

SECTION 4

ANNUAL FINANCIAL STATEMENTS

Department of Labour - Vote 17
Annual Financial Statements for the year ended 31 March 2006

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1. AUDIT ASSIGNMENT

The financial statements as set out on pages 51 to 116, excluding fixed assets opening balances contained in annexure 3 on pages 112 to 113, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). This exclusion relates to the timing of guidance from National Treasury. These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Accounting Officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with general notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006 and general notice 808 of 2006, issued in Government Gazette no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The Department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

4. QUALIFICATIONS

Asset management

A LOGIS report could not be generated to substantiate the non-cash additions amounting to R21 233 000, which was included in the total additions of R33 849 000 reflected in annexure 3 to

the annual financial statements. As a result I am unable to satisfy myself as to the accuracy and valuation of additions disclosed in annexure 3.

The assets acquired through the public private partnership (PPP) agreement are included with no values in the PPP fixed asset register. Consequently, the department did not disclose the value of the assets in the annual financial statements.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements fairly present, in all material respects, the financial position of the Department of Labour at 31 March 2006 and the results of its operations and cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements, and in the manner required by the PFMA.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Independent checks and reconciliations

Travelling and subsistence expenditure – reconciliation between PERSAL and BAS

As a result of a lack of a proper management framework for performing independent checks as well as reconciliations, the reconciliation between PERSAL and BAS in respect of travelling and subsistence expenditure for the period 1 April 2005 to 31 March 2006 was not performed by the Department on a monthly basis.

The Department subsequently submitted a PERSAL and BAS reconciliation in respect of travel and subsistence expenditure during the course of the audit.

6.2 Monitoring

As a result of a lack of a proper management monitoring framework no procedures were set by management to monitor the:

- utilisation of subsidised vehicles, resulting in 69.11% of subsidised vehicles being under-utilised
- adherence to Treasury Regulation 8.3.4, resulting in inadequate certification of payroll reports
- adherence to Treasury Regulation 8.3.5, resulting in not all pay-point certificates being returned on a monthly basis
- adherence to Treasury Regulation 8.2.3, resulting in expenditure approval forms not being

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attached to payment advices. Consequently, irregular expenditure as noted in note 25 has occurred

- adherence to Treasury Regulation 16A 6.1, resulting in expenditure being incurred prior to it being authorised by the subtender committee or payments being made without the appropriate tender process being followed. Consequently, irregular expenditure of R927 000 has occurred.

6.3 Performance information

The performance information (specifically the measurable objectives and the measures/indicators) reflected in the annual report did not agree with the performance information in the *Estimates of national expenditure* (ENE) for 2005-06 and the objectives as per the approved strategic plan.

The Department did not comply with Treasury Regulation 5.3.1 that requires the Department to submit quarterly reports regarding measurable objectives. Currently, reporting seems to be limited to the workplan of the Department.

Actual performance was not consistently reported on against the relevant measure/indicator and did not relate to the measure/indicator set, but merely described the activities/projects performed by the Department.

6.4 Physical security of resources: Inventory

The entity did not have adequate policies and procedures regarding inventory and as a result some inventory items on hand at year-end were not counted.

Weaknesses in the management of old, obsolete and slow-moving stock were detected as the Department did not maintain and monitor complete and accurate records of such stock.

6.5 Policy framework

6.5.1 Staff debtors – irrecoverable

The entity did not have an appropriate policy and procedure framework to write off irrecoverable loans. Staff debt, which has been outstanding for longer than three years (R8 513 918) and longer than 10 years (R2 065 750) are disclosed in notes 13 and 29 to the annual financial statements.

6.5.2 Human resource plan (HR plan)

The Department did not define, in the form of an HR plan, the posts necessary to perform the relevant functions, based on the strategic plan of the Department. This represented non-compliance with part 111, B.2 (a) and (c) of the Public Service Regulations (PSR) 2001.

6.5.3 Supply chain management

An approved supply chain management policy as required by Treasury Regulation 16A 3.1 could not be provided for audit purposes.

