

DEPARTMENT OF EMPLOYMENT AND LABOUR COMPENSATION FUND

PRESENTATION TO THE STANDING COMMITTEE ON APPROPRIATIONS

09 SEPTEMBER 2022





employment & labour

Department:
Employment and Labour
REPUBLIC OF SOUTH AFRICA




Compensation Fund
WORKING FOR YOU





The purpose of this presentation is to brief the Standing Committee on Appropriations (SCOA) on the progress made regarding issues that contributes to the consistent disclaimer of audit opinion by the Auditor General of South (AGSA).





CONTENTS

1. Background Information about the Compensation Fund
 2. Commitments made in June 2021
 3. Progress Report on Commitments
 - ✓ Bringing in Skills in the Office of the Chief Financial Officer
 - ✓ Clean Audit Action Plan
 - ✓ Review of the Organisational Architecture of the Compensation Fund and the Unemployment Insurance Fund
- 

INTRODUCTION – OPERATIONAL BACKGROUND

Constitutional Mandate

The mandate of the Compensation Fund is derived from Section 27 (1) (c) of the Constitution of the Republic of South Africa. In terms of this Act, specifically the mentioned Section, all South Africans have a right to social security. The Compensation Fund is mandated to provide social security to all injured and diseased employees.

Legislative Mandate

The compensation Fund is a Schedule 3A Public Entity of the Department of Employment and Labour. The Fund administers the Compensation for Occupational Injuries and Diseased Act no 130/1993 as amended by the Compensation for Occupational injuries and Diseases Act No 61/1977. The main objective of the Act is to provide compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees or for death resulting from such injuries or diseases and provide for matters connected therewith.

CF MANDATE

The Compensation Fund is established in terms of section 15 of the Compensation for Occupational Injuries and Diseases Act as amended.

The main objective of the Act is to provide compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees or for death resulting from such injuries or diseases and provide for matters connected therewith

CF VISION AND MISSION

CF Vision: To be a world class provider of sustainable compensation for occupational injuries and diseases, rehabilitation and reintegration services

CF Mission: The Mission of the Compensation Fund is to;

- Provide efficient, quality, client centric and accessible COID service
- Sustain financial viability
- Ensure an organisation which takes care of the needs of its staff for effective service delivery

VALUES

We shall adhere to the following values:

- Respect:** We will treat our customers and colleagues with respect.
- Excellence:** We execute our duties with dedication and fortitude.
- Sinobuntu:** Treat each other and clients with dignity and, care.
- Pride:** We model highest standard of personal and professional behaviour.
- Integrity:** Communicate openly and honestly with relationship based on trust.
- Client-centric** by Providing excellent & world class service to all.

CF
Mandate

CF Vision and
Mission

CF Values

COMMITMENTS FROM THE LAST APPEARANCE

- Secondment of skilled personnel to add capacity within the Office of the Chief Financial Officer to assist with the improvement of the audit outcomes
- Develop and Implement an Action Plan to address the Audit Disclaimers
- Review of the Organisational Architecture of the Compensation Fund in order to address the systemic root causes of the challenges facing the Fund
- Institute a forensic investigation in the Compensation Fund



BRINGING IN SKILLS IN THE OFFICE OF THE CHIEF FINANCIAL OFFICER

Progress Made to Date



SECONDMENT OF RESOURCES FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

- The Minister approved the secondment of skilled resources from the private sectors within the accounting and auditing industry.
- A team comprising of 20 skilled personnel were seconded into the Fund from FTMG Africa (Pty) Ltd with a combined 222 years of experience in auditing and financial management environment
- The team focus has been in the implementation of Clean Audit Action Plan (particularly prior period errors and improvements in records keeping), preparing the Fund for audit and assisting with the implementation and monitoring of key controls

SECONDMENT OF RESOURCES FOR THE OFFICE OF THE CHIEF FINANCIAL OFFICER

| Name | Qualification | Experience (Years) | Areas of Expertise |
|-------------------------------|---|--------------------|-------------------------------------|
| Dimakatso Tsofetsi | CA (SA) RA | 17 | Audit, tax and financial management |
| Milton Buzuzi | CA (SA) | 11 | Audit, tax and financial management |
| Khomotso Maluleka | CA (SA) | 8 | Audit, tax and financial management |
| Mooketsi Ralesego | Bcom Accounting | 13 | Audit, tax and financial management |
| Erica Maphahlele | CTA 2(PGDA), Board 1 | 10 | Audit, tax and financial management |
| Killion Ncube | BCom Financial Management | 9 | Audit, tax and financial management |
| Maphefo Florence Makapane | Post Graduate in Internal Auditing, Bcompt Degree | 10 | Audit, tax and financial management |
| Goodman Mazibuko | Post Graduate Diploma In Accounting Sciences | 17 | Audit, tax and financial management |
| Emmanuel Nkuna | Bcompt Accounting Science | 8 | Audit, tax and financial management |
| Boitshwarelo Precious Fredman | Bcompt Accounting Science | 10 | Audit, tax and financial management |
| Flavia Bonisile Mtshali | ACCA | 10 | Audit, tax and financial management |
| Judith Tshidiso Merementsi | B.Com Accounting | 15 | Audit, tax and financial management |
| Kholofelo Caroline Mashigo | Bachelor Commerce | 10 | Audit, tax and financial management |
| Moroesi Isobel Sandra Thloloe | Bcompt Accounting Science | 10 | Audit, tax and financial management |
| Mushai Tryphinah Mulaudzi | CTA 2(PGDA), Board 1 | 10 | Audit, tax and financial management |
| Tsholanang Letsoalo | B.Com Accounting | 10 | Audit, tax and financial management |
| Amogelang Mogapi | CTA 2(PGDA), Board 1 | 8 | Audit, tax and financial management |
| Popela Sydney Maaake | B.Sc. – Information Processing, MBA | 15 | IT |
| Vusumuzi Mpofu | BSc (Hons) in Computer Science | 12 | IT |
| Vhuthu Rambevha | CTA 2 (PGDA), Board 1 | 9 | Audit, tax and financial management |



CLEAN AUDIT ACTION PLAN

Progress Made to Date



DEVELOP AND IMPLEMENT ACTION PLAN

Disclaimer Audit Opinion: The AGSA has consistently issued unfavourable audit opinions since 2003 to last financial year 2020/2021

KEY AREAS OF AUDIT CONCERN

Revenue: CF is unable to provide verifiable Employer information including the accurate information on Employer classification and sufficient information to support the disclosed numbers in its financial statements. Some of the system records and supporting documentation could not be provided for audit to the AGSA.

