

# <u>annual report</u> 2016/17









#### Department of Labour Annual Report for the Unemployment Insurance Fund for the year ended 31 March 2017

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Unemployment Insurance Fund (UIF) Annual Report 2016/2017



Minister, MN Oliphant, MP

#### The Honourable Minister of Labour

It is my privilege to submit to you the Annual Report on the activities of the Unemployment Insurance Fund (UIF) for the year ended 31 March 2017. As required by section 11(3) of the Unemployment Insurance Act (UIA), 63 of 2001, the report includes the statement of financial position and the Statement of Financial Performance for the year ended 31 March 2017. It also contains the Auditor-General's report in terms of the Public Finance Management Act (PMFA), No. 1 of 1999.

#### Minister, MN Oliphant, MP



#### **UIF Advisory Board Members**

Standing left to right

Mr A Franks, Mr N Vermeulen, Mr G Strauss, Mr T Tshefuta, Mr A Crawford

#### Seated left to right

Mr J Mahlangu, Mr T Maruping (Unemployment Insurance Fund Commissioner), Mr W Nzimande (Chairperson of the Board), Mr E Nwedo,

Absent:

Mr N Nxele, Mr M Macikama, Mr D Mthalane, Ms L Kganyago

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# GENERAL INFORMATION

# PART A

#### **1. GENERAL INFORMATION**

| Registered Name:                        | Unemployment Insurance Fund  |
|---|--|
| Registration Number<br>(if applicable): | Schedule 3 A public entity, established in terms<br>of Section 4 (1) of the Unemployment Insurance<br>Act, 63 of 2001 as amended |
| Physical Address:                       | 230 Lillian Ngoyi Street<br>Pretoria<br>0002   |
| Postal Address:                         | UIF Pretoria   |
|   |  |
| Telephone Number/s:                     | (012) 337 1700   |
| Toll free Number:                       | (0800) 843 843   |
| Call Centre:                            | (012) 337 1680   |
| Email Addresses:                        | www.labour.gov.za www.ufiling.co.za  |
| External Auditors:                      | Auditor General of South Africa, 300 Middel Street, New Muckleneuk, 0181   |
| Bankers:                                | First National Bank, 6th Floor , 1st Place<br>Bank City, Cnr Simmonds & Pritchard Streets,<br>Johannesburg, 2001                 |
|   | ABSA Bank, ABSA Towers, 15 Troy Street, Johannesburg, 2001   |
|   | Standard Bank, 9th Floor, Standard Bank<br>Centre, 5 Simmonds Street, Johannesburg,<br>2001                                      |
|   | Nedbank, 135 Rivonia Road, Sandown, 2196   |

#### 2. LIST OF ABBREVIATIONS/ACRONYMS

| AGSA  | Auditor General of South Africa                 |  |  |
|-------|---|--|--|
| MEC   | Member of Executive Council                     |  |  |
| BBBEE | Broad Based Black Economic Empowerment          |  |  |
| CEO   | Chief Executive Officer                         |  |  |
| CFO   | Chief Financial Officer                         |  |  |
| PFMA  | Public Finance Management Act                   |  |  |
| TR    | Treasury Regulations                            |  |  |
| MTEF  | Medium Term Expenditure Framework               |  |  |
| SMME  | Small Medium and Micro Enterprises              |  |  |
| SCM   | Supply Chain Management                         |  |  |
| MP    | Member OF Parliament                            |  |  |
| UIF   | Unemployment Insurance Fund                     |  |  |
| DG    | Director General                                |  |  |
| UICA  | Unemployment Insurance Contributions Act        |  |  |
| UIC   | Unemployment Insurance Commissioner             |  |  |
| ITA   | Income Tax Act                                  |  |  |
| DOL   | Department of Labour                            |  |  |
| UIFB  | Unemployment Insurance Fund Board               |  |  |
| PIC   | Public Investment Corporation                   |  |  |
| UIA   | Unemployment Insurance Act                      |  |  |
| ERP   | Enterprise Resource Planning                    |  |  |
| DPSA  | Department of Public Service and Administration |  |  |
| SARS  | South African Revenue Services                  |  |  |
| MOU   | Memorandum of Understanding                     |  |  |
| SACCI | South African Chamber of Commerce and Industry  |  |  |

#### 3. FOREWORD BY THE ACCOUNTING AUTHORITY

#### INTRODUCTION

The UIF is a public entity of the Department of Labour (DOL) and is one of the key social security agencies in the country. In pursuing its mandate, it identifies deliverables and pursues these throughout the year.

#### OVERVIEW OF THE UIF's STRATEGY AND PERFORMANCE

The UIF has identified four strategic outcomeoriented goals to pursue over five years (2016/17 to 2020/21). These are:

- Improve payment of benefits to UIF beneficiaries;
- Improve Revenue collection of revenue from employers;
- Participate in government initiatives to create and sustain decent employment
- Effective administration of the Fund's operations.



In the year under review the strategic objectives of the Fund were reviewed to give a more strategic focus, consequently the four strategic objectives were identified:

- Improve financial management;
- Improve service delivery;
- Improve compliance to unemployment insurance Act; and
- Fund poverty alleviation schemes.

To achieve these objectives, the UIF develops performance measures for each financial year. In the 2016/17 financial year, there were 12 performance targets to be pursued by UIF.

The UIF achieved 6 of the 12 giving it a performance of 50%. Those that were not achieved still reflected an improvement from the levels achieved in the previous year.

#### **STRATEGIC RELATIONSHIPS**

The UIF discharges its mandate in collaboration with other state institutions, employers and employees of the Republic of South Africa to improve service delivery. During the financial year the UIF continued its partnerships with various stakeholders to assist it to improve the compliance levels of employers.

This was achieved amongst other activities in building relations and having Memorandum of Understandings (MOU's) signed by some of the listed partners below:

- Skills Education Training Authorities
- Technical Vocational Education and Training Colleges
- Government Departments
  - Municipalities
  - Professional Institutions
  - State entities
  - Regional Economic Development Institutions

The Fund's relationship with the South African Revenue Services (SARS) continues to yield good results for the Fund's operations. Continuous engagements ensure that this relationship grows to higher levels to ensure adequate cover to qualifying employees.

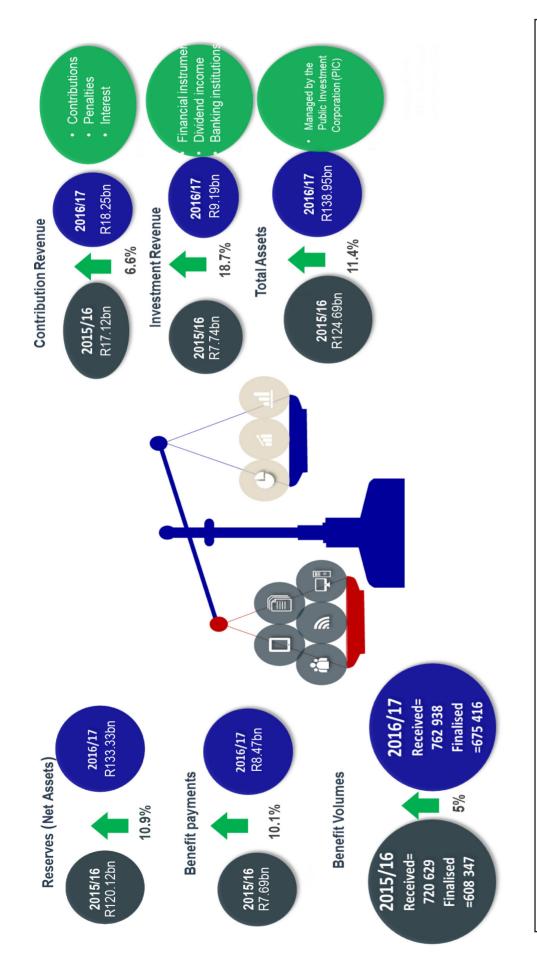
T Lamati Director General of Labour

#### 4. UNEMPLOYMENT COMMISIONER'S STATEMENT

The of mandate Unemployment the Insurance Fund (UIF) provide short is to unemployment term insurance to workers who lost their jobs due to various circumstances. The current economic conditions continues to lead to more job losses, which puts a sharp focus on the role played by the UIF in poverty alleviation, skills training and job creation.

Teboho Maruping Unemployment Commissioner UIF continues to maintain a positive balance sheet and this has ensured that it is able to meet all its financial obligations, and most importantly is able to pay benefits to vulnerable workers, fund training initiatives, and invest in job preservation and job creation activities.

Prudent financial management within UIF has ensured that net surplus continues to grow, and we are delighted that it has increased from R 10,7 billion in 2015/16 to R 13.2 billion in 2016/17. Revenue increased by 6.43% from R 17, 12 billion in 2015/16 to R 18, 25 billion in 16/17, thanks to a number of collection strategies implemented by management.



The strong financial position has enabled the Fund to pay a total of R 8,47 billion in the year under review, which is a 10.1% increase compared to claims for unemployment benefit accounting for 80% of the total claims. The significant increase of benefits paid underlines the slow economic the previous year. The increase has been influenced by the rise in the number of claims paid from 720, 629 in 2015/16 to 762, 938 in 2016/17, with growth accompanied by corresponding job losses. The Fund plays a key role in providing the much needed social security to unemployed workers by ensuring payment of benefits daily. The Fund pays an average of 10 000 claims per day, which translates into a pay out of R 35 million per day. This enables an average of 10 000 claimants to put food on the table for their families, thus shielding them against abject poverty.

The Fund continues to support government initiatives of creating decent jobs in the South African economy. This is achieved through the Labour Activation Programmes (LAP) introduced in 2009 to alleviate harmful effects of unemployment among UIF beneficiaries.

The LAP comprises of all active interventions in the labour market to re-train workers faced with possible retrenchments and to up-skill the unemployed UIF beneficiaries. In the year under review LAP spent R181.9 million towards Building and Civil Construction programme, Entrepreneurial Skills, Apprenticeships and Learnerships programme, Training Lay Off Scheme, and Turnaround Solutions programme. The combined effect of these programmes resulted in 6 781 beneficiaries gaining new skills, whiles earning 75% of their salaries, and in some cases a stipend of R 1 500 paid during the duration of training.

The Fund's participation in job creation is also achieved through various investment activities undertaken by the Public Investment Corporation (PIC) on behalf of the UIF. Currently the Fund is using its investment portfolio to stimulate economic growth. The investment portfolio consist of 58% invested in bonds, 22% in listed equity, 10% in money market instruments, 5% in listed property equity and 5% in social responsible investments. Of the 58% invested in bonds, 78% is invested in Government bonds and 18% invested in Parastatal bonds. These bonds contribute to the infrastructure development of the country.

UIF has also partnered with PIC and IDC to execute its "developmental investment" also known as social responsible investment asset class within the Fund's Investment Portfolio. Currently 20% of the Fund's R130 Billion Investment Portfolio is dedicated to developmental investment initiatives.

This means roughly R26 billion is allocated to initiatives mainly focussed on job creation and job retention. PIC investments have sustained 6 860 jobs of which 3 024 are permanent, 3 836 are temporary/ seasonal and 195 are new jobs created during the financial year ending in March 2016.

Since its inception, the IDC's R 4 billion UIF bond has created 33,722 new jobs and retained 19,418 jobs. A further R2 billion has been advance to the IDC/UIF bond. The impact on job creation and retention will be reported upon after the funds had been dispensed to qualifying companies.

We are glad to announce that the journey that was started in 2011 of amending the Unemployment Insurance Act has finally come to the end. In January 2017 the President of the Republic signed the Unemployment Insurance Bill Amendment Bill into Law. The new Unemployment Insurance Amendment Act is going to benefit more workers particularly public servants and people in learnerships who were previously excluded. The extension of period for submission of claims, increasing of rates for maternity benefits, reduction of accrual for credit days, and the extension of payment period of the unemployment benefit are some of the changes that are going to put more money in the pockets of vulnerable workers.

The Fund remains committed to improving service delivery to its beneficiaries. To this end, UIF Executive Committee undertook a process to reflect on the Fund's Vision, Mission and Strategic Objectives. This process resulted in the revision of the vision, mission, and the objectives of the Fund in order to re-energise the organisation and align to the needs and expectations of its clients and stakeholders.

Therefore the new vision: "A caring, accessible and customer-centric UIF providing excellent services that alleviate unemployment and poverty" seek to reposition UIF as a caring, customer-centric organization. Our clients usually approach the Fund at the point of dire need in their lives, therefore our service delivery model needs to be adapted to meet those needs.

The new mission statement "Through multiple channels, we will deliver both financial and social relief, to the right person, at the right time, every time, ensuring high client satisfaction", makes it imperative to re-engineer processes, train our staff and leverage on technology. A number of initiatives have already started to improve service delivery in the Fund. The Service Delivery Improvement Plan has been finalised which addresses short-comings and gaps in the service delivery value chain.

The process of modernising the online transaction portal, uFiling is expected to be completed by the end of the year, whiles the process of re-engineering the internal IT system is on-going. The Fund's desire is to enable clients to use various touch points at their disposal to transact with the Fund at their most convenient time.

Therefore, introducing 'Greater Self Service' where a client is involved in the delivery of service is key to improving accessibility. In this instance UIF will be giving employees or employers more power and responsibility to transact with the Fund anytime, anyplace, anywhere. The Fund is currently enhancing the U-Filing system to improve access, and is exploring leveraging on information Kiosks and mobile technology.

I would like to thank my predecessor, Mr Boas Seruwe who laid a solid foundation for me to grow the Fund and improve its operational efficiency.

The achievements of the Fund would not have been possible without the efforts of management and staff. On behalf of the UIF management and staff I would like to express my humble appreciation for the support from the Minister of Labour, the Director- General, and the UIF Advisory Board which served as a pillar of strength for the continued excellent performance by the Fund.

Ke a Leboga Baie Dankie Ngiyabonga

Teboho Maruping Unemployment Commissioner

#### 5. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the annual report is consistent with the annual financial statements audited by the Auditor General.

The annual report is complete, accurate and is free from any omissions.

The annual report has been prepared in accordance with the guidelines on the annual report as issued by National Treasury.

The Annual Financial Statements (Part F) have been prepared in accordance with the Generally Recognised Accounting Practise (GRAP) standards applicable to the public entity. The accounting authority is responsible for the preparation of the annual financial statements and

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

The accounting authority is responsible for establishing, and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the annual financial statements.

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2017.

Yours faithfully

Unemployment Insurance Commissioner T Maruping

Director General of Labour T Lamati

#### 6. STRATEGIC OVERVIEW

#### 6.1. Vision

The UIF strives to contribute to the alleviation of poverty in South Africa by providing effective short term unemployment insurance to all workers who qualify for unemployment insurance and other related benefits.