6.6 Performance audit

Inspection and enforcement services

Reporting

- Database – recording of accidents

No national database with reliable statistics of accidents and incidents of ill-health of all role players exists, to indicate the full extent of work-related injuries and diseases.

- Incidents on Occupational Safety System (IOSS)

The IOSS was only functional at provincial office level as no timeframes were set for the implementation thereof at labour centres.

Institute for the National Development of Learnerships, Employment Skills and Labour Assessments (INDLELA)

- Underutilisation of training centre

The assessment function, which was previously offered only by INDLELA, has been decentralised to the provinces and private firms.

The follow-up audit confirmed that:

- the anticipated increase in candidates to be assessed and
- the optimal utilisation of facilities,

had not been realised through the remedial actions implemented.

7. APPRECIATION

The assistance rendered by the staff of the Department of Labour during the audit is sincerely appreciated.



N. Manik
for Auditor-General
Pretoria
29 July 2006

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa:

1. General review of the state of affairs

An enabling labour market environment

Creating employment is the biggest challenge facing government and a key instrument for fighting poverty. The Department of Labour formulates labour market policies that provide an enabling environment for job-creation. High quality products and services for successful competition in national and international markets can't be produced with low quality production methods, poor working conditions and an unhealthy working environment. Good labour practices, healthy and safe working environments, no discrimination and employment equity means good business. And by setting and enforcing norms and standards, the Department seeks to ensure that existing and new jobs do not jeopardise workers' health and safety.

The National Skills Development Strategy for 2005 to 2010 will play a key role in realising government's goal of halving the country's unemployment by 2014. Learnerships and internships targeted at unemployed youth are critical to addressing unemployment. An Adult Basic Education and Training Policy, driven through the National Skills Development Strategy, aims to enhance the basic skills of people beyond their school-going years and tackle long-term unemployment. The Expanded Public Works Programme targets the unemployed to provide them with working experience, equip them with skills for further employment and is also a poverty alleviation measure. The Department also supports SMMEs as part of its contribution to employment creation.

The Department seeks to encourage and improve labour productivity in South Africa by designing and managing a sound labour relations regime, managing the Unemployment Insurance Fund in the interests of the unemployed, managing the Compensation Fund to ensure that workers are compensated for occupational injuries and diseases, and promoting an effective skills development strategy. Highlighting government's commitment to creating employment, the Growth and Development Summit was held in June 2003. The Department of Labour coordinated government's input, and the Director-General of Labour has convened a GDS Agreement Implementation Steering Committee, which monitors the implementation of agreements arising from the summit.

Enhancing skills development

The Skills Development Act (1998) and the Skill Development Levies Act (1999) seek to address the skills shortage by encouraging and supporting training across all sectors of the economy through the SETAs.

The National Skills Development Strategy (NSDS) was reviewed and launched by the Minister in 2005. It seeks to prioritise certain areas of work and direct skills funding. Some key principles are to support economic growth for employment creation and poverty eradication, promote productive and equitable citizenship by aligning skills development

with national strategies for growth and development, and accelerate Broad-Based Black Economic Empowerment and employment equity. The equity targets require that 84% of all beneficiaries of the National Skills Development Strategy be Black, 54% female and 4% people with disabilities.

Employment equity

The Department continues to engage with NEDLAC's Employment Equity Task Team coordinating the outcomes of the Growth and Development Summit. An Employment Equity Awards System has been developed to encourage and give recognition to employers who comply with the Act, and is due to be implemented by the end of March 2007. To improve the implementation of the Employment Equity Act, 1998, the Department intends to introduce amendments to the Employment Equity Regulations. The amendments aim to refine data collection, tighten the enforcement of the Employment Equity Act, 1998 and improve the Department's operations for employment equity. To improve substantive compliance, the Director-General Review System has been developed and is due for implementation. The Department has published a Code of Good Practice on the Integration of Employment Equity into Human Resources Policies and Practices, and amendments to the Code of Good Practice on the Handling of Sexual Harassment Cases in the Workplace. To improve employment equity reporting by employers, the Department has introduced Employment Equity Online Reporting Services and continued with national road shows.

