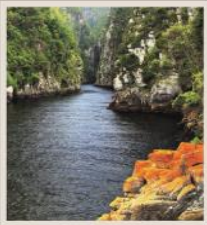


PFMA  
2015-16



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# Labour Portfolio

*October 2016*

1

# The AGSA's promise and focus



# Reputation promise

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The Auditor-General of South Africa (AGSA) 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.

## Role of AGSA in the BRRR process

- Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities taking into consideration the objective of the committee to produce a BRRR.
- To provide the portfolio committee with applicable information and guidance on the Economic Development portfolio's 2015-16 audit outcomes so that they, the committee, can ensure effective oversight.
- To enable oversight to focus on areas that will lead to good governance.



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# Our annual audits examine three areas

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**1** FAIR PRESENTATION AND  
RELIABILITY OF FINANCIAL  
STATEMENTS

**2** RELIABLE AND CREDIBLE  
PERFORMANCE INFORMATION  
FOR PREDETERMINED  
OBJECTIVES

**3** COMPLIANCE WITH KEY  
LEGISLATION ON FINANCIAL  
AND PERFORMANCE  
MANAGEMENT



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## Unqualified opinion with no findings (clean audit)



Auditee:

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

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements but struggled to:

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

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## Qualified opinion



Auditee:

- had same challenges as those that were unqualified 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.
- did not comply with key legislation in certain instances.

## Adverse opinion



Auditee:

- has so many material misstatements in their financial statements that we disagree with almost all the amounts and disclosures in the financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

## Disclaimed opinion



Auditee:

