

18 August 2015

To the Financial Services Board

Re: Formal response to the Deloitte's Report to the Trustees of the Dynam-ique and IF Funds on the ALM Project – Phase One

I have studied the abovementioned report and have documented my findings below.

The decision to scrap the existing database and spend R20m rebuilding everything was fundamentally flawed and driven by conflict of interest and greed

I have commented below on each specific reason provided by Deloitte as to why the existing database had to be scrapped and rebuilt, however in overall terms the explanation put forward by Deloitte is totally vague, with no evidence put forward to support any of the reasons given. There is a fundamental problem here in that Deloitte stood to make R20m by scrapping the existing database and rebuilding everything and hence they sat with a massive conflict of interest and they should never have been allowed to be the ones to advise on whether the existing database should be scrapped. In addition the trustees were grossly negligent in, firstly, taking advice from a party who sat with such a major conflict of interest and, secondly, in so hastily, based on vague and unsubstantiated reasons, setting aside a database that had been built up through thousands of man hours, at a cost of millions of Rands, and which had been scrutinised intensely by administrators, brokers, employers, members and service providers through their on-line access and other means.

In response to the specific reasons put forward by Deloitte for scrapping the existing database:

Reason put forward by Deloitte	Comments
<i>Incomplete data</i>	No supporting information/evidence of this is put forward by Deloitte. Any such instances would however have been minimal given all the data was rigorously checked on an ongoing basis by the brokers, employers and employees through online access, benefit statements and billing schedules. Even if there was incomplete data, fixing up the isolated instances would have been a far more sensible and cost effective solution than redoing everything.
<i>Duplicated data</i>	No supporting information/evidence of this is put forward by Deloitte. Any such instances would however have been minimal given all the data was rigorously checked on an ongoing basis by the brokers, employers and employees through online access, benefit statements and billing schedules. Even if there was duplicated data, fixing up the isolated instances would have been a far more sensible and cost effective solution than redoing everything. Also duplicated data can be inconsequential and have no effect on the values whatsoever e.g. duplicated member numbers.

<p><i>Certain transactions were grouped or backdated therefore not presenting an accurate record of transactions</i></p>	<p>Again no supporting information/evidence for this is put forward by Deloitte. Notwithstanding this, grouping transactions does not in any way equate to inaccurate records. For example, if we had 3 schemes investing in the same portfolio and made one grouped/combined payment to the asset manager then this does not mean the records are inaccurate. In fact this is a reason for not having scrapped the existing database as that database/system was able to identify which transactions had been grouped and ensure these transactions were properly priced, which is something Deloitte would not have been able to do using their spreadsheet based rebuild approach.</p>
<p><i>The bank accounts in Everest had not been reconciled and could not be relied on</i></p>	<p>Naturally that would be the case as the audit prep hadn't been completed by AON yet. The solution here would have just been to have AON complete the outstanding audit prep and not have gone and rebuilt everything. If AON had just been made to complete the outstanding audit prep (which they were obliged to do given they took over Dynam-ique as a going concern) then the R20m spent on the rebuild could have been totally avoided.</p>
<p><i>The static data such as risk premiums and administration cost allocation percentages / rates were inconsistent / did not tie up to fund rules / were incomplete</i></p>	<p>This is an irrelevant point as what is being said here is that the fees did not tie up to the supporting documentation (including the admin agreements and the rules) which is actually irrelevant as at the time the fees were agreed between all the parties, including the administrator, employer, broker and insurers. Therefore so what if the documentation on hand was out of date and did not support the fees – at worst it may have just required some rule amendments to bring the rules in line with the agreed fees. However rebuilding all the records does nothing to address this point and per the Deloitte Log they in any case just went ahead and used what fees were on the Dynam-ique database anyway.</p>

Deloitte have deliberately tried to misrepresent the facts and exaggerate the problems

Deloitte list their findings in the report to the Trustees but provide no indication of the frequency/error rate of each funding. As a leading auditor they would know all too well that error rates are key to assessing the quality or accuracy of a process. In other words, an error rate of 0,1% indicates an extremely low error rate implying a solid process and/or good quality whilst an error rate of 30% would indicate a material problem with the quality and/or process. So without knowing the error rates it would be impossible for the reader of the report to be able to draw any conclusions and Deloitte would know this. So why then do they just list problems without specifying the error rates? The answer is sadly very simple – the error rates were so low that had they spelt them out any reader of the report would have immediately known that spending R20m redoing everything was a total waste of money. As one example of the low error rates – the first Deloitte finding is that employers paid premiums into the bank account of the wrong fund – in this instance this error occurred on 3 out of 280 employers, or on 1% of the employers – which hardly supports the decision to have discarded the existing database and rebuild everything.

