



LESOTHO NATIONAL DEVELOPMENT CORPORATION

We Build Industry

LNDC Kingsway Mall
Block A, Development House
Kingsway Street
Private Bag A96 Maseru 100
Lesotho

Tel: +266 22 312012

Fax: +266 22 310038

E-mail: info@lndc.org.ls

Website: www.lndc.org.ls

Our Ref:

LNDC/MDO/MTI

(When replying please quote Reference)

Your Ref:

11th October 2021

The Principal Secretary
Ministry of Trade and Industry
P.O. Box 747
Maseru

Dear Dr Sefali

RE: INTERNAL AUDIT ON ECONOMIC AND SOCIAL RESPONSE TO MITIGATE IMPACT OF COVID 19

Reference is made to your letter referenced MTI/LNDC/4/1 and its attachments.

LNDC through its Office of Internal Audit has conducted an audit on Covid 19 Subsidy for factory workers and a report is hereto attached. The objective of the audit engagement as per audit request was to provide reasonable assurance on covid 19 related expenditure regarding the adequacy, effectiveness and efficiency of internal controls, compliance with policies, procedures, financial laws and contracts. The scope of the audit covered expenditure related to covid 19 subsidy payment for factory workers for the period April to June 2020.

The Internal Audit report is attached.

Yours sincerely

Molise Ramaili
Interim Chief Executive Officer

Cc: Principal Secretary – Ministry of Finance



**Government of Lesotho
Covid 19 Subsidy for
Factory Workers Internal
Audit Report covering
May – October 2020
October 2021**

Internal Audit Division
October 2021

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1. Introduction

1.1 Background

Internal Audit performed an audit on the Covid 19 Subsidy for factory workers that was provided by the Government of Lesotho (GoL). The audit was request by the GoL to give assurance that relevant controls were adhered to in the payment of the subsidy to factory workers. The subsidy was a payment of M800.00 for factory workers for three months covering April, May and June 2020.

The government provided a total amount of M121,609,200 funding to be administered by the Lesotho National Development Corporation (LNDC) to the factory workers. A total of M120,356,464 was expended on the program. LNDC requested lists of workers from firms and based on the numbers provided, the amounts were paid into the respective firms' accounts. The instruction was that firms pay workers as per lists provided and send back proof of payments to the workers to LNDC.

1.2 Audit Objectives and Scope

The main objectives of the audit were to provide reasonable assurance regarding:

- i. Compliance with relevant policies, procedures, financial laws and contracts in the disbursement of the covid 19 relief fund.
- ii. The adequacy, efficiency and effectiveness of internal controls.

The scope of the audit covered expenditure related to covid 19 subsidy payment for factory workers for the period April to June 2020. The assignment was done on sample basis to cover material transactions in the payment of wages made between May and September 2020 in line with the Government of Lesotho instruction.

1.3 Methodology

In carrying out this audit, the following process was followed:

- Review of instructions and all relevant directives for payments
- Review of documentation provided by factories and Unions
- Review of payment vouchers and bank statements for the activity
- Interviews with relevant people

- Visit to firms that received subsidy

1.4 Scope Limitation

Internal Audit had challenges with confirming payments made to workers in some firms as proof of payment to workers had not been provided. Some firms had been requested to provide proof by Internal Audit and at the time of the audit report, these had not been provided.

1.5 Key Findings

Below is a summary of the key findings:

- Lack of MOU between LNDC and GOL
- Inadequate Funding by GOL
- Unreconciling list of employees provided by firms
- Payment made to workers who did not meet eligibility criteria
- Shortfalls in the Selection criteria employed by LNDC
- Lack of guidance on treatment of bank charges incurred by firms
- Non consideration of Administration fees for the project
- Failure to provide proof of payment to employees

1.6 Summary of Recommendations/Agreed Management Action

The table below details the number of recommendations and the priority assigned:

Rating	High	Medium	Low	Total
Number of Recommendations	1	5	2	8

2. Findings and Recommendations

The following are the findings and recommendations from the audit:

2.1 Lack of MOU between LNDC and GOL

Criteria:

Best practices require that a Memorandum of Understanding (MOU) be signed by parties when engaging in a project which will detail the intention of the project and other reporting requirements.

Condition:

There was no MOU between the LNDC and GoL on the administration of the project and reporting requirements of the fund. The absence of MoU has made it difficult for the project administrator (LNDC) to adequately deliver the objectives of the project. LNDC had to establish criteria for payment which in some cases was disputed by Unions and considered unfair by workers and firms alike.

