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# Briefing to the Portfolio Committee of Employment and Labour on the Unemployment Insurance Fund (UIF) and the Compensation Fund (CF)

**PFMA**  
2019-20

28 May 2021



AUDITOR-GENERAL  
SOUTH AFRICA

## Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



# The 2019-20 audit outcomes



# Our annual audit examines three areas

THE AG's  
ANNUAL  
AUDITS  
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS



# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

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

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

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

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

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

## Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

# Important to note

The percentages in this presentation are calculated based on the **completed audits of Compensation Fund and Unemployment Insurance Fund**, unless indicated otherwise.

Audit outcomes are indicated as follows:

 Unqualified with no findings

 Unqualified with findings


 Qualified with findings


 Adverse with findings


 Disclaimed with findings

 Outstanding audits

Movement over the previous year is depicted as follows:

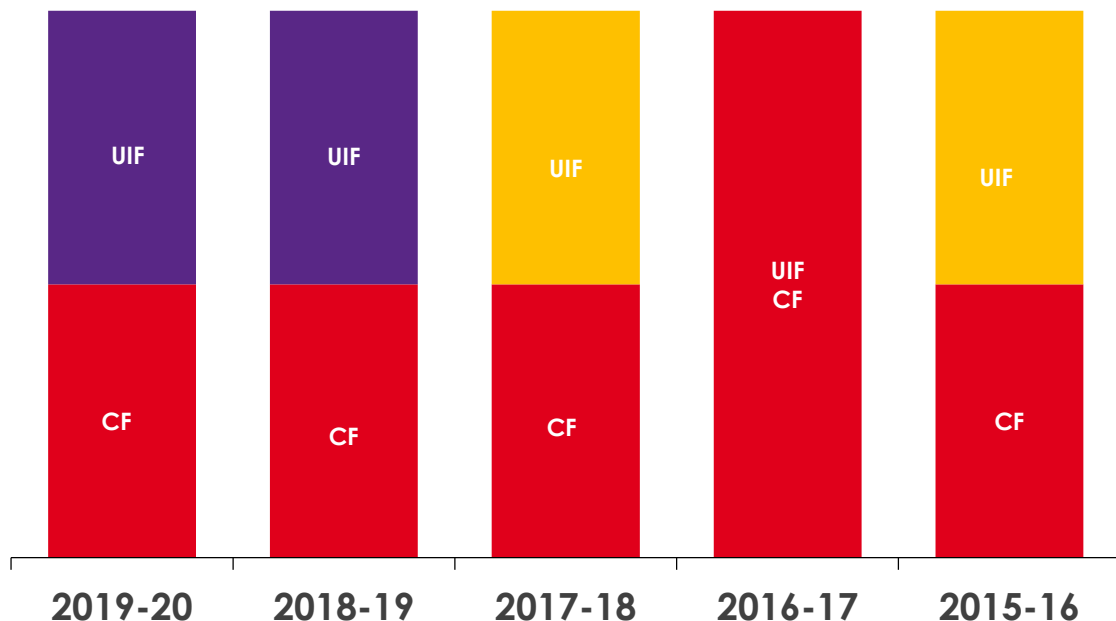
 Improved

 Unchanged

 Regressed



# Audit outcomes of portfolio over five years



Movement	
▲	0
▼	0
▶	2
Outstanding audits	0

The Compensation fund has again obtained a disclaimer audit opinion. Our assessment is still indicating that the control environment remains weak, which is very concerning. There is a lack of urgency by management to improve the control environment in order to facilitate credible financial and performance reporting. As a result, the audit opinion for compensation fund has been modified for the past 10 years. With an exception of the 2010-11 and 2011-12 which were adverse opinion, the previous eight (8) financial years were disclaimed.

Material misstatements were identified in the financial statements of UIF and the audit outcomes of the fund remained stagnant with repeat qualifications. It is noticeable that in the current financial year, the UIF is accumulating additional qualification areas which indicates a regression in the control environment

Material non-compliance with legislation was identified at both these entities.



# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement

2019-20

2018-19



Yes (0)  
No (2)

Yes (2)

Yes (0)  
No (2)

Yes (0)  
No (2)



Yes (0)  
No (2)

Yes (0)  
No (2)

**UIF** obtained a qualified audit opinion because they did not correct some material misstatements identified during the audit.

