

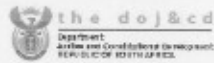
GUARDIAN'S FUND

Accounting Turnaround Project

S Gomm

CFO : Dept of Justice & CD

13 March 2007



A brief overview of the efforts underway led by the office of the CFO targeting the accounting environment as distinct from the day to day service delivery operations of the institution.

Overview of Accounting Environment Turnaround Project

- Background
 - Accounting Challenges in Guardian's Fund
- Problem Analysis
- Response and Intervention
- Status of Project & Achievements to date
- Way Forward
- Conclusion
- Questions

This process has been a realisation that GF faces "**challenges**" as demonstrated by the quality of its reports, reference here to the AG's history of disclaimers and emphasis of matter items.

A review of where the problems emanate from.

An outline of the CFO's response and intervention strategy.

An outline of the impact areas and where we are to date and what we still have to do.

Background

The **Guardian's Fund (GF)** is a statutory trust established in terms of Chapter V of the Administration of Estates Act, 1965 (Act 66 of 1965)

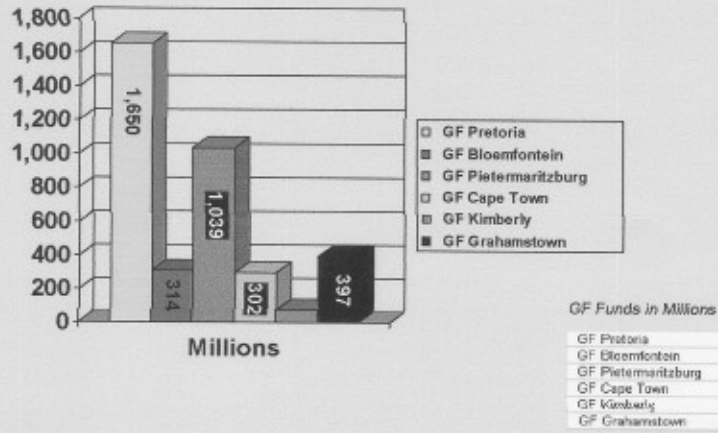
The **purpose** of the GF is to protect and manage monies of persons deemed to be legally incapable or lacking the capacity to manage their own affairs as well as undetermined, unknown or absent heirs and untraceable persons.

- Since 1992 to present the Auditor General has, in his audit reports on Guardian's Fund, expressed dissatisfaction with the accounting systems in Guardian's Fund.
- From 1998 to present Guardian's Fund has had *Disclaimed Audit Opinions*.
- Clarification of roles of the DG, who is Accounting Officer, through the CFO and the Chief Master paved way for focused assistance to the GF by the CFO: Dept of Justice.

The 3rd point is to comment why only now this concerted effort from the office of the CFO re the GF accounting challenges.

Background

GF Offices by value of funds on deposit at PIC as at 31 Dec 2006

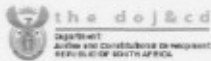


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Problem Analysis

The accounting challenges facing the Guardian's Fund can be ascribed to the issues listed below

- Staff Capacity constraints
- Skills Shortage
- Inadequate/antiquated accounting systems
- Evolving financial accounting standards
- Explosive Growth in Fund Size



Staff Capacity constraints

Not enough bodies to perform the functions necessary to discharge the mandate of the Fund

Skills Shortage

The range of accounting and financial skills requisite to effectively implement and maintain financial controls and systems is lacking in the majority of the current GF staff complement.

Inadequate/antiquated accounting systems

The prevailing accounting systems in place at GF are of the previous era and have not kept up with recent developments in technology and expectations.

Evolving financial accounting standards

The financial reporting environment is constantly changing and more detailed and sophisticated information is now necessary to be provided to users of financial statements. GAAP now prescribes certain minimum information that the GF has not been geared to provide.