To assess the impact of the implementation of the Employment Equity Act since its inception, an impact study will be commissioned. Efforts are continuing to align the Broad-Based Black Economic Empowerment Act with the Employment Equity Act, through ongoing participation in discussions with the Department of Trade and Industry regarding the development of the BBBEE Codes of Good Practice.

Protection of vulnerable workers

The protection of workers has advanced through investigations into minimum wages and working conditions in a number of sectors. Substantial progress was made with the data collection in respect of the hospitality investigations which includes the review of four sectoral determinations. The welfare investigation has been reprioritised for completion later in 2006 and is still on track. The Department published and launched the sectoral determination for the taxi sector in April 2005, which covers minimum wages and conditions of employment. Wages for contract cleaners have been reviewed and increases published for implementation on 26 November 2004.

It is envisaged that the implementation of the Child Labour Programme of Action (CLPA) and subsequent awareness raising will be an area of focus for the coming years once the policy is ratified by Cabinet. Progress has been made with the alignment of child labour institutional structures according to the policy framework developed by the Office on the Rights of the Child in the Presidency. Worst forms of child labour received attention and projects on Commercial and Sexual Exploitation of Children, Child Trafficking and Children used by adults to commit illegal activities have started and are well underway.

Extension of collective agreements

A total of 45 collective agreements have been extended to non-parties covering 1 079 693 workers. The extended agreements have in essence extended minimum wages and social benefits to a number of workers falling within the registered scope of various bargaining councils who might have been previously excluded from enjoying these benefits. When extending these agreements, the Department ensures that the bargaining councils submit reports on exemptions in order to ensure that the bargaining councils take into consideration concerns of small businesses. The exemptions of small businesses from certain clauses of collective agreements are in line with the Growth and Development Summit strategy of job creation and retention. Out of 1 380 exemption applications received from small businesses, 76% of them were granted.

Strengthening social protection

Over the medium term, the Department aims to strengthen social protection by improving the services provided by the Unemployment Insurance Fund and the Compensation Fund. Occupational health and safety functions are currently fragmented, with varying responsibilities falling under the Departments of Labour, Health, and Minerals and Energy. These three line Departments have collaborated to develop a Draft National Policy in line with the Cabinet decision to integrate occupational health and safety, and compensation functions.

Legislative reforms have contributed to improving revenue flows and the accumulation of significant cash surpluses in the Unemployment Insurance Fund. A joint working group of National Treasury and the Unemployment Insurance Fund and their actuaries will examine these reserves and how best to manage them.

The key challenge for the Fund now is to sustain these gains and improve service delivery. This involves recruiting and re-skilling staff, especially in the financial area, as well as institutional reform to support the new business environment. Key priorities for the Fund until 2007 are to finalise and improve the employer and employee database and improve support to database users.

Service delivery

The Department of Labour is committed to effectively implementing its policies. Integrating the services offered by labour centres and business units has helped improve the quality of and access to these services and staff have been empowered by the multi-skilling approach. The Career Information and Guidance System (CIGS) was developed and successfully piloted at the National Skills Development Strategy 2005-2010 Conference, and subsequently piloted in large labour centres in all provinces. The programme promises the delivery of quality employment services to job seekers and registration of learnerships. The CIGS is part of an Employment Services System that is being developed for implementation in 2007, whose main purpose is to match the demand and supply of labour. At the end of the pilot, the programme will be rolled out in collaboration with the Umsobomvu Youth Fund and implemented in all our labour centres and at Multipurpose Community Centres.

The Public Private Partnership with Siemens Business Services has created a call centre, of international standards which provides improved services to clients and result in efficiency gains in the Department's administration.

Monitoring and controlling the impact of labour market policies

More research to monitor progress with the implementation of labour legislation and its impact on the labour market has been done. This research also analyses and evaluates labour policy and provides ongoing, updated data and statistics for the labour market. A five-year research, monitoring and evaluation programme has been developed by the Department to continually measure the impact of its interventions.

