



AUDITOR-GENERAL
SOUTH AFRICA

Portfolio committee briefing on the Unemployment Insurance Fund (UIF)

14 September 2022

Our mission and vision








We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

AGSA audit outcomes

NB: Percentages in this presentation are calculated based on **completed audits of the UIF** , unless indicated otherwise.

| Unqualified opinion with no findings (clean audit) | Financially unqualified opinion with findings | Qualified opinion | Adverse opinion | Disclaimed opinion |
|--|---|---|--|--|
|  |  |  |  |  |
| <p>Auditee:</p> <ul style="list-style-type: none">produced credible and reliable financial statements that are free of material misstatementsreported 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 | <p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none">align performance reports to the predetermined objectives they committed to in APPsset clear performance indicators and targets to measure their performance against their predetermined objectivesreport reliably on whether they achieved their performance targetsdetermine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance | <p>Auditee:</p> <ul style="list-style-type: none">had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statementshad material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published. | <p>Auditee:</p> <ul style="list-style-type: none">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 | <p>Auditee:</p> <ul style="list-style-type: none">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 |

The AG’s annual audits examine:

1. Fair presentation and absence of significant misstatements in **financial statements**
2. Reliable and credible **performance information** for predetermined objectives
3. **Compliance with laws and regulations** governing financial matters

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

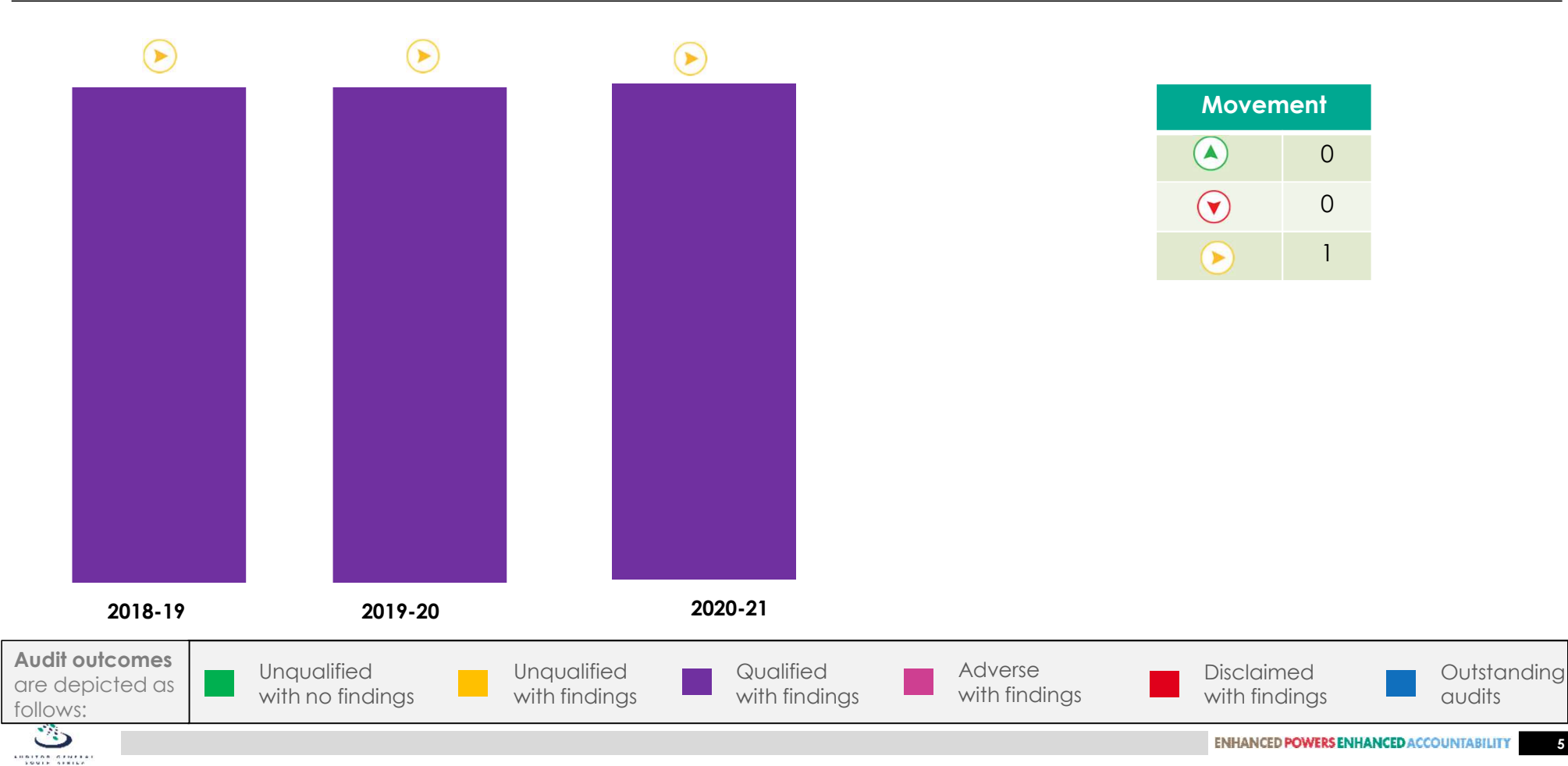
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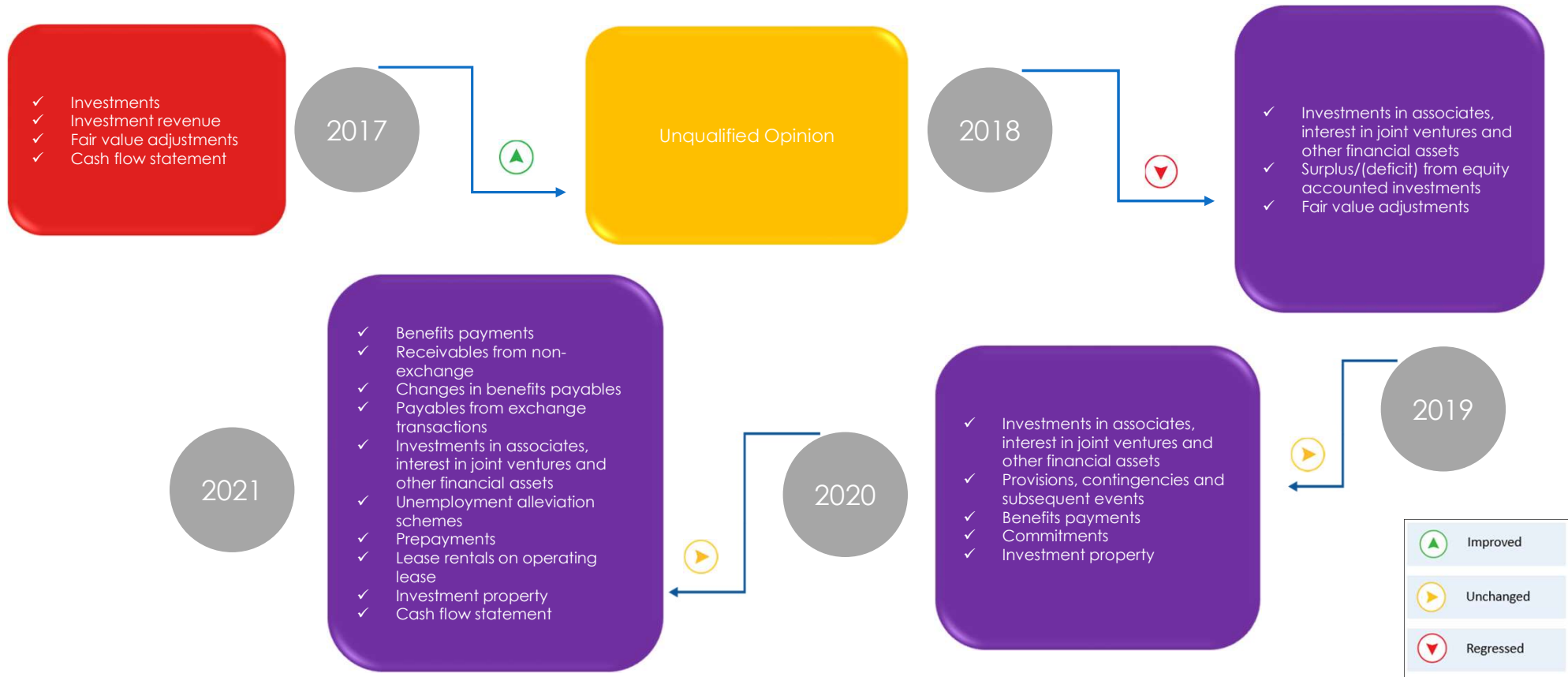
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Audit outcomes