Further, the Deloitte's issue Log is filled with irrelevant findings. I have given a number of examples of this below but there are hundreds, if not thousands, of such irrelevant issues. So why would Deloitte produce a report filled with irrelevant findings. Once again the answer is simple. If they had only listed relevant issues then the number of issues would have been so few that it would be immediately apparent to any reader that it was a waste of money spending R20m redoing everything. Including these irrelevant findings therefore served to pad their report and exaggerate the problems.

Examples of, randomly selected, irrelevant findings:

Participating Employer	Finding	Comments
Megaphase Trading	<i>The risk rate changed from 3.24% to 3.44% in January 2008 and we could not trace the change to any supporting documentation</i>	Well so what? The employer, insurer and broker were all happy with the change so it really is a non-issue that source documentation could not be found. The source documentation obviously existed but was just not saved on the server.
ER Wittig	<i>The following employees appear to have changed their surnames during the period but there is no supporting documentation to validate this</i>	Well so what? When members get married they change their surname. What is the value in Deloitte's bringing this to the attention of the trustees?
DBC Wovens	<i>Two members were allocated the same member numbers</i>	Well so what? There is no suggestion that the values are wrong. One member could just have been given a different number instead of rebuilding everything
Mr. Stainless Steel	<i>There was no supporting documentation for the investment election form</i>	So what? All the parties were happy where the money was invested. This is an example of the most common issue emanating out of the audit i.e. no source documentation, or at least Deloitte couldn't find any source documentation. If spending R20m to find out that there is no source documentation on file is not a waste of money then I don't know what is.
Netsys International	<i>The admin and consulting fees do not agree to the signed Service Level Agreement</i>	Deloitte addressed this issue by using the rates applied in Everest – in other words they used the rates that Dynamique used so they agreed with what Dynamique did – so what was the point of even raising this issue
Westfalia Separator SA	<i>For the employee Hans Mamsell no employee or employer contributions were</i>	Clearly this was a just risk only member. Deloitte addressed this issue by handling this member exactly the way

	<i>made, nor were any consulting fees paid. Only the admin fee and risk benefit amounts were paid.</i>	Dynam-ique did – in other words they adopted the approach taken by Dynam-ique – so again what was the point of even raising this issue
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The Deloitte's issues Log is plagued with incorrect findings

Below we have listed but a few examples of where the findings by Deloitte are incorrect - the report is filled with such errors.

Examples of, randomly selected, incorrect findings:

Participating Employer	Finding	Comments
Avstar Aviation	<i>No supporting documentation could be found for the fund. No rules, admin agreements or any other information could be found.</i>	I have attached the signed rules and admin agreement for the fund.
Cato research	<i>There is no documentation on file to support the admin and consulting, and risk benefit charges</i>	I have attached the signed admin agreement
WZ Wellness Matters	<i>There are no signed fund rules</i>	I have attached the signed fund rules. These were saved on the server. You would think that for R20m Deloitte's could have looked properly.

The Deloitte's rebuilt member values are wrong

We have detailed below a number of reasons why the Deloitte's rebuilt member values are most certainly wrong. This means that R20m of members hard earned retirement money was squandered replacing a set of values that the trustees thought MAY be wrong with a set of values that are DEFINITELY wrong.

Reasons why the Deloitte's rebuilt member values are wrong:

Reason	Comments
All unallocated contributions were allocated on the 15 th of the month with no allowance made for late receipt of contributions	This is wrong. Take for example the situation where the administrator was not able to allocate contributions due to non-receipt of schedules from the employer, which schedules were only supplied a number of months later despite numerous follow ups by the administrator. In such instance it is wrong for Deloitte's to just backdate the investment of