Table 17.1

Expenditure trends

The Department's non-statutory expenditure decreased between 2002/03 and 2004/05 due to the success of the Unemployment Insurance Fund's (UIF) turnaround strategy. Expenditure is however expected to rise with an average annual nominal growth of 6,7% over the Medium Term Expenditure Framework (MTEF) period.

The statutory allocations are expected to rise steadily, rising from R 3,2 billion in 2002/03 to R 6, 5 billion in 2008/09.

Reason for under-spending

Under-spending is mainly due to an under-utilisation on compensation of employees as well as Capital Projects not finalised during the previous financial year.

2. Services rendered by the Department

- *Occupational health and safety of people:* promote the health and safety of people at work, through legislation
- *Social insurance:* contributes to the Unemployment Insurance Fund and provides for the compensation of civil servants in case of accidents or illnesses contracted while on duty
- *Employment and skills development services:* focus on the promotion and regulation of the skills development strategy. It funds contributions to the National Productivity Institute
- *Labour relations:* promote the establishment of an equitable and peaceful labour relations environment
- *Labour policy:* includes research, analysis, evaluation and development of labour policy and the provision of statistical information on the labour market. The programme provides for contributions to sheltered employment factories and to various national institutions for people with disabilities
- *Service delivery:* includes the enforcement of the labour laws and the provision of a one-stop service through the establishment of business units in the provincial offices of the Department.

3. Capacity constraints

Due to the Department's successful implementation of staff training and development initiatives, the Department finds itself losing staff to other government departments and the private sector, which puts a strain on our capacity to effectively deliver our services. However, the Department's vacancy rate is now contained at acceptable levels. Excluding learnerships and internships, the vacancy rate in the Department is below 6%, which is a remarkable achievement by international standards.

4. Utilisation of donor funds

Donor funds were received from the Netherlands and the European Union for the development of skills in South Africa. Projects funded from the Netherlands were already finalised during the 2003/04 financial year and the surplus of R913 796.86 was paid back during the 2006/07 financial year. The EU Project ended on 30 December 2004. An amount of R7 239 717.67 was drawn from the EU RDP Account to settle all outstanding liabilities inherited before 30 December 2004. A Total amount of R4 252 917.99 was used to pay all outstanding liabilities until June 2005, and a refund of R2 986 799.68 was made to the EU RDP account. The Department also received Technical assistance from the German Technical Cooperation Agency (GTZ) under the Republic of South Africa Federal Republic of German Technical Cooperation Agreement.

5. Trading entities/public entities

The following public entities listed in Schedule 3 of the Public Finance Management Act, No. 1 of 1999, report to the Minister of Labour and separate Annual Reports and Financial Statements are published independently:

- Commission for Conciliation Mediation and Arbitration (CCMA)
- Compensation Fund (CF)
- National Economic Development and Labour Council (NEDLAC)
- National Productivity Institute (NPI)
- Sectoral Education and Training Authorities (SETAs)
- Unemployment Insurance Fund (UIF)
- Umsombomvu Youth Fund (UYF)

Commission for Conciliation Mediation and Arbitration (CCMA)

This Commission was established in terms of section 112 of the Labour Relation Act, 1995 (LRA).

The Commission's functions are to:

- Attempt to resolve disputes through conciliation and arbitration
- Assist in the establishment of workplace forums
- Compile and publish information and statistics about its activities
- Advise a party to a dispute about the procedure to follow in terms of this Act

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- Assist a party to a dispute to obtain legal advice, assistance or representation
- Offer to resolve a dispute that has not been referred to the Commission through conciliation
- Conduct, oversee or scrutinise any election or ballot of a registered trade union or registered employers' organisation if asked to do so
- Publish guidelines in relation to any matter dealt with in this Act
- Conduct and publish research into matters relevant to its functions
- Provide, upon request, workers, employers, registered trade unions, registered employers' organisations or councils with advice or training relating to the primary objects of the LRA
- Perform any other duties imposed, and exercise any other powers conferred on it by or in terms of the LRA and perform any other function entrusted to it by any other law.

Compensation Fund

The Compensation Fund was established in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 (COIDA).

The functions of the Fund are to provide compensation resulting from:

- Occupational injuries
- Diseases
- Death of a worker in the course of his/her employment.