Cause:

Inadequate planning for the project

Consequence:

Disgruntled parties

Recommendation:01

Preparation of MOU for the two organizations for this project	Priority	Medium
In future, similar projects should have a signed MoU that clearly defines terms of reference and all requirements to be met by the parties involved.		
Management Response/Agreed Management Action	Owner	Aftercare
ITP (Aftercare) will ensure that MOU is signed in future for similar projects assigned to Aftercare.	Timeframe	Ongoing
Signed:.....		

2.2 Inadequate Funding by Government

Criteria:

The GoL provided funding in tranches to pay three months subsidy to the factory workers. LNDC forwarded funds to the firms as per lists provided once received from the GOL. A total of M121,609,200 was disbursed to LNDC for payment of factory workers.

Condition:

The funding provided by the GoL was inadequate to cover all the listed factory workers. It was impossible to pay all with the funding provided and so LNDC made a decision on an eligibility criterion that only factory employees who were paid M5,000.00 and below would receive the subsidy. Internal Audit was informed that this was agreed to with the relevant government ministries. This negatively affected other workers who did not meet the eligibility criteria. During visits to the firms, some workers complained about being treated unfairly as they also needed the subsidy.

Cause:

Inadequate engagement between stakeholders to establish accurate numbers of workers.

Possible Risk/Consequence:

Reputational risk due to perceived unfair treatment of workers

Recommendation:02

Relevant parties to be engaged and information obtained	Priority	Medium
In future the government should adequately engage all relevant parties that have information on the needs to ensure that budgets and provisions are carried out adequately.		
Management Response/Agreed Management Action	Owner	GoL
	Timeframe	
Signed:.....		

2.3 Non reconciling Lists of employees

Criteria:

Firms provided lists of their employees that were eligible for payment in order for funds to be disbursed into their accounts for onward payment to the workers.

Condition:

It was observed that majority of firms provided different lists in the three months of the subsidy payment. For some, Internal Audit could easily reconcile and identify the cause of the discrepancies over the period while others could not be reconciled. The additional lists were said to be workers that were left out in the preceding payouts. Some were said to be casual workers and others women who were on maternity leave. Internal Audit could not establish the authenticity of some of the additional lists due to time constraints.

Cause:

Lack of understanding on the criteria for payment.

Consequence:

Risk of payment to non-existent employees

Recommendation:03

Reports on payments for the three months to be produced and reconciled	Priority	Medium
LNDC ITP-Aftercare Section should reconcile all lists of factories that have submitted their claims that all employees have been paid for period covered by Covid-19 Subsidy		
Management Response/Agreed Management Action	Owner	Aftercare
Lists are available and will be provided to IA	Timeframe	2 weeks
Signed:.....		

2.4 Payments made to workers who did not meet eligibility criteria

Criteria:

Criteria set for payment was that an employee that would be paid would be a person that is employed and salaried for the legal work undertaken by the company under the laws of Lesotho,

Condition:

During the conduct of the audit exercise, Internal Audit came across Middle Sky Trading submissions claiming for 86 employees in April, 99 employees in May and 99 employees in June. Additional lists were provided of a total of 133 additional employees. The additional numbers were said to be employees retrenched in March 2020 but Ministry of Labour, after consultations with Trade Unions made a decision for these retrenched employees to be paid even though it was said that the firm had excluded them as they had already been retrenched at the time of the subsidy. This is as per letter to LNDC referenced **ESP/CONF/C.1 dated 25th August 2020** Internal Audit could not verify information provided as the owners of Middle Sky had already closed the firm at the time of audit. There was also no proof of payment to employees provided. This was against the criteria set that only active employees would receive the subsidy and Internal Audit could not validate their employment at the time.

Cause:

Lack of clarity on qualifying people for subsidy.

Consequence:

Payment made to individuals that did not qualify for subsidy.

Recommendation:04

	Priority	Medium
Set criteria should be adhered to at all times to eliminate the risk of non-compliance.		
Management Response/Agreed Management Action	Owner	Aftercare
It is not possible for the Unit to provide further clarity on the status of the paid people as requested, except that there was a	Timeframe	

disagreement between the trade union and the employer on employment status of +/-133 people. The Ministry of Labour and Employment made a ruling and instructed that they should be paid.		
Signed:.....		

2.5 Selection criteria for Subsidy payment

Criteria:

The criteria for payment of subsidy had three requirements:

Company: All legally registered manufacturing companies as per the Lesotho laws,

Employee: The person is employed and salaried for the legal work undertaken by the company under the laws of Lesotho,

Salary range: Employees earning M5,000 or less per month

Condition:

One of the requirements for eligibility was that employees who qualify would be those who earn M5000.00 and below per month. This information was communicated to the firms with the first letters written to them. It was observed however that the selection criterion was not fully adhered to by all firms as some firms complied and excluded all employees whose monthly gross salary was M5,000.00 and above while others included those that did not meet the criterion. Observations were made where some firms initially showed staff at supervisory and managerial positions and then in other months changed their titles to lower level so that they could pass off as lower level that qualified. This was unfair to those firms that had complied and applied the criteria as required.

