

HUMAN RESOURCES DEVELOPMENT FUND

REVIEW OF GOVERNANCE
FRAMEWORK

Summary Report

10 November 2018 |

Town Hall with Employer Associations
and Registered Employers



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General Overview

Introduction

The Governance Oversight Committee (“GOC”) of the Human Resources Development Fund (“HRDF”) was established on 28 June, 2018.

The mandate of the GOC is to assist the Ministry of Human Resources (“MoHR”) on an interim basis, to review all aspects of HRDF’s governance framework to ensure the HRDF Board of Directors function in an effective and efficient manner, to support the operations of HRDF.

The members of the GOC were appointed by the Human Resources Minister, YB. Tuan M. Kula Segaran.

Members of the GOC are:

- Former Secretary General of the Ministry of International Trade and Industry, Tan Sri Rebecca Fatima Sta Maria (Chairman of the GOC);
- Former Director with Ernst and Young Malaysia, Fiona Soh;
- Lawyer, Fahri Azzat;
- Accountant, Dhamodaran Munusamy; and
- Journalist, R Nadeswaran.

Scope of Review

A diagnostic review on HRDF’s state of governance framework was performed, based on the areas denoted on the ensuing page.

Following the review and sharing of the findings, the GOC has proposed recommendations and potential areas of improvement for consideration by HRDF’s Board and Management.

Approach

The current state diagnostic was performed via:

- Documentation review – Terms of Reference, Internal Audit Charter, Enterprise Risk Management Framework, Core Business Policies, Limits of Authority, Code of Conduct and other selected documents;
- Regular discussion sessions with Management and other relevant employees of HRDF;
- Public feedback survey focusing on feedback by registered employers and industry associations; and
- Comparisons of select operational aspects against other Corporations abroad with similar core objectives as to HRDF.

General Overview

Reporting

The GOC have shared the interim findings arising from the governance review in the form of a Nota Jemaah Menteri to HRDF on 13 September 2018, as an interim report, for use by MoHR.

This summary report highlights the observations and proposed recommendations arising from the review.

Limitations

The HRDF Governance Review:-

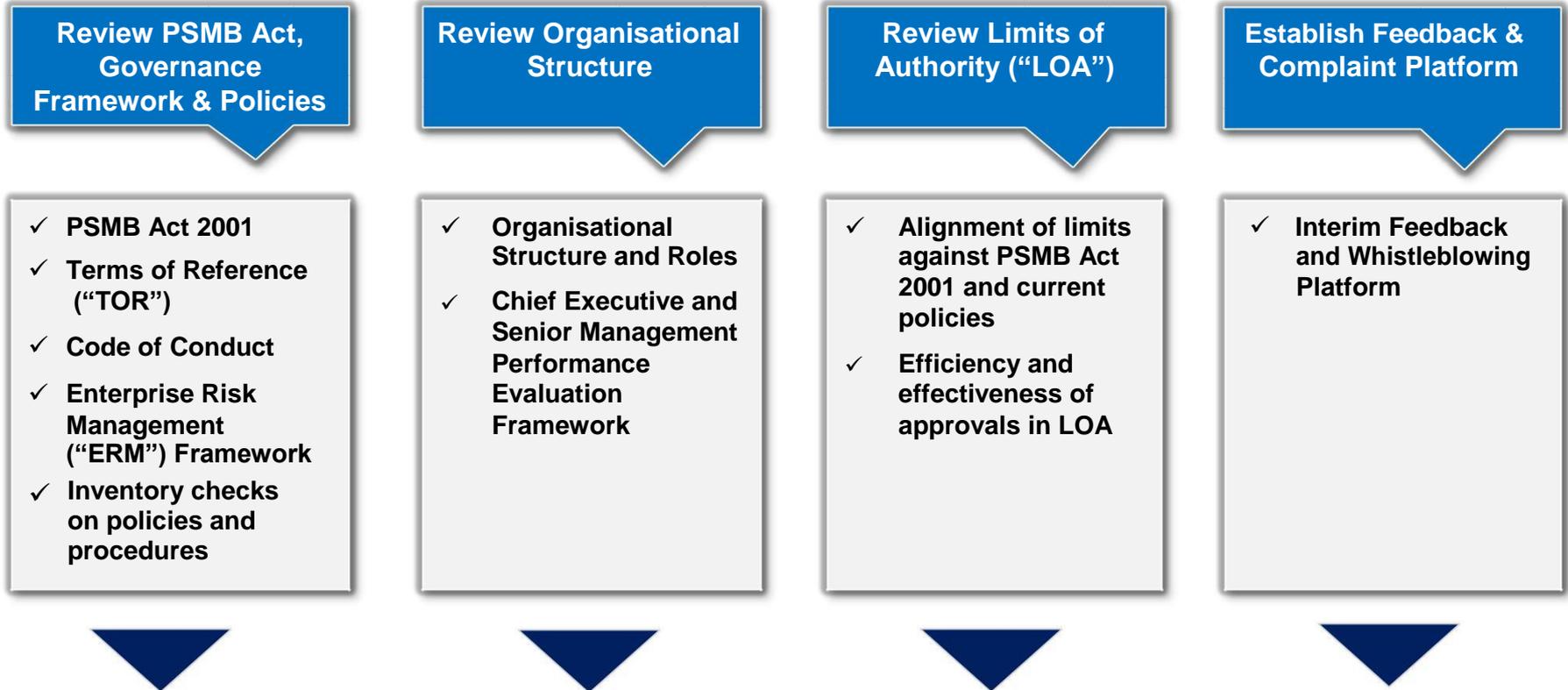
- Does not amount to an investigation or audit on any person / matter;
- Has been tailored to the mandate of GOC and may not cover all aspects in HRDF;
- Does not cover the day-to-day operations or transactional matters in HRDF; and
- Relied on the review of selection of HRDF documentation provided.