**CF** obtained a disclaimer of opinion because they did not provide appropriate audit evidence to support amounts reported in the annual financial statements, this has been the case for more than five years, and therefore extremely concerning and requires urgent intervention.

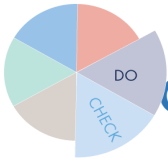






# Compensation fund received a disclaimer opinion in the following areas over the years





## Compensation fund received a disclaimer opinion in the following areas

### **Revenue and receivables from non-exchange transactions**

- The fund did not implement adequate and appropriate controls to address the completeness and accuracy of employer contributions, as some employers Return of earnings (ROE's)'s were not assessed. The deficiencies identified included
  - ❑ an inadequate assessment of the accuracy of information submitted by the employers.
  - ❑ inadequate processes in place to ensure all employers are registered and assessed.
  - ❑ inadequate enforcement of the act for employers not complying.

### **Benefits**

- Management could not provide us with a claim data listings to substantiate the figures recorded in the annual financial statement (AFS). This resulted the inaccurate provision and capitalised pension as actuarial valuations would be based on inaccurate data.

### **Payable from non-exchange transactions**

- The fund could not provide supporting documents for debtors that have credit balances. Therefore, the validity of the credit balances cannot be verified and consequently the accuracy and completeness of the related revenue cannot be verified.



## Compensation fund received a disclaimer opinion in the following areas

### **Consolidation of Investment in associates, Investments in financial assets and associates**

- The Fund invests in various financial instruments, which includes investments in associates, subsidiaries and sub-subsidiaries. Some of the companies in which the fund invests in are listed and others are unlisted. The deficiencies below were identified in the internal control environment over the management of the unlisted investments.
  - There was insufficient and inappropriate audit evidence to validate the data used to perform the valuations of unlisted investments for the current year and prior year.
  - Valuation reports for unlisted investments were prepared using a different accounting framework to the fund and no adjustments were performed to ensure alignment to the funds accounting framework.

### **Prior period error**

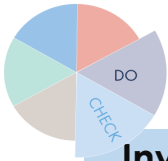
- The fund did not implement adequate and appropriate controls to address the issue of non-submission, as the supporting information was not provided to verify accuracy and completeness of the prior period error disclosure.

### **Contingencies**

- Adequate records in respect of contingencies relating to securities held/ceded and notices of motions and summons were not adequately maintained.

### **Irregular and Fruitless and wasteful expenditure**

- The areas affected by non-submission of supportive evidence that resulted in limitation are irregular expenditure and fruitless and wasteful expenditure.



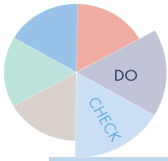
## Unemployment Insurance fund - Qualifications areas

**Investment in associates, interest in joint ventures and other financial assets , Impairment of investments in associates, Interest in joint ventures and other financial assets and Income from equity accounted investments and interests:**

- The Fund did not ensure that it timely obtains complete and accurate information of a material portion of investees to determine the value of the investments of the fund as disclosed in note 3, 11 and 12. The Fund therefore inappropriately applied the impracticability principle in the GRAP 1, and therefore did not comply with the GRAP standards 7 and 8, which specifically addresses investments. This means that the transactions in relation to the investments made were not accounted for appropriately in the financial statements of the fund.
- For limited instances where information relating to these investments were obtained, there was a lack of verification processes conducted on the valuation of source data that is used to calculate valuation of investments.
- Furthermore, the Fund did not appropriately account for losses incurred in relation to unlisted investments held at amortised costs.
- The close monitoring of these investments is key to enable reliable reporting, which will enable the fund to determine whether funds invested are yielding the return that is desired and value for money is being obtained.

### **Benefit payments and provisions**

- Benefit payments were misstated as large components of outstanding claims were not provided for at year end. These represents the claims which were reported by the beneficiaries but not approved by the fund (RBNA) and the claims that are estimated to have been incurred at year end but not reported (IBNR).
- Claims relating to the previous year were incorrectly included in the current year expenditure.



# Unemployment Insurance fund - Qualifications areas cont...

## Contingencies

- Liabilities of the fund are incorrectly stated. Mainly, contingent liabilities were misstated due to the reported but unapproved claims (RBNA) and incurred but not reported claims (IBNR) that qualify for recognition as provisions being disclosed as contingent liabilities. Furthermore, the fund incorrectly disclosed technical reserves as contingent liabilities

## Subsequent events

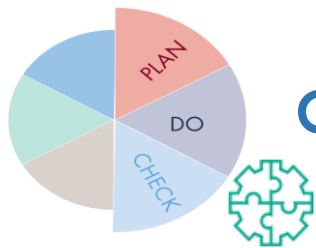
- The fund incorrectly disclosed that the decision to pay the Covid-19 TERS benefit was made after year end. However, the decision was gazetted and published prior to year-end in line with Gazette 413161 which was issued on 25 March 2020.