Audit outcomes over 3 years



Unemployment Insurance Fund history of audit outcomes



Key qualification areas



**BENEFIT PAYMENTS (R55 828 323 000) ,
PAYABLES FROM EXCHANGE (R1 190 182)
AND RECEIVABLES FROM NON-EXCHANGE
TRANSACTIONS (R856 000)**



- The public entity did not properly account COVID-19 Temporary Employer/Employee Relief Scheme (TERS) benefit payments in accordance with GRAP 1, *Presentation of financial statements* due to inadequate accounting records. I was unable to determine the extent of the misstatement on benefit payments for COVID-19 TERS stated at R55 828 323 000 in note 20 to the financial statements as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for benefit payments for COVID-19 (TERS) as the public entity did not implement effective systems of internal control to maintain proper accounting records and information.
- I was unable to obtain sufficient appropriate audit evidence that all receivables from non-exchange transactions resulting from overpayments on COVID-19 TERS benefit claims in the current year had been accounted for. The public entity did not implement effective systems of internal control to identify overpayments relating to COVID-19 TERS benefit payments. I could not confirm the balance of receivables from non-exchange transactions by alternative means as the entity's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments were necessary to receivables from non-exchange transactions stated at R856 000 in note 5 to the financial statements.
- The public entity did not correctly account for benefits payables in accordance with GRAP 1, *Presentation of financial statements*. The public entity incorrectly accounted for benefits payable relating to COVID-19 TERS benefit claims as payables from exchange transactions. As a result, the benefits payable are understated by R351 010 000 and payables from exchange transactions are overstated by R351 010 000 in the financial statements.