During the period of review, the GOC relied on the information provided and the representations made during the discussions with various stakeholders. The GOC has accepted the information and representations as true and complete. The GOC also relied on the review of a selection of HRDF documents provided rather than all documentation. Comparison information was based on publicly available information.

HRDF's Board of Directors and Management shall be fully responsible for applying independent business judgment to make implementation decisions and to determine further courses of action with respect to any matters addressed in the findings and/or recommendations. The benefits and related costs of implementation of the recommendations should be properly assessed by HRDF's Board of Directors and Management.

Summary of Report Overview – Scope of Review

Current State Diagnostic*



Recommendations

Arising from the current state diagnostic, the GOC has proposed several recommendations to strengthen the overall governance framework across HRDF.

1. Enhancements to the PSMB Act

The PSMB Act 2001 was reviewed and compared against the Act governing similar Corporations in various countries, as well as to the Act governing the Employer Provident Fund and Social Security Organisation in Malaysia. Comparison was made for the operational aspects of both the Fund and Corporation respectively.

Area	Observations	Recommendations
PSMB Act	<ul style="list-style-type: none"> • No significant and material updates to the Act since 2001. • The Act does not clearly segregate the requirements established for the operations of the Fund and the Corporation, leading to clauses which are ambiguous and vague, subject to the interpretation of HRDF. • Lack of coverage on selected areas, such as: <ul style="list-style-type: none"> • Directors' term of appointment • Directors' power and authority • Duties of Directors and the Chief Executive ("CE") • The Act specifies that the Fund shall be expanded for the purpose of up-skilling and upgrading of the local workforce. However, it does not specify that the accounts of the Fund and HRDF should be segregated. 	<ul style="list-style-type: none"> • Proposed recommendations to the Act are as a result of GOC's deliberations, taking into consideration: <ul style="list-style-type: none"> • Alignment to current operations; • Feedback from the public (registered employers, employees) and Legal Department of HRDF; and • Comparison against similar Acts (e.g. Employer Provident Fund, Social Security Organisation). • To enhance the governance across HRDF, there is a need to tighten the Act in the following areas: <ul style="list-style-type: none"> • Reducing the size of the Board of Directors; • Clarity on Board matters – appointment, tenure, authority and responsibilities; • Clarity on duties and responsibilities of the CE; • Clarity on decision-making powers; • Define and align power of the Minister, HRDF's Board of Directors and HRDF's Management; • Alignment of the Act vis-à-vis Financial Provisions / Operations e.g. treatment of Consolidated Fund and recognition of interest income; • Enforcement of statutory declaration for Board of Directors; and • Clear segregation of financial statements between the Fund and Corporation.