## Commitments

- The balance of commitments disclosed in the financial statements of the fund was misstated due to incorrect calculation of the commitments amount at year end as well as omission to include the amounts of some contracts for which the Fund had commitments on as at the end of the financial year.

## Investment property

- Investment properties values are incorrect. Fair value adjustments on investment properties of the fund, were incorrectly calculated using prior year fair value amounts and hence the closing balances as disclosed in the financial statements as at year end is misstated.



# Credible performance reporting

## Performance report

Performance report submitted without errors

Movement

2019-20

2018-19



Yes (0)  
No (2)

Yes (0)  
No (2)

Quality of final submission after audit



Yes (0)  
No (2)

Yes (0)  
No (2)

2 entities had material findings on the final submission after the audit on reliability of the reported information

### Compensation fund

Material findings on reliability of programme 3: Medical benefits

There was insufficient supporting evidence and listing to support the performance achievement, these listings did not agree with the annual performance report for the percentage of medical invoices finalised within 14 working days of receipt and the percentage of pre-authorisation responded within 10 working days on previously finalised cases.

### Unemployment Insurance Fund

The performance indicators affected for Programme: 02 Business Operations are as follows:

Inadequate review of the report on the predetermined objectives resulted in material findings being reported thereon. The predetermined method of calculation used when measuring the actual achievement did not accurately calculate the turnaround times in some instances as it was incorrectly configured. This was due to insufficient measurement definitions and processes.

Furthermore, due to a lack of adequate systems and processes to enable consistent measurement of the actual achievement for the indicators, the achievements reported in the annual performance report differed from the supporting evidence provided

The performance indicators affected for Programme: 02 Business Operations are as follows:

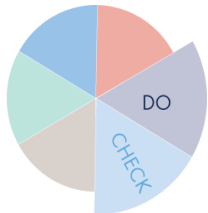
Percentage of valid claims (Unemployment benefit) with complete information approved or rejected within specified time frames

Percentage of valid claims (In-service benefits; Maternity, illness and adoption benefits) with complete information approved or rejected within specified time frames

Percentage of valid claims (Deceased benefit) with complete information approved or rejected within specified time frames







## Non- compliance with legislation – Compensation Fund

### Annual financial statements

- The consolidated and separate financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided for audit.

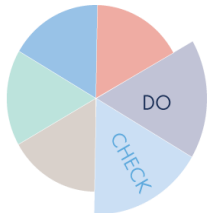
### Expenditure management

- Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The value as disclosed in note 35 to the financial statements does not reflect the full extent of the irregular expenditure incurred. Most of the irregular expenditure disclosed in the financial statements was caused by non-compliance with various National Treasury procurement requirements.
- Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PFMA. The value as disclosed in note 34 to the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred. Most of the fruitless and wasteful expenditure disclosed in the financial statements was caused by interest on late payments, sheriff costs and legal costs.
- Resources of the public entity were not utilised economically, as required by section 57(b) of the PFMA.

### Consequence management

- Sufficient and appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure and fruitless and wasteful expenditure, as required by section 51(1)(e)(iii) of the PFMA could not be provided. This was due to proper and complete records not being maintained as evidence to support the investigations into such expenditure.





## Non- compliance with legislation - Unemployment Insurance Fund

### Expenditure management

- Prepayments were made before services were received as this is against the Treasury regulations 31.1.2(c). Advance payments were made which were not in line with the contractual agreements.

### Consequence management

- Sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure could not be provided. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.
- Sufficient appropriate audit evidence that disciplinary steps were taken against some of the officials who had permitted irregular expenditure amounting to R86 870 456 in prior years could not be provided.
- Disciplinary hearings were not held for confirmed cases of financial misconduct committed by some of the officials.

### Strategic planning management

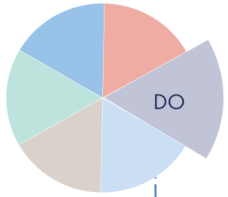
- Quarterly reports were not submitted to the executive authority as required by the act.