#### 6.2. Mission

The UIF sees its mission as:

- · Rendering an effective and accessible service to all stakeholders
- · Being a sustainable organisation with sufficient reserves
- Administering the Fund professionally

#### 6.3. Values

#### Transparency

· We will be open to all stakeholders without reservations on dealings within the Fund

#### **Mutual Respect**

• We will respect our colleagues and stakeholders and treat them as we want to be treated.

#### **Client-Centred Services**

• We will achieve total customer satisfaction by providing excellent and world class service to our stakeholders.

#### Integrity

• We will communicate openly and honestly and build relationships based on trust.

#### Accountability

• We will own up to our responsibilities in relations to our behaviours, actions and results.

#### Team Work

• We will involve each other, we will work together across the organisation we will seek ideas and share solutions.

#### 7. LEGISLATIVE AND OTHER MANDATES

The Unemployment Insurance Fund is a Schedule 3 A public entity in terms of the Public Finance Management Act, 1 of 1999.

#### **Constitutional Mandate**

The supreme mandate of the UIF is derived from section 27 (1) (c) of the Constitution of the Republic Of South Africa. The UIF provides social security to its contributors in line with section 27 (1) (c) which states that "everyone has the right to social security".

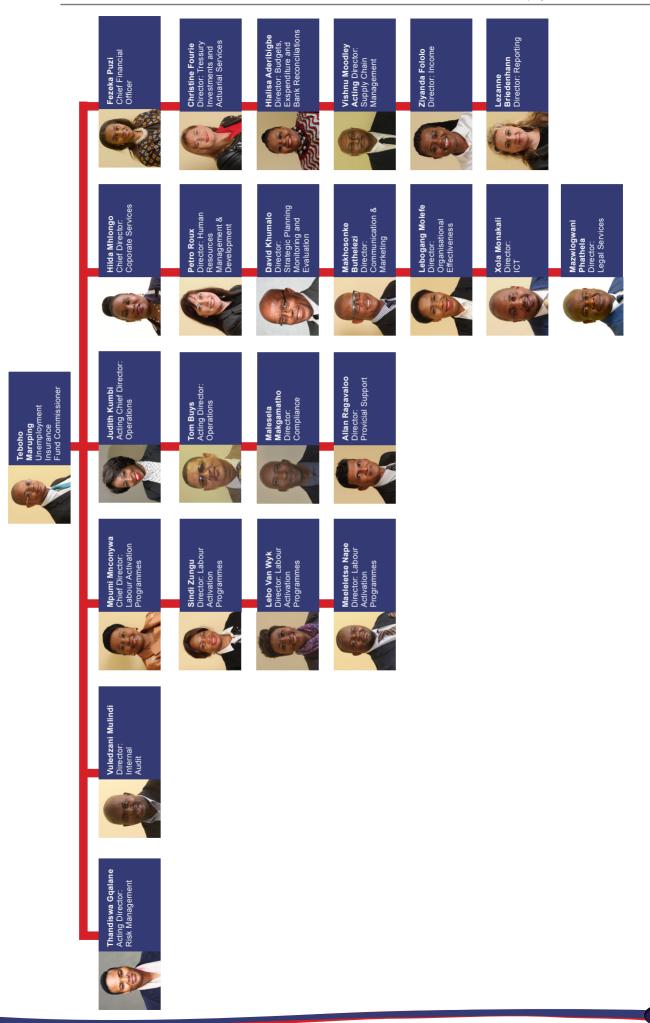
#### Other Legislative Mandates

#### Unemployment Insurance Act, 63 of 2001 (as amended)

The mandate of UIF is stated in the Unemployment Insurance Act. The UIF was established in terms of section 4(1) of the Unemployment Insurance Act. The Act empowers the UIF to register all employers and employees in South Africa and pay those who qualify for unemployment insurance benefits.

#### **Unemployment Insurance Contributions Act, 4 of 2002**

Section 9 of the Unemployment Insurance Contributions Act empowers the Unemployment Insurance Commissioner to collect contributions from all those employers who are not required to register as employers in terms of the fourth schedule to the Income Tax Act and are not liable for the payment of the skills development levy in terms of the Skills Development Act. These contributions together with those collected by the SARS Commissioner in terms of section 8 of the Unemployment Insurance Contributions Act, are utilised to pay benefits and any other expenditure reasonably incurred relating to the application of the Unemployment Insurance Act.



# PERFORMANCE INFORMATION

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# PART B

#### 1. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The AGSA performs the necessary audit procedures on the performance information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to page 101 of the Report of the Auditors Report, published as Part F: Financial Information.

#### 2. SITUATIONAL ANALYSIS

#### 2.1 Service Delivery Environment

#### 2.1.1 Outputs.

#### **Payment of benefits**

A total of 762 938 valid claims with complete information were received through various Labour centres, of which 675 416 claims were finalised within five weeks. This translates to 89% against the target of 90%.

#### Claims submitted through U-Filing claims portal.

A total of 21 872 claims were submitted through U-filing portal against an annual target of 20 000. The number was over achieved by 1 872. Beneficiaries are now submitting claims online thus; eliminating a need to physically visit the Unemployment Insurance Fund offices to submit applications.

#### **Registration of employers**

A total of 58 351 newly registered employers were reported against the target of 55 000. The target was over achieved by 3 351. This is an indication that employers are starting to adhere and honour the law.

#### Employers using U-filing.

A total of 17 488 employers have used the U-Filing system to declare and/or pay their employee's contributions. The targeted 17000 employers have been exceeded by 488. Employers are slowly and surely moving towards self-service and a paperless environment.

#### Training Of the Unemployment (TOU)

The UIF continued to implement the Building and Civil Construction (BCC) at NQF 3 in partnership with TVET Colleges. The UIF signed over 20 Funding Agreements with TVET Colleges. The below table reflects the TVET Colleges that have completed the training:

| PARTNER                       | MUNICIPALITIES                            | PROVINCE           | NUMBER<br>OF<br>LEARNERS | BUDGET          | EXPENDITURE    | %<br>SPENT |
|-------------------------------|---|--------------------|--------------------------|-----------------|----------------|------------|
| Motheo<br>TVET<br>College     | Mangaung<br>Metropolitan<br>Municipality  | Free state         | 47                       | R 1 800 000.00  | R 1 047 600.00 | 58%        |
| Goldfield<br>TVET<br>College  | Matjhabeng Local<br>Municipality          | Free state         | 41                       | R 1 800 000.00  | R 1 551 420.00 | 86%        |
| Coastal<br>TVET<br>College    | Ethekwini<br>Metropolitan<br>Municipality | Kwazulu-<br>Natal  | 48                       | R 1 800 000.00  | R 1 047 600.00 | 58%        |
| Umfolozi<br>TVET<br>College   | KwaDukuza Local<br>Municipality.          | WKwazulu-<br>Natal | 34                       | R 1 800 000.00  | R 884 891.96   | 49%        |
| Esayidi<br>TVET<br>College    | Umuziwabantu<br>Local Municipality        | Kwazulu-<br>Natal  | 18                       | R 1 800 000.00  | R 496 800.00   | 28%        |
| Sekhukhune<br>TVET<br>College | Elias Motsoaledi<br>Local Municipality    | Limpopo            | 41                       | R 1 800 000.00  | R 1 080 000.00 | 60%        |
| Letaba TVET<br>College        | Greater Tzaneen<br>Local Municipality     | Limpopo            | 43                       | R 1 800 000.00  | R 1 386 132.00 | 77%        |
| Boland TVET<br>College        | Breede Valley<br>Local Municipality       | Western<br>Cape    | 40                       | R 1 800 000.00  | R 108 000.00   | 6%         |
| Boland TVET<br>College        | Cape Agulhas<br>Local Municipality        | Western<br>Cape    | 12                       | R 1 800 000.00  | R 259 200.00   | 15%        |
|                               | TOTAL                                     |                    | 324                      | R 16 200 000.00 | R 7 861 643.96 | 49%        |

The UIF has entered into a partnership with four SETAs listed below to train a total of 13 885 learners. The partnership with the SETAs is on a of 50:50 basis. The total cost of the UIF contribution towards these training is R 313 628 900.00. The duration of the training programmes vary between 6 months to four years.

| PARTNER  | TYPE OF TRAINING  | NUMBER OF<br>LEARNERS | BUDGET        |               |
|----------|---|-----------------------|---------------|---------------|
| MERSETA  | Artisan Development<br>Programme  | 1 000                 | R150 000 000  | R75 000 000.  |
| ΤΕΤΑ     | Artisan Development<br>Programme  | 265                   | R 189 750 000 | R 94 875 000  |
|          | Panel Beaters   | 1 800                 |               |               |
|          | Pray painters   | 1 800                 |               |               |
|          | Youth Small Business<br>Support   | 300                   |               |               |
|          | Pilot training  | 20                    | R 17 881 800  | R8 940 900    |
| AGRISETA | Selected Mixed Farm-<br>ing, Plant and Ani-<br>mal Production Unit<br>Standards | 2 700                 | R 31 696 000  | R 15 848 000  |
| W&R SETA | Rural and Township<br>Economies Revitali-<br>zation Programme                   | 6 000                 | R 237 930 000 | R 118 965 000 |
| TOTAL    |   | 13 885                | R 627 257 800 | R 313 628 900 |

#### Job saving/creation

The Fund managed to save and create a total number of 52 876 (22 981 saved and 29 895 created) through the partnership with Industrial Development Corporation (IDC), Public Investment Corporation (PIC), Productivity South Africa (Prod SA) and MERSETA as follows:

- A total of 4 760 jobs were saved from Productivity South Africa;
- A total of 128 jobs were saved from Merseta through the Training-Layoff Scheme;
- A total of 1 533 jobs were saved from Public Investment Corporation; and
- A total of 29 895 jobs were created and 16 560 saved through the Industrial Development Corporation.

## 2.1.2. Challenges encountered and corrective measures when rendering services to the Public.

| Challenges   | Corrective measure  |
|--|---|
| <ul> <li>Incomplete information supplied by<br/>beneficiaries when applying for benefits.</li> </ul>   | <ul> <li>The entire Labour Centre model<br/>will be reviewed in the new<br/>financial year.</li> </ul>  |
| <ul><li>Bandwidth/slow network performance.</li><li>Regular system downtime.</li></ul>   | <ul> <li>Procurement of switches for<br/>upgrading the network will be<br/>finalized by September 2017.</li> </ul>  |
| Employers not registering their employees<br>on time.     Employers not supplying information on   | <ul> <li>An employer Audit unit has been<br/>established to monitor employer<br/>compliance with the UI Act.</li> </ul>   |
| <ul> <li>Employers not supplying information on<br/>movement of employees during a particular<br/>period.</li> </ul>   | <ul> <li>An online system is in place<br/>for employers to provide required<br/>information.</li> </ul>   |
| <ul> <li>Employers not giving accurate information.</li> </ul>   |   |
| <ul> <li>Lack of capacity at service points.</li> </ul>  | <ul> <li>The entire Labour Centre model will<br/>be reviewed in the new financial<br/>year to align with a caring customer<br/>centric UIF.</li> </ul>  |
| <ul> <li>Some partnerships could not kick off as<br/>anticipated due to the lack of readiness by<br/>partners.</li> </ul>  | <ul> <li>Perform readiness assessment<br/>before entering into by partnerships.</li> </ul>  |
| <ul> <li>TLS Policy regime currently does not cover<br/>other reasons leading to possible<br/>retrenchments. A higher number of applications<br/>received for TLS are not due to financial<br/>or economic distress. It therefore a challenge<br/>when such applications are adjudicated<br/>because financial or economic distress is one<br/>of the key criteria. Hence applications ends up<br/>not been recommended for approval.</li> </ul> | <ul> <li>A new policy position needs to be<br/>put in place as employees continue<br/>to risk losing their jobs<br/>due to the current policy constraint.</li> <li>A process to develop a new Labour<br/>Activation Programmes strategy<br/>was initiated in the fourth quarter<br/>of 2016/17 financial year. This<br/>is based on UIF's drive contribute<br/>immensely in the alleviation of<br/>poverty for its beneficiaries. Labour<br/>Activation Programmes will then be<br/>intensified.</li> </ul> |

#### 2.2. Organisational environment

A new Chief Financial Officer was appointed in April 2016. The Commissioner resigned with effect from 31 August 2016 and a new Commissioner was appointed in December 2016. The Fund has created a new unit that deals with claims that are submitted electronically. The new organisational structure was fully implemented. The Fund will review its investment strategy in order to deal with this negative growth.

#### 2.3. Key policy developments and legislative changes.

The Unemployment amendment Act was acceded by the State President on 11th of January 2017.

#### 2.4. Strategic Outcome Oriented Goals.

| Strategic                               | Improve collection of   | Target   | Achievement  |
|---|---|--|--|
| outcome                                 | revenue from employers  |  |  |
| oriented goal 1                         |   |  |  |
| Goal statement                          | Increase contributions<br>collected by at least the<br>prevailing Consumer Price<br>Index ( CPI) plus 2.5%  | 7.5% by<br>March 2017  | 6.6% revenue was received during<br>the reporting period. This represents<br>0.6% more revenue from employers<br>as compared to the previous year. |
| Strategic<br>outcome<br>oriented goal 2 | Improve payment of<br>benefits to beneficiaries<br>of the Fund  | Target   | Achievement  |
| Goal statement                          | Increase the rate of<br>processing claims in<br>order to pay within the<br>targeted service levels and<br>turnaround times  | 90% within five weeks by March 2017.   | The fund processed 89% of the claims received within five weeks.   |
| Strategic<br>outcome oriented<br>goal 3 | Participate in government<br>initiatives of creating<br>and sustaining decent<br>employment   | Target   | Achievement  |
| Goal statement                          | Contribute in the various<br>schemes designed to<br>alleviate the harmful<br>effects of unemployment<br>which includes investing<br>mandated funds in the Social<br>Responsible Investments | (total<br>Investments as at  | 553x100) of total mandated social  |
| Strategic<br>outcome<br>oriented goal 4 | Effective administration of the Fund's operations   | Target   | Achievement  |
| Goal statement                          | Maintain effective systems<br>of internal control as<br>required by the Public<br>Finance Management Act of<br>1999. (An unqualified audit<br>opinion).                                     | Maintain effective<br>systems of internal<br>control as required<br>by the Public Finance<br>Management Act of<br>1999. (An unqualified<br>audit opinion). | The Fund is implementing a new<br>system in order to improve controls<br>and improve productivity  |

#### 3. PERFORMANCE INFORMATION BY PROGRAMME/ ACTIVITY/ OBJECTIVE

The current organisational structure of the Fund is comprised of the following: Programme 1: Administration.