Medical Benefits and Medical Claims: Prior medical claims support systems failed to provide reliable data for audit and reporting purposes. The CF has consistently failed to provide necessary supporting documents for the medical benefits and medical claims which the AGSA deemed satisfactory.

Some of the claims paid by the CF have turned out to be either been plain fraudulent or cannot be supported by the adequate necessary documentation.

Investments information integrity and availability of supporting documents and assurance reports.

The information systems supporting operations have proved unreliable including the data and the AGSA has indicated its discomfort to audit such information.

The staff capacitation through secondment project is meant to achieve the following objectives:

- Capacitated the CF with professionals to clean up the data from 2013 to date and trace the necessary documentation.
- Review all supporting documents and prepare an appropriate audit file for the AGSA audit.
- Institute an effective internal control and compliance environment ideal for clean audit monitored and reviewed continuously.
- Review the ICT systems and processes to prevent fraud and errors in the records.
- Improve finance skills in order to achieve clean audit.

DEVELOP AND IMPLEMENT ACTION PLAN

- The Director General approved a Clean Audit Action Plan on the 11th August 2022 which is aimed at addressing specific root causes of the various audit findings in the Fund through implementation of specific controls.
- Management of the Fund over the last 12 months has been implementing this Action Plan with a dedicated team providing coordination and monitoring support.
- Areas along which the Clean Audit Action Plan has been designed are amongst others as follows:
 - Revenue
 - Benefits
 - Provision for Outstanding Claims
 - Payables from Non Exchange Transactions
 - Investments
 - Prior Period Errors

DEVELOP AND IMPLEMENT ACTION PLAN

- While management is seized with the design and implementation of the controls required in Clean Audit Action Plan, additional resources brought in to the Office of the Chief Financial Officer has been focused on the key activities within Revenue, Benefits, Investments and material prior period errors.
- In order to adequately address the key weakness contributing to material misstatements in the Annual Financial Statements as a result of weaknesses identified in controls, record keeping and adequately correcting prior period issues
- The report below will provide the Committee with an update on the Clean Audit Action Plan broadly and detailed progress with addressing specific disclaimers issues in revenue, benefits, investments and prior period errors.

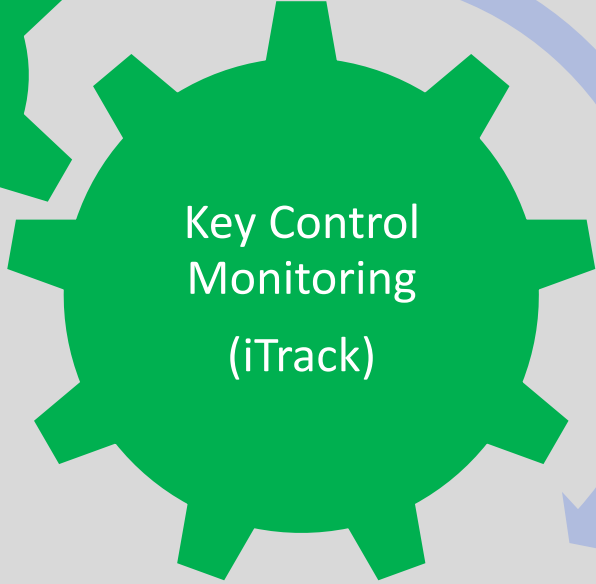
DEVELOP AND IMPLEMENT ACTION PLAN

JOURNEY TOWARDS CLEAN AUDIT

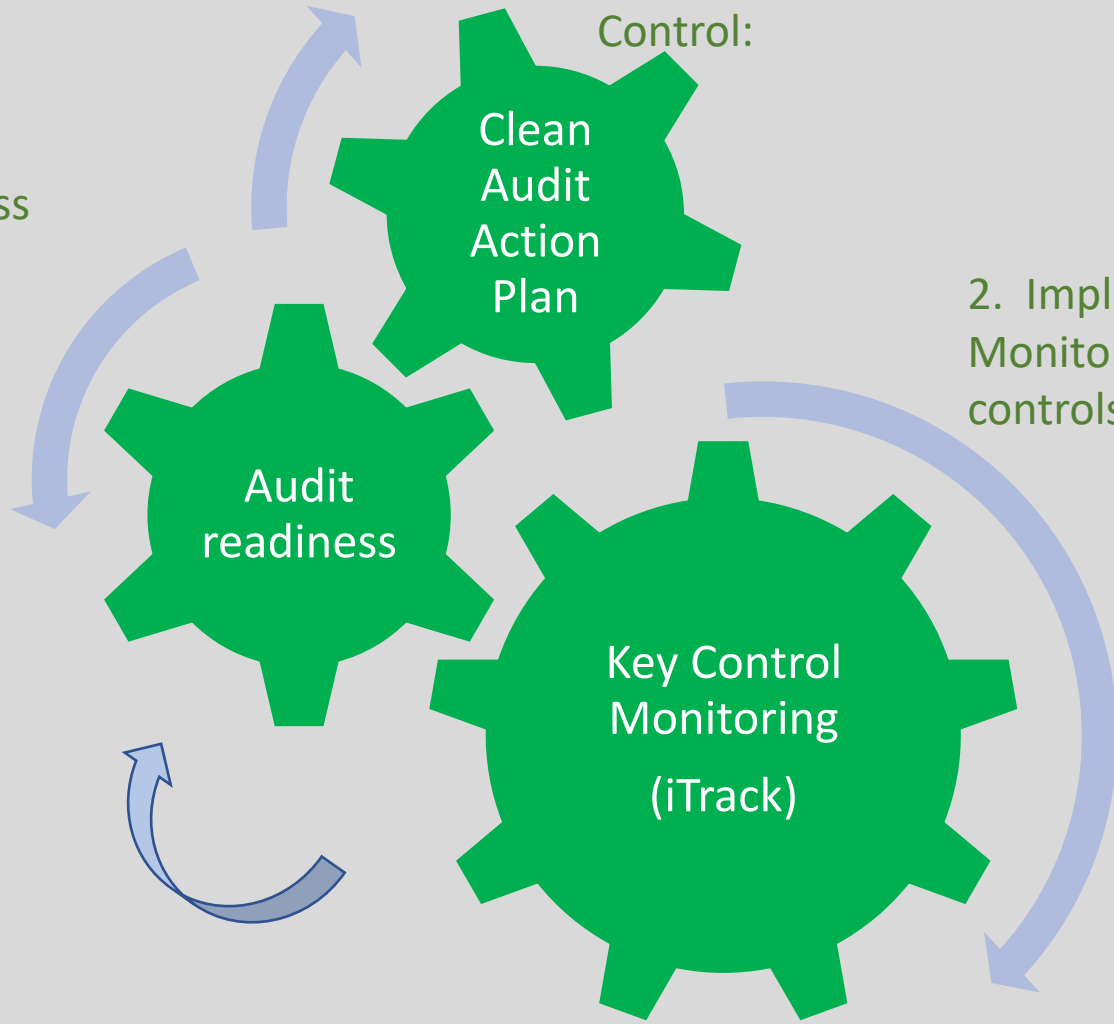
1. Develop & Embed Control:



2. Implement, Monitor and Enforce controls



3. Audit Readiness Activities:



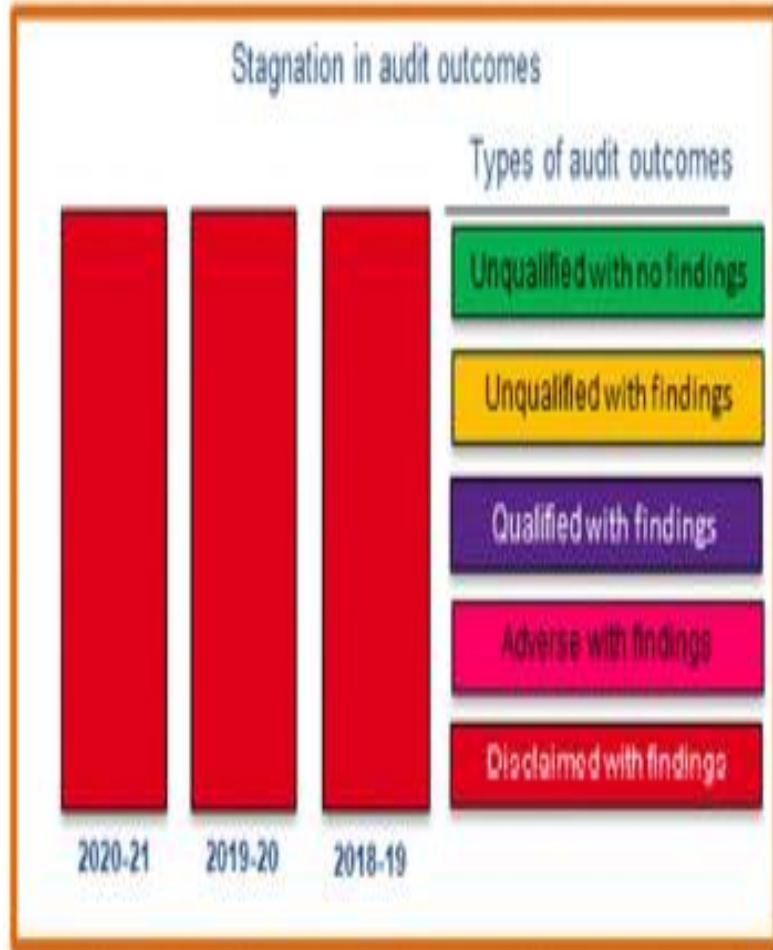
DEVELOP AND IMPLEMENT ACTION PLAN

PROGRESS SUMMARY

| | Progress Status | | | .Action Plan Items Due Subsequent to Reporting Date |
|--|---|-----------------------|---|--|
| | Total Action stats due as at 31 August 2022 | Complete/Satisfactory | Unsatisfactory due to POE or overdue date | Total actions due after 31 August 2022 to March 2023 |
| A. Revenue and receivables from non-exchange transactions | 44 | 42 | 2 | 5 |
| B. Benefits | 71 | 58 | 13 | 3 |
| C. Provision for outstanding claims | 4 | 2 | 2 | 0 |
| D. Payables from non-exchange transactions | 4 | 3 | 1 | 0 |
| E. Consolidation of investment in associates | 3 | 2 | 1 | 0 |
| F. Investment in financial assets and associates | 7 | 5 | 2 | 0 |
| G. Prior Period Years | 3 | 2 | 1 | 0 |
| H. Contingencies | 6 | 3 | 3 | 0 |
| I. Irregular Fruitless and wasteful expenditure | 11 | 10 | 1 | 1 |
| J. Other important matters and Administrative matters | 26 | 21 | 5 | 0 |
| K. Key Considerations for Improvement in the Control Environment | 7 | 7 | 0 | 2 |
| Total Actions | 186 | 155 | 31 | 11 |
| | 100% | 83.33% | 16.67% | 100% |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

PROJECT MISSION



2022/23

2021/22

Improve Audit Outcomes:

1. Improve internal controls;
2. Compliance with PFMA, Policy;
3. Compliance with GRAP;
4. Improve document management;
5. Capacitate Directorates with skill;
6. Make clean audit a daily practice.

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

OUR RISK BASED APPROACH



Improve Assurance:

1. Implement Audit Recommendations
 - I. Monitor Clean audit action plan and POE and verification.
 - II. For both internal & external audit,
 - III. Improve the key controls & address root causes.
2. Implement a control self assessment tool;
 - I. Identify gaps, make recommendations,
 - II. Monitor compliance,
 - III. Identify & report non-compliance,
 - IV. Update policies & procedures,
 - V. Identify HR development areas.
3. Improve governance
 - I. SOP reviews and delegations and financial and operations performance monitoring.
 - II. Implement Audit Committee Resolutions,
 - III. Monitor compliance.