### Annual financial statements

- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records.
- Material misstatements on benefit payments, investments in associates, employee costs, cash flow statement and other financial assets identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
- Financial statements of the fund were not submitted for auditing within two months' after the end of financial year.



# Status of internal control



Leadership

Oversight responsibility

UIF

CF



Action plans

UIF

CF



Financial and  
performance  
management

Daily and monthly controls

UIF

CF



Reporting

UIF

CF



Review and monitor compliance

UIF

CF



Governance

Risk management

UIF, CF



Good



Of concern



Intervention required

17

# Key internal control deficiencies- UIF

## Leadership

- Management developed an audit action plan to address the internal control deficiencies; however, the plan has not been adequately monitored to ensure that there is effective implementation of corrective measures to address the internal control deficiencies. As a result, there were recurring findings and not all prior year findings were addressed.

## Financial and performance management

- The quality of the annual financial statements submitted was concerning as it contained numerous errors. The accounting authority did not therefore ensure that there are adequate controls over the preparation of financial statements and the annual performance report as well as ensure compliance with laws and regulations prior to submission for audit.
- Management did not implement proper record keeping to ensure that complete, relevant and accurate information was accessible and available in a timely manner to support financial and performance reporting. This resulted in unnecessary delays in completing the audit.
- Management did not implement adequate controls relating to daily and monthly processing and reconciliation of transactions. The controls that management put in place to ensure regular, accurate and complete financial reports did not always detect prevent and/or detect material misstatements in annual financial statements and annual performance report.
- Management did not adequately review and monitor compliance with applicable laws and regulations, which resulted in non-compliance with legislation being identified during the audit.
- Delays were experienced with regards to the submission of requested information. This is due to inadequate controls around records keeping. Management should ensure that adequate controls are developed, implemented and monitored to ensure that information is readily accessible when required.

## Governance

### Internal audit and audit committee

- The fund had established internal audit and audit committee, however there is a need to expedite the implementation of the recommendations obtained from these structures.

# Key internal control deficiencies –CF

## Leadership

- Leadership of the fund did not ensure that consequence management is timeously implemented.
- There are no effective processes to address poor performance in the fund – Performance management processes need to be properly designed and elevated accordingly.
- The Compensation Fund has encountered a number of challenges for a number of years which affected the ability to operate to the highest level of excellence. The causes of these challenges were not attended to for a long period and this resulted in poor performance.

## Financial and performance management

- The Fund did not prepare accurate, valid and complete financial statements and performance report that comply with GRAP and FMPPi requirements and are supported and evidence by reliable information. This was mainly due to inadequate reviews and inadequate systems of record management.
- Furthermore, regular reconciliations were ineffective, as supporting schedules submitted to support the figures on the annual financial statements did not agree to the financial statements.
- Management did not perform adequate reviews on the consolidated and separate financial statements. This has resulted in numerous casting errors and inaccurate disclosures on the annual financial statements

## Governance

- The recommendations of the internal audit and the audit committee are not adequately implemented; as a result, these functions are made not be effective. The fund need to incorporate the combined assurance model as part of good governance.
- Risk management processes should be timeously completed to identify key risk activities impacting the operations of the fund, in order for actions to be implemented.

# Financial health and financial management





# Financial health



**UIF** - Concerning due to the operating deficit for the current year.

**CF** - Not assessed due to a disclaimer of opinion expressed on the financial statements



Good



Of concern



Intervention required



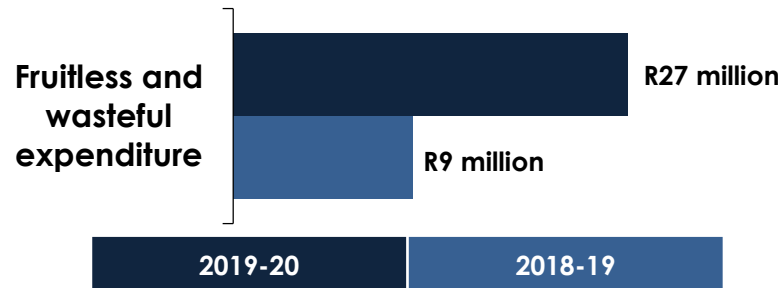
Not assessed

# Fruitless and wasteful expenditure increased over 2 years

## Definition

*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

## Fruitless and wasteful expenditure incurred by entities



## Nature of the fruitless and wasteful expenditure

The majority of the contributions for the current year were caused by the following