2. Board and Board Committees' roles, responsibilities and accountabilities not clearly specified

Area	Observations	Recommendations
Board Matters	<ul style="list-style-type: none"> • HRDF Board and Board Committees' roles, responsibilities, accountabilities and authorities are not clearly specified in existing TOR, which has resulted in lapses in decision making. • There has been no review of Board composition, especially on the suitability and tenure. This is evident from some Board Members' tenures exceeding seven (7) years, i.e. since 2010. • Lack of Board oversight on the overall operations and governance across HRDF, where the Board does not appear to provide adequate challenge to decisions reported by Management. • Board not involved in key decisions, such as purchase of high value property and vehicle. • No monitoring of potential Conflict of Interest, resulting in cases where Board Members are Chief Executive Officers ("CEOs") of Training Providers ("TPs") and training programme contracts were awarded to the TP. • Board Members' remuneration and benefits do not commensurate with the nature of PSMB's business. 	<ul style="list-style-type: none"> • Establish Board Charter and enhance Board Committees' TOR, ensure clarity in the following: <ul style="list-style-type: none"> • Composition – tenure, suitability • Authorities • Duties, responsibilities and accountabilities • Matters reserved for the Board / Board Committees' approval • Enhance PSMB Act to include clarity on the Board Members' tenure, suitability, accountabilities and reporting requirements by Management to Board. • Establish annual statutory declaration for Board Members. • Review the number of Board Committees within HRDF, permanent Board Committees should be limited to Board Audit Risk Management Committee ("BARMC"), Board Nomination and Remuneration Committee ("BNRC") and Investment Panel ("IP"). Additional Board Committees established should function as a Steering Committee, only coming into effect when key decisions are required to be made. • Review and revise the Board members' remuneration and benefits. All Board Members' remuneration and benefits should be declared, on an individual basis in the Annual Report for transparency purposes.

3. Ineffective organisational structure and poor Governance landscape across HRDF

Area	Observations	Recommendations
Organisational Structure and People	<ul style="list-style-type: none"> • Current organisational structure is not customer centric, majority of the Divisions are business support functions. • CE has wide span of control over the direct reports. • Job descriptions and accountabilities of C-levels are unclear. • All Departments / Divisions' functions need to be strengthened. • Potential duplication of functions across Divisions and Departments. • Functions working in silo and not integrated. • Potential mismatch between current competencies against job profiles. 	<ul style="list-style-type: none"> • Perform an in-depth review on the current organisational structure, taking into consideration: <ul style="list-style-type: none"> • Structure to focus on customer; • Lean structure with clear reporting lines ; • Streamline Departments and Divisions, especially functions performing similar roles; • Reporting line of Internal Audit to BARMC; and • Establish a limit to the number of direct reports. • Review and assess: <ul style="list-style-type: none"> • Roles and accountabilities of C-levels; and • Competencies of employees and Senior Management across HRDF • Establish clear roles and responsibilities for respective Departments / Divisions and to provide the necessary training to increase their competencies.
Culture	<ul style="list-style-type: none"> • Poor governance and transparency culture across HRDF. 	<ul style="list-style-type: none"> • The Board, Board Committee and Senior Management should work towards embedding a culture of governance and transparency across HRDF. • Monitoring functions such as IA and RMCGD should be strengthened, playing its role in embedding strict governance and transparency across the business functions in HRDF.

4. Ineffective Monitoring Functions

HRDF's monitoring functions failed to adequately fulfil its role as a watchdog, ensuring that operations are performed in accordance with existing policies and procedures, as well as to ensure that there are proper controls implemented.

Area	Observations	Recommendations
Monitoring Function	<ul style="list-style-type: none"> • Internal Audit is not independent – direct reporting to CE who assesses IA's performance. • IA Charter, audit coverage and audit rating framework needs to be strengthened and enhanced. • RMDGD does not perform any risk reporting to Board and / or Audit Committee. • Enterprise Risk Management Framework needs enhancement. • Risk management needs to be strengthened and embedded across HRDF. 	<ul style="list-style-type: none"> • IA to report directly to BARMC, and administratively to CE. • IA Charter should be enhanced to include: <ul style="list-style-type: none"> • IA Department's authority and independence; • Clear and detailed responsibilities; and • Reporting structure. • Review and enhance IA audit rating framework. • RMCGD should perform regular risk reporting to Board and BARMC, especially on PSMB's significant risks. • ERM Framework should be enhanced on the following: <ul style="list-style-type: none"> • Risk reporting – matters and frequency; and • Risk impact scale. • RMCGD to strengthen its function across PSMB to create regular awareness on risk management and corporate governance matters. • RMCGD to provide challenge and feedback on the risks associated with respective Divisions, ensuring the risk register is comprehensive and up-to-date. • Board and Board Committees to strengthen their oversight on governance matters.