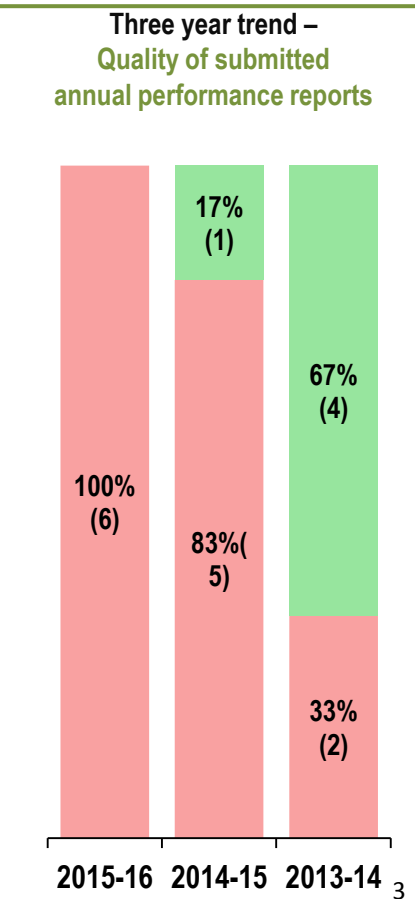
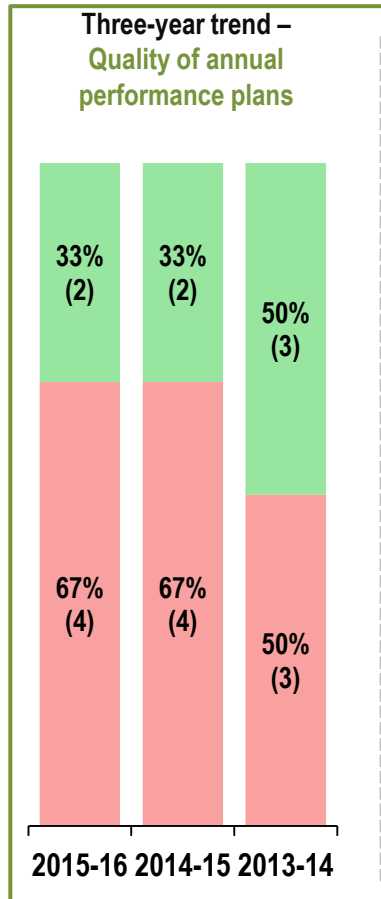
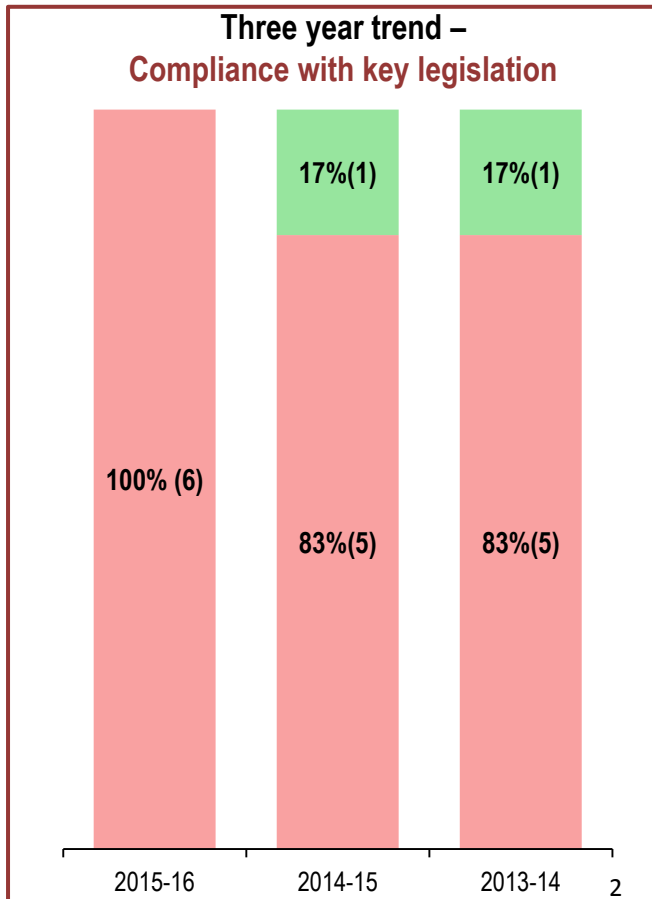
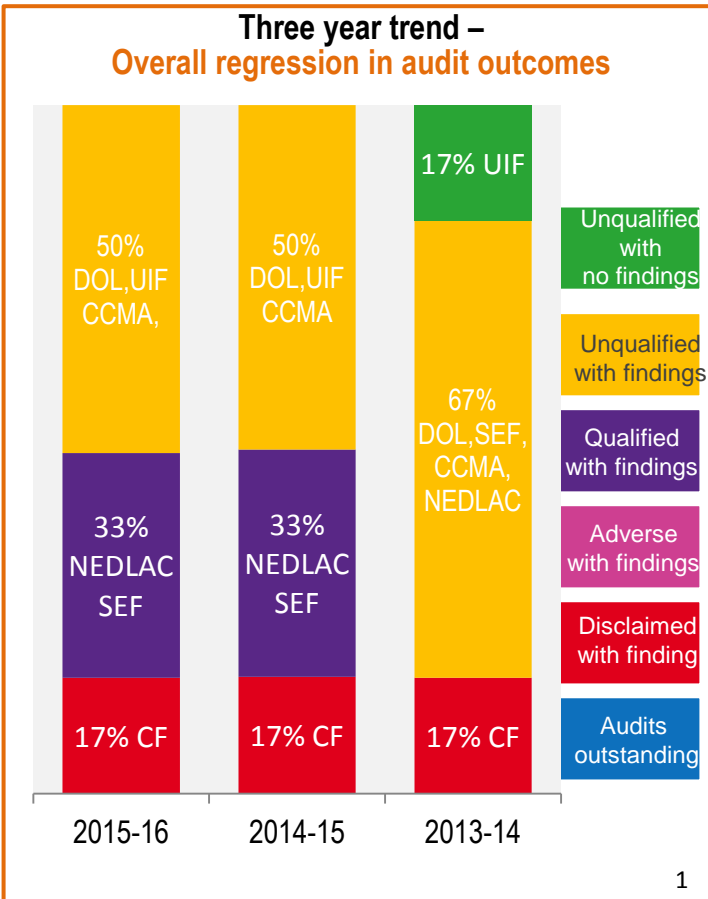
- could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements.
- was unable to provide sufficient supporting documentation for amounts in the financial statements and achievements reported in the annual performance report.
- did not comply with key legislation.

2

## The 2015-16 audit outcomes and key messages



# Regression in audit outcomes over 3 years



**1** To improve/maintain the **overall audit outcomes**, financial statements processes,

The entire portfolio has consistently submitted annual financial statements timeously for purposes of external auditing. The quality of financial statements submitted for auditing still remains a concern, due to inadequate review processes, as the internal controls did not prevent, detect or correct material misstatements, in both the annual financial statements and the annual performance report.