National Economic Development and Labour Council (NEDLAC)

NEDLAC was established under section 2 of the National Economic Development and Labour Council Act, 1994 (NEDLAC Act).

The functions of NEDLAC are to:

- Strive to promote the goals of economic growth, participation in economic decision-making and social equity
- Seek to reach consensus and conclude agreements on matters pertaining to social and economic policy
- Consider all proposed labour legislation relating to labour market policy before it is introduced in Parliament
- Consider all significant changes to social and economic policy before it is implemented or introduced in Parliament
- Encourage and promote the formulation of coordinated policy on social and economic matters.

Furthermore, and to achieve the above, NEDLAC:

- May make investigations as it may consider necessary and shall continually survey and analyse social and economic affairs
- Shall keep abreast of international developments in social and economic policy
- Shall continually evaluate the effectiveness of legislation and policy affecting social and

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economic policy

- May conduct research into social and economic policy
- Shall work in close cooperation with government departments, statutory bodies, programmes and other forums and non-governmental agencies, engaged in the formulation and the implementation of social and economic policy.

National Productivity Institute (NPI)

This is a section 21 Company (Incorporated association without gain), established under the Companies Act, 1973.

The functions of the NPI are to:

- Promote, develop capacity and facilitate partnerships in national productivity drives
- Disseminate information on the nation's productivity performance and productivity improvement experiences
- Initiate relevant productivity improvement approaches and techniques
- Influence the creation of a conducive socio-economic, legislative and policy environment for ongoing productivity improvement and for South Africans to adopt a culture of sustainable productive practices.

Sectoral Education and Training Authorities (SETAs)

23 Sectoral Education and Training Authorities (SETAs) were established in terms of the Skills Development Act, 1998.

The SETAs are as follows:

- Bank Sector Education and Training Authority
- Chemical Industries Education and Training Authority
- Clothing, Textiles, Footwear and Leather Sector Education and Training Authority
- Construction Education and Training Authority
- Safety and Security Sector Education and Training
- Education, Training and Development Practices Sector Education and Training Authority
- Energy Sector Education and Training Authority
- Financial and Accounting Services Training Authority
- Food and Beverages Manufacturing Industry Sector Education and Training Authority
- Forest Industries Sector Education and Training Authority
- Health and Welfare Sector Education and Training Authority
- Information Systems, Electronics and Telecommunications Technologies Training Authority
- Insurance Sector Education and Training Authority
- Local Government, Water and Related Services Sector Education and Training Authority
- Manufacturing, Engineering and Related Services Sector Education and Training Authority
- Media, Advertising, Publishing, Printing and Packaging Training Authority
- Mining Sector Education and Training Authority
- Agriculture Sector Education and Training Authority

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- Public Sector Education and Training Authority
- Services Sector Education and Training Authority
- Tourism and Hospitality Education and Training Authority
- Transport Education and Training Authority
- Wholesale and Retail Sector Education and Training Authority

The functions of the SETAs are to:

- Develop sector skills plans within the framework of the national skills development strategy
- Implement sector skills plans through establishing learnerships
- Approve workplace skills plans
- Allocate grants in the prescribed manner to employers, workers, and education and training providers
- Monitor education and training in the sector
- Promote learnerships by identifying workplaces for practical work experience and registering learnerships
- Section 3 and 4 of the Skills Development Levies Act (Act no. 9 of 1999), determines which employers are required to contribute levies. Based on the Skills Development Levy database of the South African Revenue Service, there are employers who are required to contribute levies in terms of section 6 (2) of the Act, who might fail to pay such levies and therefore the income of the National Skills Fund and the SETA's for the reporting year, may be understated by an unknown amount.

Unemployment Insurance Fund (UIF)

The Unemployment Insurance Fund was established in terms of the Unemployment Insurance Act, 2001.

The functions of the Fund are to provide short-term income replacement in case of:

- Unemployment
- Short-term sickness
- Maternity
- Death
- Adoption of a child.