	contributions and this means the members rebuilt values are wrong and Deloittes have creating an asset liability mismatch. It also shows a lack of understanding by Deloittes of pension fund administration.
Where last contribution date differs to exit date Deloittes have often made incorrect assumptions resulting in incorrect rebuild values	An example of this is Dometic Provident Fund, member R Pretorius where Deloittes state in their issues Log: <i>“Member R Pretorius contributed up to November 2007, but Everest shows an exit date of September 2007 for this member”</i> and the Deloittes response to this was to include contributions for this member up to November 2007 in their rebuild on the basis that contributions had been paid for Oct and Nov 2007 – this action by Deloittes was however WRONG – reason being that this member’s exit date was in fact 30 Sep 2007 (copy of withdrawal form attached) and the contributions paid for October and November 2007 were actually refunded to the employer in the December 2007 pre bill (copy of this pre bill attached)
No allowance made by Deloittes for RFT	Whilst RFT was abolished at some point it was applicable in the early part of Dynam-ique’s tenure as administrator and by not allowing for it the Deloittes values are wrong.
There were instances where future cash flow had to be switched but not the existing money	This scenario can’t be handled in a spreadsheet and the Deloittes values would therefore not correctly allow for this
Deloittes have backdated investment switches	You can’t just willy nilly backdate investment switches as Deloittes have done as this creates asset liability mismatches and produces incorrect member values. Dynam-ique had a policy that we did not backdate investment switches but rather the onus was on the brokers, employers and members to check, using the online access we provided, that their investment switch had been processed and correctly processed. The reason for this is that in many cases investment switches that clients thought they had sent through had not been received by the administrator or the investment switch form had been incorrectly completed. For Deloittes to just ignore this business practice and just come along and backdate investment switches is therefore reckless on their part and again shows a lack of understanding of pension fund administration.
Asset based fees have been calculated incorrectly as a result of	There were a number of instances where there were asset based fees where the fee was a marginal scale

<p>exited members being excluded by Deloitte</p>	<p>based on the size of the total assets for a scheme. By excluding the exited members the total asset values calculated by Deloitte would be wrong and hence the asset based fees would be wrong meaning that their member values are wrong.</p>
<p>Deloitte used contribution amounts/schedules that don't tie up to bank deposits</p>	<p>This shows a clear lack of understanding of pension fund admin on the part of Deloitte. Take for example the scenario where the client sends through a schedule that doesn't tie up to the amount deposited – so the administrator calls the client to query this and the client tells us that they accidentally included a member in the schedule who shouldn't have been included – so the administrator excludes this member and the system then ties up to the amount deposited. Deloitte however have gone and allocated contributions based on the schedule which means they have given the excluded member a contribution making their rebuild values wrong. This is just one of many scenarios which highlight that you can't just recreate records based on the contribution schedules.</p>
<p>Information is based on source documentation</p>	<p>Another fundamentally flawed assumption again showing a lack of understanding of pension fund administration. There are numerous reasons why the source documentation may be wrong and/or alternative arrangements may have been made between the parties concerned (e.g. investment switch form sent through and then broker calls us to pend that switch) which is exactly why you can't come along 5 years later and profess to know what happened 5 years prior just by looking at the documentation on file.</p>
<p>Deloitte assumed cash takes precedence over system records/transactions</p>	<p>Again this shows a lack of understanding of pension fund administration and leads to incorrect member values. Take for example the case where we netted off investments in the market – for example if there is R100k new contributions due into an investment portfolio and at the same time there is a R100k withdrawal due out of the same portfolio – the two transactions could be netted off with no cash transaction taking place in the investment portfolio and you need the system to manage this kind of thing (as long as the offsetting transactions are priced on the same unit price then everything still balances). In this instance Deloitte wouldn't have allocated the new contributions to the members given there was no cash transaction, making the Deloitte values wrong.</p>
<p>For withdrawals with no source documents Deloitte reduced the</p>	<p>This approach makes no sense and creates an asset liability mismatch</p>

assets but not the liability	
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Based on the above it appears to me that what was billed as an ALM Job, i.e. and Asset Liability Match, was more of an asset liability mismatch exercise by Deloitte.

Deloitte don't understand pension fund administration

As can be seen from above there are numerous instances where Deloitte just don't understand pension fund administration. In addition you can't do admin using just a spreadsheet and macros, as done by Deloitte, and anyone who thinks you can just doesn't understand the subtleties and complexities of pension fund administration. If you could just use a spreadsheet then pension fund administrators wouldn't spend millions of Rands on fancy administration systems. Further, pension fund administration and auditing are two very different things and just as you wouldn't get a pension fund administrator to audit a set of financial statements, it was a gross error for the Dynamique and IF trustees to have brought in an auditing firm to rebuild pension fund administration records.

In addition, Deloitte make no mention of the brokers/intermediaries that were involved with the Dynamique and IF funds. They seem totally ignorant of the fact that every scheme administered by Dynamique had a broker who had online access and who had been closely involved with scrutinising all the administration records.