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

OUR RISK BASED APPROACH



Priority is given to Disclaimer & Qualification Risks:

1. Improve quality of AFS
 - I. Technical Consultations on Investments, Revenue, Benefits
 - II. Improve the review & oversight controls,
 - III. Monthly & Quarterly financials,
 - IV. Alignment with GRAP.
2. Quality of Performance Information;
 - I. Quarterly Reviews of POEs.
 - II. Verification of data.
3. Supply Chain Management
 - I. Probity Review of tenders,
 - II. Improved compliance monitoring.
4. **Financial Health**
 1. **Assess impact of retained earnings adjustments and financial losses impact.**
5. Information Technology
 1. Implement effective Systems,
 2. Review and improve general & application controls

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

OUR RISK BASED APPROACH



Improvements include:

1. Implement Audit Action Plan
 - I. Corrective action,
 - II. Implement Preventative Controls,
 - III. Implement Detective Controls.
2. Improve Information Technology
 1. Implement SAP,
 2. Improve general & application controls
3. Update Policies & Procedures
4. Improve oversight & internal controls
5. Improve recordkeeping
6. Daily, Weekly, Monthly & quarterly recons & reviews
7. Monthly & Quarterly reporting
8. Improve compliance monitoring
9. Capacitate Risk Management
10. Implement Internal Audit Recommendations

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

Introduction Clean Audit Project

Key in implementation of the CF Clean Audit project is management's acknowledgement of responsibility for internal control, awareness of the requirements and the ability to report systematically on the current state of internal control.

- The Clean Audit Project is aimed at *improving the internal control environment* by implementing *corrective action, preventative and detective controls*;
- Improvements include **implementing recommendations of the internal & external auditors** and ensuring that effective controls are in place;
- **Daily, weekly, monthly and quarterly Monitoring of adherence to CF policies & procedures** will promote a culture of excellence;
- include Weekly audit tests on the approved control register which is based on the expected minimum controls supported by Portfolio of Evidence (POE).
- A web based **Issue Tracking Monitoring tool** was developed and **expected to be implemented by the end of April 2022** to track findings from internal & external audit will be monitored. Management is expected to provide weekly feedback on progress on issue action plans at the Clean Audit Steering Committee meetings.
- The Finance department will **monitor and train other managers in the implementation of effective controls**.
- **Improvement of internal control** environment will ensure **compliance and appropriate consequence management**.
- The Finance Department has been capacitated with appropriate skills from February 2022 to resolve the prior year issues and resolve other audit issues.
- All outstanding prior year issues are to be resolved before the next audit and data analytics have been deployed to clean both financial and operational data

Challenges:

- Lack of Standard Operating procedures or compliance thereof.
- Some of the technical issues require further engagement with the AGSA timely.
- Reliability of system general and application controls including third party systems.
- Skills improvement and skills transfer to improve finance management capacity.
- Development and implementation of key SOPs that are complied with across CF.
- Poor system integration and unreliable data and un reliable system controls
- Risk of fraud and corruption and silo mentality between divisions

Strategic themes:

- Corporate governance –(Fit for purpose and restructuring)
- Improve Internal controls and continuous monitoring.
- Information system management and data integrity.
- Implementation of uniform policies and procedures across the organisation.
- .PFMA and other regulatory compliance and loss control reporting and monitoring.
- Annual risk assessment and monitoring.
- Business Process reviews and alignment

Next steps:

- **We have adopted a Risk Based approach prioritising matters that affect the Audit Opinion (Limitation of Scope & Material Findings)**
- **Capacitate the Clean Audit Forum and ensure that the internal control focused culture is maintained**
- **Data Cleansing and prior year audit resolution project**
- **Engage the Auditor-General, National Treasury & PIC over technical areas of concern and areas with the aim of resolving differences timely.**
- **Arrange PFMA and control awareness training sessions for Staff through out the CF Head Office and the Regional offices.**
- **Acquire and retain appropriate technical finance and operations skills and provide capacity and training support to existing staff compliment.**
- **Fraud and corruption awareness program continued implementation and monitoring.**
- **Implementation of consequence management**

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

- In order to accurately prepare Annual Financial Statements, the audit for the Financial year ending 31 March 2022 has been postponed in order to:
 - ✓ To complete the data cleansing and review of all the necessary audit files from 2013 to-date.
 - ✓ To trace all supporting documents from poorly kept records to support the Financial statements and disclosures that were disclaimed by the AGSA from 2013 to current financial year.
 - ✓ To resolve all outstanding technical issues with the AGSA and the National Treasury which impact the current year and prior disclaimer paragraphs such as completeness of revenue and investment accounting.
 - ✓ To prepare financial statements that are credible and auditable as required by the AGSA.
 - ✓ To complete investigations on irregular expenditure and possible fraudulent transactions and report accordingly.
 - ✓ To implement the identified internal controls and improved accounting and operational processes

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

DISCLAIMER RESOLUTIONS FEBRUARY-AUGUST 2022 PROGRESS

| KEY ACTIVITIES | PERCENTAGE COMPLETION | EXPECTED COMPLETION DATES |
|---|-----------------------|---------------------------|
| • Data Cleansing and Supporting Documents Tracing in all audit areas. | 60% | 30-Nov-2022 |
| • System controls and improvement process | 70% | 30-Sept-2022 |
| • Audit file and resolution of prior year errors identified by the Auditor-General. | 60% | 31-Mar-2023 |
| • Resolution of technical issues over the implementation of regulation with the AGSA. | 80% | 30-Sept-2022 |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