#### 3.1 Office of the Commissioner

### Programme purpose: to provide management, strategic and administrative support to the UIF.

The focus of the office is to provide strategic leadership and overall management regarding the administration and overall operations of the Fund. The office is complemented by the following divisions:

| Directorate: Internal Audit                                      | Directorate: Risk<br>Management                                     |
|--|---|
| Independently focuses on reviewing internal controls of the UIF; |   |
| Reviewing risk management<br>and programmes of the UIF           | Fraud investigations.   |
| Reviewing UIF governance<br>processes                            | It identifies strategic and<br>operational risks within the<br>Fund |

#### 3.1.1 Chief Directorate; Corporate Services

The purpose of the Corporate Services is to enable the Fund to meet its human resource needs in line with the Strategic Plan and to ensure that there are right people, at the right time and at the right place to achieve the strategic objectives of UIF. The office is complemented by the following sub-divisions namely:

| Human Resource Management   | Organisational<br>Effectiveness   | Board Services   | Strategic<br>Planning,<br>Monitoring and<br>Evaluation  | Communications<br>and Marketing  | Information and<br>Communication<br>Technology   | Legal<br>Services             |
|---|---|--|---|--|--|-------------------------------|
| <ul> <li>Training and development of staff;</li> <li>Maintaining sound labour relations;</li> <li>Promoting equality in the organisation;</li> <li>Recruitment and selection; and</li> <li>Provision of service condition and benefits</li> </ul> | <ul> <li>Job design and<br/>evaluation;</li> <li>Change management;<br/>and</li> <li>Business process<br/>development and<br/>mapping.</li> </ul> | <ul> <li>Enhance good<br/>governance of<br/>the organisation;</li> <li>Board support<br/>and administration</li> <li>Compliance<br/>management<br/>and governance;<br/>management;<br/>and</li> <li>Security<br/>management<br/>services.</li> </ul> | <ul> <li>Strategic<br/>planning; and</li> <li>Monitoring and<br/>evaluation of<br/>the<br/>organisation.</li> </ul> | <ul> <li>Provision of communication services</li> <li>Provision of marketing services branding and publications</li> </ul> | <ul> <li>Manage the Fund's projects projects</li> <li>Develop and implement ICT governance model.</li> </ul> | • Provision<br>of<br>services |

# 3.1.2 Chief Directorate: Financial Management

The focus of the office is to provide financial governance, financial management and accounting services to the organisation. The CFO'S office is complemented by five sub-divisions, namely:

| Financial Reporting   | Investment and<br>Actuarial services                                     | Expenditure,<br>Budgets and Bank<br>Reconciliations   | Supply Chain Management<br>and Auxiliary Services  |
|---|--|---|--|
| <ul> <li>Management of financial reporting; and</li> <li>Provision of financial systems support.</li> </ul> | <ul> <li>Investment<br/>management and<br/>treasury services.</li> </ul> | <ul> <li>Creditor and expenditure tinar expenditure management; ad ad</li> <li>Claims payments; ma</li> <li>Reconciliation of bank accounts; and and</li> </ul> | <ul> <li>Provision of integrated<br/>financial<br/>administration and supply<br/>chain<br/>management services;</li> <li>Records management ;<br/>and</li> </ul> |
|   |  | <ul> <li>Integrated budget<br/>planning and<br/>management.</li> </ul>  | <ul> <li>Asset and facilities management.</li> </ul>   |

#### 3.2 Programme 2: Business Operations.

The programme's purpose is to collect contributions and pay benefits. The programme consists of the following sub-programmes:

| Chief Directorate: Operations  | Income Management   |
|--|---|
| <ul> <li>Management and administration of benefits<br/>payments;</li> </ul>    | <ul> <li>Management of revenue and debt collection<br/>processes; and</li> <li>Management of payroll audits and enforcement.</li> </ul> |
| <ul> <li>Management and administration of declaratio<br/>processes;</li> </ul> |   |
| Monitoring of provincial office performance;                                   |   |
| Provision of Call Centre services ; and  |   |
| Registration of employers.   |   |



4.Strategic objectives, performance indicators, planned targets and actual achievements

| Programme:                         | Programme: Admistration   |                                    |  |   |  |  |   |   |
|------------------------------------|---|------------------------------------|--|---|--|--|---|---|
| Strategic<br>objectives            | Performance<br>indicator  | Actual<br>Achievement<br>2013/2014 | Actual<br>Achievement<br>2014/15   | Actual<br>Achievement<br>2015/2016  | Planned Target<br>2016/2017                                  | Actual<br>Achievement<br>2016/2017   | Deviation<br>from planned<br>target to Actual<br>Achievement<br>for 2016/2017 | Comment<br>on<br>deviations   |
| Improve<br>financial<br>management | Percentage<br>return on<br>investment.  | N/A                                | 11.83% return on<br>investment<br>achieved by<br>March 2015<br>Calculation<br>R 11 085 878 569.30/<br>R93 714 431 323.34<br>=0.11829*100%<br>=11.83% | 3.3% return on<br>investments by<br>March 2016.<br>R3 687m<br>/112<br>=3.3%                                       | CPI + 2.5%<br>return on<br>investment<br>by 31 March<br>2017 | 5.90% (R7 286<br>919 311/123<br>522 767 644<br>x100) return on<br>investment was<br>achieved by<br>March 2017. | Target<br>underachieved<br>by 2.7%  | The<br>Fund will<br>review its<br>investment<br>strategy<br>in order<br>to deal<br>with this<br>negative<br>growth. |
| Improve<br>financial<br>management | Administrative<br>expenditure<br>(excluding<br>capex) as a<br>percentage of<br>revenue. | N/A                                | Administrative<br>Expenditure<br>was 10% of<br>Revenue by<br>March 2015. 1 573 656<br>16 150 796 = 10%   | Administrative<br>expenditure was<br>9.9% of Revenue<br>by March 31<br>2016.<br>R1 691m/R17<br>120mx100<br>= 9.9% | Administrative<br>expenditure ≤<br>15% by March<br>2017.     | 11.1%<br>(2038016/<br>18239065x100)<br>of<br>administrative<br>expenditure as<br>at March 2017                 | Target<br>achieved  | N/A   |

|                         | Comment on<br>deviations  | Due diligence<br>investigations<br>were finalised<br>mostly in<br>the previous<br>financial year.  |
|-------------------------|---|--|
|                         | Deviation<br>from planned<br>target to Actual<br>Achievement<br>for 2016/2017 | Target<br>overachieved<br>by 5%  |
|                         | Actual<br>Achievement<br>2016/2017  | 85%<br>(R 20 935 691<br>043/24704<br>553x100) of<br>total mandated<br>social<br>investment<br>committed by<br>March 2017.  |
|                         | Planned Target<br>2016/2017   | 80%<br>by March 2017.<br>(total<br>investments<br>as at<br>beginning of<br>financial year)   |
|                         | Actual<br>Achievement<br>2015/2016  | R7 68m invested/<br>committed.<br>R11 275 million<br>(10% of portfolio<br>as at 01/04/2015)<br>R7 688m /R11<br>2757m<br>=0.68*100<br>=68%  |
|                         | Actual<br>Achievement<br>2014/15  | R 7 930 270 660<br>(Invested/<br>Committed) /<br>R 9 371 443 132<br>(10% of Portfolio<br>as at<br>1/4/2014)<br>= 85%   |
|                         | Actual<br>Achievement<br>2013/2014  | 53.42% (3,<br>561/ 6,<br>666) of<br>mandated<br>SRI invested<br>as at 31<br>March 2014.<br>Annual target<br>was R6, 666<br>billion. Actual<br>amount<br>invested was<br>R3, 561<br>billion.<br>Total<br>invested was<br>R3, 561<br>billion.<br>Total<br>invested was<br>R3, 561<br>billion.<br>2014 was<br>R3, 721,<br>829,218.21. |
| Programme: Admistration | Performance<br>indicator  | Percentage<br>of total<br>mandated<br>social<br>responsible<br>Investment<br>committed   |
| Programme:              | Strategic<br>objectives   | Improve<br>financial<br>management   |

| Programm                       | Programme: Business Operations   | perations  |   |   |   |   |            |                                |                                    |   |   |
|--------------------------------|--|--|---|---|---|---|------------|--------------------------------|------------------------------------|---|---|
| Strategic<br>objectives        | Performance<br>indicator   | Actual<br>Achievement<br>2013/2014   | Actual<br>Achievement<br>2014/15  | Actual<br>Achievement<br>2015/2016  | Planned<br>Target<br>2016/2017            | Actual Achievement<br>2016/2017                 | /ement     |                                |                                    | Deviation<br>from planned<br>target to Actual<br>Achievement<br>for 2016/2017 | Comment<br>on<br>deviations                           |
| Improve<br>service<br>delivery | Percentage<br>of valid<br>claims with<br>complete                                    | 85% of<br>claims<br>approved<br>or rejected  | 90% of valid<br>claims<br>with<br>complete  |   | 90% within<br>5 weeks<br>by March<br>2017 | DoL Main<br>Centre                              | Received   | Finalised<br>within 5<br>weeks | %<br>finalised<br>within<br>5weeks | Target<br>underachieved<br>by 1%.   | Network under<br>strain due<br>to increased<br>volume |
|                                | information  | within five<br>weeks of  | ت<br>م  | approved or<br>rejected   |   | Bloemfontein                                    | 33 613     | 27 395                         | 82%                                |   | of claims.<br>Procurement                             |
|                                | rejected ( as  | application  | 5   |   |   | Cape Town                                       | 110 490    | 105 300                        | 94%                                |   | of switches for                                       |
|                                | per Funds  | as<br>roflootod in   | within  |   |   | Durban  | 93 199     | 87 054                         | 93%                                |   | upgrading the   |
|                                | Operational<br>System per  | the Fund's   | iive weeks<br>of  |   |   | East London                                     | 32 153     | 27 446                         | 85%                                |   | be finalized  |
|                                | year )   | operational  | application   |   |   | George  | 15 571     | 12 838                         | 82%                                |   | by September  |
|                                |  | system<br>(SIYAYA)   | reflected in  |   |   | Germiston                                       | 69 803     | 59 935                         | 86%                                |   | 2017  |
|                                |  |  | the   |   |   | Jhb   | 79 501     | 67 555                         | 85%                                |   |   |
|                                |  |  | Fund's<br>onerational   |   |   | Kimberley                                       | 29 473     | 28 327                         | 96%                                |   |   |
|                                |  |  | system by   |   |   | Mmabatho  | 33 265     | 31 155                         | 94%                                |   |   |
|                                |  |  | March   |   |   | Online  | 15 573     | 12 357                         | 79%                                |   |   |
|                                |  |  | C107  |   |   | Pietermarits-<br>burg                           | 42 289     | 40 135                         | 95%                                |   |   |
|                                |  |  |   |   |   | Polokwane                                       | 63 262     | 54 124                         | 86%                                |   |   |
|                                |  |  |   |   |   | Port<br>Elizaberth                              | 35 974     | 30 940                         | 86%                                |   |   |
|                                |  |  |   |   |   | Pretoria  | 46 178     | 35 635                         | 77%                                |   |   |
|                                |  |  |   |   |   | Witbank   | 62 594     | 57 020                         | 91%                                |   |   |
|                                |  |  |   |   |   | Grand Total                                     | 762 938    | 675 416                        | 89%                                |   |   |
| Improve<br>service<br>delivery | Number<br>of claims<br>submitted<br>through<br>U-Filing<br>claims portal<br>per year | A total of 2<br>947<br>registered<br>employees<br>used<br>U-Filing<br>claims by<br>the<br>end of<br>March<br>2014. | A total of<br>16 799<br>registered<br>employees<br>used<br>u-Filing<br>claims portal<br>by the end<br>of March<br>2015. | A total of 21<br>156 claims<br>against<br>the annual<br>target of<br>15000 were<br>submitted<br>through the<br>U-Filling<br>claims<br>portal. | 20 000<br>by March<br>2017                | 21 872 claims submitted through U-filing portal | s submitte | ed through                     |                                    | Target<br>overachieved<br>by 1 872  | Communication<br>campaigns<br>yielded the<br>desired  |

|                                | Comment<br>on<br>deviations   | Communication<br>campaigns<br>yielded the<br>desired results   |
|--------------------------------|---|--|
|                                | Deviation from<br>planned target<br>to Actual<br>Achievement<br>for 2016/2017 | Target<br>overachieved<br>by 3351  |
|                                | Actual<br>Achievement<br>2016/2017  | Total of 58 351<br>new employers<br>were registered  |
|                                | Planned<br>Target<br>2016/2017  | 55000<br>by March<br>2017  |
|                                | Actual Achievement<br>2015/2016   | A total of 51 904<br>new employers were<br>registered against the<br>target of 63 189 which<br>represents 3.3%<br>(51 904/1579<br>728=.0328*100=3.3%)  |
|                                | Actual<br>Achievement<br>2014/15  | An increase of<br>3.4%<br>Employers<br>Registered<br>2014/15= 53<br>312 Employers<br>Registered as at<br>31 March2014=<br>1 526<br>53312/1 526<br>53312/1 526<br>416<br>= 0,034*100%<br>= 3,4% |
| ons                            | Actual<br>Achievement<br>2013/2014  | A total of 61<br>198 against<br>a target of<br>58 608 new<br>employers<br>were<br>registered by<br>the end of<br>March 2014-<br>An increase<br>of 4%   |
| siness Operati                 | Performance<br>indicator  | Increase<br>in number<br>of newly<br>registered<br>employers<br>per year   |
| Programme: Business Operations | Strategic<br>objectives   | Improve<br>compliance<br>to the<br>Unemployment<br>Insurance Acts  |