**2** .... **compliance** with key legislation and....

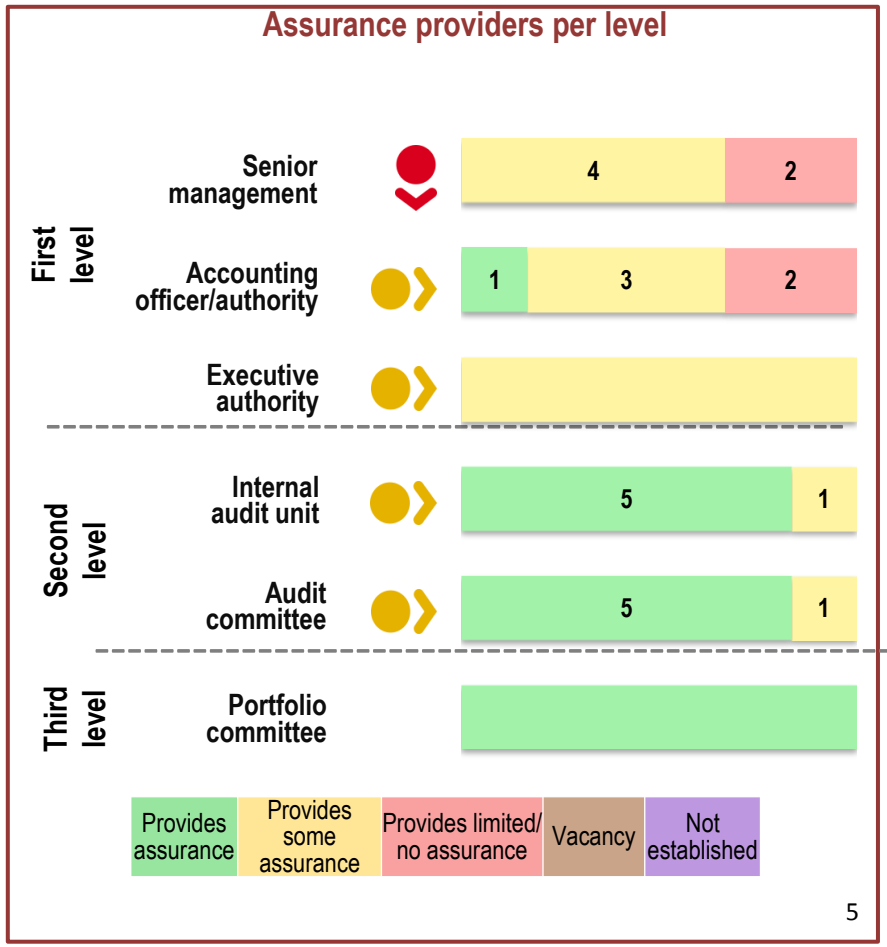
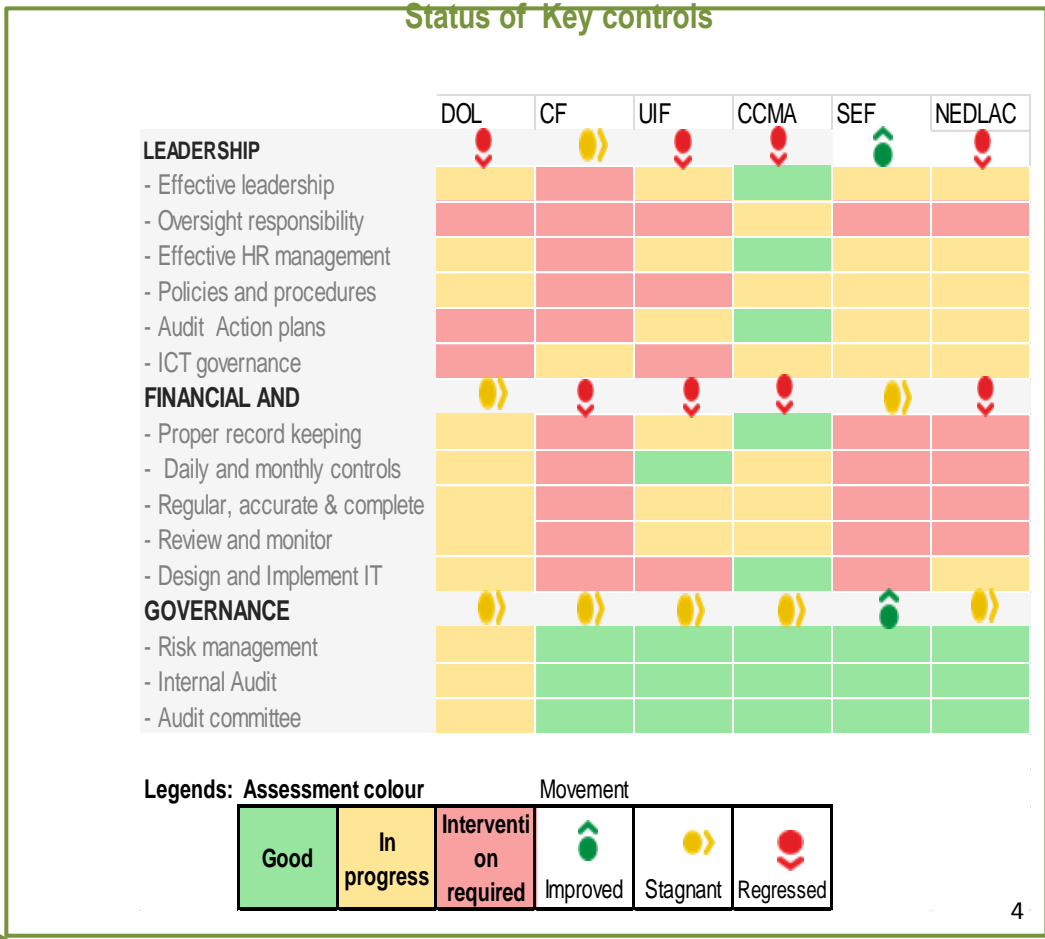
The portfolio's overall compliance with legislation has regressed with 100% of the entities having material findings on compliance with legislation. Management does not have adequate monthly / quarterly review processes, that also specifically included compliance with legislation, to ensure that the monthly / quarterly reporting is credible.