2021-22



2021-22 PERFORMANCE BRIEFING

ENHANCED POWERS ENHANCED ACCOUNTABILITY

7

Key qualification areas



INVESTMENTS IN ASSOCIATES (R4 865 139 000), INTEREST IN JOINT VENTURES (R64 945 000) AND OTHER FINANCIAL ASSETS (R82 300 000)



- The public entity did not equity account for investments as required by GRAP 36, *Investments in associates and joint ventures*. This was due to inadequate processes of financial management to ensure that all supporting evidence relating to investments is obtained and maintained. The public entity incorrectly applied the requirements of GRAP 1, *Presentation of financial statements* relating to the impracticability of applying a requirement of the accounting standards.
- In addition, I was unable to obtain sufficient appropriate audit evidence to substantiate the amount recognised as income from equity accounted investments and interests as the public entity did not implement effective systems of internal control to maintain reliable accounting records and information to support the amount disclosed in the financial statements. I could not confirm the amount for income from equity accounted investments and interests by alternative means as the public entity's records did not permit the application of alternative audit procedures.
- In addition, I was unable to obtain sufficient appropriate audit evidence to substantiate the amount recognised as unlisted financial instruments, interest in joint ventures and investments in associates, disclosed in notes 3, 12 and 13 to the financial statements. This was because the public entity did not implement effective internal control systems to verify the source data used to determine the fair value of the investments in associates, interests in joint ventures, unlisted financial instruments and the resultant impairment losses. The public entity's records did not permit the application of adequate alternative audit procedures.
- The public entity did not correctly account for impairment on investments in associates in accordance with GRAP 36, *Investment in associates and joint ventures* and GRAP 104, *Financial instruments* as the public entity impaired investments in associates without first applying equity accounting as required by the standards. I was unable to determine the extent of the misstatement as it was impracticable to do so.

2021-22

Key qualification areas



UNEMPLOYMENT ALLEVIATION SCHEMES (R635 753 000) AND PREPAYMENTS (R305 008 00)



- The public entity did not correctly account for unemployment alleviation schemes in compliance with GRAP 1, *Presentation of financial statements*. The public entity accounted for unemployment alleviation schemes that occurred in the prior year as expenditure in the current year. Consequently, unemployment alleviation schemes was overstated by R178 278 892 in the current year and understated by the same amount in the prior year. Consequently, payables from exchange transactions was understated in the prior year by the same amount in the financial statements. Additionally, there was an impact on the deficit for both the current period and prior period and on the accumulated surplus for the prior period.
- Furthermore, the public entity did not account for all unemployment alleviation schemes expenditure that occurred in the current year in compliance with GRAP 1, *Presentation of financial statements*. This was as a result of inadequate controls over proper record keeping. Consequently, unemployment alleviation schemes was understated by R272 085 209 and payables from exchange transactions understated by the same amount in the financial statements. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
- I was unable to obtain sufficient appropriate audit evidence for unemployment alleviation schemes due to unexplained differences between the underlying records and supporting schedules to the financial statements. Consequently, I was unable to determine whether any adjustments were necessary to unemployment alleviation schemes stated at R635 753 000 in note 21 to the financial statements.
- The public entity did not correctly account for prepayments in compliance with GRAP 1, *Presentation of financial statements*. The public entity accounted for payments related to unemployment alleviation schemes expenditure that occurred in the current year as prepayments. Consequently, prepayments were overstated by R270 435 084 and unemployment alleviation schemes understated by the same amount in the financial statements. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

2021-22

Key qualification areas



LEASE RENTALS ON OPERATING LEASES (R160 788 000)



I was unable to obtain sufficient appropriate audit evidence for lease rentals on operating lease included in operating expenses as management did not implement effective systems of internal control to maintain proper accounting records. I could not confirm the amount of lease rentals on operating lease by alternative means as the public entity's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine whether any adjustments were necessary to lease rentals on operating lease stated at R160 788 000 in note 27 to the financial statements.



INVESTMENT PROPERTIES (475 824 000)



During 2020, the public entity did not correctly account for fair value adjustments on investment property in compliance with GRAP 16, *Investment property*. The fair value adjustment on the investment property was calculated in the prior year based on the preceding years values rather than the current year values, which resulted in investment property, disclosed in note 9 of the financial statements, being misstated. I was unable to determine the extent of the misstatement on investment property stated at R194 775 000 as it was impracticable to do so. My audit opinion on the financial statements for the period ended 31 March 2020 was modified accordingly. My opinion on the current year financial statements is also modified because of the effect of this matter on the comparability of the investment property for the current period. Due to the opening balance of investment property being misstated, this will have a consequential impact on the fair value adjustment in the current year which is also misstated. I was not able to determine the full extent of the misstatement to the fair value adjustment stated at R28 092 325 000 (2020: R21 973 820 000 loss) in note 29 of the financial statements as it was impracticable to do so.