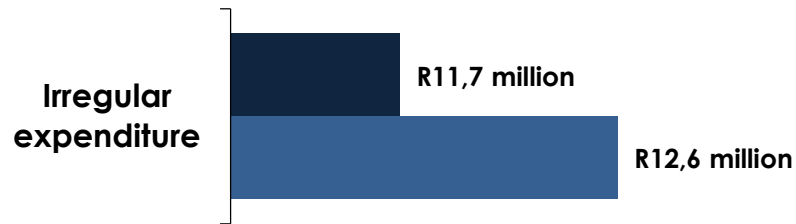
- For CF, the fruitless and wasteful expenditure of R21 million for the current year related mainly to interest, sheriff and legal cost on garnishee order.

# Irregular expenditure decreased over 2 years

## Definition

*Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed*

## Irregular expenditure incurred by entities



2019-20

2018-19

## Nature of the irregular expenditure

*The majority of the irregular expenditure was caused by non adherence to the procurement and contract management processes, **the contributions for the current year are as follows:***

- R11.3million relates to variation of a contract in excess of R15 million and failure to follow procurement processes at CF*
- R0.3million variations exceeding 15% of the contract value, payments in excess of the contract value and services rendered beyond the contract period at UIF*

# Investigations

<u>Unemployment Insurance Fund</u>	Amount
Increase in price not approved in line with SCM prescripts	5 962
Price increase in excess of 30% with no appropriate approval	7 178
Declaration of interest (SBD4) not submitted	1 475 054
15% contract variance exceeded without prior approval by National Treasury.	5 902 239
No order issued however the publication was made	13 000
15% contract variance exceeded without prior approval by National Treasury.	33 278
15% contract variance exceeded without prior approval by National Treasury.	1 420 136

<u>Compensation Fund</u>	
<b>Total number of ongoing investigations as at year-end</b>	<b>487</b>
• Number of non-compliance investigations	416
• Number of fraud-related investigations	71
<b>Number of investigations exceeding a period of six months</b>	<b>297</b>

- A of 126 allegations mainly relate to fraud within the compensation fund where the following progress has been made:
- 29 of which had been completed, and recommendations provided, 7 resulted in an actual loss of R2 million.
  - 26 reported allegations were closed.
  - 71 were still not finalised, these include 9 that were referred to law enforcement agencies.



# Key reminder - Covid-19 audit

## Covid – 19 Temporary Employer/Employee Relief (TERS) Scheme

- In addition to the special report 1 and special report 2 already issued by the AGSA, the regularity audit of 2020-21 will include the transactions relating to the TERS benefits paid out and an audit opinion will thus be expressed.

### Overview of the process on the covid-19 TERS benefit

**Disaster  
Management Act,  
57 of 2002**

**Classification and declaration of  
Covid-19 as National Disaster and  
powers conferred to the state**

- Gazette no.43096-312 on classification as national disaster
- Gazette no.43096-313 on declaration of national disaster
- Section 27(2): Powers of the state
- Section 27(3): Limitation on powers of the state

**Government  
gazettes on  
COVID-19**

**Gazettes issued on COVID-19  
for UIF**

- Gazette no. 43161 of 25 March 2020 and no. 43216 of 6 April 2020 on COVID-19 TERS benefit to provide relief for employers and employees affected by national disaster

**UI Act, 63 of 2001**

**Mandate of the UIF**

The primary mandate of the fund per the Unemployment Insurance Act, 63 of 2001 (as amended) is to register employers and employees in South Africa for UIF contributions and pay unemployment benefits to all employees that qualify.

## ***Preventative controls***

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## Typical business processes of the institution



Supply chain management



Contract management



Payments



Employee processes and payroll



Asset and liability management



Revenue management



### Preventative controls



Built on **strong control** environment with assurance provided by:

Senior management

Accounting officer/  
authority

Internal audit unit  
and audit committee

Preventative controls not designed or implemented or not working effectively

### Material irregularities and poor audit outcomes

#### Consequences

Financial loss

Costly investigation

Disciplinary processes

Litigation

## ***Tone and control culture***

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## **Controls accounting authorities should implement**



A commitment to integrity and ethical values is demonstrated through:

- The tone at the top – Through their directives, actions and behaviour, the AA and management at all levels should demonstrate the importance of integrity and ethical values to support the functioning of the system of internal control.
- Established standards of conduct – The expectations of the AA and senior management concerning integrity and ethical values should be defined in the institution's standards of conduct and understood at all levels of the organisation. For most public sector institutions, the basis for any standards of conduct is included in legislation.
- Evaluating adherence to standards of conduct – Processes should be in place to evaluate the performance of individuals and teams against the expected standards of conduct.
- Addressing deviations in a timely manner – Deviations from the expected standards of conduct should be identified and remedied in a timely and consistent manner.