**3** .... **performance planning and reporting** must be improved by....

The portfolio had a regression in terms of the quality of the annual performance report (APR). A total of 67% of the entities did not have credible well drafted APPs, or processes to ensure that the portfolio's quarterly performance reports are reliable. Management does not have a review processes to ensure that the APPs are correctly drafted and are SMART, and that the APRs only include valid verifiable information to ensure that the APR is reliable



# Regression in audit outcomes over 3 years - continued



4 ... providing attention to the **key controls** by...

5 ... the key role players as part of their role in **combined assurance**

The regression in the key controls was mainly due to action plans which are inadequately implemented, and monitored, resulting in numerous repeat findings. The leadership should hold staff accountable for poor performance and transgressions, and management should send out a message that these results are not acceptable or tolerated.

The level of assurance provided has mainly remained stagnant. Senior management's assurance level has regressed mainly due to the fact that while action plans are developed, they are not adequately implemented, or monitored. This leads to multiple recurrence of findings. The internal audit unit and the audit committee have provided assurance, however, the focus of these governance structures should be intensified in the area of compliance with legislation as well as monitoring of action plans. The PC assessment is based on specific criteria applied












3

Performance management linked  
to programmes/ objectives tested



# Quality of annual performance plan slightly regressed and quality of submitted annual performance reports slightly regressed

Outcomes of programmes/objectives selected for testing:

Auditee:	Movement	Programmes/objectives	Usefulness	Reliability
DOL		Inspection and enforcement services	Targets were not specific ,or measurable, and the indicators were not well defined; and verifiable.	The reported performance information was not reliable when compared to the source information
		Public employment services	No material findings reported.	The reported performance information was not reliable when compared to the source information
		Labour policy and industrial relations	Targets were not specific ,or measurable, and the indicators were not well defined; and verifiable.	The reported performance information was not reliable when compared to the source information
CF		Compensation for occupational diseases and injuries	Targets were not specific ,or measurable, and the indicators were not well defined; and verifiable.	No material findings reported.
		Provincial Operational Compensation for occupational diseases and injuries	Targets were not specific ,or measurable, and the indicators were not well defined; and verifiable.	The reported achievements against planned targets of important indicators were not reliable when compared to the source information
UIF		Fund poverty alleviation scheme	Targets were not specific ,or measurable, and the indicators were not well defined;	The reported achievements against planned targets of important indicators were not reliable when compared to the source information
CCMA		Enhancing the Labour Market to Advance Stability and Growth	No material findings reported.	The reported achievements against planned targets of important indicators were not reliable when compared to the source information
		Optimising the Organisation	Targets were not consistent	No material findings reported.
SEF		An Efficient, effective and development oriented public service and empowered, fair inclusive citizenship	No material findings reported.	No material findings reported.
		Decent employment through inclusive growth	No material findings reported.	No material findings reported.
NEDLAC		Decent employment through inclusive growth	No material findings reported.	No material findings reported.