5. No clear segregation of accounts between the Fund and HRDF

The Human Resources Development Levy (“HRD Fund”) is contributed by registered employers and HRDF ensures that the Fund is utilised by the registered employers for the purpose of up-skilling and reskilling their local employees.

HRDF’s core objective is to assist with the up-skilling of the employees of its registered employers. HRDF acts as the Fund Manager of the HRD Fund and also assists with the training plans, selection or training providers, etc.

Area	Observations	Recommendations
Segregation of Financials for the Fund and Corporation	<ul style="list-style-type: none">• Currently, both the Financials of the Corporation and the HRD Fund are treated as one.	<ul style="list-style-type: none">• For good governance, segregation of the HRD Fund from the Corporation will enable HRDF to improve accountability over usage of the Fund.

6. Lack of governance and controls over key processes

Processes with poor controls and governance provide the opportunity for misappropriation of HRDF's assets, or opportunities to other parties to engage in misconduct by circumventing the existing processes in place. In this case, it is noted that HRDF has yet to conduct any in-depth review of all of its processes and its' accompanying key controls to identify its adequacy.

Area	Observations	Recommendations
Processes	<p>Current processes lack clear governance and control. This was noted in the following processes:</p> <ul style="list-style-type: none"> • Establishment and management of 30% consolidated funds; • Monitoring of funds to ensure disbursement is for the right purpose and to appropriate TPs; • Due diligence and review of TPs during registration; • Extent of validation conducted on training prior to fund disbursements; and • Approval of C-levels' remuneration and performance review. 	<ul style="list-style-type: none"> • PSMB Act should be enhanced and tightened especially on the area of fund management (i.e. establishment of consolidated fund from total levy collected). • HRDF to conduct an in-depth process review: <ul style="list-style-type: none"> • Evaluate the design and operating effectiveness of the processes, especially on the area of fund management and disbursement; • Establish clear Standard Operating Procedures for all Departments / Divisions; • Establish preventive and detective controls for processes with weak or no controls; and • Establish proper monitoring and reporting mechanism to Senior Management, Board Committees and Board on key operational matters. • HRDF policies, procedures and LOA should be revised and strengthened to properly document all processes, controls and approving authority. • Monitoring function such IA and RMCGD to play a role in ensuring all processes and authority limits are complied with, with any breaches being reported immediately.

7. Ineffective Training Needs Identification and Analysis

In line with HRDF's core objectives, HRDF has commenced the initiative to identify training needs for the industries for respective sectors. Initiatives include the establishment of the Sectorial Training Committee in 2015, in which their role was to identify the training needs required for each industry and to develop a useful document that may be referenced by Registered Employers.

Area	Observations	Recommendations
Training Needs Identification / Analysis	<ul style="list-style-type: none"> • Taking into consideration HRDF's core objective is to up skill and build capacity for the sectors, HRDF has not been effective in identifying training needs for the sectors / industries covered. • Sectorial Training Committee ("STC") was established in 2015; however, no clear output / materials have been developed despite multiple meetings. • Additionally, STC members are given meeting allowances. • Weak training needs identification and analysis process. • No criteria established for STC. 	<ul style="list-style-type: none"> • Number of members – currently ranges from 1 to 19; and • Suitability of members – not all members on STC are relevant or suitable. • STC's roles, responsibilities and expected deliverables are not clear within the TOR. • Revisit the training needs identification framework. • HRDF should develop clear processes for Training Needs Identification and Analysis, HRDF may consider emulating the Training Needs Identification and Analysis undertaken by Singapore (the equivalent of HRDF in Singapore) – SSG and WSG developed Skill Matrix Framework for the industries in Singapore.