| ,   |  |   |  |  |                                |   |  |  |
|---|--|---|--|--|--------------------------------|---|--|--|
| Strategic<br>objectives   | Performance<br>indicator                             | Actual<br>Achievement<br>2013/2014  | Actual<br>Achievement<br>2014/15   | Actual Achievement<br>2015/2016  | Planned<br>Target<br>2016/2017 | Actual<br>Achievement<br>2016/2017  | Deviation from<br>planned target to<br>Actual Achievement<br>for 2016/2017 | Comment<br>on<br>deviations  |
| Improve<br>compliance<br>to the<br>Unemployment<br>Insurance Acts | Percentage<br>increase in<br>Revenue per<br>year     | 11.8% increase<br>in<br>contributions<br>Revenue<br>collected by<br>31 March 2013-<br>R13<br>687 million<br>R13<br>309 million an<br>increase<br>of 11.8% | Contributions<br>revenue<br>collected by 31<br>March<br>2014-R15<br>309million<br>Contributions<br>revenue<br>collected by 31<br>March<br>2015 ( R16<br>147 million)<br>an increase of<br>5.5% | 6% increase in<br>revenue collected<br>was achieved as at<br>March 2016.<br>Contribution<br>revenue collected<br>by March 2016 –<br>R17 120m.<br>Contribution<br>revenue collected<br>by March 2015 –<br>R16 147m. | 7.5% by<br>March<br>2017       | March. 2017<br>– R18 256 811<br>119.38<br>March. 2016<br>– R17 120 380<br>688.29<br>Which yielded<br>a 6.6% instead<br>of 7.5%<br>Increase in<br>contributions<br>revenue<br>received<br>during the<br>reporting<br>period. | Target<br>underachieved by<br>0.9%   | Actual<br>revenue that<br>is received<br>fluctuates<br>based on the<br>economic<br>factors<br>the time.  |
| Improve<br>compliance<br>to the<br>Unemployment<br>Insurance Acts | Percentage<br>reduction in<br>overpayment<br>balance | Overpayments<br>balance<br>amounting to<br>R259 million<br>Total recoveries<br>of R68,9 million<br>as a percentage<br>of the                              | Overpayments<br>balance<br>amounting to<br>R273 million<br>(rounded off)<br>Total recoveries<br>of R88 million<br>as a percentage<br>of the<br>overpayment                                     | Collected 23.04% of<br>the current balance<br>– R216 459 847 (<br>rounded off) which<br>comprise of  | 20% by<br>March<br>2017        | Collected<br>19.61% of<br>the current<br>balance –<br>R309 289 745<br>mil (rounded<br>off) which<br>comprises   | Target under<br>achieved by 0.4%   | This is due<br>to high rate<br>in which<br>new debt is<br>raised, as<br>well as the<br>employment<br>status of<br>debtors who<br>owe the<br>owe that is, |

| Programme: Business Operations                                    | siness Operatio   | ons   |   |  |                             |  |  |  |
|---|---|---|---|--|-----------------------------|--|--|--|
| Strategic<br>objectives   | Performance<br>indicator  | Actual<br>Achievement<br>2013/2014  | Actual<br>Achievement<br>2014/15  | Actual Achievement<br>2015/2016  | Planned Target<br>2016/2017 | Actual<br>Achievement<br>2016/2017   | Deviation from<br>planned target to<br>Actual Achievement<br>for 2016/2017 | Comment<br>on<br>deviations                                  |
|   |   | overpayment<br>balance<br>equals to<br>27% recovery<br>rate.  | balance equals<br>to 21.19%<br>recovery rate  | Collected 23.04% of<br>the current balance<br>– R216 459 847 (<br>rounded off) which<br>comprise of :<br>O/B: R216 459<br>847+ New: R104<br>095 894<br>– rev sub ovp: R7<br>448 964 – Cancel:<br>R2 225 575<br>W/Offs: R53 565<br>664<br>Total Recoveries =<br>R59 278 884 |                             | of:<br>Opening<br>Balance:<br>R202 894<br>783.07<br>+ New: R109<br>496 783.70+<br>COA<br>R772 214.64<br>COA<br>R772 214.64<br>COA<br>R772 214.64<br>- Unco-w/o<br>R2 677 581.78<br>- Unco-w/o<br>R424 239.71<br>Recoveries:<br>R 60 757<br>925.74. |  | unemployed<br>persons.                                       |
| Improve<br>compliance<br>to the<br>Unemployment<br>Insurance Acts | Increase in<br>number of<br>employers<br>using U-filing<br>system per<br>year | 29.1%%<br>increase in<br>Employers<br>using<br>U-Filing to<br>declare and<br>pay<br>contributions<br>as | 20% increase<br>in Employers<br>using U-Filing to<br>declare and pay<br>contributions as<br>compared to<br>prior year by<br>March | 37.7% (24 987)<br>increase in<br>employers using<br>u-Filing by March<br>2016.   | 17000 by<br>March 2017      | 17 488<br>employers<br>using U-filing  | Target<br>overachieved by<br>488   | Communication<br>campaigns<br>yielded the<br>desired results |

| Programme: Business Operations | isiness Operat           | ions  |  |                                 |                             |                                    |   |                             |
|--------------------------------|--------------------------|---|--|---------------------------------|-----------------------------|------------------------------------|---|-----------------------------|
| Strategic<br>objectives        | Performance<br>indicator | Actual<br>Achievement<br>2013/2014  | Actual<br>Achievement<br>2014/15                             | Actual Achievement<br>2015/2016 | Planned Target<br>2016/2017 | Actual<br>Achievement<br>2016/2017 | Deviation fromCommentplanned target toonActual Achievementdeviationsfor 2016/2017deviations | Comment<br>on<br>deviations |
|                                |                          | compared to<br>prior year<br>by 31 March<br>2014.<br>31 March<br>2013 -42 487<br>2013 -54 848<br>2014 -54 848 | 2015. 31 March<br>2014-54<br>848<br>31 March 2015-<br>66 247 |                                 |                             |                                    |   |                             |

|  |  | ee  |   | at×  |
|--|--|---|---|--|
|  | Comment<br>on<br>deviations  | Transfer of<br>funds stopped<br>due to an<br>investigation.   | νν  | The approval<br>process took<br>longer than<br>anticipated.<br>The<br>directorate<br>to develop<br>indicators that<br>are within<br>their control. |
|  | Deviation from<br>planned target to<br>Actual Achievement<br>for 2016/2017 | Target<br>underachieved by<br>55%   | N/A   | Funds were not<br>transferred within<br>30 days after<br>approval of the<br>training Lay Off<br>scheme   |
|  | Actual Achievement<br>2016/2017  | (24 451 667 /<br>97 806 667 X 100)<br>25%   | 5 application<br>received, 2<br>approved and 3<br>rejected within 30<br>days  | Funds were<br>transferred to a<br>SETA 53 days after<br>the approval of a<br>Training Lay-Off<br>scheme application                                |
|  | Planned Target<br>2016/2017  | 80% by 31<br>March 2017   | Within 30 days<br>after receipt of<br>application   | Within 30 days<br>after approval<br>of application   |
|  | Actual Achievement<br>2015/2016  | 28% (As per<br>agreement: R 62<br>000 000, Actuals<br>Received: R 17 566<br>667)                                      | N/A   | N/A  |
|  | Actual<br>Achievement<br>2014/15   | 50% (As per<br>agreement<br>58 500 000,<br>Actuals<br>Received:<br>R 29 250<br>000)                                   | A/A   | N/A  |
| l Programme                            | Actual<br>Achievement<br>2013/2014   | 75% (As per<br>agreement<br>55 800 000,<br>Actuals<br>Received: R<br>41 850 000)                                      | N/A   | N/A  |
| Programme: Labour Activation Programme | Performance<br>indicator   | Percentage of<br>budgeted funds<br>transferred for<br>turnaround<br>solutions<br>implementation<br>by PSA per<br>year | Turnaround<br>time to approve<br>or reject<br>Training Lay<br>– Off Scheme<br>application<br>received from<br>SETA per year | Turnaround<br>time to transfer<br>funds to a<br>SETA after<br>the approval<br>of a Training<br>Lay-Off scheme<br>application                       |
| Programme:                             | Strategic<br>objectives  | Fund poverty<br>alleviation<br>schemes.   | Fund poverty<br>alleviation<br>schemes.   | Fund poverty<br>alleviation<br>schemes.  |

### 5. Strategy to overcome areas of under performance

|     |  | Major variance and  | Action taken to resolve   |
|-----|--|---|---|
| No. | Performance indicator  | reasons   | the problem   |
| 1.  | Percentage return on investment.   | The South African economy<br>ran a negative output gap<br>and remain in a stagflation<br>bind for the rest of<br>2016/2017.However, | Measures were put in<br>place to ensure that<br>the portfolio return at<br>least outperform the set<br>return benchmarks on a<br>quarterly basis                                  |
| 2.  | Percentage of valid claims<br>with complete information<br>approved or rejected ( as per<br>Funds Operational System<br>per year )       | Lack of capacity at service<br>points.<br>Bandwidth/slow network<br>performance and regular<br>system downtime                      | The entire Labour Centre<br>model will be reviewed in<br>the new financial year.<br>Procurement of switches<br>for upgrading the<br>network will be finalize<br>by September 2017 |
| 3.  | Percentage increase in<br>Revenue per year   | Actual revenue that is received fluctuates based on the economic factors prevailing at the time.                                    | The target for the 2017/18 financial year is set down to 7.2% based on the actuarial estimates  |
| 4.  | Percentage of budgeted<br>funds transferred for<br>turnaround solutions<br>implementation by PSA   | Non-compliance with funding agreement by PSA.   | PSA to Account for R 24 million before they can get funding for 2017/18.  |
| 5.  | Turnaround time to transfer<br>funds to a SETA after the<br>approval of a training Lay-<br>Off scheme application                        | The indicator does not meet the SMART principle.  | The directorate to develop indicators that are within their control.  |
| 6.  | Percentage reduction in<br>overpayment balance (<br>Opening balance plus new<br>overpayments noted less<br>write offs and cancellations) | Target was underachieved<br>by 0.4% due to high rate in<br>which new debt is raised.  | This is due to high<br>rate in which new<br>debt is raised, as well<br>as the employment<br>status of debtors who<br>owe the Fund, that is,<br>unemployed persons.                |

6. Annexure A

# **TECHNICAL INDICATOR DESCRIPTIONS THAT WERE ENHANCED DURING THE REPORTING PERIOD**

### STRATEGIC OBJECTIVE 1: IMPROVE FINANCIAL MANAGEMENT

| Topic            | Old Description   | Enhanced description |
|------------------|---|----------------------|
| Indicator title  | Administrative expenditure (excluding capex) as a percentage of revenue |                      |
| Calculation type | Cumulative  | Non-cumulative       |
| Reporting cycle  | Annually  | Quarterly            |

## STRATEGIC OBJECTIVE 4: FUND POVERTY ALLEVIATION SCHEMES

| Topic                     | Old Description   | Enhanced description   |
|---------------------------|---|--|
| Indicator title           | Percentage of budgeted funds transferred<br>for turnaround solutions implemented by<br>Productivity SA. |  |
| Source/collection of data | Implementation Records and Financial<br>System Records  | Financial Implementation Records (Productivity SA funding agreement, business plan, progress report) and financial System Records (screenshot of payment or an email confirmation of payment from the UIF Finance Directorate)   |
|                           |   | The checklist document will be used to determine whether or not the supporting information is complete to enable the transfer.   |
| Method of calculation     | Amount transferred divided by total budget<br>allocation for Productivity SA multiplied by<br>100%      | I by total budget Amount transferred divided by total amount due to Productivity SA multiplied by 100%. Total amount due is worked out according to the MOU that says "in the event that a portion of the year has already lapsed, then the annual amount will be divided proportionately by the remaining months. |
| Reporting cycle           | Annually.   | Quarterly  |

| Topic                      | Old description2  | Enhanced description   |
|----------------------------|---|--|
| Indicator title            | Percentage of budgeted funds transferred<br>for the turnaround solutions implemented<br>by PSA                        |  |
| Source /collection of data | Implementation Records and Financial<br>System Records  | Implementation Records (Productivity SA funding agreement, business plan, progress report) and financial System Records (screenshot of payment or an email confirmation of payment from the UIF Finance Directorate)   |
|                            |   | The checklist document will be used to determine whether or not the supporting information is complete to enable the transfer.   |
| Method of calculation      | Amount transferred divided by total budget allocation for Productivity SA multiplied by 100%                          | Amount transferred divided by total amount due to Productivity SA multiplied by 100%. Total amount due is worked out according to the MOU that says "in the event that a portion of the year has already lapsed, then the annual amount will be divided proportionately by the remaining months. |
| Indicator 4.2              |   |  |
| Topic                      | Old description2  | Enhanced description   |
| Indicator title            | Turnaround time to approve or reject<br>Training Lay-off Scheme application<br>received from the SETA.                |  |
| Short definition           | Number of days it takes to approve or reject<br>a Training Lay -Off Scheme application<br>upon receipt from the SETA. | Number of days it takes to approve or reject a Training Lay-off Scheme application from the date of receipt of complete information as requested by the PEC information from CCMA and SATA.  |
| Purpose/importance         | To track how quickly applications are finalised.  | To track how quickly applications are finalised from receipt to finalisation.  |
| Source /collection of data | Record of approval from CCMA and minutes of PEC meetings.   | Record of approvals from SETA, proof of additional information requested by PEC, last minutes of PEC meeting and record of the date of receipt of the complete application.  |
|                            |   | The checklist document will be used to determine whether or not the supporting information is complete to enable an application to be presented at the PEC, and the minutes from the PEC.  |
| Method                     | simple count  | Simple count. – last date of receipt of the documentation requested minus date of  |
|                            |   | last PEC sitting for approval equal to number of days taken for each application.  |

Cumulative Quarterly

N/A Annually

Calculation type Reporting cycle

| Indicator title            | Turnaround time to transfer funds to a SETA after the approval of a Training Lay-off Scheme application.   |  |
|----------------------------|--|--|
| Short definition           | Number of days taken to transfer funds after Number of days taken to<br>the approval of a Training Lay-off scheme documentation from the SETA.<br>application. | Number of days taken to transfer funds after Number of days taken to transfer payment upon receipt of complete<br>the approval of a Training Lay-off scheme documentation from the SETA.<br>application. |
| Purpose/importance         | To measure how quickly funds are transferred after approval of an application.   | To measure how quickly funds are To measure how quickly funds are transferred after receipt of the invoice.<br>transferred after approval of an application.   |
| Source /collection of data | Memorandum of agreement and the Payment Voucher.   | Memorandum of agreement and the Copy of Invoice, proof of date of receipt by LAP and proof of payment<br>Payment Voucher.  |
| Method                     | Count the number of days from the date of approval to the date of payment.   | Count the number of days from the date of Count the number of days from the date of receipt of invoice to the date of approval to the date of payment.   |
| Calculation type           | N/A  | Cumulative   |
| Reporting cycle            | Annually   | Quarterly  |
|                            |  |  |