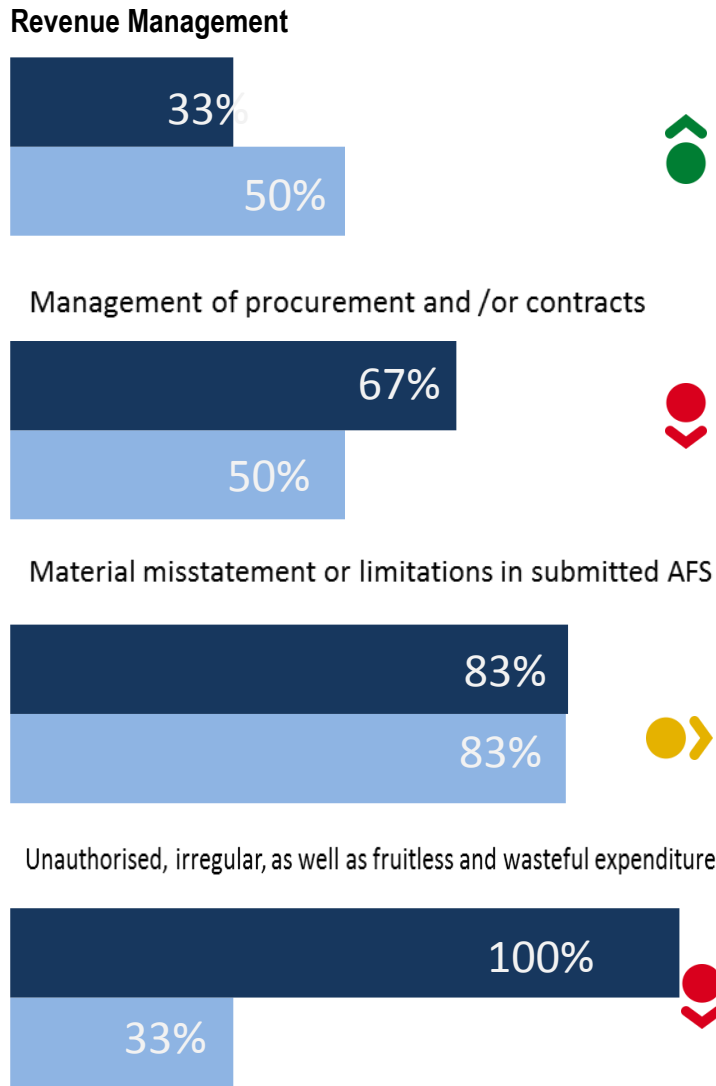


**4** Financial management



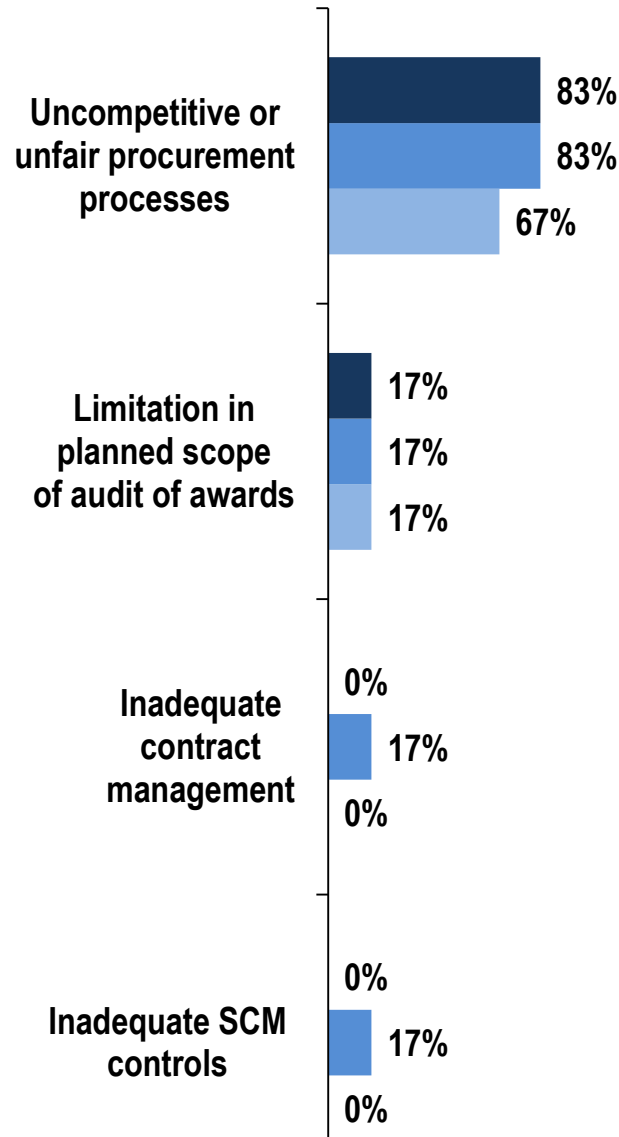
# Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees



6

Figure 2: Findings on compliance with key SCM legislation – all auditees



7

Figure 3: Qualification areas over three years

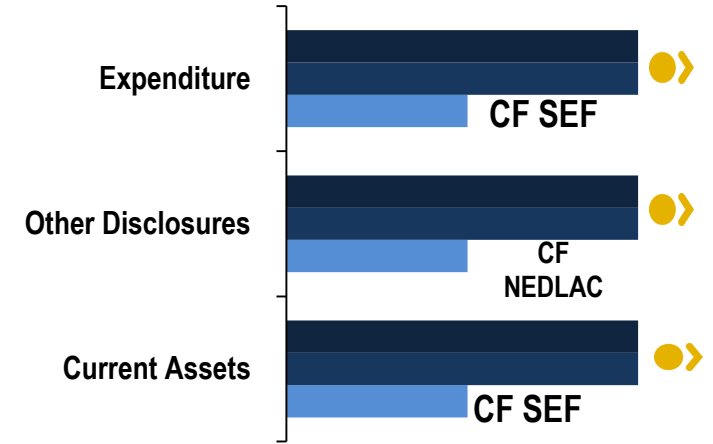
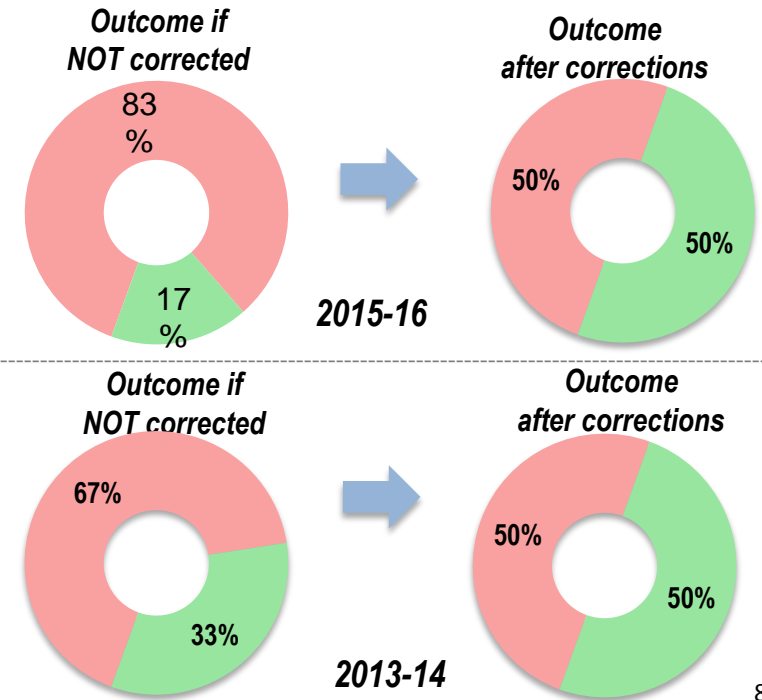
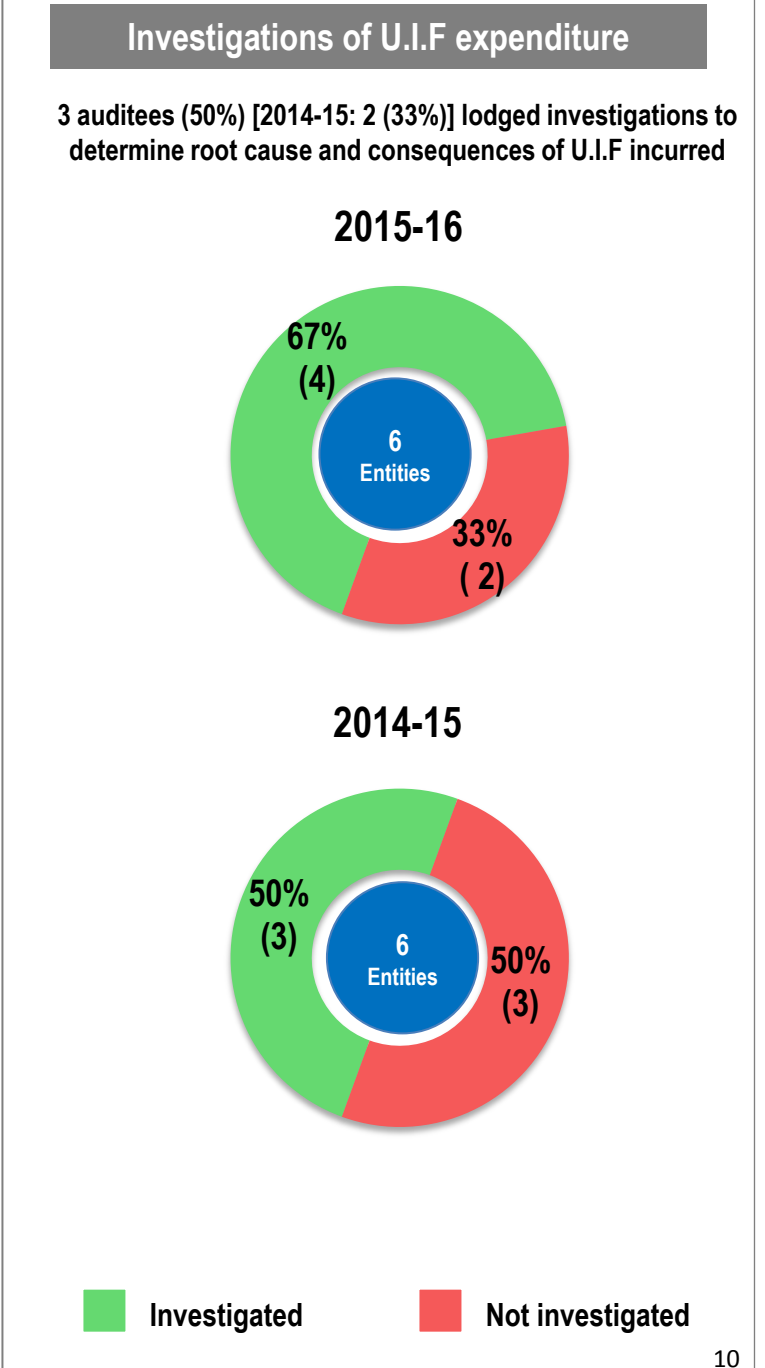
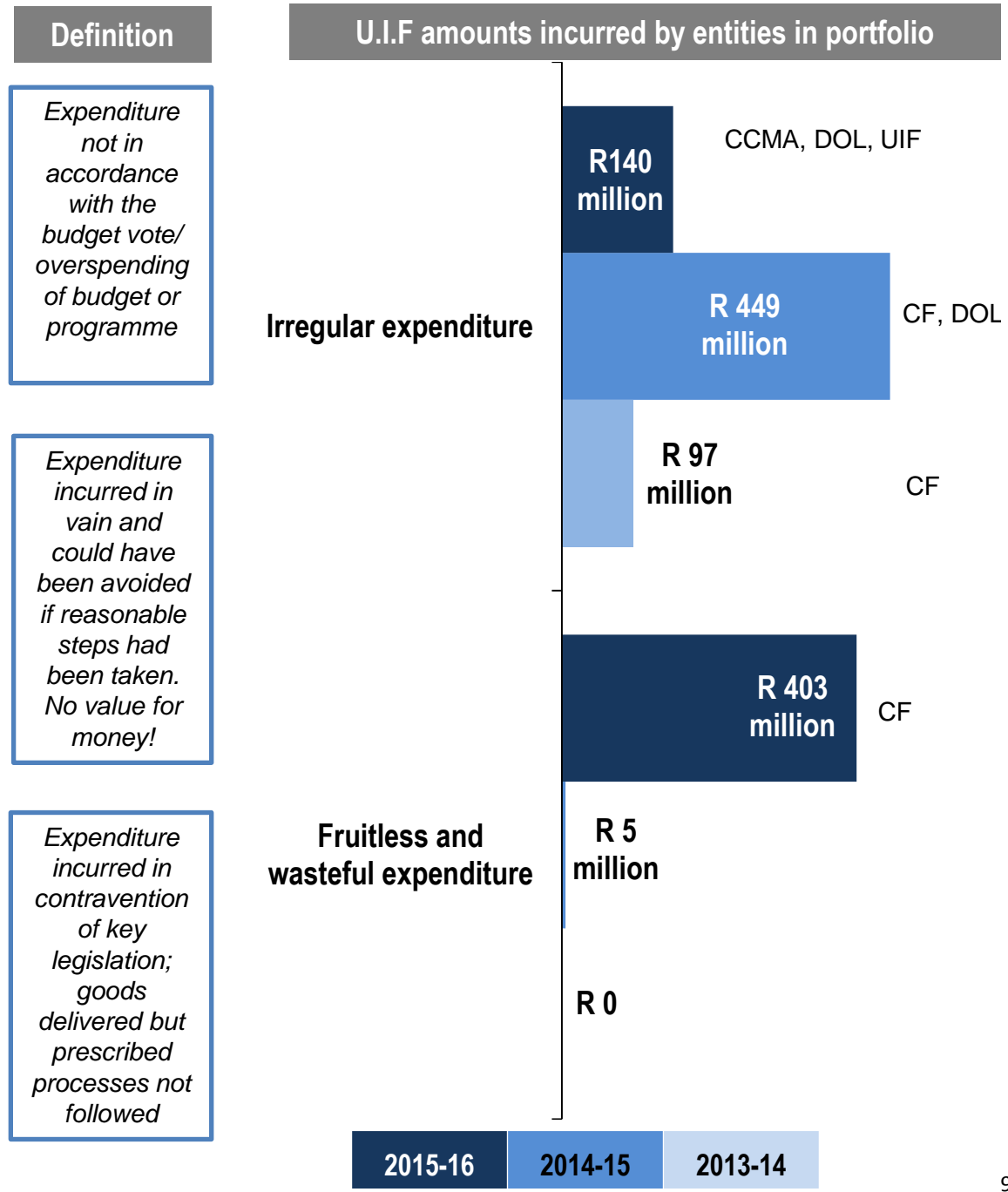