There was a callous disregard for the members as evidenced by the lack of attention to detail and the failure to follow due process

The Deloitte report reads like a comedy of errors, for example, Deloitte were told that there were no physical files only to be given physical files after they had completed their rebuild. This is an unacceptable sequence of events given the amount of money that was being spent on the rebuild and highlights a lack of effort by the parties involved.

In addition, at no point did Deloitte involve nor approach the very administrator whose records they were rebuilding. Surely the logical thing is that you contact the administrator concerned to establish how they operated, their business protocols, how their filing systems worked, etc. Had they done this it could have saved them a significant amount of time.

Not bringing any problems to the attention of Dynamique, not giving Dynamique an opportunity to fix any problems and not involving Dynamique in the rebuild was a huge oversight. I can only assume that the failure to do so was once again driven by greed as the R20 million fee would have been cut substantially or possibly even removed all together had Dynamique been involved throughout the rebuild exercise.

The problems found only applied in a handful of instances and in no way justified the decision to rebuild everything

I have provided comments below on each of the findings by Deloitte, however it is blatantly clear that none of the findings support the decision to have rebuilt everything and in every case the Deloitte's finding was either irrelevant, immaterial or there was a simple cost effective way of addressing that issue.

The findings by Deloitte were as follows:

Finding	Comments
<i>Payments made into the incorrect bank accounts from participating employers</i>	This only happened on 3 out of 280 employers i.e. 1%. Further the rebuild did nothing to address this but rather just completing a standard audit would have identified these issues. In fact Deloitte themselves point out that the money was subsequently transferred to the correct fund so it is really a non-issue. Therefore this in no way justifies the rebuild.
<i>Transactions allocated to the incorrect umbrella fund</i>	As for the above point there were only a handful of these instances which again would have been addressed by just completing the standard fund audits and again this finding in no way justifies the rebuild. With so few instances it is clearly also not evidence of maladministration.
<i>Investments in Everest and in the market allocated to incorrect participating employers</i>	Once again the frequency of this was so low that this finding does nothing to justify the rebuild nor support any allegation of maladministration. In fact, the fact that there were so few instances on umbrella funds with 280 participating employers, 11500 members and individual investment choice, is extremely flattering to Dynam-ique.
<i>Missing investments in the market for various months' contributions</i>	A non-issue. As detailed in previous sections of this document Deloitte aren't aware that transactions could be netted off nor are Deloitte aware that there are instances you can't allocate contributions due to factors like the schedule not typing up to the amount deposited. Notwithstanding this the instances of this issue were so few and far between, which, given there were 280 participating employers in these umbrella funds is once again flattering to Dynam-ique.
<i>Lack of member information from participating employers</i>	A totally nonsensical finding. All parties, including brokers, employers and employees, had online access to the records of Dynam-ique and hence everything was checked and signed off as we went along so this finding just makes no sense. In any case it does nothing to support having spent R20m redoing everything.
<i>Timing of investments in the market not in line with Fund's service level agreement</i>	A very infrequent occurrence. Furthermore in most instances there were reasons for late investing e.g. employer schedule and payment do not tie up. However even if this was true it is a non-issue - the service level agreement was just a target service standard and not a guarantee and all employers were at any time free to terminate the administrator if they were not happy with the service levels (Dynam-ique had almost no terminations due to service). Once again this finding does nothing to justify