REVENUE AND RECIEVABLES FROM NON EXCHANGE TRANSACTIONS

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit | Expected completion date | Reason for extension |
|---|--|---|------------------------------|--------------------------|---|
| <ul style="list-style-type: none"> • Incorrect reversal of revenue from employers • Revenue estimates not raised for all employees, uncorrected prior year balances | <ul style="list-style-type: none"> • Systems that are not integrated leading to inconsistent and inaccurate records • Non-compliance to set guidelines and SOPs by Staff. • Non-Effective SOPs and poor retention of supporting documentation | <ul style="list-style-type: none"> • Trace Employer files and relevant documentation • Employer Data Cleansing employing data analytics verifying the employers' data and matching to external data bases • Reconcile and adjust prior year booked revenue based on validated data. • Engage the National Treasury over the validation of Employer submitted information and inspection of Employer Payroll Earnings. • Revision of SOPs and implementation. | 85% | 31 March 2023 | <ul style="list-style-type: none"> • Data analytics currently underway and cleansing of records , verifying the employers' data and matching to external data bases UIF on data from 2013 to 2022 • Review and reconcile ROEs against confirmed Employer data for revenue booked from 2013-2022 to address the prior period audit findings. • Complete tracing of Employer manual files for current and prior years. • Complete reconciliation of revenue data in the general ledger from 2013 -2022. |
| <ul style="list-style-type: none"> • Statutory revenue records not reliable • Uncorrected prior year balances • Accrual for assessment not raised • Debt impairment not correct | <ul style="list-style-type: none"> • Poor system for record keeping • Lack of adequate staff capacity with the right technical capacity | <ul style="list-style-type: none"> • Review the Debtors/Accounts Receivables validating existence of Debtors and accuracy of corresponding revenue. • Complete Employer debtors reconciliation against payments received. • Perform GRAP compliance validation for Impairment. | 65% | 31 March 2023 | <ul style="list-style-type: none"> • Complete full debtors reconciliations and trace receipts from Employers from 2013-2022. • Complete recalculations of debtors impairment based on valid and accurate general ledger balances in line with GRAP. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

CAPITALISED VALUES OF PENSIONS AND PAYABLES

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit | Expected completion date | Reason for extension |
|---|---|---|------------------------------|--------------------------|---|
| Capitalised value of pensions | No actuarial report to support the amounts disclosed on the AFS | <ul style="list-style-type: none"> Actuaries to provide the final figures that will provide the figures to substantiate the current year provision for future payments including medical claims. POE to support the figures to be presented on the financial statements | 40% | 31 March 2023 | <ul style="list-style-type: none"> Actuaries to complete analysis of data after all necessary adjustments to the payments data base manual payments database. Organise POE that support the figures obtained from the actuary. Complete the validation and reconstruction incomplete data that was provided to the AGSA in 2021. |
| No supporting documents for payments from non exchange transactions for both current and prior year | Inadequate record keeping | <ul style="list-style-type: none"> Reconstruction of the GL balances and matching them against the Listings of different types non exchange expenses Data analytics to match the payments and the age analysis from 2013 to 2021 Locating POE for unclaimed monies | 35% | 31 March 2023 | <ul style="list-style-type: none"> Complete Data Analytics on pension data and trace originating claim documents. Complete the reconciliations for prior year periods where supporting documents were not availed to the AGSA. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

BENEFITS AND PROVISIONS

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit | Expected completion date | Reason for extension |
|---|---|---|------------------------------|--------------------------|---|
| No evidence provided to support claims (benefits) paid in the current and prior years | In adequate record keeping controls | <p>POE to support the claims paid is uploaded into comp Easy system and Finance is able to validate the payment against supporting documents</p> <p>Data analytics to analyse the prior period error in order to quantify the population and propose the journals to correct the opening surplus relating overpayments, and fraudulent transactions identified during the past.</p> | 45% | 31 March 2023 | <ul style="list-style-type: none"> To complete tracing and confirmation of unsupported payments, duplicate payments and conclude on legitimacy of such transactions and pass for fraud investigation. Complete matching of extensive number of claims against originating documents (POE). For prior year errors the previous system could not upload support documents and these need to be located from different storage where the supporting information was kept. |
| Provision for outstanding claims was not measured correctly and payments for benefits were not charged against provision reduce it in the current and prior year. | Not reducing the provision once payments are made to the beneficiaries. | <p>Actuaries to provide the final figures that will provide the figures to substantiate the current year provision for future payments including medical claims.</p> <p>POE to support the figures to be presented on the financial statements</p> | 45% | 31 March 2023 | <ul style="list-style-type: none"> To allow Actuaries to complete data analysis data which include prior year adjustments |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

INVESTMENTS IN ASSOCIATES

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|--|--|---|----------------------------------|--------------------------|----------------------|
| Unable to obtain sufficient appropriate audit evidence for investments in associates | <ul style="list-style-type: none"> • Inadequate internal control systems to maintain proper accounting records. • Poor coordination between CF, PIC, and associates management • No assurance procedures conducted by CF management on the financial information. • Late appointment of accounting firms that review the financial information of the associate companies. | <ul style="list-style-type: none"> • Collection of the prior year audited AFS of the associate companies that support the figures of the associates recognised by CF. • CF has designed assurance procedures to be conducted on the financial information of the associate companies. • Early communication of the reporting requirements of CF to associate companies through PIC and validation of investments data. | 85% | 30-Sept-22 | None. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

CONTINGENT ASSETS

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|--|---|--|----------------------------------|--------------------------|----------------------|
| Unable to obtain sufficient appropriate audit evidence for contingent assets | <ul style="list-style-type: none"> • Inadequate internal control systems to maintain proper accounting records. • Lack of follow up on the submission of the AFS and investment securities statements by the exempt employers for the assets liabilities matching . | <ul style="list-style-type: none"> • Obtained the investment securities statements and AFS of the exempt employers and performed the asset liabilities reconciliation to address the prior year finding . • Obtained the investment securities statements and AFS of the exempt employers and performed the asset liabilities reconciliation for the 2022 FY . | 90% | 30-Sept-22 | None. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