Umsombomvu Youth Fund (UYF)

In 1998, the Minister of Finance announced Government's decision to set aside R855 million to create the Umsombomvu Youth Fund, a section 21 company. The purpose of the Fund is to facilitate skills development and job creation for the youth. Skills Development Programmes are divided into Community Youth Service (CYS) and School to Work (StW). CYS is aimed at providing the youth with skills whilst they provide service to their community. StW is aimed at assisting young people to enter high level careers that are scarce and currently not occupied by Blacks. The Umsombomvu Youth Fund has implemented 12 Youth Advisory Centres. These centres offer information and counselling support regarding career

development, employment and entrepreneurship. The Business Development Support Voucher Programme (BDSVP) that the Fund launched in November 2002 was rolled out in March 2003. The Entrepreneurship Finance Programme consist of three products, namely Micro Finance (loans between R1 000 and R50 000); SME Finance (loans between R100 000 and R5 million) provided through the Progress Fund (a partnership with FNB and Momentum) and the Franchise Fund (a partnership with Business Partners) and Cooperatives.

Other entities

Sheltered employment

Sheltered employment subsidises workshops for the blind and 13 work centres for people with disabilities.

6. Organisations to whom transfer payments have been made –

(See Annexure 1 of the Financial Statements)

7. Public/private partnership (PPP)

See disclosure note 28 to Financial Statements for details in this regard.

8. Corporate governance arrangements

Governance structures and responsibilities

The following governance structures have been put in place to assist with ensuring good governance within the Department of Labour:

- The Minister is the Executive Authority of the Department
- In terms of the Public Finance Management Act, the Head of the Department, the Director-General is the Accounting Officer of the Department
- The Accounting Officer is individually and personally accountable for achieving good value for money, safeguarding and maintenance of the assets, regularity and propriety in the administration of the Department. Programme performance as well as asset management information is disclosed in Section B of the Annual Report
- Management Committee comprises of the Minister, Director-General and Deputy Directors-General – dealing with administrative matters of the Department
- The Strategic Management Committee (Stratcom) – comprises the Director-General and Deputy Directors-General. This committee is responsible for continued monitoring and oversight of governance in the Department once the governance steering committee's mandate ends and as well as strategic issues
- The Budget Advisory Committee –determines the total budget for the Department and allocation of funds to Programmes and Provinces
- Departmental Executive Committee (DEXCOM) –includes the Director-General, the Deputy Directors-General, all Senior Executive Managers, the Chief Information Officer,

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the Chief Financial Officer, the UIF and CF Commissioners and the Provincial Executive Managers

- Audit Committees –function at Head Office, the Compensation Fund and Unemployment Insurance Fund levels.

The following structures were established in terms of the following Acts.

Structure	Act
Unemployment Insurance Fund Board	Unemployment Insurance Act, 2001
Compensation Board	Compensation for Occupational Injuries and Diseases Act, 1993
National Skills Authority (NSA)	Skills Development Act, 1998
Commission for Employment Equity (CEE)	Employment Equity Act, 1998
Employment Conditions Commission (ECC)	Basic Conditions of Employment Act, 1997
SETAs	Skills Development Act, 1998
National Productivity Institute (NPI)	Companies Act
National Economic Development and Labour Council (NEDLAC)	NEDLAC Act, 1994
Advisory Council for Occupational Health and Safety	Occupational Health and Safety Act, 1993
Umsobomvu Youth Fund	Companies Act, 1973

To ensure that these structures function in terms of the relevant legislation in respect of which they were established, clear terms of reference must direct the functions and responsibilities of these structures. The Department's Strategic Plan sets out the objectives and actions that must be taken to ensure the achievement of government's labour market objectives. These objectives and actions then translate into the roles and responsibilities of the Department in achievement of the strategic plan. The 10 objectives for 2004 to 2009 are the following:

1. Contribution to employment creation
2. Enhancing skills development
3. Promote equity in the labour market
4. Protecting vulnerable workers
5. Strengthening multilateral and bilateral relations
6. Strengthening social protection
7. Promoting sound labour relations
8. Strengthening the capacity of labour market institutions
9. Monitoring the impact of legislation
10. Strengthening the institutional capacity of the Department.