### **Why it is important**

- Even if an institution has very good internal controls, it can be circumvented if those responsible for implementation and enforcement choose to do so. Such behaviour can be as a result of negligence or a willful act for personal gain. Being clear on what the expected conduct of all officials in line with the ethical values of the institution should be, and evaluating and enforcing such conduct, demonstrate the commitment by leadership to integrity and ethical values.
- But even such commitment can be overshadowed by leadership's own behaviour – unethical behaviour that is in sharp contrast with the code of conduct of the institution will inevitably result in such behaviour being echoed across the institution.

**Controls accounting authorities should implement**

Independent monitoring is provided through:

- Performing oversight of the development and performance of internal control and raising difficult questions and pursuing answers from management where applicable.
- Regularly engaging with the internal audit unit and the external auditors (AGSA), the chair of the audit committee, and others as appropriate, to discuss the effectiveness of internal control over financial reporting, performance reporting and compliance with legislation.
- Taking appropriate actions to ensure that identified deficiencies in internal control are addressed by management on a timely basis.
- Demonstrating a positive attitude towards accountability through credible financial and performance reporting and for the rule of law.
- Demonstrating independence from the institution and objectivity in its oversight.

**Why it is important**

The AA take overall responsibility for the financial management of an institution and the achievement of its objectives. The actions, directives and focus of the AA set the tone for the institution.

If the importance of internal controls and accountability is not accentuated at this level, there will be little commitment and discipline towards it in the institution.

### 3.

## ***Building and maintaining a strong control culture***



### **Controls accounting authorities should implement**

The discipline of adherence to controls on a daily basis should be ingrained into the culture of the institution.

Officials should know, accept and embrace their responsibilities towards controls; understand how to execute the control activities; and be enabled through standardised processes, checklists, templates, reports, automation, etc. to execute these activities at the right time, in the right way, every time.

Officials should be enabled and encouraged to raise the alarm if controls are being circumvented.



### **Why it is important**

Control activities should be part of the normal day-to-day activities of officials, as the routine will ensure consistency in application and effective implementation of controls.

If officials understand the importance of controls and how these further the objectives of the institution, they will be more disciplined in their execution and alert to areas where controls can be improved or are being circumvented.

If officials know they are safe to raise concerns about controls being circumvented and are actively encouraged to do so, accountability failures can be identified early in the process and dealt with.

## 4.

# Implementing effective consequences



## Controls accounting authorities should implement

Accountability means that those performing actions or making decisions are answerable for them, but also that there should be consequences for transgressions, a lack of action and poor performance. Consequences should be instituted against officials who fail to comply with applicable legislation, continuously underperform or are negligent, as well as against those whose actions and decisions cause financial losses.

Officials should be clear on their responsibilities and the performance expected from them as well as on the consequences for transgressions and poor performance. Leadership should consistently but fairly implement the policies and procedures of the institution relating to consequences.



## Why it is important

When officials are not held accountable for their actions, the perception is created that such behaviour and its results are acceptable and tolerated. This could make even those that are giving their best under trying circumstances feel hopeless.



**Controls accounting authorities should implement**

Policies and procedures should be established and communicated to enable and support the understanding and execution of internal control objectives, processes and responsibilities. The policies should cover all the main areas of decision-making, governance and control of the institution.

Standard operating procedures should be in place that specify the actions (including control activities) that should be taken to give effect to policies.

The responsibility for executing the policies should be specified and clear.

The policies and procedures should be reviewed periodically to determine their continued relevance and should be updated when necessary.

**Why it is important**

The implementation of controls can only be successful if the control activities are defined, communicated and built into an official's day-to-day activities.

Policies and procedures are the vehicle for management to communicate their expectations of control and to hold officials accountable for implementation.