### 7. Summary of Financial Information

|   |                 | 2016/2017                      |                                      |                 | 2015/2016                      |                                      |
|---|-----------------|--------------------------------|--------------------------------------|-----------------|--------------------------------|--------------------------------------|
| ltem                                      | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 |
| Benefits payments                         | 8 313 414       | 8 478 357                      | -164 943                             | 8 536 592       | 7 691 152                      | 845 440                              |
| Labour Activation Programmes<br>(Schemes) | 706 000         | 145 478                        | 560 522                              | 1 627 200       | 80 571                         | 1 546 629                            |
| Administration                            | 2 576 028       | 2 040 938                      | 535 090                              | 2 071 415       | 1 787 286                      | 284 129                              |
| Total                                     | 11 595 442      | 10 664 773                     | 930 669                              | 12 235 207      | 9 559 009                      | 2 676 198                            |

b) Summary of income

|                   |                 | 2016/2017                      |                                      |                 | 2015/2016                      |                                      |
|-------------------|-----------------|--------------------------------|--------------------------------------|-----------------|--------------------------------|--------------------------------------|
| Item              | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 |
| Revenue collected | 17 979 407      | 18 256 811                     | -277 404                             | 16 866 962      | 17 120 381                     | -253 419                             |
| Total             | 17 979 407      | 18 256 811                     | -277 404                             | 16 866 962      | 17 120 381                     | -253 419                             |

c) Summary of other income

|                       |                 | 2016/2017                      |                                      |                 | 2015/2016                      |                                      |
|-----------------------|-----------------|--------------------------------|--------------------------------------|-----------------|--------------------------------|--------------------------------------|
| ltem                  | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 |
| Other income          | 2 424           | 7 657                          | -5 233                               | 6 418           | 6 147                          | 271                                  |
| Investment revenue    | 8 936 086       | 9 199 601                      | -263 515                             | 9 372 595       | 7 746 161                      | 1 626 434                            |
| Fair value adjustment | 0               | 2 610 167                      | -2 610 167                           | 0               | 4 233 877                      | -4 233 877                           |
| Total                 | 8 938 510       | 11 817 425                     | -2 878 915                           | 9 379 013       | 11 986 185                     | -2 607 172                           |

| reserves  |
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|                                       |                 | 2016/2017                 |                                      |                 | 2015/2016                 |                                      |
|---------------------------------------|-----------------|---------------------------|--------------------------------------|-----------------|---------------------------|--------------------------------------|
| Item                                  | Budget<br>R'000 | Actual<br>Change<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 | Budget<br>R'000 | Actual<br>Change<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 |
| Change in benefits payable            | -253 153        | -968 450                  | 715 297                              | -344 345        | -392 211                  | 47 866                               |
| Change in Unearned premium<br>reserve | -1 184 989      | -1 499 766                | 314 777                              | -1 166 995      | -2 475 516                | 1 308 521                            |
| Total                                 | -1 438 142      | -2 468 216                | 1 030 074                            | -1 511 340      | -2 867 727                | 1 356 387                            |

Summary of financial Information Summary of income, expenses and reserves

|                                     |                 | 2016/2017                      |                                      |                 | 2015/2016                      |                                      |
|-------------------------------------|-----------------|--------------------------------|--------------------------------------|-----------------|--------------------------------|--------------------------------------|
| ltem                                | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 | Budget<br>R'000 | Actual<br>Expenditure<br>R'000 | (Over)/Under<br>Expenditure<br>R'000 |
| Total revenue                       | 26 917 916      | 27 464 069                     | -546 153                             | 26 245 975      | 24 872 689                     | 1 373 286                            |
| Administration expenditure          | -2 576 028      | -2 040 938                     | -535 090                             | -2 071 415      | -1 788 740                     | -283 321                             |
| Benefit Expenditure                 | -8 313 414      | -8 478 357                     | 164 943                              | -8 536 592      | -7 691 153                     | -845 440                             |
| Unemployment Alleviating<br>Schemes | -706 000        | -145 478                       | -560 522                             | -1 627 200      | -80 571                        | -1 546 629                           |
| Outstanding claims reserves         | -253 153        | -968 450                       | 715 297                              | -344 345        | -392 211                       | -47 866                              |
| Unearned premium reserve            | -1 184 989      | -1 499 765                     | 314 776                              | -1 166 995      | -2 475 516                     | 1 308 521                            |
| Fair value adjustment               | •               | -2 610 167                     | 2 610 167                            |                 | -4 233 877                     | 4 239 862                            |
| Impairment of buildings             |                 | -8 123                         | 8 123                                |                 | ı                              | ı                                    |
| Net Surplus for the year            | 13 884 332      | 11 712 791                     | 2 171 541                            | 12 499 428      | 8 210 621                      | 4 198 414                            |
|                                     |                 |                                |                                      |                 |                                |                                      |

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The overall performance information of the Fund from 01 April to 31 March 2017 is at 42%. 58% of targets were not achieved. 75% of the budget was spent for the financial year 2016/17

|                                  |           | Programm  | Programme 01 - Administration |         |           |              |
|----------------------------------|-----------|-----------|-------------------------------|---------|-----------|--------------|
|                                  |           | 2016/2017 |                               |         | 2015/2016 |              |
|                                  | Budget    | Actual    | (Over)/Under                  | Budget  | Actual    | (Over)/Under |
|                                  | R'000     | R'000     | R'000                         | R'000   | R'000     | R'000        |
| Programme 01 -<br>Administration |           |           |                               |         |           |              |
| Improve Financial Management     | 1 260 641 | 798 907   | 461 734                       | 849 452 | 639 287   | 222 603      |
| Total                            | 1 260 641 | 803 285   | 461 734                       | 849 452 | 639 287   | 222 603      |

The programme purpose is to provide management, strategic and administrative support services to the Fund. To carry out this objective Programme 01 spent 63% of its budget for the financial year 2016/17 and achieved 67% of the set targets

|                                       |           | Programme 0 | Programme 02 - Business Operations | suc       |           |        |
|---------------------------------------|-----------|-------------|------------------------------------|-----------|-----------|--------|
|                                       |           | 2016/2017   |                                    |           | 2015/2016 |        |
| Programme 02 - Business<br>Operations |           |             |                                    |           |           |        |
| Improve compliance                    | 390 095   | 318 038     | 72 057                             | 351 411   | 323 235   | 27 936 |
| Improve service delivery              | 921 701   | 918 455     | 3 246                              | 866 794   | 824 780   | 31 270 |
| Total                                 | 1 311 796 | 1 236 493   | 75 303                             | 1 218 205 | 1 148 015 | 59 206 |

| for   |  |
|---|--|
| spent 94% of its budget t   |  |
| To carry out this objective Programme 02 spent 94% of its bud         |  |
| The programme purpose is to collect contributions and pay benefits. 1 | the financial year 2016/17 and achieved 50% of the set targets |

|  | Proj      | gramme 03 - Fun | rogramme 03 - Fund poverty alleviation schemes | ı schemes |           |         |
|--|-----------|-----------------|--|-----------|-----------|---------|
|  |           | 2016/2017       |  |           | 2015/2016 |         |
| Programme 03 - Fund poverty<br>alleviation schemes |           |                 |  |           |           |         |
| Labour Activation Programmes                       | 3 591     | 1 159           | 2 432  | 3 758     | 1 438     | 2 320   |
| Total  | 3 591     | 1 159           | 2 432  | 3 758     | 1 438     | 2 320   |
| Total Administrative budget                        | 2 576 028 | 2 040 937       | 539 469  | 2 071 415 | 1 788 740 | 284 129 |

the financial year 2016/17 and achieved 0% of the set targets. The programme is also mandated to Fund Labour Activation schemes. The The programme purpose is to provide labour market programmes. To carry out this objective Programme 03 spent 32% of its budget for transfers made to entities responsible for implementation of Labour Activation Programmes were 20% of the budget.

| Revenue   |         |
|---|---------|
| 1.54% more revenue collected than the budgeted amount. The budget for revenue is based on a revenue indicator developed for the Fund, which utilises a combination of projected CPI and GDP to determine the likely rate of growth in the revenue of the Fund. Based on this revenue indicator, revenue projected was slightly lower than the actual amount collected during the 2016/17 financial year.  | 277 404 |
| Benefit Payment   |         |
| The budget was compiled based on the experienced economic conditions and past events in South Africa. The unemployment rate increased at lower rates over the previous years and as a result the budget was set based on such experience and based on the forecast. Estimates were lesser than the actual unemployment rate for 2016/17. The average unemployment rate in 2014/15 was 25.10%. In 2015/16 the average unemployment rate increased by 0.25% to an average unemployment rate of 25.35%. In 2016/17 there was a much more significant increase in the rate of unemployment compared to 2015/16. The increase in the unemployment rate was 1.38% compared to 0.25% increase for the previous year.   | 164 943 |
|   |         |
|   |         |
| Unemployment alleviations schemes   |         |
| The Unemployment Alleviation Schemes budgeted amount took into consideration projects in the implementation phase and projects that were on hold but due for implementation in the 2016/2017 financial year. In addition to these projects an Expression of Interest was to be issued for new projects for which a budget estimate was made. An amount of R706 million was budgeted, with R506 million budgeted towards the Training of the Unemployed anticipating the increase in the number of TVET Colleges being funded and the funding of new training projects however the delays with the TVETs acquiring accreditation for the proposed learner ship hindered expenditure as well as the late issuing of the Expression of Interest to bring in new applications and projects. This resulted in 77.59% under-expenditure from the budgeted amount. R200 million was budgeted for expenditure on the Training Layoff Scheme and the Social Fund (Productivity SA). The Fund reviewed the Labour Activation Programme (LAP) validation processes and implemented additional controls during financial year under review. The changes effected stricter measures on the approval of applications relating to the Training Lay-off Schemes (TLS) and Turnaround Solutions (TAS) funding. This led to only 19.69% being spent under this scheme based on validated applications that adhere to the control measures put in place. | 560 522 |

| Other Income  |         |
|---|---------|
| An increase in rent is due increase digital lines resulting from the increase in staff compliment<br>and office space. Recovery of overpayments written off was not budgeted for because it formed<br>part of normal overpayments recoveries. A split which separates normal recoveries from those<br>received from debts written off was done. | 5 233   |
| Auditors remuneration   |         |
| 46% less than budget. As at the end of the financial year, the Fund had paid invoices relating to the finalisation of the 2015/16 audit. During the conclusion of the financial year 2016/17 the audit was not concluded due to timelines set by the PFMA to submit annual financial statements   | 5 483   |
|   |         |
|   |         |
| Administrative Costs  |         |
| 34.45% saved against the following main budget items:   | 242 874 |
| Stationery and Printing: Cost containment measures implemented to comply with the circular issued by National Treasury.   | 9 421   |
| Venues and Facilities: The Fund continues to consider the cost-effective options when hosting events and meetings to comply with cost containment measures.   | 3 545   |
| Entertainment/Catering: The Fund continues to consider the cost-effective options when hosting events and meetings to comply with cost containment measures.  | 3 675   |
| Advertising: Cost containment measures to comply with the circular issued by National Treasury.   | 6 239   |
| External IT services: SITA services and software licences expenditure were less than the amount budgeted for.   | 96 308  |

| SARS commission: over budget is based on the higher expected contribution revenue   | 18 063  |
|---|---------|
| Depreciation, Amortization and Impairment   | 85 899  |
| 67% saved against the following main budget items:  |         |
| The saving on depreciation is a result of the budget not being spent as planned   |         |
| Employee Cost   |         |
| 11% saving against the following main budget items:   | 129 519 |
| Saving against the following main budget items: The Unemployment Insurance Fund is reflecting a 11% under spending on employee cost in comparison to the budget. The Fund observes the compensation budget limits as directed by National Treasury to curb the wage bill. The Fund will continue to focus on service delivery focal points (labour centres).  |         |
|   |         |
| Operating Expenses  | 71 312  |
| 13 32% saving against the following main budgeted items:  |         |
| Management and investment fees. As from 01 February 2016 the Fund increased its Strategic Asset Allocation (SAA) towards Social Responsible Investments (SRI) from 10% of the Total Value of the Portfolio to 20% of the Total Value of the Portfolio. When the 2016-17 budget was calculated this approval has not been obtained yet. The implementation of the new SRI mandate increased the Investment Management Fees substantially since it is calculated on the instrument's Initial Commitment Capital and thereafter on the investment value for that year. The SRI Management Fee also depends on the type of investment instrument, for example Direct SRI investment is calculated on 150 basis points per annum, Strategic partnerships and Funds-of-Funds management fees is calculated based on 50 basis points per annum. The type of unlisted instrument that will be procured during the financial year cannot be predicted beforehand since it depends what is available in the market or what project is developed. There will therefore always be a difference between the budget amount and the amount actual amount paid towards management fees that can't be estimated. | 57 852  |
| Consumables: Cost containment measures to comply with the circular issued by National Treasury.   | 1 967   |
| Communications: cell phones, telephone, postage. Cost containment measures to comply with the circular issued by National Treasury.   | 15 206  |

| Travel and Subsistence: The Fund is complying with National Treasury Instructions issued in 2016/17 financial to reduce spending in travelling.   | 32 353    |
|---|-----------|
|   |           |
| Investment Revenue  |           |
| 3% more investment income received than budget.   | 263 516   |
| During the previous financial year 2015/16 the Fund received 17.38% less investment income than budgeted for. This was attributed to the deteriorating economic conditions in the country at that stage. Since then, there has been even more turbulence affecting all sectors of the South African economy. The Fund therefore adopted a very conservative approach when budgeting for investment income during the 2016-17 financial years. |           |
|   |           |
| Fair Value  |           |
| The Fund does not budget for Fair value adjustments as it reflects market movement on investment instruments.   | 2 610 167 |
|   |           |
| Unearned Premium Reserve  |           |
| Unearned Premium Reserve" is budgeted for but disclosed in the "Statement of Changes in Net Assets" and not in the "Statement of Financial Performance  | 314 777   |

### OFFICIAL SIGN-OFF

It is hereby certified that this ANNUAL PERFORMANCE REPORT 2016/17:

Was developed by the management of the Unemployment Insurance Fund under the guidance of, Mr. T Maruping.

Was prepared in line with the current Strategic Plan and Annual Performance Plan (APP) of the Unemployment Insurance Fund (UIF).

Was prepared in line with the current annual performance targets as reflected in the APP of the Unemployment Insurance Fund.

Accurately reflects the performance of the UIF during the fourth quarter of the 2016-2017 financial year.

Unemployment Insurance Commissioner T Maruping

Director General of Labour T Lamati



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### GOVERNANCE

### PART C

### GOVERNANCE

### 1. Portfolio Committees

During the 2016/17 financial year, the UIF was requested to appear six times before the Portfolio Committee on Labour and Select Committee on Economic and Business Development 3 times.

### Portfolio Committee on Labour

On 12th of October 2016, a briefing by the Auditor-General on the audit outcomes of Department of Labour and its entities was done. On the same day the Director General also briefed the committee on the Annual Reports and Financial Statements 2015-16 of the Department of Labour (DOL) including its entities:

• Unemployment Insurance Fund (UIF);

The Fund also appeared before the committee to reflect on the oral submission during Public Hearing on the Labours Laws Amendment Bill.

