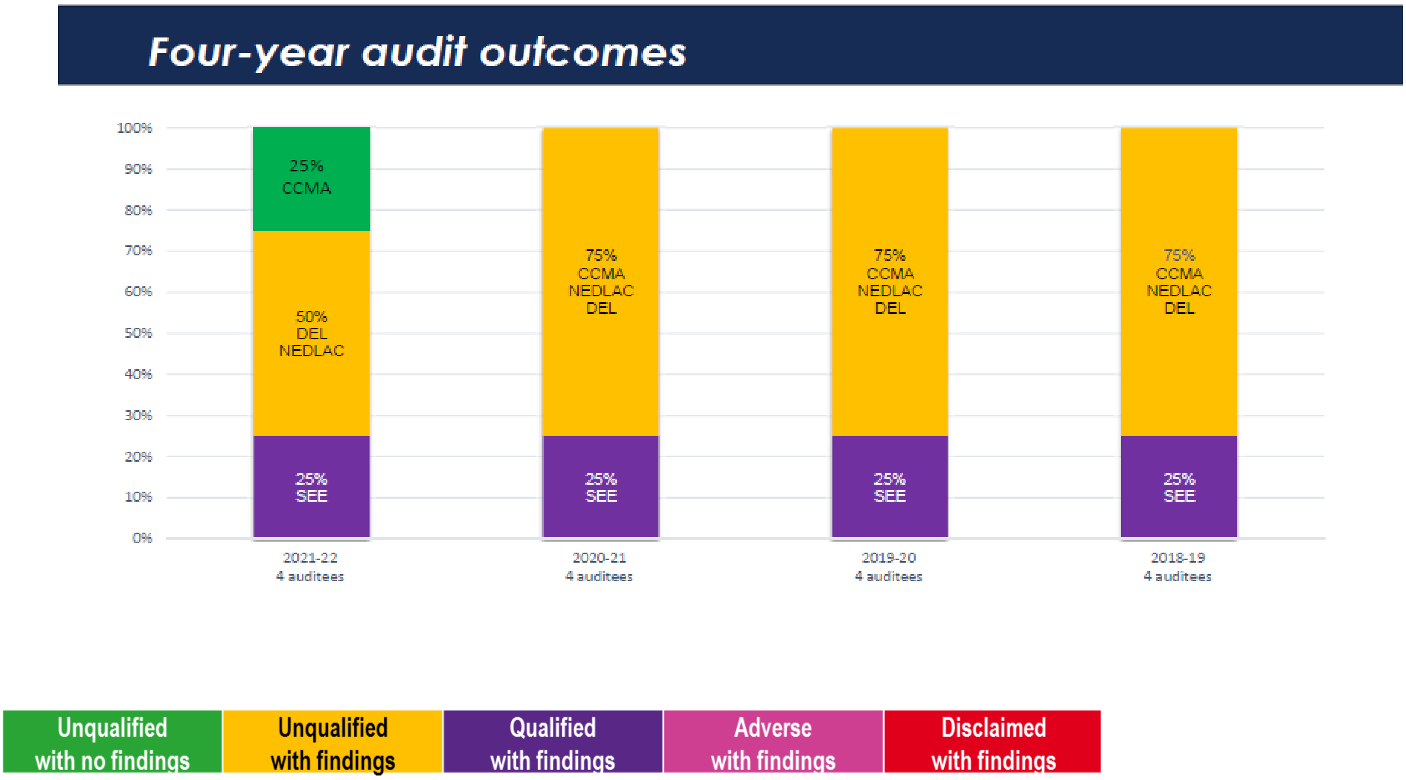
- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

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

2. Improvement in audit outcomes



Overview

(a) Improved auditee:

We are encouraged by the Commission for Conciliation. Mediation and Arbitration (CCMA), as the entity was able to prepare and submit financial statements and annual performance report that are free from material errors for audit. Furthermore, there were no material instances of non-compliance with applicable laws and regulations identified during the audit. Consequently, the audit opinion improved from unqualified with findings to unqualified without findings in the current year.

(b) Stagnant auditees:

The Department of Employment and Labour (DEL) and National Economic Development Labour Council (NEDLAC) obtained unqualified audit opinion with findings on compliance which is a stagnation compared to the previous year.

The Supported Employment Enterprises (SEE) obtained a qualified opinion with findings on compliance, like that of the prior year, and remains a concern.

(c) Non-submission of the annual financial statements

The Unemployment Insurance Fund (UIF) and the Compensation Fund (CF) have not submitted their annual financial statements and performance reports for audit.

2.1 Department of Employment and Labour

Overview

The audit outcome of the department has remained similar to the previous year, unqualified opinion with findings on compliance.

The processes in place for the preparation of financial and performance information are inadequate. Errors were identified during the audit which were similar to the previous year. Action plans were developed to address the prior year findings; however, the implementation of these actions has not been adequate resulting in repeat findings.

These repeat findings were identified in relation to the prevention of irregular expenditure, fixed assets management, investigations into instances of irregular, fruitless and wasteful expenditure, incorrect classification of transactions and inaccurate amounts disclosed in the annual financial statements.