INVESTMENTS IN UNLISTED LOANS

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|---|---|---|----------------------------------|--------------------------|--|
| <p>Unable to obtain sufficient appropriate evidence to validate the data used to perform the valuation of unlisted listed. Furthermore, AFS used to perform the valuations were IFRS not GRAP base.</p> | <ul style="list-style-type: none"> • Lack of review of the financial information by CF. • No reconciliation between IFRS and GRAP on the AFS of the associates. | <ul style="list-style-type: none"> • Designed assurance procedures over valuation data from PIC and complete reviews for integrity of data from Investees. • Secure audited AFS of Investees and undertake additional analytical reviews • Reconcile and adjust for the gap between IFRS and GRAP Accounting . • External Assurance firms to validate investment data where audited AFS have not been provided. • For year 2022/23 implement continuous monitoring procedures over investee financial and non-financial information. | <p>65%</p> | <p>30-Sept-22</p> | <ul style="list-style-type: none"> • To secure monthly management accounts for period 2021-22 and undertake detailed analysis to match against the valuations provided by the agent PIC and conclude on reliability. • To Allow External Assurance providers to complete reviews of Investee AFS and validate information for consolidation in CF AFS for Audit. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

RISK MANAGEMENT

| Disclaimer background | Root cause | New approach to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|---|--|---|----------------------------------|--------------------------|----------------------|
| Failure to disclose risk management per asset allocation per class under the concentration risk | <ul style="list-style-type: none">• Lack of detailed maintained data on investments from PIC.• Lack of technical skills to comply with standard requirements. | <ul style="list-style-type: none">• 2022 AFS will be reviewed rigorously by management and internal audit and the Audit Committee• Obtain and maintain appropriate information on risk management early prior to AGSA audit and from PIC.• Strengthen technical capacity within CF. | 65% | 30-Sept-22 | None. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

RELATED PARTIES

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|---|---|---|----------------------------------|--------------------------|--|
| <p>Unable to obtain sufficient appropriate audit evidence for the amounts disclosed as related-party balances</p> | <ul style="list-style-type: none"> • Lack of AFS detailed review by management . • Inadequate GRAP standard application . | <ul style="list-style-type: none"> • Resolve technical accounting issues and compliance including thorough review of all transactions to defined related parties. • Complete data analytics and trace all related party transactions and effect adjustments for prior years. • Prepare the appropriate complete and accurate disclosure note in line with GRAP and National Treasury guidelines. | <p>40%</p> | <p>30-Sept-22</p> | <ul style="list-style-type: none"> • To complete the transaction analysis and obtain necessary supporting documents for Related Party Transactions. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

PRINCIPAL AGENT ARRANGEMENT

| Disclaimer background | Root cause | Action to address the disclaimer | Status of current year audit (%) | Expected completion date | Reason for extension |
|--|--|---|----------------------------------|--------------------------|----------------------|
| CF did not disclose the relationship with PIC as a principal-agent relationship as required by GRAP 109. | <ul style="list-style-type: none">• Technical disagreement with the AGSA not resolved timely | <ul style="list-style-type: none">• Resolve Technical matters with the AGSA for speedy resolution,• Strengthen technical capacity within CF. | 90% | 30-Sept-22 | None. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

IRREGULAR FRUITLESS AND WASTEFUL EXPENDITURE

| Disclaimer background | Root cause | Action to address the disclaimer | Current Year Status | Expected completion date | Reason for extension |
|--|--|---|---------------------|--------------------------|--|
| <p>Incomplete irregular and fruitless expenditure(IFWE) register</p> | <ul style="list-style-type: none"> • Poor record keeping • Old items where no records can be found. • Management did not ensure that there were sufficient controls over the process of identifying and documenting all expenditure that is fruitless and wasteful. | <ul style="list-style-type: none"> • Review SOPs on IFWE ensure compliance with PFMA/NT/PPPFA/SCM, progress to reduce the balance • Trace and conclude all matters that qualified for condonation and submit to National Treasury with detailed individual case justification. • Review SCM contracts and other transactions for possible irregular expenditure and ensure completeness of IFWE register. • Trace interest incurred and penalties paid on overdue accounts is updated accordingly on the fruitless and wasteful expenditure recognised • Prepare a complete register of Consequence management actions against CF staff. | <p>80%</p> | <p>30 October 2022</p> | <ul style="list-style-type: none"> • Complete Data Analytics on both non-exchange and exchange transactions and identify overpayments, duplicate payments, fraudulent or unsupported payments (Medical claims and benefits) for designation as IFWE for periods starting 2013-2022. • Conclude on the tracing of supporting documents for IFWE from 2013 including compiling the detailed report on consequence management Action and identify qualifying items for condonation by the Accounting Officer. |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

JULY 2022 – MARCH 2023 PLAN

| Activity description | Strategy & approach | Expected completion date |
|---|--|--|
| <ul style="list-style-type: none"> Reconciling information from the operating system against financial information in the General Ledger. Clean up of the identified General Ledger accounts which require correction in order to achieve complete and accurate financial records | <ul style="list-style-type: none"> Data analytics – comparison of CF data to external databases such as UIF/Stats SA/CIPC to validate its validity, accuracy and completeness. Data analytics – to reduce the number of unallocated receipts via matching of the detailed bank statements against employer services data. Data analytics- comparison of CF general ledger data to the detailed bank statements. Preparation and review of the monthly financial reconciliations. | 30 November 2022 |
| <ul style="list-style-type: none"> Developing Standard Operating Procedures (SOP) (that comply with laws and regulations) Monitoring the effectiveness of Internal controls in the implementation of the amended SOP's | <ul style="list-style-type: none"> Finalisation of updating of the key controls on the i-track tool Monitoring the effectiveness implementation of the agreed key controls on the i-track tool Filing of the POEs supporting the controls that are fully implemented and observed Monitor implementation of Action Plan, improvements in internal control environments, other risks | 29 July 2022 August 2022 – March 2022 August 2022 – March 2023 |
| <ul style="list-style-type: none"> Correction of prior period errors Resolution of complex accounting matters and leading the correspondence with other professional organizations such as National Treasury and the ASB. Implement Audit Committee (AC) Resolutions | <ul style="list-style-type: none"> Creation of the audit support file with the POEs to support the audit findings resolution. Finalisation of all the technical accounting disagreements with the AGSA. Clean-up of the prior period listing reported by the AGSA to remove all the findings that are no-longer relevant to the CF business environment Lead Bi-Weekly Clean Audit Steerco – monitoring of implementation of action plans and report to EXCO. Ensure AC resolutions are implemented Review Audit Committee Packs and Attend Audit Committee meetings | 30 November 2022 29 July 2022 30 November 2022 |

