



AUDITOR-GENERAL  
SOUTH AFRICA

# COVID 19 PRESENTATION - UIF



04 SEPTEMBER 2020



## MISSION

“The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”



## VISION

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



# BACKGROUND

- The outbreak of the global coronavirus pandemic has demanded an extraordinary response from government.
- This audit is unique in its approach. We started off by highlighting the importance of preventative controls to accounting officers and authorities to address the increased risks and significant changes in their operations, as such controls are by their nature a deterrent to abuse.
- We are auditing payments, procurement and delivery as they occur and are reporting any findings to the accounting officer or authority to enable them to deal with any shortcomings immediately and tighten the controls to prevent a recurrence.
- The Covid-19 audit is performed by multidisciplinary teams, made up of fraud, information technology and sector-specific experts, who support the financial auditors to dig deeper and provide relevant insights on auditees' risks and operations.
- As part of the special audit, we currently in the process of auditing the transactions that will be included in the financial statements for the next financial year, as well as the controls implemented to prevent any fraud, misuse, non-compliance or misstatement. The focus of our audit is on:
  - COVID-19-related account balances and classes of transactions; and
  - Compliance with key legislation applicable to the COVID-19-related transactions, funds and processes.



# PURPOSE

To report on the observations made during the COVID19 special audit in respect of the Unemployment Insurance Fund (UIF) which is part of the Department of Employment and Labour portfolio.



# UNEMPLOYMENT INSURANCE FUND





# Temporary Employee Relief Scheme (TERS) benefit



**The COVID-19 TERS benefit is an intervention by the Department of Employment and Labour (DEL) through the Unemployment Insurance Fund (UIF) to compensate employees that find themselves temporarily unemployed during the lock down period due to the national disaster caused by COVID-19.**

Financial matters	<p>Below is a summary of expenditure on the TERS and normal benefit payments by the UIF:</p> <ul style="list-style-type: none"> <li>o TERS benefit payments as at 31 July 2020 were recorded at R37.7 billion.</li> <li>o The payments for normal benefits from 26 March 2020 to 31 July 2020 were recorded at R6.0 billion</li> </ul>
Audit experience	<p>The audit was significantly delayed as initial engagements with management took longer and the information required was submitted late. Furthermore, the periodic temporary closure of the office premises due to positive cases of COVID-19 being reported also impacted adversely on the progress of the audit.</p> <p>Some of the challenges experienced during the audit process are summarised as follows:</p> <ul style="list-style-type: none"> <li>• Complex operational environment - The environment at the UIF is continuously changing and keeping track of all changes that have an impact on the payment process is very critical and the business processes as well as risk assessment needs to continuously be updated.</li> <li>• Lack of uniform understanding on some aspects of the business process – We have undertaken discussions with various role players in the process from management to establish a comprehensive understanding of the business processes as a result of the frequent changes in the regulations.</li> <li>• Limited availability of staff during operational hours – We are using alternative means of engagement via online platforms to engage with staff where feasible due to the lockdown regulations which limit physical contact.</li> </ul> <p>Although in some instances challenges were experienced, management has indicated that the urgency to implement the benefit scheme did not afford them adequate time to identify and implement all possible preventative controls. Management has been receptive to control deficiencies identified and are keen to implement recommendations from the AGSA.</p> <p>We are continuously engaging the accounting officer and accounting authority, overall the leadership of the UIF express their support for the audit.</p>
Financial viability	<p>As at 30 June 2020 the fund had a total investment portfolio held through PIC worth R122 billion. The investment value is likely to decrease under the current challenging economic circumstances and that this will threaten the viability of the fund and its ability to effectively carry through its mandate going forward. The market value of the investments held with the PIC is expected to decline by R23.5 billion in 2020-21. As at 20 May 2020, the fund had liquidated R24.2 billion of its investments which are managed by the PIC</p>
Scope of audit	<p>Control environment primarily around the receiving and processing of claims as well tested application controls within the TERS, SIYAYA and COMPUTRON systems.</p>



## FOCUS AREAS

The following focus areas were covered by the special audit:

- Internal control environment
- Data analytics
- Fraud risks
- Employer site visits



# KEY AUDIT OBSERVATIONS - Preventative controls



The UIF implemented a new system to aid the processing of TERS claims. The TERS process was found to have the following control weaknesses:

## 1 Lack verification of applicant representing employers

The system did not prohibit a single applicant from representing and submitting claims on behalf of multiple employers or bargaining councils. The UIF does not corroborate whether these representatives are duly authorised to represent the employers or bargaining councils they purport to be representing.