The performance information submitted for audit contained errors that were corrected by the department, therefore, no findings were reported in the audit report.

2.1.1 Findings on the audit of the annual performance report

Programme 2– Inspection and enforcement services

We are encouraged by the department not having any material findings reported on performance information. The department corrected all the material errors that were identified during the audit, which is a significant improvement from the previous years. Management is encouraged to ensure that the designed controls are adequately implemented throughout the year in order to prevent the errors identified during the audit

Achieving key performance targets – summarised information from the annual performance report

A total of 22 targets out of 31 planned targets were achieved for 2021-22, which represents a 71% achievement based on the annual performance report.

Key targets not achieved

Performance indicator	Target	Actual performance	Reason for non-achievement
Vacant funded posts maintained at 3% or less per quarter	Vacant funded posts maintained at 3% or less for every quarter	9.56%8 (956 of 9 997 posts)	Unavailability of panel members • Delay in capturing of applications as a result of HRM circular on advertising all vacant posts of DPSA Public Service Vacancy Circular • Capacity constraints within HRM • Management of online applications.
Percentage resolution of reported incidents of corruption in the Department	93% resolution of reported incidents by disciplinary and criminal interventions	64% case completed 894 cases received and 575 investigated and finalised (575/894*100= 64%)19 cases referred to ER 56 case referred to SAPS	Anti-fraud and corruption time-frame in completing the investigation is 90 days and not integrated to the time frame with Employment relations in terms of reaching the 90 days deadline
Number of employers /workplaces / users inspected per year to determine compliance with employment law	296 904	252 242	A number of inspectors tested COVID-19 positive and were unable to do their work Some workplaces were inaccessible due to the number of COVID-19 positive cases Inspector vacancies: - The Branch recruited a number of new inspectors, some are yet to be fully effective - Some offices took longer than anticipated to fill vacancies and this had an effect on the achievement of targets The Branch took a decision to utilize the Case Management System for reporting purposes, some inspections, could not be quality passed on time and thus were not part of the report During the verification process, some inspections had to be discounted since there were inconsistencies on the registers and inadequate justification of the work done There are some areas in the system that are still to be developed completely. This has affected the capturing of some of the work that had been done.
Percentage of non-compliant employers/workplaces/users received by Statutory Services	65%	64% (3 752 of 5 869)	The target was not achieved as a result of adjustment due to discrepancies and errors emanating from the late audit verification process which was undertaken after

Performance indicator	Target	Actual performance	Reason for non-achievement
referred for prosecution within 30 calendar days			the signing of quarterly performance report.
Number of formal Advocacy sessions conducted per year to increase awareness of employment law	4 x Seminars and 2 x Conferences to be conducted	7 Seminars and 0 Conferences	The Branch did not achieve the overall target as planned. Although the target on the number of seminars conducted was surpassed, the two conferences could not take place. The planned conferences could not take place due to delays and new processes around Supply Chain at National Treasury.
Number of policies developed and approved	1	0	The draft policy has been presented to Cabinet.
Amendments to the Employment Equity Act promulgated and implemented per annum	EEA amendments finalised by 31 March 2022	Not finalised	Parliamentary processes beyond department's control.

2.1.2 Information and communication technology environment/projects

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. 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

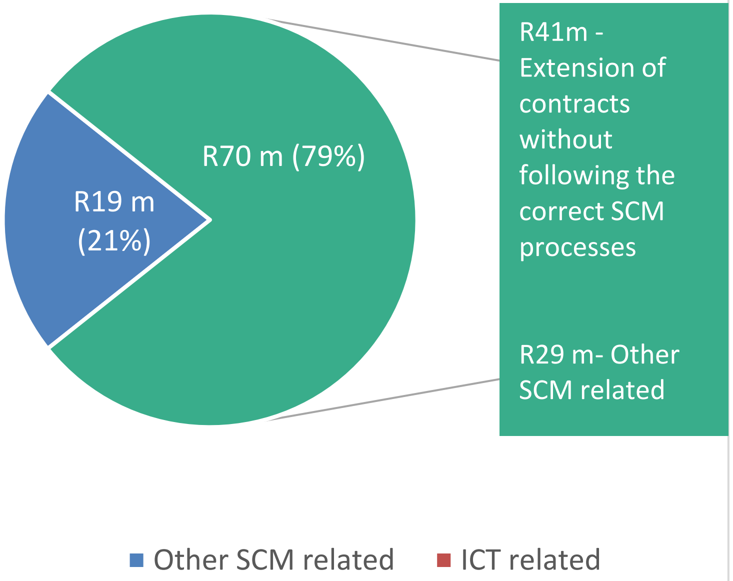
Program change management

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.