Cause:

Inadequate funding to cover all factory workers

Absence of guidelines on payment of subsidy

Consequence:

Unfair treatment of workers

Recommendation:05

Clear guidelines to be established and adhered to	Priority	Medium
In future, projects of this nature should have clear and implementable guidelines and adequate control measures be instituted to ensure compliance		

Management Response/Agreed Management Action	Owner	Aftercare
Clear and implementable guidelines will be requested in future projects	Timeframe	

2.6 Lack of guidance on treatment of bank charges for firms

Criteria:

An MOU should have clear terms of reference and the administration of the fund.

Condition:

Internal Audit observed that there was no guidance on the treatment of bank charges incurred by the firms when they were paying their workers. Some companies that were visited during this exercise indicated that they were not refunded bank charges although they had claimed them while other firms appreciated that their workers were already paid and would cover the charges, others felt that it was unfair that they were not paid and indicated that they had requested this to no avail. One firm, Ever Unison with a staff complement of 3460 indicated that it had incurred a total of M139,216 in bank charges that they had requested a refund for from the LNDC. Internal Audit was informed that it was verbally agreed during engagements with government that bank charges would not be refunded.

Cause:

Lack of guidance provided due to lack of MOU covering the administration of the fund.

Possible Risk/Consequence:

Reputational risk

Recommendation:06

Development of MOU for funding initiatives	Priority	
In future government and LNDC should ensure that terms of administration of funding initiatives are clearly articulated in MOUs to facilitate successful implementation.		
Management Response/Agreed Management Action	Owner	
In future, clear guidelines will be requested and MOU signed.	Timeframe	
Signed:.....		

2.7 Non consideration of Administration Fees for the Project

Criteria:

An MOU should have clear terms of reference for the administration of the fund.

Condition:

LNDC incurred administration costs such as payment of overtime for the employees that were involved in the payment of subsidy as well as bank charges. Internal audit observed that the Corporation did not charge administration fees to the project except accounting for bank charges incurred of approximately M20,000.

Cause:

Lack of guideline on the administration of the project.

Consequence:

Operational costs to the Corporation as employee time was diverted to the project.

Recommendation:07

Administration fee to be charged on the total cost of the project	Priority	Medium
Corporation should request a refund of the costs incurred and future projects of this nature should indicate a standard administration fee that would cover all administration and other unforeseen costs.		
Management Response/Agreed Management Action	Owner	CS- Fin
The bank charges will be calculated and recovered from the GoL Subsidy balance that is still in LNDC account.	Timeframe	
Signed:.....		

2.8 Failure by firms to provide proof of payment to their employees

Criteria:

The letters sent to firms indicated that the GoL would require proof of payment of workers wages/salaries as soon as these have been paid.

Condition:

Internal Audit requested proof of payment made to employees by the firms. ITP provided the proofs of payment received and a sample of these was verified by Internal Audit. Internal Audit visited some firms and requested these proofs. Some firms did not comply and their payments to employees were not verified. Internal Audit could not verify all the sampled firms for payment to workers as these were not provided.

Cause:

Some firms were said to have already paid their employees salaries.

Negligence in observing set guidelines by firms

Consequence:

Risk of some workers not paid and no way to verify.

Recommendation:08

All firms to be requested to provide proof of payments to workers	Priority	High
ITP should follow up on firms to provide proof of payment of subsidy to their employees for internal audit to verify payments.		
Management Response/ Agreed Management Action	Owner	ITP
Other firms had already paid their workers full wages/salaries despite the no work no pay principle. They therefore did not transfer GoL subsidy to workers. ITP was not able to get proof of payment on such cases.	Timeframe	
Signed:.....		

3. Overall Conclusion

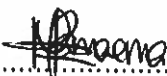
The covid 19 subsidy payout was carried out in haste and there was inadequate planning and engagement with stakeholders to facilitate smooth implementation. It is however noted that despite challenges encountered, the performance of LNDC staff was commendable.

Future projects of this nature should have guiding MOUs which will cover purpose, guidelines and reporting requirements to ensure effective implementation.

4. Vote of Thanks

Internal Audit would like to thank the ITP Unit and Corporate Services Finance for the assistance provided during the conduct of this audit.

Auditor In Charge

Signed: 

Date: 11/10/2021

Lerato Ramaema

Internal Audit Manager