CASHFLOW STATEMENT (R23 110 540 000)



- The public entity did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements* as the public entity incorrectly included non-cash items in determining cash flows from operating activities. In addition, the opening balance for pre-payments used in the calculation of cash flows from operating activities did not agree to the underlying accounting records. I was not able to determine the full extent of the errors in the net cash flows from operating activities stated at R50 405 851 000 as it was impracticable to do so. Furthermore, since benefit payments, receivables from non-exchange transactions, unemployment alleviation schemes and operating expenses balances are included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R50 405 851 000 in the financial statements.
- In addition, the public entity incorrectly classified interest from investments and dividends received as cash flows from operating activities. Consequently, net cash flows from operating were overstated by R6 306 358 730 and net cash flows from investing activities were understated by the same amount in the financial statements. Furthermore, since investment property, investments in associates, interest in joint ventures and other financial assets balances are included in the determination of net cash flows from investing activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from investing activities stated at R70 018 311 000 in the financial statements.

2021-22

Unemployment Insurance Fund key qualification areas

Benefits payments, payables from exchange and receivables from non-exchange transactions

- Payments made in relation to TERS were not properly substantiated. This was primarily due to deficiencies in the verification processes of the Fund and lack of integration between the Fund and other state organs that are custodians of the primary records of identification and/or employment status in the country. And, for payments resulting from double dipping on normal benefits are as a result of a lack of an effective integration between Siyaya and the TERS system.
- There were numerous limitations experienced on the employer verifications that were performed on the TERS benefit payments. Of most concerning being that employers could not provide evidence/information to substantiate the claims made including confirming existence of employees, employment status and proof of payments for the disbursement of funds to the employees.
- The Fund did not have an accurate record of recoveries from overpayments of TERS benefits. Several transactions which had been indicated as recoveries could not be substantiated with supporting evidence. This is a result of a lack of adequate processes in place to accurately identify deposits made with the Fund for refunds emanating from overpayments of the TERS benefits.

Investment in associates, Interest in joint ventures and other in financial assets

- The fund did not have effective processes in place to verify financial information relating to the investments in associates and joint ventures. The fund had still not implemented the necessary controls to ensure that the information received from the investees is accurate, complete and valid and can be relied upon for financial reporting purposes. This included the cash flows of the investees for inclusion in the financial statements, including alignment between the applicable accounting frameworks/policies.
- In, addition, there was also insufficient audit evidence to validate the data used to perform the valuations of unlisted investments.

Unemployment Insurance Fund key qualification areas

Unemployment alleviation schemes and prepayments

- Payments made on unemployment alleviation schemes were incorrectly recorded as prepayments instead of properly being reflected as expenditure for the year under review.
- In addition, not all expenses incurred for the year under review was accounted for by the Fund
- We further identified differences between the financial statements and supporting schedules in relation to expenditure on unemployment alleviation schemes which management could not explain and provide substantive evidence for.

Investment property

- Investment properties values for the prior year are incorrect as the fair value adjustments were incorrectly calculated as the Fund utilised the market values for the previous financial years.

Lease rentals on operating lease

- The Fund did not provide supporting information/invoices to substantiate the expenditure incurred on the rentals of building.

Cash flow statement

- There were errors in the cash flow statement of the Fund that were not corrected. The reviews and monitoring to ensure that correct amounts are included in the cash flow statements, were not adequately performed, resulting in the inaccurate cash flow statement.

COVID-19 Temporary Employee/Employer Relief Scheme (TERS)

AUDIT CONSIDERATION

Following the special audits that were performed on COVID-19 TERS in 2020, we continued with the audit of the TERS benefit as part of the regulatory audit for the year ended 31 March 2021. As previously reported in the special reports, we identified payments that were made to, amongst others, deceased beneficiaries, employees with invalid IDs, double dipping on normal benefits and overpayments. As, the Fund has not yet validated the full amount, some of these payments were not yet substantiated.

During the regulatory audit for 2020-21, we also performed audit procedures on COVID-19 TERS benefits and also conducted physical verifications at the employers premises that were paid COVID-19 TERS benefits to confirm that the payments were disbursed to the intended beneficiaries.

AUDIT OUTCOMES

Based on the completed audit work for the 2020-21 regulatory audit, we identified similar payments that were noted during the special audits. Most concerning is that the employers who were selected for verification, in most instances, could not provide auditors with supporting information to substantiate some of the payments that they had received from the Fund.

RECOVERIES

Even though the fund has indicated that it has recovered some of the overpayments and invalid payments made on COVID-19 TERS benefits, the fund was not able to provide an accurate and adequate record of recoveries as well as the relevant supporting information.