There were also no appropriate system validations of the input data submitted by employers and bargaining councils as the basis of claims payment to prevent the processing of non-eligible and invalid claims.

## Recommendations

The UIF should implement controls to verify applicants representing multiple employers.

## Planned actions

The UIF has recognised the deficiencies in the current control environment and is continuously implementing changes in an effort to strengthen preventative controls in and around the TERS system. The UIF has also initiated a post-payment validation process, as part of which site visits will be undertaken to confirm and validate the information that employers provided when seeking relief. For verification purposes, the application system of the UIF requires the following mandatory documents to be uploaded before the claim can be accepted:

- Letter of undertaking, wherein the employer is authorised by an employee to apply on their behalf.
- Memorandum of agreement, which contains the terms and conditions accepted by the applicant on the system. The UIF can further detect the IP address of the applicant.

However, management has indicated that further controls will be developed to introduce the verification of the authorised/delegated representative.

## 2 Incorrect system calculations of the TERS benefit payment for the first lockdown period

For the payments that were made between 27 March 2020 and 30 April 2020, the system used a standard lock down period of 35 days to calculate the benefit amount even when the employer's indicated period of inactivity was less than 35 days. As a result, the UIF overpaid for some of the claims that were processed during this period.

## Recommendations

The UIF reviews the calculation to determine its correctness in line with the gazette regulations. In the event that the system was incorrectly configured, the UIF should ensure that all pay-outs to date are investigated to determine the magnitude of the error and implement corrective actions. Where the UIF is found to have incurred financial loss due to incorrectly applying instruction, the UIF must implement actions to recoup funds from those who incorrectly benefited as a result of the error.

## Planned actions

A process of identifying discrepancies between the amount due and paid to claimants was developed for every employer to verify the salary and lockdown period declared by the applicant on the system. Directive number 3 was issued on 16 April 2020 to rectify the matter. For May 2020 applications, all claims went through the automated verification process to determine over- or underpayments and these were subsequently corrected by the UIF.



# KEY AUDIT OBSERVATIONS- Preventative controls



The UIF implemented a new system to aid the processing of TERS claims. The TERS process was found to have the following control weaknesses:

## 3 Inadequate verification of employer details

The UIF used only the UIF reference number to verify the registration status of the employers. However, this poses a high risk of manipulation of the application process and exposes the UIF to financial loss. Other unique details such as employers Company and Intellectual Property Commission (CIPC) number, telephone number, email address should also be used to authenticate the employer.



### Recommendations

The fund should enhance the controls to verify the existence of employers are enhanced to include employer specific details such as trade number, CIPC number and email address.



### Planned actions

The controls on the system were enhanced and the verification process now includes validations against the enterprise number and company registration or CIPC number for employers. For unregistered companies, the identity number and trade name will be used for validation. Management will further perform data analytic procedures to verify the existence and accuracy of employer details by mid-September 2020.

## 4 Inadequate system functionality for bank confirmation of uploaded documents

The system used to receive TERS benefit applications does not check the banking details of the employers or bargaining councils against the bank confirmations which are submitted by applicants upon registration.



### Recommendations

The UIF should implement preventative controls that will allow for confirmation of banking details when employers and bargaining councils are the recipients of claimant. Management should implement a control to check the banking details captured against the bank confirmation document submitted by the applicants before a payment is processed.



### Planned actions

The UIF has automated the bank verification process for employers and employees. Each payment is verified against the identity number for employees; company registration or CIPC number for registered companies; and trade name or identity number for unregistered companies.



## KEY AUDIT OBSERVATIONS- Preventative controls

The UIF implemented a new system to aid the processing of TERS claims. The TERS process was found to have the following control weaknesses:

### 5 Lack of consideration of salary portion paid by employer in the calculation of pay-out for 1st lockdown period

The system verifications for the calculation of the claimant lockdown period for the 1st lockdown, i.e. 27 March 2020 to 30 April 2020, was observed to be incorrect. In calculating the benefit amount, the portion of the salary that was paid by the employer was not taken into account in reducing the amount to be paid by the UIF as a benefit to the employee.