8. Policies and procedures inadequate and requires enhancement

Area	Observations	Recommendations
Policies and Procedures	<ul style="list-style-type: none">• Policies are inadequate.• Inconsistent review of procedures to ensure it is kept updated and reflective with adequate controls.• Several Departments / Divisions do not have a formalised procedure.• Code of Conduct not comprehensive and lack enforcement across HRDF.	<ul style="list-style-type: none">• Establish company policies for all areas:<ul style="list-style-type: none">• HRDF Board should approve all company policies; and• Company policies to stipulate the governing principles practiced by HRDF.• Subsequent to the in-depth process review, HRDF to review and revise the existing policies and / or procedures to reflect:<ul style="list-style-type: none">• Enhanced processes;• Additional key controls put in place; and• Updated approving authority and authority limits.• HRDF to identify areas without procedures and develop the necessary procedures, e.g. Whistleblowing.• All approved policies and procedures should be centrally maintained and should be reviewed every two (2) years.• Review and revise the Code of Conduct to include detailed coverage on:<ul style="list-style-type: none">• Conflict of Interest;• Political activities;• Dealings with government / governmental bodies; and• Anti-Money Laundering.• HRDF Board to approve revised Code of Conduct and revised Code of Conduct to be implemented and rolled out to all employees, regular awareness programme to be conducted.• Monitoring function to play an effective role in ensuring compliance to all company policies, procedures and Code of Conduct.

9. Inadequate Limits of Authority

Area	Observations	Recommendations
Limits of Authority	<ul style="list-style-type: none">• No consolidated company-wide LOA.• Authorities' limits focus on operational matters - procurement, accounting and training grant, but are not comprehensive.• No matters reserved for the Board's approval.• Limits are allocated to individual employees, instead of designation, which resulted in constant changes to the LOA when there is a change of employee.	<ul style="list-style-type: none">• Establish a company-wide LOA, covering key matters for respective Departments / Divisions. A LOA should not be limited to matters with financial limits.• The company-wide LOA should take into consideration the following key principles:<ul style="list-style-type: none">• LOA is owned and approved by the Board;• No one employee should have unlimited approving authority;• LOA to be balanced between governance and efficiency, ensuring proper governance does not result in multiple layers of bureaucracy, which in turn affects the company's efficiency;• Re-delegation of authority is only permissible on a case-to-case basis, and should be task and time specific, however ultimate accountability still remains with the original authority;• No re-delegation of authority by delegates;• Approving authority should not approve any transactions that directly benefit them; and• Subordinate should not approve commitments / payments involving superior.• All existing limits should be reviewed and evaluated frequently to ensure it reflects current business practice.• Monitoring functions to play an effective role in ensuring compliance to the LOA.

Moving Forward

What's Next?

HRDF should develop a detailed roadmap and implementation plan for the following areas. The journey towards transforming the governance landscape across HRDF is not a short term journey, and will require the right people to champion these efforts.

People

- Empower and strengthen Board and Board Committees' function
- Streamline the functions across HRDF for a more effective and lean structure
- Evaluate and assess the competencies across HRDF
- Embed a strong sense of governance, transparency and compliance culture across HRDF

Process

- Perform an in-depth process review for all areas to identify the operating and design effectiveness
- Establish appropriate and adequate controls, as well as segregation of duties
- Align the policies and procedures against updated and stricter processes
- Strengthen the monitoring and reporting processes

Enablers

- Propose revised PSMB Act for approval
- Review and tighten all policies and procedures
- Establish a clear and strict Limits of Authority
- Strengthen the monitoring functions in HRDF

What Else?

HRDF should also consider recommendations beyond the subject of governance, such as:

- Review HRDF mandate to ensure that HRDF programmes are aligned with that of the 4th Industrial Revolution Blueprint; and
- Develop a skills matrix in line with industry requirements, which would essentially contribute to HRDF's mandate in the area of up skilling of employees across HRDF.

During the course of the review, HRDF has been working with the GOC to enhance the governance framework

Quick Wins In Place

People

- Appointment of new CE on 12 July 2018
- Resignation of past Board of Directors on the respective dates:

Date	# of Resignations
21 May 2018	1 Member
12 June 2018	3 Members
21 June 2018	1 Member
July 2018	1 Member
17 August 2018	1 Member

- Restructuring of HRDF's structure and people placement

Process

- Ceasing the segregation of 30% of total levy collected to Consolidated Fund
- Since 2 August 2018, HRDF has required due diligence to be conducted prior to any outgoing payment
- Board Programme Committee established to review all existing training programmes
- Establishment of a Board Executive Committee (EXCO)

Enablers

- GOC has prepared the proposed amendments to be made to PSMB Act and HRDF will share it with the Minister for the next course of action
- The following governance framework policies* / TORs* have been enhanced / established:
 - Board Charter and selected Board Committees' TOR
 - Interim Limits of Authority
 - Company policies such as the Code of Conduct and Business Ethics; ERM Framework; IA Charter; Whistleblowing Policy; Performance Evaluation Framework for Senior Management and policies focusing on fund and grant management