	the rebuild.
<i>Risk rates not consistently applied</i>	Again this is a non-issue as the risk rates were effectively signed off each month by the insurer receiving the risk premium and by the employer paying the risk premium and so for Deloitte's to come along 5 years later and say the risk rates were not consistently applied is a moot point and does nothing to justify the rebuild
<i>Assets allocated to the incorrect products in the market</i>	This refers to (very) isolated incidents. This issue could have simply been addressed at no cost by comparing asset statements off Everest to asset statements from the investment managers and then rebalancing for any inconsistencies. Going and redoing all the contribution allocations and member build ups does absolutely nothing to address this issue.
<i>Switches not done in accordance with the switch instructions</i>	This refers to (very) isolated incidents. And as discussed in an earlier section the onus was on brokers, employers and members to check that their investment switch instructions were carried out and were carried out correctly (which checking they did do for the most part hence so few such issues).
<i>Fund rules not always loaded correctly on Everest (exclusive versus inclusive, incorrect contribution and expense rates)</i>	The correct course of action here would have been to just do rule amendments to bring the rules in line with what was happening in practice. This issue does nothing to justify having rebuilt all the records. In most of the cases identified the system was actually correct and the documentation used by Deloitte's was either not the latest version or just hadn't been updated in accordance with agreements between the parties.
<i>Duplicate / missing members recorded on Everest</i>	This refers to (very) isolated incidents. From month to month all the data on the system was checked by the brokers and employers via the online access and pre-billing schedules. If there were any doubts over member data then data dumps could have been pulled off Everest and given to each participating employer to check at no cost to anyone. Once again this doesn't support the decision to do the rebuild and it doesn't support the allegations of maladministration.
<i>Everest reports for the same period and funds show different member details</i>	No supporting evidence is provided for this finding which seems a somewhat strange and nonsensical finding. Further as it stands it provides no support whatsoever for the rebuild as how would a rebuild address this issue?
<i>Missing member investment elections in Everest for some months</i>	No evidence of this is provided but even if it did occur then such instances were few and far between. Everest has reports to identify such instances and at no cost a report could have been pulled to address this issue and hence this issue doesn't in any way support the rebuild
<i>Pooled asset accounts for IF pension and provident funds</i>	No evidence of this is provided but even if it did occur on the (very) odd occasion then so what? Whilst it may not be strictly correct, as long as everything was priced correctly then the

	values are all still correct and rebuilding all the records does absolutely nothing to address this issue
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Deloitte's conclusion of the rebuild being required is totally devoid of any merit

The Deloitte's conclusion was as follows: *Our overall assessment of the quality of the data provided is that the status of the member data was for the most part inaccurate and given the number and nature of problems encountered it was not easy to resolve the issues other than through a full re-build.*

This conclusion however doesn't follow from their findings – there is no link to the findings and their conclusion is vague and unsubstantiated. I guess this is not surprising given Deloitte's were never exactly going to turn around and say that the R20m paid to them to redo everything was a waste of money.

What is however blatantly evident is that no other more cost effective options were explored nor attempted – and the reason once again can be summarised in three words: TWENTY MILLION RAND– the truth is Deloitte's just saw dollar signs and no attempt whatsoever was made to first address any problems using alternate inexpensive means.

Lastly, and of fundamental importance, Deloitte's omits to mention that there was actually plenty fund indemnity insurance to cover the cost of any corrective work required, however the trustees had not paid the premiums on the funds' indemnity policies allowing the policies to lapse. How can such a detailed audit omit to mention such a fundamentally important issue. There can only be two possible reasons:

- 1) Deloitte's are trying to cover up that the premiums were not paid so as to avoid making their employer (in this instance the trustees) look bad
- 2) They aren't even aware that the Fund's carried indemnity cover for such losses – in which case this once again highlights Deloitte's lack of knowledge regarding pension fund administration.

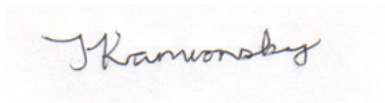
There is no evidence whatsoever of any maladministration

When considering all of the above, the findings of Deloitte's and their issues Log, it is blatantly clear that there is no evidence whatsoever of maladministration by Dynam-ique and as indicated the report had to even be 'padded' to try make the findings look worse than they were. In fact, for so few real issues to have come out of such a comprehensive audit/rebuild is totally flattering to Dynam-ique and highlights how Dynam-ique was clearly one of the better pension fund administrators in the industry.

After reading the Deloitte's report it is also clear (for all the reasons mentioned above) why the trustees have not made the report publically available and have actually blocked members from getting sight of the report, going as far as making me sign an undertaking that I wouldn't give a copy of the report to anyone. This is not the first time these same trustees have tried to block members becoming aware of their failings, having happened previously in connection with the funds indemnity policies where they went to great lengths

to hide from members the fact that the trustees hadn't paid the premiums on the funds indemnity policies leading to the policies lapsing and leaving the members without cover. In this case it was only due to my persistence and bringing an application in the High Court against the trustees that it was discovered that the indemnity policies had lapsed due to the non-payment of premiums by the trustees.

In closing it is very sad that members had to lose R20m of their hard earned retirement monies on an unnecessary and overpriced rebuild and it is also sad that the trustees had to try blame myself and Dynam-ique, making numerous unsubstantiated allegations of maladministration.

A handwritten signature in blue ink that reads "TKamionsky". The signature is written in a cursive style with a large initial 'T' and 'K'.

Tony Kamionsky