### Select Committee on Economic and Business Development

On the 17th of May 2016 a briefing was done on the UI Amendment Bill to the select committee and deliberations followed on the 24th of May 2016 on the UI Amendment Bill.

A follow up to finalise the UI Amendment Bill was presented to the committee on the 08th of November 2016.

### 2. Executive Authority

The three year term of the Board end in October 2017. The Minister of Labour, through social partner's nominations will appoint /re – appoint new members for continuity in the new term of the Board, to advise her on issues related to operations of the UIF as a social security instrument. Board orientation and development of members were conducted on a continuous basis.

### The UIF Board recommended the following to the Minister of Labour during the financial year:

- The 2017-18 MTEF Budget submitted on 11 October 2016
- The 2017-18 Annual Performance Plan submitted in 31 August 2016

### 3. The Accounting Authority

In terms of section 11(1) of the Unemployment Insurance the Director General of the Department of Labour is the Accounting Authority of the UIF.

### 4. The Advisory Board

In terms of section 47 of the Unemployment Insurance Act, the Minister of Labour must establish the Unemployment Insurance Board. The UI Board have participated in the Minister's job fairs, and Imbizos to fully understand unemployment issues and to advise the Minister accordingly.

### 4.1. The role of the Board is a follows

In terms of section 48 of the Unemployment Insurance Act, the role of the Board is to

- Advise the Minister on—
- unemployment insurance policy; and
- policies arising out of the application of this Act;
- policies for minimising unemployment; and
- the creation of schemes to alleviate the effects of unemployment;
- Make recommendations to the Minister on changes to legislation in so far as it impacts on policy on unemployment or policy on unemployment insurance; and
- Perform any other function which may be requested by the Minister for purposes of giving effect to this Act.

### The powers and duties of the Board must be exercised and performed subject to-

- the provisions of the Unemployment Insurance Act and its constitution contemplated in section 50;
- any directions issued by the Minister of Labour; and
- · any guidelines determined by the Director-General of Labour

### 4.2. Board Charter

The Board Charter outlines the main corporate governance practices that are in place for the Unemployment Insurance Board and to which the Board, committees and management collectively are committed. The conduct of the Board is also governed by the Constitution. The Charter sets out the role, responsibilities, structures and processes of the Board of the Unemployment Insurance Fund.

Governance processes are continuously improving, with the Board Charters and the Board Constitution setting out responsibilities implemented and adhered to in order to achieve the highest standards of corporate governance. The Board have met more than four (4) times during the financial year, four (4) scheduled board meetings, and one (1) workshop in efforts to deliver on their mandate.

The Board is fully constituted in terms of the Act. The term of the new Board ends on the 31st October 2017, and the new board will be appointed with effect from 1 November 2017. Orientation will be arranged to induct the new members.

The Board- and Committee Charters have ensured that the Committees are compliant with the Unemployment Insurance Act and Board Constitution. The main objective of the Board Governance and Compliance functions was to assist the Board and its Committees in adopting the most appropriate governance standards for the Fund.



| No of<br>Meetings<br>Attended | 04                           | 03  | 07  | 70  |
|-------------------------------|------------------------------|---|---|---|
| FAC                           | N/A                          | N/A   | 04  | N/A   |
| Investment<br>Committee       | N/A                          | N/A   | N/A   | 03  |
| Board<br>meeting              | 04                           | 03  | 03  | 04  |
| Area of<br>Expertise          | Management<br>and leadership | Υ'N   | Financial and<br>Business<br>Administration | Social security and pension   |
| Qualifications                | B Admin                      | Legal Labour Law<br>Certificate<br>IMMSA Arbitration<br>Certificate<br>CCMA Certificate<br>HRM Certificate<br>Project<br>Management<br>Training | B.Social. Science<br>&Bcom (Hon             | BCom (Hon),<br>CFPR<br>Post Graduate<br>Certificate in<br>Social Security<br>and Pensions |
| Date<br>Resigned              | N/A                          | N/A   | N/A   | N/A   |
| Date<br>Appointed             | 24 February<br>2016          | 01 November<br>2014   | 01 November<br>2014                         | 01 November<br>2014   |
| Designation                   | Chairperson                  | Board<br>Member   | Board<br>Member                             | Board<br>Member   |
| Name                          | Mr W<br>Nzimande             | Mr T Franks   | Mr NM<br>Vermeulen                          | Mr A Crawford   |

| No of<br>Meetings<br>Attended | 12  | 07                  | 60   | 08                  | 10   | 06  |
|-------------------------------|---|---------------------|--|---------------------|--|---|
| FAC                           | 04  | 02                  | 6  | N/A                 | 03   | 02  |
| Investment<br>Committee       | 04  | 02                  | N/A<br>01<br>As proxy  | 04                  | 03   | N/A   |
| Board<br>meeting              | 04  | 03                  | 6  | 04                  | 05   | 04  |
| Area of<br>Expertise          | Financial<br>Management; Law,<br>Accounting                     | N/A                 | N/A  | N/A                 | Financial<br>management,<br>Taxation                 | Community<br>Dev.<br>Programmes &<br>Training |
| Qualifications                | Certificates<br>CCMA, Financials<br>and Financial<br>Accounting | N/A                 | Masters in<br>Labour Law and<br>Employment<br>Relations.<br>Awarded a<br>Merit Bursary<br>for Academic<br>Excellence.<br>Magister<br>Philosophiae (M.<br>Phil) | N/A                 | National Diploma<br>Taxation<br>B Comm<br>Accounting | Project Man                                   |
| Date<br>Resigned              | N/A   | N/A                 | N/A  | N/A                 | N/A  | N/A   |
| Date<br>Appointed             | 01 November<br>2014   | 01 November<br>2014 | 01 November<br>2014  | 01 November<br>2014 | 01 November<br>2014                                  | 01 November<br>2014                           |
| Designation                   | Board<br>Member   | Board<br>Member     | Board<br>Member  | Board<br>Member     | Board<br>Member                                      | Board<br>Member                               |
| Name                          | Mr G<br>Strauss   | Mr J Mahlangu       | Adv E Nwedo  | Mr D Mthalane       | Mr N Nxele   | Ms L<br>Kganyago                              |

### Annual Report for Financial Year ended 31 March 2017 Unemployment Insurance Fund

| Name            | Designation                       | Date<br>Appointed    | Date<br>Resigned  | Qualifications   | Area of<br>Expertise  | Board<br>meeting | Investment<br>Committee | FAC | No of<br>Meetings<br>Attended |
|-----------------|-----------------------------------|----------------------|-------------------|--|---|------------------|-------------------------|-----|-------------------------------|
| Mr T Tshefuta   | Board<br>Member                   | 01 November<br>2014  | N/A               | B.A. (Public<br>Administration and<br>Politics)  | Public Administration,<br>Political Science,<br>Economics, Industrial<br>& Organizational<br>Psychology, Business<br>Management, Sociology, | 04               | 01                      | 03  | 08                            |
| Mr M Macikama   | Board<br>Member                   | 01 November<br>2014  | N/A               | Higher Diploma in<br>Tax Law (H. Dip.<br>Tax) B. COMM.<br>(ACCOUNTING)   |   | 02               | 01                      | 02  | 05                            |
| Mr B<br>Seruwe  | Board<br>Member                   | 01 November<br>2014  | 31 August<br>2016 | BCom<br>(Accounting);<br>National<br>Higher diploma<br>Taxation; Cert<br>in IT Project<br>Management; and<br>MBA   | Management;<br>Financial<br>Accounting  | 02               | 0                       | 02  | 05                            |
| Mr T Maruping   | Board<br>Member                   | 01 September<br>2016 | NA                | M Degree: Information<br>and Knowledge<br>Management;<br>BSc Operations<br>Research;<br>ICSA Programme in<br>Strategic Management<br>and Corporate<br>Governance;<br>National Certificate in<br>Short Term Insurance;<br>National Diploma:<br>Datametrics;<br>Diploma: Project<br>Management | Business Operations,<br>Strategic Management,<br>ICT and Knowledge<br>Management.   | 6                | 02                      | 2   | 95                            |
| Mr D Hlatshwayo | Audit<br>Committee<br>Chairperson | 5 March 2015         | N/A               | N/A  | N/A   | 04               | N/A                     | N/A | 04                            |

### 4.4. Board Committees

The Board continued to demonstrate its support and commitment to the Enterprise Risk Management (ERM); Investments, audit and financials and recognise the importance of a strong control environment in managing risks, compliance, improving performance, enhancing governance, and strengthening the institutional capacity.

The Board and management's persistent and concerted effort to have a strong control environment have provided growing evidence that the culture of control is taking root as evidenced by the sustained improvement in the internal control environment, particularly financial controls.

The Unemployment Insurance Board has established 4 committees that will advise the Board on specific matters related to the work of that committee. The committees established by the Board are:

### Financial Advisory Committee (FAC)

The committee provides oversight on financial management of the UIF and considers all financial reports to be presented to the Board and makes recommendations to both the Board and management.

### Investment Committee (IC)

The committee provides oversight on investment management of the UIF and considers all investment performance and management reports to be presented to the Board and makes recommendations to both the Board and management.

### National Appeals Committee (NAC)

The committee considers all appeals made by beneficiaries with regards to claims applications. They are supported by Regional Appeals Committees set up in the provincial offices. In addition to these committees, the UIF Board also has members representing the Board in the Audit and Risk Committee of the UIF.

| Committee            | No. of meetings held | No. of members | Name of members     |
|----------------------|----------------------|----------------|---------------------|
|                      |                      |                | Mr J Mahlangu       |
|                      |                      |                | Mr G Strauss        |
|                      |                      |                | Mr E Nwedo          |
|                      |                      | 09             | Mr N Vermeulen      |
|                      |                      |                | Mr TT Tshefuta      |
| FAC                  | 04                   |                | Ms L Kganyago       |
|                      |                      |                | Mr M Macikama       |
|                      |                      |                | Mr N Nxele          |
|                      |                      |                | Mr B Seruwe/Mr T    |
|                      |                      |                | Maruping            |
|                      |                      |                | Mr J Mahlangu       |
|                      |                      |                | Mr G Strauss        |
|                      |                      |                | Mr A Crawford       |
|                      |                      |                | Mr TT Tshefuta      |
| Investment Committee | 04                   | 08             | Mr PSD Mthalane     |
| Investment Committee | 04                   | 08             | Mr Mvuyisi Macikama |
|                      |                      |                | Mr N Nxele          |
|                      |                      |                | Mr B Seruwe/Mr T    |
|                      |                      |                | Maruping            |
|                      |                      |                | Mr W Nzimande       |
|                      |                      |                | Mr D Hlatshwayo     |
|                      |                      |                | Mr T Franks         |
|                      |                      |                | Mr J Mahlangu       |
|                      |                      |                | Mr G Strauss        |
|                      |                      |                | Adv. E Nwedo        |
|                      |                      |                | Mr N Vermeulen      |
| Board                | 04                   | 11             | Mr A Crawford       |
| Board                | 04                   | 14             | Mr TT Tshefuta      |
|                      |                      |                | Ms L Kganyago       |
|                      |                      |                | Mr D Mthalane       |
|                      |                      |                | Mr M Macikama       |
|                      |                      |                | Mr N Nxele          |
|                      |                      |                | Mr B Seruwe/ Mr T   |
|                      |                      |                | Maruping            |
|                      |                      |                | Mr J Mahlangu       |
| National Appeals     | 02                   | 03             | Ms L Kganyago       |
|                      |                      |                | Adv E Nwedo         |
|                      |                      |                |                     |

### 4.5. Remuneration of Board members

A member of the Board or its committees who is not in the full-time employment of the State shall be paid remuneration and allowances determined by the Minister in terms of the Treasury Instructions issued by the National Treasury. Remuneration of Board members is determined in terms of Section 52 of the Unemployment Insurance Act (No 63 of 2001) and the Minister of Labour has determined the category classification.

| Name          | Remuneration<br>R'000 | Other<br>Allowances<br>R'000 | Other<br>Reimbursements<br>R'000 | Total<br>R'000 |
|---------------|-----------------------|------------------------------|----------------------------------|----------------|
| Crawford A    | 32 589.00             | 3 272.09                     |                                  | 35 861.09      |
| Franks A      | 3<br>408.00           | 146.72                       |                                  | 3 554.72       |
| Kganyago L    | 38 127.00             | 1 133.48                     |                                  | 39 260.48      |
| Macikama MV   |                       |                              |                                  |                |
| Mahlangu J    | 24 330.28             | 4 846.58                     |                                  | 29 176.86      |
| Mthalane D    | 51 120.00             | 38 308.43                    |                                  | 89 428.43      |
| Nwendo NR     | 57 510.00             | 6 925.68                     |                                  | 64 435.68      |
| Nzimande WM   | 50 424.00             |                              |                                  | 50 424.00      |
| Strauss GH    | 150 294.00            | 58 465.75                    |                                  | 208 759.75     |
| Tshefuta T    | 54 528.00             | 60 036.20                    |                                  | 114 564.20     |
| Vermeulen NMW | 123 102.42            | 4 053.24                     |                                  | 127 155.66     |
| TOTAL         | 585 432.70            | 177 188.17                   |                                  | 762 620.87     |

### **Risk Management**

### 1. Introduction

The purpose of this report is to provide the Audit and Risk Committee and the Unemployment Insurance Commissioner with the performance of the Risk Management Directorate for the financial year 2016/17.

### 2. Risk Governance

The purpose of Risk Governance is to provide the Minister, Deputy Minister, the Director General and the Departmental Executive Committee (DEXCOM) of the Department of Labour (DoL) with the progress of the work performed by the Risk Management Committee of the Department for the year 2016/17.

The UIF Board has promoted the risk culture and has set the tone at the top. The Board in discharging its risk management responsibilities, it is supported by the Financial Advisory Committee and Audit and Risk Committee, to ensure that the Fund has implemented an effective Risk Management Policy and the Risk Management Strategy.

The Board has furthermore, demonstrated its governance oversight role by ensuring full implementation of the risk management strategy in relation to the strategic risk profile of the Unemployment Insurance Fund.

### 3. Risk Committee

The Risk Management of the department consist of both internal and external members and are chaired by an independent chairperson. The Chairperson of the Risk Management Committee from both the Unemployment Insurance Fund (UIF) and the Compensation Fund (CF) directly report progress on the risk management to the National Risk Committee. This is done to create synergy across all departmental risk committees.

### 4. Key Objectives of Risk Management

Risk Management aims to ensure that the risks of the Fund are identified and managed effectively, operational and financial objectives are met in compliance with applicable laws and regulations at the reasonable assurance.

Section 51(1)(a)(I) of the Public Finance Management Act (Act 1 of 1999 amended by Act 29 of 1999), requires that "An Accounting Authority for the public entity must ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal controls".