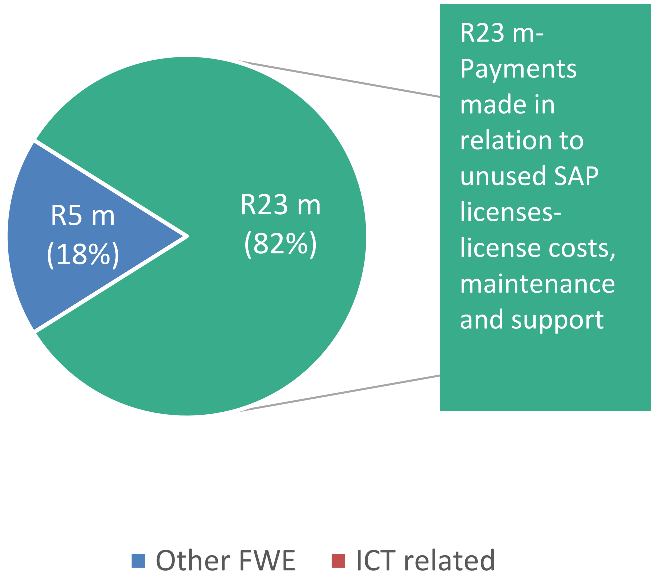
Service continuity

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



2021-22 Closing balance of FWE R28 mil



- 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.

OVERVIW OF THE SAP HANA PROJECT

The department manages and maintains the information system environment for itself and its entities, mainly the Compensation Fund and the Unemployment Insurance Fund.

The department had already entered into Software License and Support Agreement with Systems Applications Products South Africa (SAP) in 2017. The contract was effective from February 2017 to February 2020 for SAP software licenses and support. According to the agreement, maintenance was payable annually at a rate of 22% of the license entitlement base purchased.

The department appointed an implementing agent for the project in 2018, effective from 14 December 2018 for a period of 3 years.

In addition, the department entered into a service agreement with another service to the value of R312 969 188 for a period of 36 months for the license and support fees from the years 2017 to 2021. This contractual arrangement should have lapses when SAP S/4HANA, goes live in 2021.

Due to delays in the implementation of SAP S/4HANA by the implementing agent, the Department extended the agreement with SAP ECC6 by means of an addendum for a further 12 months period effective from 30 June 2020 to 29 June 2021.

Due to the lack of project management and planning we identified that:

- payments relating for license support and maintenance, SAP ECC6 implementation and SAP product types purchased were fruitless and wasteful expenditure as support and maintenance was paid for licenses not used as well as for products that will not be implemented for the period 2017 to 2021.
- further fruitless and wasteful expenditure was noted on product types purchased which will no longer be implemented as well as implementation of SAP ECC6 which is a legacy system.
- the total fruitless and wasteful expenditure quantified by the department to date amounts to R23 032 044 (only incurred by the department excluding the UIF and CF who must still quantify the amount to be disclosed in their AFS).

SAP HANA contracts and unutilised licences

Project start date	February 2017
Initial end date	February 2020
Revised end date	March 2024
licences and support: Contract amount: R R383 628 120 Amount Paid for maintenance and support: R213 747 703	
Implementing agent Contract amount: R316 064 487 Amount Paid: R124 587 852	
SAP and non-SAP resources Contract amount: R312 969 188 Amount paid: R123 692 088	
Total paid: R462 027 643	
Unutilised licences- Fruitless and wasteful expenditure: R23 032 044.75	

2.1.3 Financial health

Overall assessment: Concerning

Attention should be given to the below indicators:

- Debt- collection period >90 days
- R25 million of expenditure was fruitless and wasteful
- Creditor- payment period > 30 days

Auditees	Debt collection days	Irrecoverable debt more than 10%	Creditor payment period- days	Creditors as a % of cash and bank
DEL	365	0%	32.4	30.80%

Nature of the debts

Auditees	Receivables before impairment (R)	Impairment (R)	Nature	Reasons for not paying
DEL	433 489 000	0	94% (R405 901 000) of the debtors balance comprise of claims recoverable from entities mainly UIF, CF and SEE. 4% (R19 106 000) comprise of staff debts	CF, UIF and SEE are disputing these amounts, and therefore are not paying. On staff debt, there were delays in the collection process as deductions could not be automatically made without agreements with the respective employees.

2.1.4 Irregular expenditure analysis

During the year under review, the department incurred irregular expenditure amounting to R18.8 million, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure decreased by 42% compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
IT related contracts were extended without approval by the appropriate authority at the department.	R17 mil	Inadequate monitoring of compliance with SCM related legislation	Inadequate contract management.
Contracts were not awarded to the highest scoring bidders	R1.8 mil	Inadequate monitoring of compliance with SCM related legislation	The department will miss an opportunity to ccontribute to SMMEs and benefit from competitive prices
Total IE disclosed	**R18.8 million**		

2.1.5 Fruitless and wasteful expenditure analysis

During the year under review, the department incurred fruitless and wasteful expenditure amounting to R25.8 million, which was disclosed in the financial statements. The analysis of fruitless and wasteful expenditure shows a significant increase when compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Payments made in relation to unused SAP licenses- license costs, maintenance and support	R23 million	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. 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.	Financial loss
Payment to a service provider for employee wellness services that were not received	R2.5 million	Inadequate implementation of controls in place to ensure that receipt of services is	Financial loss