**Controls accounting authorities should implement**

An institution that demonstrates a commitment to competence should ensure that they attract and retain competent officials and invest in their continuous upskilling. Effective human resource management should be implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Job descriptions that detail expectations in terms of knowledge, skills, expertise and credentials needed to effectively carry out responsibilities should exist for each position (e.g. detailed job descriptions for financial reporting, performance reporting and compliance reporting positions).

The skills and competencies of officials should be evaluated regularly to establish whether they are still relevant and adequate to carry out the institution's objectives.

The institution should provide training to officials aimed at improving and maintaining the core skills and competencies required. Performance agreements should be in place to define the responsibilities of officials and what they will be held accountable for. Officials' performance should be regularly monitored and evaluated based on signed performance agreements to identify areas of improvement and areas where officials are performing well.

The institution should have a process in place to reward and retain officials who are performing well.

Management should identify situations where the skills and experience of outsourced service providers (consultants) are required to assist in achieving the institution's objectives. Controls should be put in place to monitor the performance of consultants and to ensure that skills are transferred to the officials in the division where outsourced services are utilised.

**Why it is important**

The effectiveness of control activities is dependent on skilled and experienced officials. Controls can also be automated but a skilled individual will still be required to manage the information technology controls or monitor the reports from the system to identify and respond to anomalies and errors.

Vacancies and prolonged acting periods create risks in the form of inadequate segregation of duties and a short-term approach toward implementing control.



### Controls accounting authorities should implement

Independent assurance providers are those that independently look at the status of internal control and risk in order to provide an objective assessment to senior management and the AA. The external auditors (AGSA) are independent assurance providers, but the internal audit unit and the audit committee are well placed internally to provide the required assurance.

There should be an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.

The audit committee should promote accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

Management should address the findings and recommendations from the internal audit unit and the audit committee. They should also develop and monitor the implementation of action plans to address any internal control deficiencies identified.



### Why it is important

The AA receive assurance from the senior management of the institution that controls are in place and that risks are managed. Senior management performs a supervisory or review function but in most part also relies on the assurance they receive from their subordinates that all is well.

Independent assurance providers provide an objective view of the status of internal control. The audit committee along with a strong internal audit unit is best placed to do so, as a result of their independence to identify and promptly act in situations where management overrides controls or deviates from expected standards of conduct.

# Recommendations

## To Compensation Fund

- There is an urgent need to review the control environment of the entities including the role of management and subsequently strengthen the preventative and monitoring controls, to identify deficiencies early and react appropriately.
- There should be a discipline in ensuring that accurate and complete financial and performance records are maintained. This will ensure that financial statements and performance reports are supported by reliable evidence.
- Responsive action plans should be implemented and continuously monitored for effectiveness to enable timely responses to material deficiencies that impact reliable and credible financial and performance reporting.
- Consequence management should be implemented and monitored on employees who have transgressed in respect of incurring irregular, fruitless and wasteful expenditure, and financial and other misconduct. Leadership of the entity must instill a culture of accountability and a tone that will ensure internal controls are adhered to, and where transgressions are identified immediate appropriate action should be taken.



# Recommendations

## To Unemployment Insurance Fund

- Continuous monitoring and evaluation of investments is vital, as this is a systematic measure and assessment of financial/performance activities and results. The purpose mainly being to check on the progress of implementation and outputs systematically. This will assist the entity in determining whether an investment is performing as expected and/ or whether reprioritisation of funds is required. Furthermore, an effective internal control reduces the risk of asset loss, and helps ensure that the reported information is complete and accurate, financial statements are reliable, and that the entity's operations are conducted in accordance with the provisions of applicable laws and regulations, such as the PFMA. It is therefore important for the UIF to have controls in place that will assist with the in-year monitoring process that will result in the effective implementation of activities intended for good and sustainable financial management.
- The fund need to revisit the internal control processes on the review of financial statements.
- Risk assessment process and action plans should be continuously monitored and assessed for effectiveness to enable timely responses to material issues that impacts reliable and credible financial and performance reporting.
- Consequence management should be implemented and monitored on employees who have transgressed in respect of incurring irregular, fruitless and wasteful expenditure, and financial and other misconduct



# Recommendations to the Portfolio committee for both auditees

- Obtain a quarterly reports from the entities detailing the progress made on finalising investigations currently in progress.
- Obtain quarterly updates from the entities on the progress made on the implementation of the action plan, specifically relating to the progress made on review of the control environment.
- Obtain assurance from leadership and governance structures that the action plans implemented is effective and that the committees resolutions are also implemented.



# Thank you





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