### Recommendations

That the UIF reviews the calculation to determine its correctness in line with the gazette regulations. In the event that the system was incorrectly configured, the UIF should ensure that all pay-outs to date are investigated to determine the magnitude of the error and implement corrective actions. Where the UIF is found to have incurred financial loss due to incorrect application of the instruction, the UIF must implement actions to recoup funds from those who incorrectly benefited as a result of the error.



### Planned actions

Directive number 3, issued on 12 April 2020, removed the requirements of section 12(1)(b) of the Unemployment Insurance Act, which considered the salary when calculating the benefit amount. All claims submitted for the first lockdown period was re-calculated and the short payments were disbursed. The salary portion submitted was verified and confirmed with the employer. Underpayments were also processed and paid to employers.

### 6 Lack of verification of employee salaries submitted during benefit claims

The system used to receive TERS benefit applications does not validate employee's salary amounts declared on the TERS application to the employees' salary amounts declared to the UIF prior to the Covid-19 pandemic.



### Recommendations

That the UIF should perform a verification of the salary data and ensure that in all instances of overpayment a process is initiated to recoup funds.



### Planned actions

Verifications were performed against the declarations submitted by applicants and the database of the South African Revenue Service. For the July and August 2020 claims, the UIF will verify the salary declared by applicants against the salaries declared with the UIF for the six months preceding the application date. Change requests on business rules for further enhancements to the system will be submitted and are planned for deployment before the start of the next payment iteration.



## KEY AUDIT OBSERVATIONS – Data analytics

We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Services and the CIPC to confirm the eligibility of the beneficiaries, identify double dipping, and so forth. We found the following with regards to payments made up to 30 June 2020:

### 7 Applicants that are below the legal age of employment

Individuals below the legal age of employment of 15 years were paid by the UIF. A total amount of R 224 677 was paid for 53 applications for the period up to 30 June 2020.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to beneficiaries below legal age of employment. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

Management has indicated that the matter was reported to the departmental inspectorate. The UIF reference numbers for the affected employers are blocked on the application system. A formal letter requesting confirmation of the minors was sent to the South African Social Security Agency. Matters identified will be subjected to investigation through the UIF's internal processes.

### Identity number same as that of a UIF employee

A claim of R4 027 was paid to an individual who has the same identity number as a UIF employee.

#### Recommendations

- Payments made to individuals sharing banking details and illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to UIF employees. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.
- Management should further implement consequence management if the official is found guilty of misconduct.

#### Planned actions

A letter was issued to the employee to confirm whether she had received the money. The matter will be investigated to determine possible fraud. The payment made to the affected employee has been paid back to the UIF.



## KEY AUDIT OBSERVATIONS – Data analytics

We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Services and the CIPC to confirm the eligibility of the beneficiaries, identify double dipping, and so forth. We found the following with regards to payments made up to 30 June 2020:

### 9 Deceased individuals were paid TERS benefit

Individuals who were indicated as deceased as per Home Affairs database received TERS benefits totaling R441 144.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to deceased persons. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

A letter has been sent to the Department of Home Affairs to confirm the status of the owners of the identified identity numbers. The UIF will test the integration link of data between the UIF and Home Affairs. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.

### 10 Individuals who are imprisoned were paid TERS benefit

A total amount of R169 900 was paid to individuals who were indicated as being in prison according to the Department of Correctional Services database.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to inmates. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

A letter has been sent to the Department of Correctional Services to confirm the status of identity numbers. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.

## KEY AUDIT OBSERVATIONS – Data analytics

We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Services and the CIPC to confirm the eligibility of the beneficiaries, identify double dipping, and so forth. We found the following with regards to payments made up to 30 June 2020:

### 11 Individuals with invalid identity numbers

A total of 4 161 payments amounting to R 30 071 248 were made to individuals with invalid identity numbers when checked against the Department of Home Affairs database.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to individuals with invalid ID numbers. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

A letter has been sent to the Department of Home Affairs to confirm the status of identity numbers. The UIF will re-test the integration link of data between the UIF and Home Affairs. A change of business rule has been requested to block affected employers and the payment of June and July claims has been put on hold. Matters identified will be subjected to investigation through the UIF's internal processes.