MANAGEMENT INTERVENTIONS

- Management indicated that they are collaborating with the SIU and Fusion centre in an effort to recover money from fraudulent claims that were paid out by the Fund. Furthermore, the Fund has appointed a panel of audit firms to further continue with the follow-the-money project whilst they indicated that they are seeking to explore the process of undertaking data analytics for COVID-19 TERS



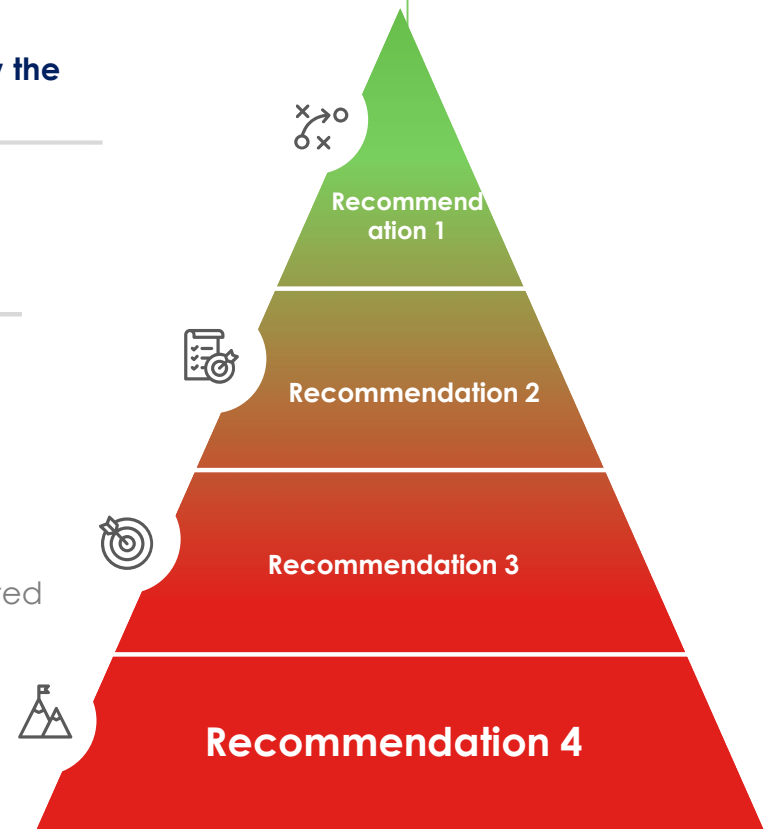
Recommendations

There is an **urgent** need to intensify and expedite progress on the **follow the money project**.

Develop **processes to thoroughly unpack the recoveries** due to the Fund to ensure credible and accurate reporting

Continuously monitor investments made and enforce the **terms** of the service **level agreement whilst ensuring consequence management** is implemented for non-compliance.

Intensify **financial discipline** within the Fund that should be demonstrated consistently throughout the year





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Quality of performance reporting

Second focus area: credible performance reporting

Performance report

UIF remained with uncorrected misstatements after the audit process. The findings were identified on **Programme 2: Business Operations**

Usefulness

- The indicator **“Percentage of identified COVID-19 cases verified”** was found not to be well defined as the term “COVID 19 cases” is ambiguous and the method of calculation for measuring the planned indicator was not clearly defined.
- Furthermore, related systems and processes were not adequate to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.

Reliability

- The Fund had material uncorrected misstatements on the annual performance report due to lack of supporting documents to substantiate reported achievements.

| Root cause analysis | Recommendations |
|---|---|
| <p>There is poor record keeping within the Fund and supporting documentation is not properly filed and kept in order to support the targets achieved and ensure easy retrieval of information when requested for audit.</p> <p>Further, there is inadequate review of planned indicators to ensure that they are simple and understandable.</p> | <ul style="list-style-type: none">• Implement a document management system for all directorates to ensure that information/documents are filed in an easily retrievable manner and can be submitted for audit within the agreed upon timelines.• Management should enhance the review controls to ensure that misstatements are prevented or detected and corrected. |



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Compliance with legislation

Third focus area: compliance with legislation

In the current year there has been a stagnation in compliance with legislation for Unemployment Insurance Fund.

In most instances, the non-compliance identified is similar to that reported in the prior year and the nature is as follows:

Annual financial statements: Financial statements were not submitted for auditing within two months' after the end of financial year and material misstatements were identified in various components of the financial statements.

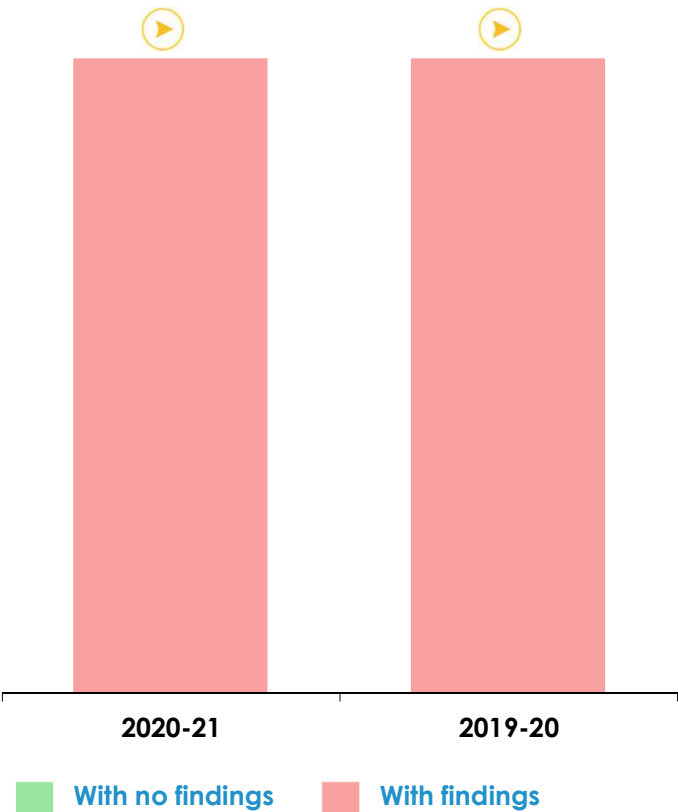
Expenditure management: Irregular, fruitless and wasteful expenditure was not prevented. Prepayments were made before services were received and resources of the Fund were not utilised economically.