Description	Amount (R)	Root cause	Impact
		verified before payments are made.	
Damaged vehicles	R0.3 million	Repairs made to damaged vehicles	Financial loss
Total FWE disclosed	**R25.8 million**		

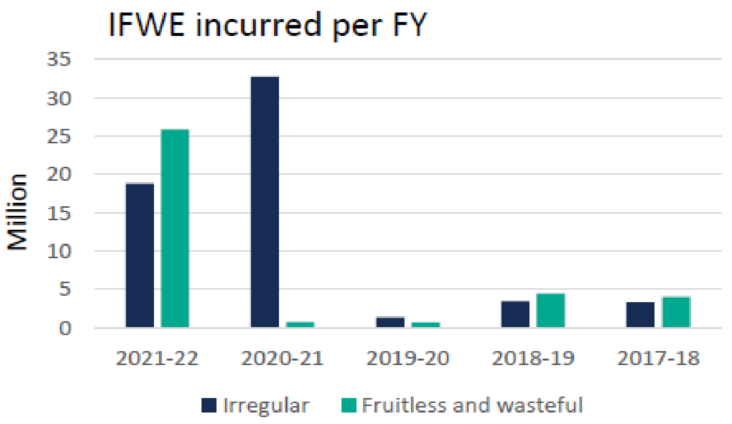
2.1.6 Consequence management

The following material non-compliance issues relating to consequence management were identified and reported:

Description	Root cause
Consequences management: Investigations into instances of IFWE not conducted	Not enough attention is given to the processes of investigating instances of IFWE

Insights: DEL 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.

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

Investigations

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

2.1.7 Findings on compliance with legislation

The following material non-compliance issues were identified and reported:

Description	Root cause
Procurement and contract management: Some of the IT related goods and services, classified as mandatory, were not procured through SITA as required by Treasury Regulation	Inadequate monitoring of compliance with laws and regulations, resulting in non-adherence to the act.
Quality of financial statements: Material errors in fruitless and wasteful expenditure, intangible assets, immovable tangible assets and irregular expenditure disclosure notes identified by the auditors in the submitted financial statements were corrected, which resulted in the financial statements receiving an unqualified audit opinion.	Inadequate controls around the preparation of financial statements which is similar to the previous year. This is indicative that the adherence to daily, monthly controls are not instilled in the department and that the in-year monitoring controls are not effective.
Prevention of irregular expenditure: Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R18 816 000.	Deficient monitoring of compliance with SCM related prescripts and slow implementation of consequence management.

2.1.8 Other important matters

Investigations

The department’s risk unit investigated allegations of improper conduct in SCM and other human resource related matters by two officials at the quest of the department, which covered the period 2020-21 financial year. One investigation was concluded on 24 May 2021 and the report recommended a full scale investigation by the Public Service Commission. The second investigation is in progress.

2.1.9 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Financial and performance management

Daily and monthly controls	Management did not implement the following daily and monthly controls designed for the department's business processes: Verification of fixed assets as some assets could not be verified for existence and completeness during the audit. Reconciliation of the assets register and the financial statements as differences were noted during the audit.
Review and monitor compliance	Investigations into instances of irregular and fruitless and wasteful expenditure were not always conducted resulting in non-compliance with the PFMA. Preventative controls around irregular, fruitless and wasteful expenditure were not effective that resulted in the occurrence thereof.

2.2 NEDLAC

Overview

The audit outcomes for the Nedlac have remained unchanged compared to the prior year as unqualified audit opinion with findings on compliance.

Management submitted financial statements, which included material misstatements pertaining to current liabilities and disclosure items, which is a regression from the previous audit. These misstatements were subsequently corrected by management.

Non- compliance with laws and regulations

Material non-compliance with laws and regulations identified were as a result of management not preparing financial statements in accordance with the standards and not taking adequate steps to prevent fruitless and wasteful expenditure in the current year. The material misstatements related to the following:

- accrual for leave pay incorrectly accounted for as a provision
- cash and cash equivalents incorrectly classified as measured at fair value instead of amortised cost
- not all related party relationships and transactions were disclosed
- correction of prior period error not in accordance with the requirements the reporting framework.

2.2.1 Findings on the audit of the annual performance report

Programme 2 – Core Operations

We commend the entity for preparing an annual performance report that is free from material errors, as no material findings were identified during the audit.

Achieving key performance targets – summarised information from performance report

A total of 10 targets out of 15 planned targets were achieved for 2021-22, which represents a 67% achievement based on the annual performance report.