### 12 Payments to foreign nationals

Payments amounting to R685 846 671 were made for 166 619 applications relating to foreign nationals whose employers had not paid contributions for them for the past 12 months. The UIF did not confirm whether or not these non-Southern African citizens were possibly refugees or had valid work permits.

#### Recommendations

It is recommended that management should investigate this matter and take appropriate action, the underlying control deficiencies should be improved.

#### Planned actions

Management has indicated that for the TERS benefit to be paid out, there should be an employer-employee relationship. Secondly, the employer and the employee should be registered on the UIF database. Foreign nationals met the above rules. Directive number 6, issued on 25 May 2020, provides a clear definition of a worker.



## KEY AUDIT OBSERVATIONS – Data analytics



We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Services and the CIPC to confirm the eligibility of the beneficiaries, identify double dipping, and so forth. We found the following with regards to payments made up to 30 June 2020:

### 13 Double dipping

The UIF paid total amount R140 556 822 was paid to 35 043 applicants who received benefits from other state institutions (including remuneration in some instances), as follows:

- NSFSAS students that received stipends, were paid TERS benefit claims of R10 335 344;
- Beneficiaries by the SANDF received TERS benefit claims of R327 638;
- Employees paid through PERSAL employees were paid TERS benefit claims of R41 009 737;
- Disability grant recipients were paid TERS benefit claims of R69 419;
- Old age grant recipients were paid TERS benefit claims of R88 814 684.



### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.



### Planned actions

Letters have been sent to the South African Social Security Agency and the national student financial aid scheme to confirm the status of identity numbers. A change of business rule to block beneficiaries of these programmes will be initiated on the system. The UIF will further put a hold on payments for June and July claims. Matters identified will be subjected to investigation through the UIF's internal processes.

### 14 Banking details same as those UIF employees

Four applicants sharing the same banking details as UIF employees which was paid amounting to R14 614.



### Recommendations

- Payments made to individuals sharing banking details and illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made to UIF employees. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.
- Management should further implement consequence management if the official is found guilty of misconduct.



### Planned actions

Preliminary analysis performed by management revealed that these employees are domestic employers who registered for UIF. A change of business rule on the system has been implemented to block affected employers. A post-verification process has started and the matters identified will be subjected to investigation through the UIF's internal processes.



## KEY AUDIT OBSERVATIONS – Data analytics



We analysed the TERS payments made by verifying the details of the employers, bargaining councils and employees against various existing government databases such as those of Home Affairs, the South African Revenue Service and the CIPC the following were observed and require further investigation.

### 15 Individuals sharing banking details

Twelve Individuals sharing the same banking details were paid R53 971.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

The UIF has automated the bank verification process for employers and employees. Each payment is verified against the identity number for employees; company registration or CIPC number for registered companies; and trade name or identity number for unregistered companies.

### 16 Double dipping within UIF

Some individuals were indicated to have received payments on claims submitted for both normal benefits and TERS benefits. A total amount of R14 210 866 was paid for TERS benefit in this regard.

#### Recommendations

- Payments made to illegitimate beneficiaries should be investigated.
- Collaborate with other state organs in the intelligence services and police and institute investigations into the payments made. In addition, the matters should be referred to the newly established Fusion centre committee for further investigation.

#### Planned actions

A business rule to identify applicants who are currently receiving normal benefits from the UIF has been introduced in July 2020. A change of business rule to block affected employers will be initiated. The UIF will further put a hold on payments for June and July claims. Matters identified will be subjected to investigation through the UIF's internal processes.



## KEY AUDIT OBSERVATIONS – Data analytics



We further analysed payments to beneficiaries up to 30 June 2020 and the following observations were made.

### 17 Payments above maximum threshold

TERS claims were paid in excess of claims amount due, resulting in overpayments of R84 228 713 to 1 183 applicants.



#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence



#### Planned actions

A process of identifying discrepancies between the amount due and paid to claimants was developed for every employer to verify the salary and lockdown period declared by the applicant on the system. Directive number 3 was issued on 16 April 2020 to rectify the matter. For May applications, all claims went through the automated verification process to determine over- or underpayments and these were subsequently corrected by the UIF.

### 18 Overpayments

The UIF used the incorrect number of days to calculate payments to 723 applicants amounting to R10 215 765.