Consequence management: We could not confirm that disciplinary steps were taken for individual who permitted the irregular, fruitless and wasteful expenditure due to lack of complete and proper records to support investigations. Also, disciplinary hearings were not held for confirmed cases of financial misconduct committed by some of the officials.

Procurement and contract management : The prices of COVID 19 Personal Protective Equipment items were higher than prescribed prices on Annexure A of National Treasury instruction note 5 of 2020/21.

The UIF did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation

Findings on compliance with key legislation



Irregular expenditure over 2 years

Definition

Expenditure incurred in contravention of key legislation; prescribed processes not followed.

Irregular expenditure incurred by the department and entities in portfolio



Nature of irregular expenditure

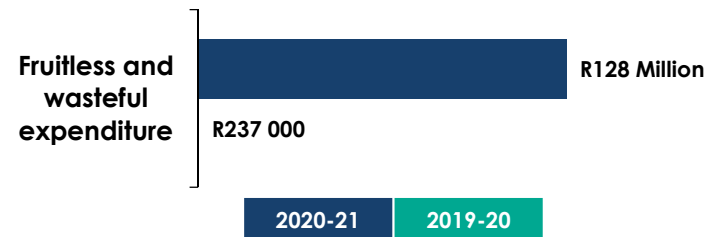
Highest contributors to irregular expenditure related mainly to the non -adherence to SCM prescript and the effective monitoring thereof:

- R86.8 million relates to expenditure incurred on irregularities in the appointment of the service provider.

Fruitless and wasteful expenditure over 2 years

Definition Expenditure incurred in vain and that could have been avoided if reasonable steps had been taken – **no value for money!**

Fruitless and wasteful expenditure incurred by the department and entities in portfolio



Nature of fruitless and wasteful expenditure

- The majority of the fruitless and wasteful expenditure relates SAP- Licenses and support.

Consequence management



Consequence management

The Fund did not have adequate processes in place to investigate and follow up on irregular expenditure and fruitless and wasteful expenditure.

Below is a summary of findings we identified:

- ✓ Proper and complete records that were not maintained as evidence to support the investigations into irregular expenditure.
- ✓ No sufficient appropriate audit evidence that disciplinary steps were taken against some of the officials who had permitted irregular expenditures.
- ✓ Disciplinary hearings were not held for confirmed cases financial misconduct committed by some the officials.

Recommendations

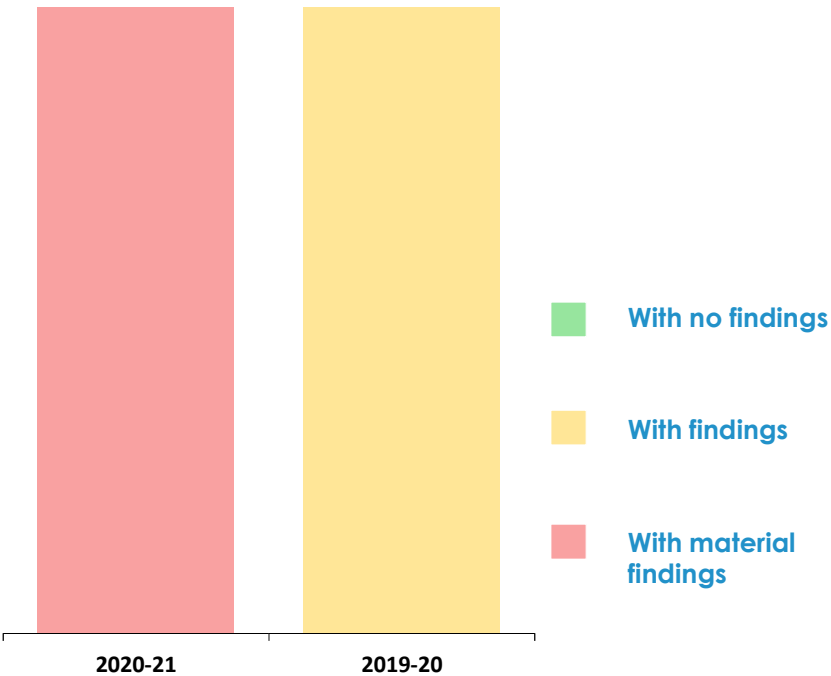
- The Fund must follow up on the progress made on investigations, where the process is weakened, actions must be taken to ensure that deficiencies are remedied.
- The Fund will benefit from ensuring that complete and proper records are kept to support the investigations that have been conducted.
- This also ensure that appropriate action is taken, by reviewing the outcomes of these investigations against the policies of the Fund.