Key targets not achieved

Performance indicator	Target	Actual performance	Reason for non-achievement
1.4 Percentage of reasonable IT-related complaints resolved as per set timeframes for each complaint	100% of reasonable IT complaints resolved within agreed timeframes	92% of reasonable IT complaints resolved within agreed timeframes	Capacity constraints of the appointed service provider
• 1.6 Percentage of planned training interventions delivered annually in relation to Nedlac training plan	100% of planned training interventions concluded	0%	There were human resource capacity and procurement constraints
• 1.8 Number of planned M&E products set out in the M&E framework delivered as per set timelines	2 x planned M&E products submitted to Manco by 31 March 2022	1 x planned M & E product delivered on time	Lack of human resource capacity of responsible manager
• 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	100% of reports on processes concluded within six months from date of tabling at the relevant Nedlac structure, except where stipulated exclusions apply	73% of reports on processes were concluded within six months from date of tabling (Representing eight out of eleven reports on processes concluded)	(i) The report was referred to the Economic Recovery Task Team on Skills Strategy to enable participation by the Community Constituency, causing a delay in the conclusion of engagements (ii) The Community Constituency did not respond timeously to the request for sign-off (iii) Government referred the CAB to Cabinet to be gazetted for public comment while the engagement process at Nedlac had not been finalised, which

Performance indicator	Target	Actual performance	Reason for non-achievement
			placed the Chamber’s sign-off process on hold
• 3.2 Percentage of technical assistance initiatives agreed to a plan between Nedlac and social partners provided by 31 March 2022	80% of planned technical assistance initiatives provided by the end of the financial year	Only 40% of planned technical assistance initiatives delivered (technical assistance for business was procured but not for labour)	There were procurement challenges in respect of labour and the process had to be redone

2.2.2 Financial health

Overall assessment: Good

The entity should pay attention to the below indicators

- Debt- collection period >90 days
- More than 10% of debt irrecoverable
- Creditor- payment period > 30 days

Auditees	Debt collection days	Irrecoverable debt more than 10%	Creditor payment period- days	Creditors as a % of cash and bank
NEDLAC	847	38%	40	9.40%

Nature of the debts

Auditees	Receivables before impairment (R)	Impairment (R)	Nature	Reasons for not paying
NEDLAC	97 790	43 419	Majority of the debt comprises of staff debts (bursaries and incorrect bonus payments)	The debts are deducted from employees in small amounts on a monthly basis.

2.2.3 Irregular expenditure analysis

During the year under review, the public entity incurred irregular expenditure amounting to R194 732, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure increased by R144 927 compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Supplier appointed without following the proper SCM processes for group life cover	R174 162	Inadequate monitoring of compliance with SCM related legislation	The entity might miss an opportunity to benefit from competitive prices.
Services procured outside the approved scope of work	R20 570	Inadequate monitoring of compliance with SCM related legislation	
Total IE disclosed	**R194 732**		

2.2.4 Fruitless and wasteful expenditure analysis

During the year under review, the public entity incurred fruitless and wasteful expenditure amounting to R31 716, which was disclosed in the financial statements. The analysis of fruitless and wasteful expenditure shows a decrease when compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Performance bonuses paid to employees who did not qualify	R31 716	Non-compliance with the policy	Non-compliance with the policy. The funds are being deducted from the employee's salaries on a monthly basis
Total FWE disclosed	**R31 716**		

2.2.5 Findings on compliance with legislation

The following material non-compliance issues were identified and reported:

Description	Root cause
Effective steps were not taken to prevent irregular expenditure	Inadequate monitoring of compliance with SCM related legislation

2.2.6 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Financial and performance management

Review and monitor compliance	Management did not adequately review and monitor compliance with applicable laws and regulations as some instances of non-compliance were noted. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

2.3 Supported Employment Enterprises

Overview

The audit outcomes of the trading entity have remained as financially qualified with findings on compliance and predetermined objectives. Material errors were identified during the audit. These errors could have been prevented or detected if effective controls were in place. There has been a regression on the performance reporting with material findings when compared to the prior year of no material findings.

2.3.1 Findings on the audit of financial statements

The trading entity is qualified on the fair presentation of the financial statements due to the following:

Inventories and cost of sales (repeat qualification area)

I was unable to obtain sufficient appropriate evidence that inventories and cost of sales for the current and previous year had been properly accounted for, due to the status of the accounting records, as evidence of the previous year's production times could not be provided. I could not confirm production times by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to:

- *inventories, stated at R63,5 million (2021: R67,5 million) in the statement of financial position and note 2 to the financial statements and*
- *cost of sales, stated at R99, 9 million (2021: R84 million) in the statement of financial performance and note 13 to the financial statements.*

Additionally, incorrect production times were used in the allocation of costs, resulting in the misstatement of:

- *finished goods, stated at R10,9 million (2021: R14,1 million) in note 2 to the financial statements*
- *direct labour stated at R2,4 million (2021: R2,3 million) in note 13 to the financial statements,*
- *variable manufacturing overheads stated at R10.4 million (2021: R8,4 million), in note 13 to the financial statements and*
- *fixed manufacturing overheads stated at R61,2 million (2021: R47,4 million) in note 13 to the financial statements*

The misstatements indicated above also impacted the inventory write down to net realisable value stated at R6,5 million (2021: R5,9 million) in note 2 to the financial statements, and there was also a resultant impact on the deficit for the year and on the accumulated surplus.

Appropriate evidence could not be obtained that inventories and cost of sales for the current and previous year had been properly accounted for, due to evidence of the previous year's production times not being provided as well as incorrect production times that were used in the allocation of costs.