Explosive Growth in Fund Size

With the opening up of the democratic space as well as the toll of the aids pandemic for instance, the fund has grown drastically in the level of activity but this growth has not been matched with capacity expansion in terms of infrastructure, staff complement or system upgrade etc.

Office of CFO: Assistance to Masters' Office/GF

Staff training and procedure development under the office of the CFO has only recently been implemented with notable successes, coordination of annual audits and timely accounting problems resolution with Guidance of the office of the CFO has been lacking.

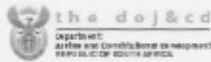
Response and Intervention

Mobilisation of high level financial and accounting expertise and the initiation of a **GF Accounting Environment Turnaround Project** by the office of the CFO : Justice.

Grouping of Guardian's Fund **challenges** into well defined focus areas and formulation of specific intervention efforts to address them. Challenges have been grouped into the following three areas:

- **Procedural challenges** & issues of non-compliance with key legislation and prescripts – DFI, Standardised Procedure Manuals
- **Fundamental accounting and system challenges** – Review of current practice and implementation of revised procedures to ensure compliance with revised standards etc.
- **Volume induced errors and accounting backlogs** – Assistance by Project Team, Backlogs Task Teams

Ongoing Consultations with AG, National Treasury, Internal Audit, PIC, SARS to address shortcomings impacting accounting and reporting delivery.



Accounting for Financial information in the GF books

1. Office of the CFO to assist in:

1. Performing Bank reconciliations per month with supporting documentation
2. Compiling accurate and complete Monthly Cashbook
3. Reconstructing General Ledger for 2005/2006 and 2006/2007 to reflect actual financial information and not estimated financial information
4. Update General Ledger with accrual transactions (GAAP)

To address AG's concerns around lack of reliable detailed supporting schedules for beneficiary information

CFO to assist in:

Compiling Supporting Schedules for GF beneficiary for all classes of liability (interest bearing and non-interest bearing) Interest payable to beneficiaries from source documents and the temporary/interim system (the Take-on balance system).

Adjusting historically misstated Monies Held in trust Liability, interest payable to Beneficiaries in General Ledger according to above supporting schedules.

CFO to assist in:

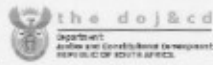
Performing PIC reconciliation per month

Adjusting General Ledger with Investment Income received, administration fees, accrual entries, etc

PIC investment strategy

Project Status & Achievements to date

Challenges	Completed activities	Ongoing activities	Future activities
Procedural challenge	-Review and update of Procedure Manual (DFI and Governor Brown)	-Rolling out training workshops to GF Staff in November/December 05	-Refresher courses in April 2007
Non-compliance with key legislation and prescripts	-Included in Procedure Manuals	-Formulating checklist for completion by GF Staff	-Regular reviews of compliance
Fundamental accounting and financial challenges	-Injected high caliber professional financial/ accounting expertise to assess and formulate a comprehensive master plan to elevate financial/ accounting environment	-Implementation of short term specific responses to address challenges	-A closer working relationship between the offices of the CFO and the Chief Master to build and sustain a stable accounting environment
Errors and accounting backlogs	-Amended Cashbooks and bank reconciliation	-Deployment of rescue teams to address accounting backlogs -Assistance in development of GF electronic system	-Assistance in implementation of GF electronic system