Supply chain management



Overall regression in SCM compliance

All SCM findings should be investigated



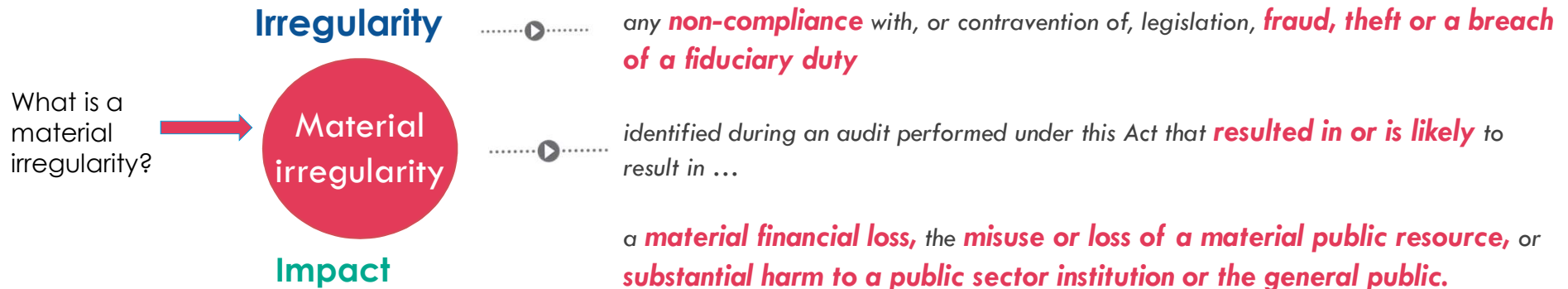
Findings on supply chain management

- Uncompetitive or unfair procurement processes followed:
- Supporting documents not provided for procurement made.
 - Procured without inviting at least the minimum prescribed number of written price quotations from prospective suppliers.
 - Award to bidder who did not score the highest points in the bid evaluations.

Recommendations

- The fund should implement controls over record management to ensure that there is accountability for procurement made.
- The supply chain processes should be continuously reviewed to ensure compliance with prescripts.

At the center of the PAA amendments – material irregularity



To allow for establishing capacity and processes, we followed a **phased-in approach** for identifying MIs in 2020-21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Type of material irregularity

Any non-compliance in line with the definition stated above.

Selection criteria

The MI process is implemented at selected auditees audited by the AGSA that represent **a significant portion of the expenditure budget and the irregular expenditure** of national, provincial and local government, including state-owned entities. The selection is also focused on auditees that are key contributors to **government priorities**. For 2021, the UIF was selected for MI implementation in the portfolio.

In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during the audit and we are currently communicating with the accounting authority of regarding findings identified during the audit.



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Governance and internal controls



Internal control deficiencies



The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the audit opinion as well as the material findings on performance information and compliance with legislation.

Action plans to address internal control deficiencies

- 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 measure to address the internal control deficiencies. As a result, there were recurring and significant new findings with similar root causes as that were previously reported.

Proper record keeping

- Management did not implement proper record keeping ensuring 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.



Internal control deficiencies (continued)

Regular, accurate and complete financial and performance reports

- Management did not ensure that the financial statements and annual performance report were adequately reviewed and supported by complete and accurate supporting documents, resulting in material misstatements being identified during the audit.

Daily and monthly processing and reconciling of transactions

- 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.

Compliance monitoring

- The public entity did not adequately review and monitor compliance with applicable laws and regulations, which resulted in non-compliance with legislation being identified during the audit





Status of information technology (IT) environment

IT Governance

The **TERS system** implementation was not adequately managed in accordance with the adopted project management practices

Weaknesses in the DeL IT governance processes which have a direct impact on the UIF:

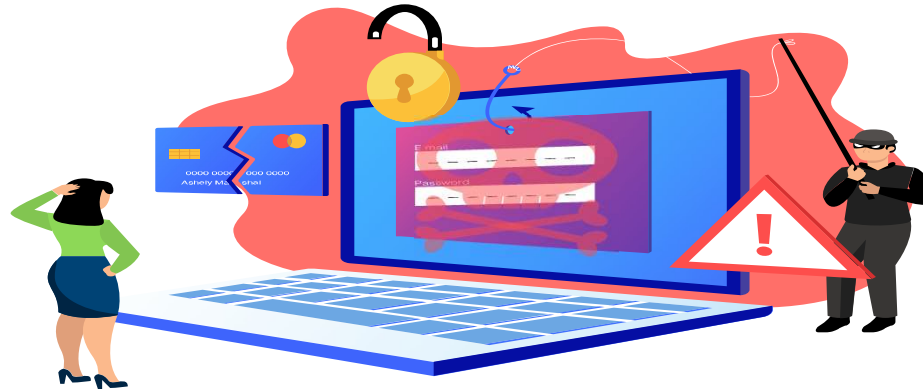
- **Poor management** of key Information and Communication Technology (ICT) governance structures, which resulted in duplication of committees and meetings.
- **Poor oversight** of IT project implementation and software licenses management, resulting in excessive SAP software licenses.

IT service continuity (ITSC)

- Lack of disaster recovery plan at DEL, impacting disaster recovery plans and efforts for both the department and its entities.