Receivables from exchange transactions (new qualification area)

The trading entity did not correctly account for receivables from exchange transactions in accordance with GRAP 9, Revenue from exchange transactions. The entity did not adequately reconcile the individual receivable balances, resulting in misstatement of debtors' balances. I was unable to determine the full extent of the misstatement of receivables from exchange transactions stated at R8,5 million in the statement of financial position as it was impractical to do so.

The entity did not adequately reconcile the individual receivable balances, resulting in errors in debtors' balances. We were unable to determine the full extent of the error. The reconciliations re-performed by the audit team as well as confirmations obtained from customers materially differed from the amounts that were reported by the entity and the differences could not be cleared by management.

Payables from exchange transactions (new qualification area)

The trading entity did not correctly account for payables from exchange transactions stated at R17, 9 million in the financial statements, as deposits received were not allocated to debtors' accounts after deliveries were made. Consequently, receivables from exchange transactions and payables from exchange transactions are overstated by R4, 1 million.

Deposits received from customers were not allocated to debtors' accounts after deliveries were made resulting in overstatement of receivables and payables. This is a repeat finding but management corrected it in the prior year.

Operating expenses (new qualification area)

I was unable to obtain sufficient appropriate evidence that the corresponding amount for operating expenses had been properly accounted for, due to the status of the accounting records, as the amount stated in the statement of financial performance was adjusted by R5,7 million for which no underlying supporting schedules and supporting documentation were provided. I could not confirm other operating expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the operating expenses stated at R155,4 million.

The accuracy and validity of the adjustment could not be confirmed due to lack of evidence.

Non- current assets (new qualification area)

In addition to the individually material uncorrected misstatements, non-current assets are materially misstated by R2, 4 million due to the cumulative effect of individually immaterial uncorrected misstatements in property plant and equipment and receivables from non-exchange transactions.

- *Property, plant and equipment stated at R86, 3 million was overstated by R1, 3 million.*
- *Non-current receivables from exchange transactions stated at R1, 1 million was overstated by R1, 1 million.*

Property, plant and equipment stated at was overstated by R1, 3 million due to the following*:*

- assets not installed were incorrectly depreciated
- assets that were not recorded in the fixed assets register
- differences between the fixed assets register and the annual financial statements .

Non-current receivables from exchange transactions were overstated due to a long outstanding debtor not being impaired in line with the entity's policy.

2.3.2 Findings on the audit of the annual performance report

Objective – Economic Transformation and job creation

Material errors were reported on in the audit report due to the following:

Objective: Economic transformation and job creation

There has also been a regression in the outcome on the performance information, as the reported achievements were overstated. This was due to achievements that did not meet the definition of the planned target being reported.

Achieving key performance targets – summarised information from the annual performance report

A total of 2 targets out of 3 planned targets were achieved for 2021-22, which represents a 66.6% achievement based on the annual performance report.

Key targets not achieved

Performance indicator	Target	Actual performance	Reason for non-achievement
Number of additional persons with disabilities employed in the SEE factories by the end of March	25 additional persons with disabilities employed in the SEE factories by the end of March 2022	Achieved 25 additional persons with disabilities employed in the SEE factories by the end of March 2022	N/A
% annual increase of sales revenue from goods and services by the end of March	5% annual increase of sales revenue from goods and services by the end of March 2022	Not achieved -33% Actual sales of R28 487 358 against last year's sales of R41 744 234	Negative variance, Order of 52 million in total from N/West Provincial Education Dept. was amended causing delays for delivery in Q4
Number of customer agreements entered into annually	5 customer agreements entered into by the end of March 2022	Achieved 6 customer agreements entered into by the end of March 2022	N/A

Impact of targets not achieved

The main impact of the non-achievement of the targets is as follows:

- Gross deficits and deficits that impacts on financial sustainability placing more reliance on transfers from the department.
- Decrease in targets for employing persons with disabilities

2.3.3 Financial health

Overall assessment: Concerning

The following areas of the financial statement requires attention:

Debt collection days	Irrecoverable debt more than 10%	Creditor payment period- days	Creditors as a % of cash and bank
103	64.8	28.1	37%

2.3.4 Irregular expenditure analysis

During the year under review, the trading entity incurred irregular expenditure amounting to R357 361, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure decreased by 79.3% compared to the prior year (R1 729 075). The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Internet and Hygiene services procured without the proper procurement processes being followed	357 361	Entity did not discontinue services because the services were essential to the operations.	The entity might miss an opportunity to ccontribute to SMMEs and benefit from competitive prices
Total IE disclosed	**357 361**		

2.3.5 Fruitless and wasteful expenditure analysis

During the year under review, the trading entity incurred fruitless and wasteful expenditure amounting to R0.670 million, which was disclosed in the financial statements. The analysis of fruitless and wasteful expenditure shows a decrease when compared to the prior year (R0.859 million). The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Inventory theft and losses	575 938	Delivery notes not reconciled frequently and followed up to ensure that the proof of deliveries of orders and risks and rewards has passed to the purchasers	Loss of sales revenue
Penalty fees for late delivery of goods	88 343	Delays in production resulting in goods not being timely delivered to customers	Loss of sales revenue
Other (traffic fines, late payments, TV licence dispute)	5 719		Loss as the money has not been recovered
Total FWE disclosed	**670 000**		