#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence



#### Planned actions

Management will perform data analytic procedures to verify the existence and accuracy of employer details. A change of business rule on the system will be requested to block affected employers. The reported matters will be subjected to an investigation and an overpayment recognised against the affected employers.



## KEY AUDIT OBSERVATIONS – Data analytics

We further analysed payments to beneficiaries up to 30 June 2020 and the following observations were made.

### 19 Underpayments

Some claimants were paid less than the claims amount due based on the information on the system, totaling underpayments of R 250 919 657 for 1 700.

#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence

#### Planned actions

Directive number 3, issued on 12 April 2020, removed the requirements of section 12(1)(b) of the Unemployment Insurance Act, which considered the salary when calculating the benefit amount. All claims submitted for the first lockdown period was re-calculated and the short payments were disbursed. The salary portion submitted was verified and confirmed with the employer. Underpayments were also processed and paid to employers.

### 20 Duplicate payments

An employer was paid three times for the same application. A total amount of R 597 456 was paid in this regard.

#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence

#### Planned actions

Management has indicated that the application is reconciled against the payment system, which is a two-way matching verification process that will enable the UIF to identify duplicate payments.



## KEY AUDIT OBSERVATIONS – Data analytics

We further analysed payments to beneficiaries up to 30 June 2020 and the following observations were made.

### 21 Unsubstantiated payment made

Some transactions paid could not be reconciled back to the applications on the system. These transactions totalled R 483 911 for 7 applicants for the period up to 30 June 2020.

#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence

#### Planned actions

Management indicated that invoices on the application system were referenced with a specific prefix that could be linked to the payment. Furthermore, applications are reconciled against the payment system, which is a two-way matching verification process. Having noted management comments, we still could not reconcile all invoices paid back to the applications received.

### 22 Unsubstantiated applications made

Transactions identified on the application system with no invoice numbers. These transactions totalled R1 374 154 248 for 235 710 applicants.

#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence

#### Planned actions

Management indicated that invoices on the application system were referenced with a specific prefix that could be linked to the payment. Furthermore, applications are reconciled against the payment system, which is a two-way matching verification process. Having noted management comments, we still could not reconcile all invoices paid back to the applications received.



## KEY AUDIT OBSERVATIONS – Data analytics



We further analysed payments to beneficiaries up to 30 June 2020 and the following observations were made.

### 23 Claims with an application date after payment date

A total of 15 297 transactions amounting to R28 287 145 were paid, however, the application date as per the TERS system was after the payment date of the claim.

#### Recommendations

Management should:

- Reconcile the transactions paid to the applications made by the claimants
- Scrutinise the entire population of payments to date to identify the extent of the overpayments and recoup these from the affected employers and employees.
- Further enhancement to be done to the system to avoid recurrence

#### Planned actions

Management has indicated that a process to track applications and users, including dates of activity, has been introduced. Identified cases will be referred to the fraud and investigation unit within the UIF for further investigation.



# KEY AUDIT OBSERVATIONS - Procurement and contract management



We reviewed the appointment of service providers through deviations to assist with a campaign to create awareness of the UIF CO-VID 19 TERS initiative and noted the following:

## 24 Non-compliance with the instruction note

When securing media houses to assist with the awareness campaign, the service providers were procured as sole providers. However, the UIF did not provide evidence to justify the selected service providers as sole providers.



### Recommendations

Management should improve the control environment for the prevention and detection of non-compliance with laws and regulations to That the reason for using a service provider as a sole service provider should be clear prior to approval and award of the contract. ensure that, the supply chain management (SCM) prescripts are fully complied with during the procurement process.



### Planned actions

Management has introduced a process whereby all tenders are subjected to scrutiny in every step of the procurement process. The process has been introduced for all tenders above R5 million and will be extended to tenders below R5 million once the reviewed policy has been approved. The matter has been referred to the UIF's fraud and investigation unit.

## 25 Discrepancies relating to the appointment of service providers

In some instances, specifications that had not been a requirement in the approved bid specifications, were used to motivate the appointment of a service provider to the bid adjudication.



### Recommendations

Management should improve the control environment for the prevention and detection of non-compliance with laws and regulations to That the reason for using a service provider as a sole service provider should be clear prior to approval and award of the contract. ensure that, the that the specification is transparent and that the criteria for evaluation on functionality is clear and known to each service provider.