### 5. Risk Management Strategies

Risk management involves the identification of the key risks facing the Fund and the implementation of controls to mitigate them. The Fund regularly identifies emerging risks and prioritises high-risk areas, according to the risk rating guidelines based on the impact and likelihood. High- risk areas are further analysed to identify potential root causes. This allows the Fund to better understand the context in which risks occur and identify probable areas for risk mitigation and organisational control.

Risk treatments used to mitigate the identified risks are enhanced on an on-going basis. The senior management of the Fund considers strategic risks when formulating strategic objectives. The Fund's approach towards effective risk management is underpinned by the three key principles:

### (a) Culture

We seek to build a strong risk management culture by setting the appropriate tone at the top, promoting awareness, ownership and proactive management of key risks and promoting accountability.

### (b) Structure

We seek to put in place an appropriate organisational structure that promotes good corporate governance, provides for proper segregation of duties, defines clearly risk taking responsibility promotes ownership and accountability for risk taking.

### (c) Process

We seek to implement robust processes and systems for effective identification, rating, mitigation, monitoring and management of risks.

### Table illustrates the key risks impacting the Fund

| Key Strategic Objectives         | Risk Description   | Mitigation controls   |
|----------------------------------|--|---|
| Improved Governance              | Fraud and Corruption   | The Fund has co-sourced a forensic<br>audit partner to assist in curbing the<br>scourge of fraud  |
| Improved service delivery        | Non compliance with the UI Act and UI<br>Contributions Act.        | Enforcement of compliance<br>by the DOL inspectorate and<br>SARS. Communication strategy<br>is implemented to encourage<br>compliance by employers and<br>employees.  |
| Improved financial management    | Inadequate collection of revenue                                   | SARS collection on behalf of the<br>contributions.<br>The Fund has a debt collection unit<br>The Fund has an approved<br>compliance strategy.   |
| Fund poverty alleviation schemes | Inadequate utilisation of Training Layoff<br>Scheme (TLS) funding. | The Fund in collaboration with CCMA<br>assesses companies in distress and<br>refers them to available schemes.<br>The Fund is continuously holding<br>advocacy sessions in increasing<br>utilisation of Training lay Off schemes. |

### a. Risk Assessment and Monitoring

The Unemployment Insurance Fund risk assessment process is performed annually. The risk assessment was conducted during the first quarter (01 April 2017 – 30 June 2017) according to the Department's strategic and operational plan, sustainable monitoring process will be conducted on the second quarter (01 July 2017 - 30 September 2017).

### 6. Effectiveness of risk management

The Internal Audit directorate via the Audit and Risk Committee is responsible for providing the Accounting Officer with the independent and objective assurance on the effectiveness of risk management processes and systems.

### 7. Fraud Prevention , Detection and Investigation

Fraud Investigations unit assists the Fund by investigating potential fraud and possible criminal activities. The Fund has a Fraud Prevention Strategy/Plan. The purpose of the strategy is to:

- Create a culture which is intolerable to fraud and corruption
- Detect Fraud and Corruption
- Conduct Investigations
- Provide Resolution

The Fund has conducted a Fraud Risk Assessment under the current financial year. Areas of improvement were identified as a result risk projects were undertaken to curb the scourge of fraud.

The table below illustrates a consolidated summary of cases reported during this financial year.

| CATEGORY                  | CASES<br>RECEIVED | CASES FINALISED | OUTSTANDING | PERCENTAGE |
|---------------------------|-------------------|-----------------|-------------|------------|
| Carried Over              | 10                | 10              | 0           | 100 %      |
| Work & Draw               | 1                 | 1               | 0           | 100 %      |
| Disputed Declaration      | 22                | 22              | 0           | 100 %      |
| Fraud Related             | 14                | 13              | 1           | 93 %       |
| Duplicate Banking Details | 1                 | 1               | 0           | 100%       |
| TOTAL                     | 48                | 47              | 1           | 98 %       |

During the 2016/17 financial year, the unit received 38 cases, 10 cases were carried over from the previous financial year and in total 48 cases were received. A total number of 47 cases were finalised and 1 is outstanding. Overall finalisation rate of 98% level.

### 8. Audit Committee

The Audit Committee of the Fund serves as the risk committee and the responsibilities of the risk committee are discharged by the Audit. The meeting of the committee were held as per the Audit committee report below (page 87).

### 9. Risk Governance

The UIF Board is an advisory board and the responsibilities of promoted the risk and monitoring the risk management has been delegated to the Audit and Risk Committee. The Audit and Risk committee report is also presented to the UIF Board, Financial Advisory Committee for the inputs to ensure that the Fund has covered all the risks. The Chairperson of the Audit and Risk Committee presents his report to the National Risk Committee of the Department of the Labour. The National Risk Committee is chaired by an independent person and the accounting officer is the member to the committee.



### AUDIT COMMITTEE REPORT

### Report of the Audit and Risk Committee for the year ended 31 March 2017

### (UNEMPLOYMENT INSURANCE FUND)

### Introduction

The Committee is pleased to present its report for the financial year ending 31 March 2017. The report is presented in accordance with the requirement of the Public Finance Management Act 1 of 1999 (PFMA), as amended and in line with the National Treasury Guide.

### Audit Committee Responsibility

The Audit and Risk Committee has discharged its oversight responsibilities in respect of activities and operations of the Unemployment Insurance Fund (UIF) independently and objectively in compliance with Sections 76 and 77 of the Public Finance Management Act (PFMA). Furthermore, we have adopted appropriate formal terms of reference (Audit Committee Charter) and discharged all our responsibilities as contained therein, and regulated our affairs in compliance with the Audit Committee Charter.

### Committee Meetings for 2016/2017 Financial year

The UIF has a constituted Audit and Risk Committee, comprising of three independent non-executive representatives and two additional members nominated by the UIF advisory Board to serve as Audit Committee members. For the period under review, one member resigned on the 13th June 2016.

The audit and Risk Committee charter stipulates the minimum number of meeting to be held during the financial year to four. During the 2016/17 financial year four Audit and Risk Committee meetings were held in these dates: 25 May 2016, 28 July 2016, 21 November 2016 and 22 February 2017.

| Name                  | Qualification   | Members  | Date<br>Appointment | Date<br>Resigned | No. of<br>meetings<br>attended | Comments  |
|-----------------------|---|----------|---------------------|------------------|--------------------------------|---|
| Mr. LED<br>Hlatshwayo | CD (SA) CA (SA) MBA,<br>CTA, B Compt (Hons)                           | External | 05 May<br>2014      | N/A              | 4                              | Chairperson<br>Independent<br>nonexecutive            |
| Dr K Reddy            | PhD (Computer<br>Science)<br>BSc, BSc Hons, MSc<br>(Computer Science) | External | 04 June<br>2015     | 13 June<br>2016  | 0                              | The member<br>resigned<br>noting other<br>commitments |
| Ms D<br>Botha         | CIA, CRMA,<br>CISA, MBA,<br>Higher<br>Diploma in<br>Computer<br>Audit | External | 22 January<br>2016  | N/A              | 4                              | Independent<br>nonexecutive                           |

| Name              | Qualification   | Members  | Date<br>Appointment | Date<br>Resigned | No. of<br>meetings<br>attended                                       | Comments   |
|-------------------|---|----------|---------------------|------------------|--|--|
| Mr P Dala         | CISA, CRISC,<br>CISM, CGEIT,<br>CISSP, CEH,<br>CHFI and LA<br>27001,<br>Masters of<br>Information<br>Technology,<br>Bsc Computer<br>Science,<br>Bachelor of<br>Information<br>Technology. | External | 24 February<br>2017 | N/A              | 0(the<br>member<br>was<br>appointed<br>after the<br>last<br>meeting) | New<br>Committee<br>member<br>Independent<br>nonexecutive                              |
| Mr N<br>Vermeulen | B Social<br>Science<br>B Com (Hon)  | Board    | 27 February<br>2015 | N/A              | 4  | Nominated<br>by the<br>Board to<br>serve in the<br>committee<br>for the<br>second time |
| Mr G<br>Strauss   | Certificates<br>CCMA,<br>Financials and<br>Financial<br>Accounting  | Board    | 23 January<br>2015  | N/A              | 4  | Nominated<br>by the<br>Board to<br>serve in the<br>committee                           |

### Internal Control environment

In line with the PFMA and best practice on corporate governance requirements, Internal Audit provides the Audit and Risk Committee and management with reports and assurance that the internal controls are adequate and effective. This is achieved by means of risk management processes, as well as the identification of corrective actions and recommendations to enhance the control environment. In light of the worsening service delivery by the fund, the Audit and Risk Committee is also concerned with the steps to identify and mitigate risks to ensure an adequate and effective control environment.

On an on-going basis, management reviews the state of readiness of the organization for the statutory audit, to timeously identify and close gaps with the view to further strengthen the control environment and internal control systems.

Through internal audit reports significant issues were raised.. In addition, having considered all the assurance reports including financial and performance information reports, we therefore conclude that the overall control environment of UIF is requires significant improvement. The Committee expressed concerns with regards to the quality assurance processes and supporting information relating to the preparation of the Annual Financial Statements. However, the CFO assured the Committee that the Annual Financial Statements were free from material errors, a fair representation and in a position to be submitted to the AGSA for audit purposes with all the required supporting information in place.

### **Internal Audit**

The UIF has an Internal Audit function in place. During the financial year the internal audit function has provided the Committee with quarterly reports which covered the following processes: UIF Provincial Operations, Performance Information, Supply Chain Management, Internal Financial Controls, SAP Implementation Project and Labour Activation Program.

Based on the audit work performed and reports presented to the Committee by the Internal Audit function, the Committee is satisfied that Internal Audit has operated effectively for the period under review in providing assurance on the controls to mitigate the risks pertinent to the Fund.

### Governance

It is the Audit and Risk Committee view that the overall governance processes within the UIF require improvement. In addition, the Audit and Risk Committee could not provide adequate and effective oversight in relation to the SAP implementation project due to the lack of information presented by management. Furthermore, the Audit and Risk Committee is concerned with the level of project governance and controls in relation to the implementation of this critical project. In addition, the Committee is concerned with regards to the SAP licensing issues identified by the AGSA which needs to be addressed as a matter of urgency.

### **Risk Management**

The Unemployment Insurance fund has a risk management division in place as per the PFMA. The Audit and Risk committee has evaluated risk management reports during its meetings and the committee is satisfied with the implementation of certain risk management processes in the Fund. However, the Committee expressed its concern around the lack of operational, project and fraud risk assessments.

The Audit and Risk Committee is still in the process of establishing a separate Risk Committee, which will have an independent Chairperson reporting directly to the Audit Committee.

The position of an Independent Chairperson for the Risk Management Committee was advertised and the selection process is underway for the Accounting Authority to appoint the recommended candidate.

The Risk Committee will focus on risk management, fraud awareness, combined assurance, business continuity issues and provide the Audit Committee with the Quarterly reports.

### The quality of in year management and monthly/quarterly reports submitted in terms of the PFMA and Division of Revenue Act.

The Audit and Risk Committee was presented with and discussed management reports during the year. The Audit and Risk Committee is satisfied with the quality of management reports prepared and presented by management during its meetings.

### **Evaluation of the Financial Statements**

The committee has evaluated the quarterly financial reports presented by the management as part of the quarterly management reports. The Management and AGSA have brought to the attention of the Committee the new GRAP standards (20 and 108) that should be implemented by the Fund pending the Minister of Finance determining the effective date. The Committee has satisfied itself that the Fund will be ready to implement these standards once the effective date determined.

The Committee has reviewed and discussed the Auditor-General's interim management report. The committee is concerned about the issues that have been raised by the Auditor – General, including, inter alia, procurement irregularities, program 2 & 3 deficiencies, and the possible audit qualifications for the interim audit had AG issued their opinion on the interim results.

The Committee is extremely concerned about the sudden regression in the audit outcome at the same time when the Service Delivery is also on the downward trend. The Investments valuation coupled with related parties disclosure could not be confirmed by the AGSA, thus due to the materiality level, the Audit Opinion was finalised as a Disclaimer. This is very disappointing, especially in that the UIF had a clean audit in the not-so-distant past. Management has committed to turn the situation around within a short space of time henceforth.

The annual financial statement presented to the Audit committee are recommended to the Auditor General and National Treasury.

The Audit Committee is however concerned about the following:

- The Committee was not afforded enough time to apply its mind on the submitted Annual Financial Statements due to the Finance Department's sloppiness and lack of readiness at the time of the Committee's Review.
- Initial Financial statements submitted had material errors, however audit committee provided inputs and their concerns.
- Management cleared all the concerns but the Audit committee did not have adequate time to review the amended Annual Financial Statements in detail. The Audit Committee thereafter convened an emergency meeting to briefly review the Annual Financial Statements the following day with a view to achieve approval for recommendation.

### **Performance Information Review**

The committee reviewed the entity's Performance Information and we are not satisfied with the achievements against performance indicators and targets as identified in the Strategic plans, Annual Performance Plans and budget document. However the committee has requested management to revise some of its indicators and targets based on lessons learned in the current financial year. Furthermore the committee advised management to set up processes of capacitating units that are struggling to achieve their objectives.

### Combined Assurance

There were great improvements in the operations of the Internal Audit Activity and the Audit and Risk Committee is satisfied with its contributions in the Fund on both assurance and consulting services. During the reporting period, the coordination of the Auditor General, Risk Management and Internal Audit have assisted the Audit and Risk Committee in fulfilling its responsibilities.

The Audit and Risk Committee consistently held separate meetings with Management, Internal Audit, Risk Management and Auditor General to enable the stakeholders to raise any confidential matters that might be of consent to both the stakeholder and the Committee.

Allatshway

8/7/2017

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Mr. LED Hlatshwayo CA (SA) Chairperson of the Audit and Risk Committee

### **KEY ACTIVITIES AND OBJECTIVES OF INTERNAL AUDIT**

### 1. INTRODUCTION

The report cumulatively covers the period from 1 April 2016 to March 2017. This report provides information to the Audit and Risk Committee and Management on the progress made in line with the approved Internal Audit Plan; and progress on administrative and governance issues for discussion to assist the committee in fulfilling its responsibility.

The internal audit's mandate is in terms of Public Finance Management Act (PFMA), approved charters and the approved Plan for 2016/17 as agreed with management and approved by the Audit and Risk Committee. The purpose of this report is to briefly set out the results of the audit activities and to provide a brief status of the activities. The scope and extent of the internal audit reviews is agreed with management prior to the commencement of each audit assignment.