2.3.6 Findings on compliance with legislation

The following material non-compliance issues were identified and reported:

Description	Root cause
Quality of financial statements: material errors corrected and uncorrected	Lack of reviews and monthly disciplines in respect of financial reporting as well as preparation of interim financial statements
Procurement and contract management: Bid documentation did not stipulate the minimum threshold for local production and content	SBD 6.1 forms sent to suppliers to complete instead of stipulating the requirements on the request for quotations
Expenditure management: Lack of controls to prevent fruitless and wasteful expenditure	Delays in production resulting in goods not being timely delivered to customers Delivery notes not reconciled frequently and followed up to ensure that the proof of deliveries of orders and risks and rewards has passed to the purchasers
Revenue management: Effective steps were not taken to collect all money owed to the trading entity	Poor debtors controls as monthly controls were not always effected/ implemented and followed up that resulted in disputes with customers

2.3.7 Consequence management

The following material non-compliance issues relating to consequence management were identified and reported:

Description	Root cause
Consequence management: Investigations into fruitless and wasteful expenditure was not performed	The appointment of the service provider was done late in the financial year

2.3.8 Internal controls

The significant deficiencies in internal control that led to the AGSA's overall assessment of the status of the drivers of key controls are described below.

Leadership

Effective leadership	The accounting officer did not provide effective oversight in ensuring that the actions planned to address the recommendation made by the audit committee and external auditors are implemented. This has resulted in repeat findings. There is no evidence that consequence management was implemented on those who did not implement the designed daily/ monthly internal controls.

Financial and performance management

Proper record keeping	Management did not supply some of the requested documentation timeously. This has resulted in delays in the audit and budget overruns. Information was not provided to support production times and an adjustment made on
Daily and monthly controls	Suspense accounts in relation to income received in advance and goods received account were not timeously cleared as long outstanding transactions (more than a year) were identified in these accounts. The matter was raised during the previous audit and minimal progress has been made. Reconciliations were not performed on a regular basis for property, plant and equipment and salaries. Furthermore, there were instances where reconciliations were performed for inventory; however, these were not reviewed by the relevant official. This matter was raised during the previous audit and minimal progress has been made. The following were identified on the asset and inventory management processes of the entity, which indicate that daily and monthly controls were not being implemented throughout the year, which results in errors being identified during the audit as issues are only attended to during the preparation of financial statements at year-end. The fixed asset register was not regularly updated to take into account comments from the asset verification. As per discussions held with management, this was due to lack of evidence to support the comments made by the verification team. Assets per the verification reports conducted by factories during the year were identified as disposed; however, these were not regularly updated in the assets register and followed up by head office to confirm disposals. As per discussions held with management, this was due to lack of evidence to support the comments made by the verification team. Asset verifications were not conducted for all the factories in each quarter in line with the Asset Management Policy. Timesheets for certain factories and periods could not be provided as evidence that controls were in place to track and assess idle time throughout the year. Study reports/ runtimes were provided as evidence that run times were determined and approved by the production managers, however, these run times were not captured or updated on the syspro system at some point during the year. Furthermore, certain runtimes per the approved study reports did not agree to the runtimes captured on the Syspro system. The accounts for unallocated funds and advances were not cleared which resulted in an overstatement of receivable. Debtors’ accounts were not regularly reconciled against the supporting documents, which resulted in incorrect evaluation of receivables.

Review and monitor compliance	Non-compliance with legislation relating to prevention of fruitless and wasteful expenditure could have been prevented had compliance been properly monitored. There is slow progress in the implementation and finalisation of investigations into instances of irregular expenditure. In some instances, evidence was not provided to indicate that investigations were conducted. Non-compliance with the preferential procurement regulation 8(2) in relation to the threshold for local content. Effective and appropriate steps were not taken to collect all money due. Preventative mechanisms in place to eliminate theft and losses of assets were not always effective. This was indicative from the review of the loss control account, which shows losses of R0.6 million in respect of assets. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records.

Governance

Risk management	The entity has a risk strategy in place, however, the monitoring of the implementation of the mitigating controls has not been effective due to slow implementation of the actions

Commission for Conciliation, Mediation and Arbitration (

Overview

The public entity was able to prepare and submit financial statements and annual performance report that are free from material errors for audit. Furthermore, there were no material instances of non-compliance with applicable laws and regulations identified during the audit. Consequently, the audit opinion improved from unqualified with findings to unqualified without findings in the current year.

2.4.1 Findings on the audit of the annual performance report

There were no material errors reported on in the audit report.

Achieving key performance targets – summarised information from performance report

The public entity has achieved all of the 32 planned targets.