STATUS OF THE INTERVENTIONS AND AUDIT READINESS

JULY 2022 – MARCH 2023 PLAN

| Activity description | Strategy & approach | Expected completion date |
|--|--|---|
| Compilation of the Funds Financial Statements | <ul style="list-style-type: none"> • Finalisation of the 2022 AFS compilation plan. • Adjustments of all the prior period errors . • Preparation and review of the 12 months financial reconciliation and audit support file including tracing of supporting documents. • Finalisation of position papers of accounting treatment of CF's interests in associates companies and the joint operations reviews. • Compilation of the 2022 GRAP disclosure checklist. • Preparation of 2023 monthly management accounts. • Preparation of year end journals. • Review of accounting policies. • Drafting Technical Memos. • Prepare AFS in Caseware . • Review compliance with GRAP. • Review the reliability of the performance information; | <p>22 July 2022 30 November 2022 15 March 2023 29 July 2022</p> <p>15 March 2023 July 2022 – March 2023 July 2022 – March 2023 March 2023 July 2022 – March 2023 July 2022 – March 2023</p> |
| Upskilling the financial management and operational staff | <ul style="list-style-type: none"> • Identification of CF staff development needs. • On the job training on identified developmental needs. • Trainings to unpack technical matters. | February 2022- March 2023 |
| <ul style="list-style-type: none"> • Investigation of backlog and current cases of alleged financial misconduct • Consequence management for non-compliance with laws, regulations, policies and procedures through monitoring and reporting | <ul style="list-style-type: none"> • Identification and reporting cases of staff non-compliances with laws, regulations, policies and procedures applicable to CF and report to EXCO. • Monitoring compliance with CF SCM policy • Estimation of potential loss from financial misconducts. • Review CF condonation, write off & other reports. • Ensure Irregular, Fruitless & Wasteful expenditure investigated within 90 days • Assist with Determination & Assessments for Irregular Expenditure | July 2022-March 2023 |
| Reviewing management responses before submission to the AGSA | <ul style="list-style-type: none"> • Detailed review of all management responses to the AGSA by sectional champions • Review of all critical audit queries and responses. | February 2022- March 2023 |

CLEAN AUDIT INITIATIVES – PRELIMINARY RESULTS OF DATA ANALYTICS


- The data analytics are pointing to a number of exceptions regarding the status of records and data integrity at the CF. Some of the exceptions being investigated are as below:
 - The possibility of duplicate payments to Medical Service Providers and payments above the approved claims.
 - Possible fraudulent payments to non-existent claimants into unauthorised bank accounts. To this effect ABSA bank has advised the CF to seek assistance of the Law enforcement Agencies.
 - Claims payments that have been processed by the bank but their authorisation is untraceable in the CF records.
 - Recording of revenue for non-existent or unreachable Employers including unauthorised changes to the Employer and Premium received records.
 - Incomplete and inaccurate data recorded over a period of time since 2013 and missing supporting documentation.
 - Unreconciled data between non-integrated operational and financial systems creating a difficult environment to conduct AGSA audits.
- Next steps are investigation of the exceptions to confirm their validity or invalidity and this will inform the next accounting and administration steps to deal with invalid exceptions

CLEAN AUDIT INITIATIVES – AUDIT FINDING TRACKING USING iTrack TOOL

- To assist in real time review of control design upon receipt of audit findings.
- To assist effective recording of audit findings, design of effective controls to deal with the internal control weakness.
- To empower management with an effective tool for monitoring the implementation of internal controls and internal and external auditors' recommendations (closure of audit findings).
- To provide management with complete assurance of the elimination of repeat findings as such are closed systematically and control design effectiveness monitored.
- To empower and train staff through a step-by-step approach to analysing the root causes for weak internal controls and the design of appropriate controls.
- To provide easy access to status reports at the touch of the button at various levels to management, Audit Committee Members and other interested parties.
- To bring effective, speedy and robust change to the financial control management environment within any organisation.

CLEAN AUDIT INITIATIVES – KEY CONTROLS MONITORING (iTrack)

- Web Based tool –accessed by anyone with access to e-mail within the department or entity.
- User administration and profile management (Confidential as access is controlled by normal tool access controls using password system).
- All Data loaded into a server and access controlled.
- Upload of issues from PDF/Excel directly to the database using the standard approved structure of reporting.
- Email notification and escalations to supervisors and senior management where action is not implemented timeously.
- Categorization of Audit types
- AG / Internal / External monitored continuously including Control Self Assessments on key controls etc.
- Assignment of responsible persons / departments to finding and improve accountability.
- Linking of Issues to Control Self assessment process Id to improve focus on addressing the control weakness.
- Management reporting and dashboard based on level of reporting.



REVIEW OF THE ORGANISATIONAL ARCHITECTURE OF THE COMPENSATION FUND AND UNEMPLOYMENT INSURANCE FUND

Progress Made to Date



ORGANISATIONAL ARCHITECTURE REVIEW

Project Scope

PwC was appointed on the 9th March 2022 for a period of 18 months to conduct a diagnosis of the organisational architecture for the Unemployment Insurance Fund (UIF) and Compensation Fund (CF), including COID and the UI Provincial Offices and Labour Centres, mainly in as far as the work of the two entities is concerned.