Figure 4: Auditees who avoided qualifications due to the correction of material misstatements during the audit



8

# Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 3 years and follow up action





6

**Top three root causes, follow up on commitments and proposed recommendations**



# Top three root causes, follow up on commitments and proposed recommendations

1

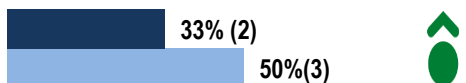
... the following **root causes** must be addressed ...

## Root causes

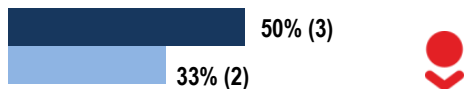
Slow response by management  
(Accounting officer and senior management)



Instability or vacancies  
in key positions



Lack of consequences for poor  
performance and transgressions



■ 2015-16 ■ 2014-15

Action plans are inadequately implemented, and monitored. The action plans should be monitored regularly by senior management so that the results can be assessed and changes made accordingly.

The leadership did not always hold staff accountable for poor performance and transgressions and this creates the perception that these results are acceptable and tolerated. The interventions to recruit adequately qualified and skilled people started too late in the financial year to have a positive impact on the implementation of the corrective actions .

11

2

... through honouring the following **commitments** made by the executive authority.....

## Status of key commitments by minister

Monitor, evaluate, manage and follow up commitments made on a regular basis.

Ensure that the performance contracts of the senior management and staff are aligned to the strategic plans of the department

Share good practices within the portfolio

Increase Executive's oversight over entities in the portfolio.

Effectively utilising oversight and governance structures

Not implemented In progress Implemented New

We met with the minister four times during the year. The outcomes were discussed with the minister . No new commitments were solicited from the minister. Slow progress has been made with regards to the implementation of the above commitments.

12

3

... and implementation of the following **proposed commitments** by the Portfolio committee and management...

## Slow response by management

The PC should monitor the progress on the implementation of the action plans for the financial , and performance reports along with compliance with legislation on a quarterly basis .

Independent assurance from internal audit and audit committee should be obtained that the completeness and credibility of information presented to the PC on a quarterly basis has been verified or at least that the controls systems used to produce quarterly reports are reliable and credible.

PC should request departments and entities to report on their impact and include a requirement that APPs of departments and entities must indicate the impact to be achieved by departments and entities.

## Lack of consequences for poor performance and transgressions

The accounting officer should intensify the focus on ensuring that transgressors are held accountable and that action is taken as required by the PFMA. Feedback should be provided to the PC in this regard. Action against repeat transgressors should be taken in a timely manner, in order to eliminate repeat findings.

## Instability or vacancies in key positions

It is recommended that the PC should ensure that the entities provide feedback on the progress made in filling key vacancies at key management level on a quarterly basis.

# Entities included in the portfolio not audited by AGSA:

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

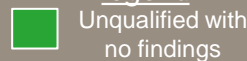
Auditee:	Three year Trend	Audit Outcomes 2015-16			Audit Outcomes 2014-15			Audit Outcomes 2013-14		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
Productivity SA			✓	✓		✓	✓		✓	✓

- The auditee received an unqualified audit opinion, with material findings on the quality of the annual performance reports and compliance with legislation.
- The entity has maintained its overall audit outcome for the prior 3 years , however the entity should strive to improve the quality of the annual , and performance reports.

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*AFS outcome legend*



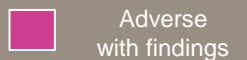
Unqualified with no findings



Unqualified with findings



Qualified with findings



Adverse with findings



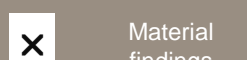
Disclaimed with finding



Audits outstanding



No Material Findings



Material findings



## Additional Information



## Observations from the yearly outcomes of the CF

### Concerns

- Culture of poor performance and fraud and corruption
- Lack of urgency in correcting the environment
- Possible future financial depletion of the reserves

### Recommendation

- There must be a documented turnaround strategy, reports verified by internal audit, and presented to a focused group in Parliament

# Questions



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