### Planned actions

Management has introduced a process whereby all tenders are subjected to scrutiny in every step of the procurement process. The process has been introduced for all tenders above R5 million and will be extended to tenders below R5 million once the reviewed policy has been approved. The matter has been referred to the UIF's fraud and investigation unit.

## 26 Unfair awarding of contract

A contract was awarded to a service provider that achieved the second position on price and preference point. This is in contravention of section 51 of the PFMA and the Preferential Procurement Regulations.



### Recommendations

Management should improve the control environment for the prevention and detection of non-compliance with laws and regulations to That the reason for using a service provider as a sole service provider should be clear prior to approval and award of the contract. ensure that, the supply chain management (SCM) prescripts are fully complied with during the procurement process. All payments relating to the above awards be disclosed as irregular expenditure for non-compliance with SCM prescripts as indicated above.



### Planned actions

Management has introduced a process whereby all tenders are subjected to scrutiny in every step of the procurement process. The process has been introduced for all tenders above R5 million and will be extended to tenders below R5 million once the reviewed policy has been approved. The matter has been referred to the UIF's fraud and investigation unit.



## KEY AUDIT OBSERVATIONS- Risks and controls deficiencies identified



We identified the following the following additional fraud risks in the TERS application process. We have reported these and the related control weaknesses to the accounting authority.

### 27 Fraud risks related to the manual application process

- Lack of independent review or reconciliation performed to ensure that all applications received through the dedicated mail box from employers and bargaining councils were dealt with appropriately and that none of the emails received were deleted.
- No clear controls in place to ensure that the employee details per the csv files or spreadsheets (e.g. bank account details, payroll information etc.) submitted by employers and bargaining councils were not amended by UIF employees during the application/evaluation process.
- Lack of segregation of duties with regards to the process of allocation of claims for preliminary checks and subsequent review as the supervisor received and distributed the email applications and thereafter also reviewed them.



#### Recommendations

Management consider the fraud risks and the related control weaknesses and develop a response for each in order to improve the control environment. These responses should consist of preventative and detective controls, and should be implemented to address the control weaknesses.



#### Planned actions

The manual process was only implemented for 14 days and management has indicated that a fraud risk assessment was conducted, which necessitated the conversion to an online process which went live on 14 April 2020.

Management will therefore subject the claims paid during the manual process to additional independent verification processes within the UIF.

### 28 Fraud risks related to the manual and online application process

No or limited controls in place to detect/ prevent inflated salaries on the applications.



#### Recommendations

Management consider the fraud risks and the related control weaknesses and develop a response for each in order to improve the control environment. These responses should consist of preventative and detective controls, and should be implemented to address the control weaknesses.



#### Planned actions

The manual process, owing to serious formatting errors of the spreadsheets and csv files, was subsequently replaced with an automated application process that the UIF currently applies through the submission of claims via the web portal.



## KEY AUDIT OBSERVATIONS- Employer visits

We started a process to visit the premises of the employers and bargaining councils to obtain assurance regarding the validity and existence of employees related payments received from the UIF for Covid-19 TERS benefit. The audit entails verifying whether TERS benefits were paid to legitimate beneficiaries. To date, site visits to various employers and bargaining councils in Gauteng, North West and Western Cape have taken place.

Although most of the verifications were still in progress, the following are some of the observations thus far:

### 29 Employer site visits

Auditors were denied entry to the premises and the officials cited the company was not sufficiently prepared to accommodate and assist the auditors and provide the required information.

In another event it was identified upon arrival at the address provided to the UIF as part of the application, that the premises of the employer was deserted and hence the audit could not be performed.



### Recommendations

- Verify the legal status and activities of the companies
- Verify that the companies are still operational and not liquidated or dormant
- Verify the contribution status of the companies from the date of registration and recover all outstanding contributions if the company is found to be non-compliant.
- Institute investigation and legal action to recoup all the monies paid for the COVID-19 TERS benefit depending on the outcome of the investigation.



### Planned actions

Management has indicated that the reported employers will be specifically selected to be visited as part of the UIF post-validation process. Additionally, the matter will be referred for further investigation.



# HOW TO GET IN TOUCH WITH THE AGSA



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