Impact

- Inadequate user access management may lead to **unauthorized user access** allowing users to perform functions or transactions they are not authorized to perform
- **Lack of disaster recovery plan** may result in the Fund not being able to recover lost data or continue with business should there be a disaster.



Recommendations

- Management should **develop the disaster recovery plan** in line with the overall Business Continuity Plan for the Department and its Entities.
- Management should **monitor and track access to the service/generic accounts** and ensure access is appropriately restricted and controlled.
- IT Management should ensure that the system implementation practice adopted is adhered to and also ensure that the system functionality is aligned to user requirements and record of deviations are documented and signoff.
- Management should develop a mechanism to **extract all changes made on the TERS system** in order to ensure that all the changes that have taken place had follow the adequate process and were **approved** the relevant officials

Security Management

- **Password controls** on TERS were **not adequate**
- The **TERS Oracle database** version was found to be **outdated** and **non-compliant** to the in-house standard security policy.

User Account Management

- There was **inadequate user access management processes** on TERS, Siyaya, U-filing and Virtual Office systems due to lack of compliance with policies and procedures on the creation of users, review of user access rights, system administrator activities and logon violations.

Program change management

- **Program change management** controls were **not adequately designed** and effective as TERS and Siyaya systems does not have the capabilities to automatically log system changes made.
- **Lack of segregation of duties** for user with developer access and system administrator access on TERS system

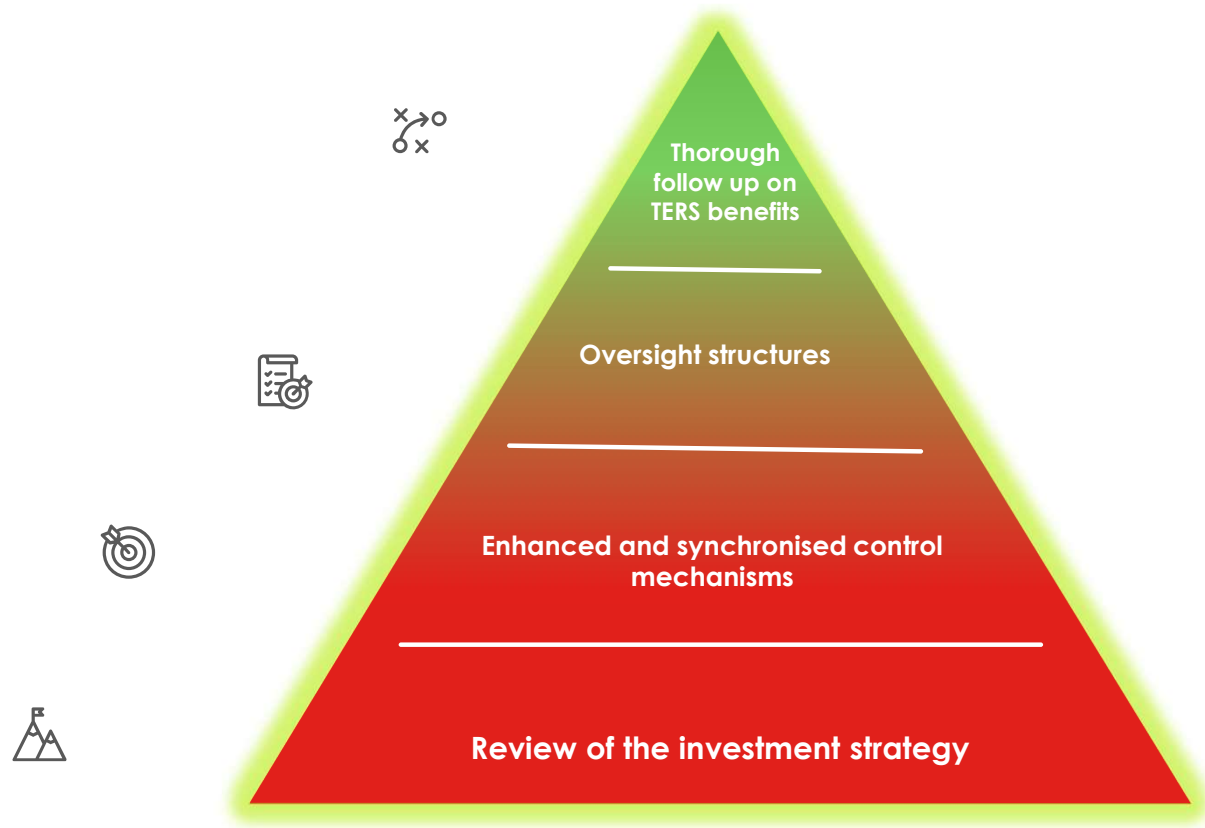


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Way Forward



Way Forward





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Recommendations



Recommendations

We recommend that the portfolio committee:



Obtain a detailed update from the fund on implementation of the action plan, specifically relating to progress made on review of the control environment including the controls relating to reporting, particularly ensuring that the financial statements are prepared and submitted on the legislated date as required by the PFMA.



In addition, obtain a detailed update on COVID-TERS payments in relation to progress on “follow the money” project, including finalisation of investigations and recoveries made by the fund and external investigating bodies.



Lastly, obtain a detailed report on implementation of recommendations from oversight committees

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