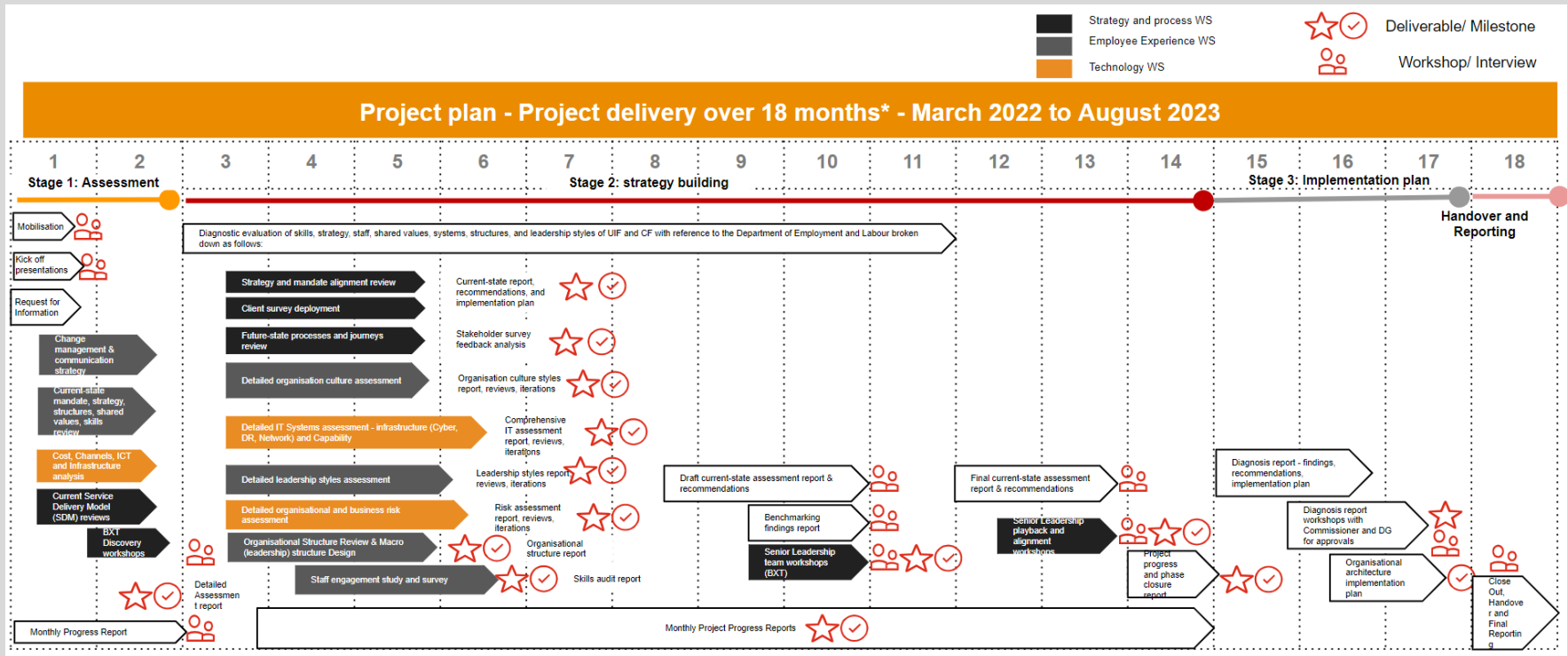
| Strategy | Structure | Systems | Leadership | Staff | Skills | Shared Values | Diagnostic Implementation Plan |
|---|---|---|---|--|--|--|---|
| A diagnosis of the two entities' Strategies in relation to the mandate of the DEL | A diagnosis of the Macro Structures of the two entities in terms of their ability to support the strategy | A diagnosis of the Organisation s' Systems in terms of capability to support the strategic thrust of the Department | A diagnosis of the Styles of Leadership of the two entities and to benchmark with at least two similar institutions | Staff diagnosis as it relates to the environment of the two entities respectively (using McKinsey's model) | A diagnosis of each of the entities current and future skills set and identification of the most critical skills needed to support the DEL's mandate | Shared Values diagnosis of the two entities relative to the NDP, the Constitution and King IV Corporate Governance | Diagnostic implementation plan with clear timelines and deliverables |
| | | | | | | | Close-out report |
| | | | | | | | Close-out report on entities diagnosis, findings, recommendations and implementation plan |

Change Management Strategy, content for awareness and provision of change management initiatives

Skills transfer and capability building approach and plan

ORGANISATIONAL ARCHITECTURE REVIEW

High-level project plan



ORGANISATIONAL ARCHITECTURE REVIEW

Project Progress

Keys

| | | |
|-----|----------------------|---------------|
| WS1 | Strategy and Process | ● Completed |
| WS2 | Employee Experience | ● In progress |
| WS3 | Technology | ● Not started |

Timeline : currently in month 6 of 18 month project (Mar '22 - Sept '23)

| Phase 1: Project initiation & Assessment | Phase 2: Strategy building | Phase 3: Implementation & sustainability | Phase 4: Formal project handover |
|--|--|---|---|
| WS1 | WS1 | WS1 | WS1 |
| <p>Key Deliverable: ●</p> <p>A. Strategy and Process As - Is Assessment report, inclusive of:</p> <ol style="list-style-type: none"> Review - findings and recommendations of UIF and CF Strategy review. Review of identified and critical processes. | <p>Key Deliverable: ●</p> <p>A. Future state customer journey B. Process Mining and Analysis and recommended improvements</p> | <p>WS2</p> <p>WS3</p> <p>Key Deliverable: ●</p> <ol style="list-style-type: none"> Implementation plan that's based on combined findings and recommendations across all three workstreams | <p>WS2</p> <p>WS3</p> <p>Key Deliverable: ●</p> <ol style="list-style-type: none"> Formal project closure and handover of all deliverables. |
| WS2 | WS2 | | |
| <p>Key Deliverable: ●</p> <p>A. Change Management Strategy and Plan B. EE As - Is Assessment report, inclusive of:</p> <ol style="list-style-type: none"> Leadership Alignment (Strategic alignment and SWOT analysis) Leadership Styles Assessment HR Department Maturity Assessment 1 - 1 SMS interview trend analysis | <p>Key Deliverable: ●</p> <p>A. Macro Organisational Structure, inclusive of:</p> <ol style="list-style-type: none"> Capability Mapping Operating Model Functional Structure Leadership structures <p>A. Skills Audit Findings and Recommendations Report</p> | | |
| WS3 | WS3 | | |
| <p>Key Deliverable: ●</p> <p>A. Technology As - Is Assessment report, inclusive of:</p> <ol style="list-style-type: none"> Cyber Security and BCM findings and recommendations | <p>Key Deliverable: ●</p> <p>A. Findings and recommendations report: Post the assessment of the entities' Business Impact Analysis and implemented Business Continuity strategies the assessment of the Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) of the entities according to the international standards.</p> | | |

Thank You...



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Department:
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REPUBLIC OF SOUTH AFRICA