The organisational structure supports the achievement of the Department's objectives and is developed in accordance with the Department's values.

Organisational structures within the Department's Programmes support the achievement of

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Programmes' objectives, which are in alignment with the Department's objectives. Organisational structures enhance the appropriate balance of power and authority as espoused in the Department's values.

Organisational structures support the reporting of fraud, corruption or mal administration, and the protection of the person disclosing bona fide information.

Governance committees

There are numerous committees that have been put in place by the Department to ensure that its objectives are met. Some of these are specific to the different programmes in the Department and the different areas of responsibility. However, the Accounting Officer is required by the Treasury Regulations to appoint an audit committee as a sub-committee of the Accounting Officer.

Audit Committee

The Accounting Officer has approved an Audit Committee for the Department and Audit Committees for the Unemployment Insurance Fund (UIF) and Compensation Fund (CF). The chairpersons of the two audit committees of the two Funds are members of the Audit Committee of the Department. The Main Audit Committee of the Department is also responsible for the oversight over the National Skills Fund and the Sheltered Employment Factories.

The Department's Audit Committee consists of:

- Independent Non-executive Chairperson (Mr. JMB Maswanganyi)
- Independent Non-executive member (Vacant)
- The Chairperson of the Unemployment Insurance Fund (UIF) Audit Committee (independent non-executive)
- The Chairperson of the Compensation Fund (CF) Audit Committee (independent non-executive).

The following people are permanent invitees:

- Director-General
- Deputy Director-General of Corporate Services
- Chief Financial Officer
- Unemployment Insurance Commissioner
- Compensation Commissioner
- Head of Internal Audit
- Representatives of the Auditor-General.

The Main Audit Committee of the Department is also responsible for the oversight over the National Skills Fund and Sheltered Employment Factories.

Risk management

The Department's enterprise wide risk assessment identified the following risk categories which, may be amended from time to time as circumstances change:

- Strategic issues
- Asset management
- Fleet services
- Human resources
- Marketing communications
- Information technology
- Procurement
- Financial management
- Security
- Labour legislation
- Additional risks.

Risk management at the Department includes ensuring that fraud risk management systems and processes are in place. A fraud risk management plan as well as an evaluation of the fraud risks of each Fund and provincial office has been completed. This includes:

- Identifying fraud, corruption and maladministration risks
- Determining the causes of the risk (what leads to the risk occurring)
- Identifying controls that can mitigate the risk to an acceptable level
- Ensuring that there are processes in place to monitor and report on these risks.

The Compensation Fund has a risk manager and the Unemployment Insurance Fund has a risk management unit both of which concentrate on fraud risks.

Directorate of Internal Audit

The Directorate of Internal Audit in the Department has the responsibility, as part of its strategic plan, to identify the major activity areas of the Department and to base their planning on the Department's significant risk areas. As part of the assessment of risk and during their audit fieldwork, they will also take into account the risks of fraud, corruption and maladministration.

This risk assessment combined with the existence and effective operations of internal controls, and an appropriate level of management oversight, are major factors in determining the frequency and nature of audit coverage. In general the majority of units within the Department are audited once every three years.

The Directorate of Internal Audit will undertake requests for special investigations received from all levels of management of the Department and the Audit Committee.

The Directorate of Internal Audit provides additional value added assistance to management, by facilitating control self assessment workshops and participating in training

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courses within the Department, which focus on financial and administrative controls, fraud, corruption and maladministration prevention.

Fraud Prevention Plan

A separate Fraud Prevention Plan for the Department has been developed, building on the existing good governance strategy, which can be referred to for more information.

The Unemployment Insurance Fund has implemented a Fraud Hotline. However, this service has not been implemented for the Department as a whole. In line with the Department of Public Service and Administration and the Public Service Commission the Department makes use of one Fraud Hotline administered by the Public Service Commission.

9. Events after the reporting date

None

Approval

The Annual Financial Statements from page **51** to page **116** have been approved by the Accounting Officer.



Dr. VM Mkosana
Director-General of Labour

Date: 30 May 2006