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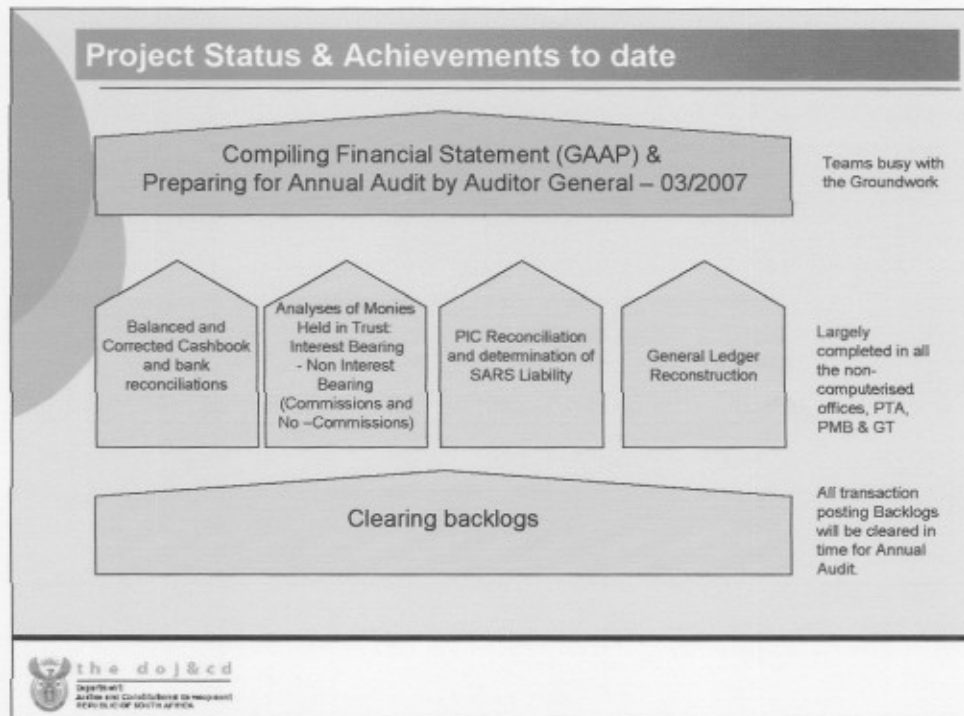
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Project Status & Achievements to date (cont.d)

CFO project Teams

The Office of the CFO has mobilised and rolled out teams to all the six GF offices to assist and complement the efforts underway in addressing the identified challenges. To date these teams have

- Corrected and updated Reconciliations and Cashbook entries in PMB, PTA and GT.
- Cleared Transactions Posting Backlogs
- Busy Finalising **AUDIT PACKS** containing reconciliations, analysis and relevant supporting schedules required by the AG to conduct a smart efficient audit.
- Consultations with Key Stakeholders

Alexander Forbes a leading firm of Fund Management and Investment experts was recently appointed as advisors to the Department of Justice to formulate strategies and recommend best practices for the management of the monies in trust and the investment at PIC.

National Treasury & Auditor General have been vigorously engaged by the office of the CFO in drive to crystallise a workable framework of Guardian's Fund specific GAAP compliant Financial Statement taking into account the current reporting environment.

The **Computerisation Project** being undertaken by the office of the Chief Master has been resourced with a dedicated expert to give financial accounting expertise to the development process. It is envisaged that the three offices reporting electronically will benefit immensely and fine-tune their reports to be more compliant with financial reporting prescripts.

Way Forward

The immediate challenge and hurdle to cross is the preparation of the **2006/7 Financial year audit** by **Auditor General** and demonstration to all relevant stakeholders that Guardian's Fund is well on its way to mastering its historical challenges and transformation of its systems and processes in the custodianship of the significant funds accruing to its beneficiaries.

Going forward the office of the CFO is committed to playing its role in assisting the Master's in

- Selection and training of the right personnel and skills for Guardian's Fund.
- Formulation and implementation of adequate accounting processes and systems for the Fund that are commensurate with the Fund size and its growth prospects.
- Formulation and implementation of the best **Investment Strategy** in conjunction with PIC that best benefits our beneficiaries.
- Managing the relationships with the other key stakeholders, namely
 - National Treasury, Auditor General and SARS.

A brief outline of possible future activities.

Conclusion

The Office of the CFO in conjunction with the office of the Chief Master are poised to take this very important institution, Guardian's Fund and ensure that it is equipped both **structurally** in terms of systems, processes and capabilities and **strategically** in terms of focus and reach to discharge its important mandate in the ideals of the Batho Pele principles.

Thank you

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