2.4.2 Financial health

Overall assessment: Good

The following areas of the financial statement requires attention:

Debt collection days	Irrecoverable debt more than 10%	Creditor payment period- days	Creditors as a % of cash and bank
108	52.5%	52.4	36%

2.4.3 Irregular expenditure analysis

During the year under review, the public entity incurred irregular expenditure amounting to R47 295, which was disclosed in the financial statements. The analysis of irregular expenditure shows that irregular expenditure decreased by 99% compared to the prior year. The expenditure can be broken down as follows:

Description	Amount (R)	Root cause	Impact
Multi -year contracts: Security and background check services procured beyond the contract period	**47 295**	This was in relation to security and background check services contracts that were utilized even after expiry.	Security and background check services.
Total IE disclosed	**47 295**		

2.4.4 Findings on compliance with legislation

There were no material findings on compliance that was identified.

2.4.5 Internal controls

No significant control deficiencies were identified.

3. Material irregularities

Definition: *A material irregularity 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 PAA 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.*

Auditees in the portfolio scoped in

	2021-22	2022-23
Auditees	*Department of Employment and Labour (DEL)* *Compensation Fund (CF)* *Unemployment Insurance Fund (UIF)*	*All auditees*

Material irregularities identified

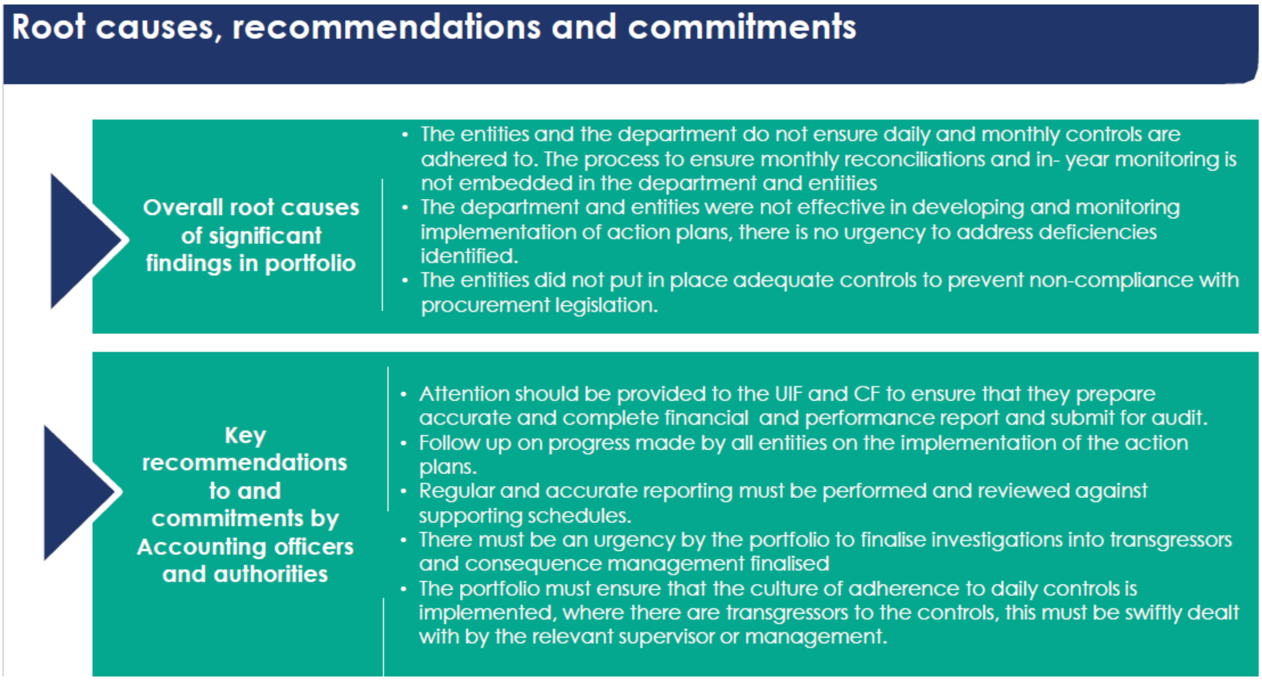
Notified	Type	MI description	Status of MI	Status description
21 July 2021	**Payment for goods or services not received**	An overpayment was made to a medical service provider between August 2014 and April 2017 due to a lack of effective internal controls around approving and processing payments to	Resolved	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. 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

Notified	Type	MI description	Status of MI	Status description
		medical service providers.		duplicate payment from being processed in the system. 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.
10 September 2021	**Payment not made or not made in time, resulting in interest/standing time/penalties**	The fund failed to pay medical invoices within 75 days as ordered by the court, resulting in interest being charged.	Unresolved	The matter is currently with the court. 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. 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.

4. Main root causes, recommendations, and commitments for the portfolio

All role players should continue to work together to strengthen the capacity, processes and controls of entities in the portfolio, which will enable credible financial and performance reporting, compliance with key legislation, sound financial management and improved service delivery.

Overall root causes of significant findings in the portfolio



5. Recommendation to the portfolio 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 further strengthen the controls around financial and performance management.