Internal Audit focuses on assurance and consulting services. Assurance services consist of independent reviews on the adequacy and effectiveness of Internal Controls, Risk management and Governance processes. Independent reviews include a continuous review of compliance, by management and staff, to relevant legislation, regulations, approved policies and procedures and best government practices, where applicable. Consulting services are advisory in nature and are intended to add value and improve UIF's operations. The consulting engagements undertaken are of an informal and formal nature, and include informal participation in ad-hoc meetings, routine information exchange with management and staff, as well as assisting with providing best practice frameworks and policies and procedures.

### 2. KEY ACTIVITIES

The table below depicts the Summary of key activities undertaken during the period 2016/17

| No. | Type of Audit                    | Reports Issued | Number |
|-----|----------------------------------|----------------|--------|
| 1.  | Regulatory Audits                | Yes            | 16     |
| 2.  | Cyclical Audits                  | Yes            | 6      |
| 3.  | Follow-up Audits                 | Yes            | 11     |
| 4.  | Consulting Services              | Yes            | 9      |
| 5.  | Information Technology<br>Audits | Yes            | 4      |
| 6.  | Ad-hoc Audits                    | Yes            | 11     |
|     | TOTAL                            |                | 57     |

**98% (42/43)** of the Internal Audit reports were presented to management and signed off by head of Internal Audit by end March 2017. Internal audit has completed 10 ad-hoc projects 120% (52/43),1 ad-hoc audit is outstanding, 1 ad-hoc audit was concluded after 2016/17 financial year.

### 3. INTERNAL AUDIT OVERALL ASSESSMENT ON -INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE PROCESSES ARE AS FOLLOWS:

### 3.1 Internal Controls

The opinion is an accumulative view of audits performed as allocated during the 2016/17 financial year. In our opinion, the overall control environment of UIF is adequate and effective. The following are areas of concern:

### **Provincial Operations:**

• Service delivery and claims turnaround time.

### Supply Chain Management:

• Recurring and increasing irregular expenditure

### **Performance Information**

- Compliance to performance reporting timelines
- · None-alignment between the performance indicator and the technical indicator descriptions

### Information Communication and Technology

During the current financial year business applications that are currently used were not audited in anticipation that a new system (SAP) will be implemented Internal Audit provided assurance on SAP project implementation and the following control weaknesses were noted:

- ICT project Management
- Business continuity and Disaster recovery processes not in place.

### 3.2 Risk Management

In our opinion, risk management within the UIF is adequate and effective with the exception of the following:

• Risk issues not evaluated comprehensively due to lack of a dedicated risk committee (Audit committee is partly fulfilling the Risk Committee functions)

### 3.3 Governance Processes

In our opinion, governance within the UIF is adequate and effective with exceptions on the following:

• The SAP oversight committees were not effective to direct and monitor the project to ensure that deliverables are met within the project time frames and budget.

### CONCLUSION

Based on work done as per the approved Internal Audit plan, the governance process, risk management and internal controls were adequate and effective with the exception of identified controls weaknesses.



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LOOKING FOR A JOB

# MANAGEMENT

## PART

#### 1. Introduction

The primary objective of the Human Resource Management and Organisational Effectiveness Directorates is to provide strategic support to the Unemployment Insurance Fund for the fulfillment of its overall strategic goals through implementing continuous improvements that enhance productivity and organisational effectiveness, optimal use of human capital, enhancing skills development, performance management, promoting harmonious labour relations and optimising employee well-being.

#### 2. The key strategic human resource priorities

- 2.1. The key focus areas for the Directorate are:
  - Maintaining the staff establishment;
  - Employment of people from designated groups;
  - Promoting sound Labour Relations;
  - Implementation of Learning and Development initiatives;
  - · Promoting employee health and wellness;
  - Promoting diversity management through gender, disability and youth programmes; and
  - Providing advice and implementing change management employee engagement initiatives.

#### 2.2 Staff establishment

At the end of March 2017, the Fund had 582 posts of which 77.1% were filled and 22.9% were vacant. The high vacancy rate was a result of the implementation of the new organisational structure in the Fund, which had new additional posts. This process was finalised by the end of the financial year.

#### 2.3 Employment Equity

The Fund placed a high priority on employment equity in support of government transformation initiatives. 55.2% employees on the UIF establishment are women, whilst 44.8% are men. 59.1% of senior management posts are filled by women. People with disability represent 3.3% of the total employees.

#### 2.4 Organisational Effectiveness and Oganizational design

he Fund, in an attempt to improve service delivery embarked on a process to re-engineer its IT systems. The Organisational Development unit conducted change management interventions to ensure buy-in from all stakeholders and facilitated the necessary training. The Directorate also implemented the new organisational structure for the Unemployment Insurance Fund with the aim of increasing institutional capacity to improve service delivery.

#### 2.5 Labour Relations

The Fund continued to harmonise labour peace through the enforcement of collective agreements and implementation of the Public Service disciplinary code and grievance procedures. 67% of the grievances received during the financial year were resolved. 100% of misconduct cases were investigated and finalised.

#### 2.6 Skills Development

The Unemployment Insurance Fund implemented learning and development opportunities for all employees as part of the Human Resources Development strategy for the 2016/17 financial year. As part of this process a total number of 302 employees were trained in 47 skills programmes, thus achieving a 100% in the implementation of the Workplace Skills Plan. Furthermore, the UIF implemented the Customer Service Care and Supervisory Skills programmes for supervisors and Customer Service Officers in six provinces in order to improve the quality of services rendered at Labour Centres. A total of 238 supervisors and 619 Customer Service Officers attended the two programmes.

#### 2.7 Performance Management

The performance management of officials is managed on regular basis, with formal assessments taking place twice a year. During the 2015/16 financial year, 61.2% of the employees were rewarded with merit awards for above satisfactory performance.

#### 2.8 Employee health and wellness programmes

The Fund is a caring employer and considers its employees as the most valuable asset. Programmes that aimed at promoting individual and organisational wellness, health and productivity, as well as managing diversity were implemented in association with health and other professional institutions.

#### 3. Key challenges

A high vacancy rate of 22.9% at the end of the financial year was a result of the implementation of the new organisational structure. Reducing the vacancy rate to an acceptable level will be a key priority of the Directorate for the financial year 2017/18.

#### 4. Key strategic focus for 2017/18

- Reducing the vacancy rate;
- · Employment of people from designated groups;
- Job creation through the provision of learnership programme;
- Staff development;
- Promoting sound labour relations;
- Promoting employee health and wellness and implementing diversity management programmes;
- · Implement Change management and employee engagement initiatives; and
- · Review the Labour Centre model to improve service delivery and productivity

#### 5. Human Resource Oversight Statistics

The personnel cost reflected in the following tables, is an oversight of the total cost for the employees on the Unemployment Insurance Fund's head office establishment, including staff members in provincial offices and officials paid a split percentage.

#### Personnel Cost by programme

| Programme | Total<br>Expenditure for<br>the entity (R'000) | Personnel<br>Expenditure<br>(R'000) | Personnel<br>expenditure<br>as a % of total<br>expenditure<br>(R'000) | No. of<br>employees | Average<br>personnel cost<br>per employee<br>(R'000) |
|-----------|--|-------------------------------------|---|---------------------|--|
| UIF       | 11 641 346                                     | 1 047 137                           | 9%  | 3 157               | 332  |

#### Personnel cost by salary band

| Level                  | Personnel<br>Expenditure (R'000) | % of personnel<br>expenditure to total<br>personnel cost (R'000) | No. of<br>employees | Average<br>personnel<br>cost per<br>employee<br>(R'000) |
|------------------------|----------------------------------|--|---------------------|---|
| Top Management         | 1 012                            | 0.10   | 1                   | 1 012   |
| Senior Management      | 33 356                           | 3.19   | 32                  | 1 042   |
| Professional qualified | 190 082                          | 18.15  | 324                 | 587   |
| Skilled                | 350 672                          | 33.49  | 983                 | 357   |
| Semi-skilled           | 460 074                          | 43.94  | 1 766               | 261   |
| Unskilled              | 11 941                           | 1.14   | 51                  | 234   |
| TOTAL                  | 1 047 137                        | 100.00   | 3 157               | 332   |

**Explanation:** The personnel cost reflected in the following tables, is an oversight of the total cost for the employees on the Unemployment Insurance Fund's head office establishment, excluding staff members in provincial offices and officials paid a split percentage.

#### Personnel cost by salary band for Head Office staff

| Level                     | Personnel<br>Expenditure<br>(R'000) | % of personnel<br>expenditure to total<br>personnel cost<br>(R'000) | No. of<br>employees | Average<br>personnel<br>cost per<br>employee<br>(R'000) |
|---------------------------|-------------------------------------|---|---------------------|---|
| Top Management            | 1 014                               | 0.56  | 1                   | 1 014   |
| Senior Management         | 21 535                              | 11.91   | 21                  | 1 025   |
| Professional<br>qualified | 59 013                              | 32.64   | 111                 | 530   |
| Skilled                   | 46 422                              | 25.68   | 150                 | 310   |
| Semi-skilled              | 49 625                              | 27.45   | 157                 | 316   |
| Unskilled                 | 3 175                               | 1.76  | 9                   | 353   |
| TOTAL                     | 180 783                             | 100.00  | 449                 | 403   |

#### **Performance Rewards**

| Programme                 | No of Employees | Performance<br>rewards | Personnel<br>Expenditure<br>(R'000) | % of<br>performance<br>rewards to<br>total personnel<br>cost (R'000 |
|---------------------------|-----------------|------------------------|-------------------------------------|---|
| Top Management            | 0               | 0                      | 1014                                | 0   |
| Senior Management         | 3               | 187                    | 21535                               | 0.9%  |
| Professional<br>qualified | 55              | 1794                   | 59013                               | 3%  |
| Skilled                   | 75              | 1519                   | 46422                               | 3%  |
| Semi-skilled              | 135             | 2316                   | 49625                               | 4%  |
| Unskilled                 | 3               | 26                     | 3175                                | 8%  |
| TOTAL                     | 271             | 5842                   | 180783                              | 3%  |

*Explanation:* This amount indicated in the performance rewards differs from the figure disclosed in the statement of financial performance. The amount indicated excludes performance rewards paid to the department of labour staff through split billing arrangement. However the total amount paid for performance bonus including splits cost is R 19 648 987.38

#### **Training Costs**

| Programme | Personnel<br>Expenditure<br>(R'000 | Training<br>Expenditure<br>(R'000 | Training<br>Expenditure<br>as a % of<br>Personnel<br>Cost. | No. of<br>employees<br>trained | Avg training<br>cost per<br>employee |
|-----------|------------------------------------|-----------------------------------|--|--------------------------------|--------------------------------------|
| UIF       | 180783                             | 5646                              | 3%   | 302                            | 18                                   |

*Explanation:* Over and above Customer Care and Supervisory Skills training was implemented in six Provincial Offices where a total number provinces 857 employees were at the total amount of **R 8 272 654.00** 

#### **Employment and vacancies**

| Programme                 | 2015/2016<br>No. of<br>Employees | 2016/2017<br>Approved<br>Posts | 2016/2017<br>No. of<br>Employees | 2016/2017<br>Vacancies | % of vacancies |
|---------------------------|----------------------------------|--------------------------------|----------------------------------|------------------------|----------------|
| Top<br>Management         | 1                                | 1                              | 1                                | 0                      | 0              |
| Senior<br>Management      | 19                               | 24                             | 21                               | 3                      | 0.5            |
| Professional<br>qualified | 95                               | 160                            | 111                              | 49                     | 8.4            |
| Skilled                   | 91                               | 209                            | 150                              | 59                     | 10.2           |
| Semi-skilled              | 214                              | 179                            | 157                              | 22                     | 3.8            |
| Unskilled                 | 8                                | 9                              | 9                                | 0                      | 0              |
| TOTAL                     | 428                              | 582                            | 449                              | 133                    | 22.9           |

Efforts were made to ensure that posts were filled within 90 days of being vacant. Constraints in the filling of posts were the result of the intensive prolonged consultation process in the implementation of the new organisational structure and the subsequent number of posts that were advertised. The Fund has prioritised the filling of outstanding vacancies and the reduction of the vacancy rate for the 2017/18 financial year.

#### **Employment changes**

| Salary Band            | Employment<br>at beginning<br>of period | Appointments | Promotions | Terminations | Employment<br>at end of the<br>period |
|------------------------|---|--------------|------------|--------------|---------------------------------------|
| Top<br>Management      | 1                                       | 0            | 1          | 1            | 1                                     |
| Senior<br>Management   | 19                                      | 4            | 1          | 3            | 21                                    |
| Professional qualified | 95                                      | 20           | 6          | 5            | 111                                   |
| Skilled                | 91                                      | 16           | 41         | 3            | 150                                   |
| Semi-skilled           | 214                                     | 1            | 0          | 8            | 157                                   |
| Unskilled              | 8                                       | 2            | 0          | 0            | 9                                     |
| TOTAL                  | 428                                     | 43           | 49         | 20           | 449                                   |

#### **Reasons for staff leaving**

| Reason             | Number | % of total no. of staff<br>leaving |
|--------------------|--------|------------------------------------|
| Death              | 3      | 15                                 |
| Resignation        | 10     | 50                                 |
| Dismissal          | 0      | 0                                  |
| Retirement         | 1      | 5                                  |
| III health         | 0      | 0                                  |
| Transfer-Out       | 6      | 30                                 |
| Career Advancement | 0      | 0                                  |
| Total              | 20     | 100.0                              |

During the financial year, the Fund has seen a slight decrease in the number of staff leaving the organisation. The majority of the staff terminations were due to resignations and transfer opportunities within the public service.

#### Equity Target and Employment Equity Status

| Nature of disciplinary Action | Number |
|-------------------------------|--------|
| Verbal Warning                | 2      |
| Written Warning               | 1      |
| Final Written warning         | 0      |
| Suspension                    | 0      |

#### Labour Relations: Misconduct and disciplinary action

| Level                  | Male    |        |         |          |         |        |         |        |
|------------------------|---------|--------|---------|----------|---------|--------|---------|--------|
|                        | Afric   | an     | Colo    | Coloured |         | Indian |         | nite   |
|                        | Current | Target | Current | Target   | Current | Target | Current | Target |
| Top Management         | 100.0   | 62.5   | 0.0     | 1.1      | 0.0     | 1.4    | 0.0     | 5.7    |
| Senior Management      | 33.3    | 41.5   | 0.0     | 1.1      | 4.8     | 1.4    | 0.0     | 5.7    |
| Professional qualified | 50.25   | 44.0   | 1.2     | 1.85     | 3.15    | 2.65   | 1.4     | 6.8    |
| Skilled                | 27.2    | 39.5   | 0.7     | 0.1      | 0.7     | 1.7    | 2.0     | 6.5    |
| Semi-skilled           | 50.6    | 44.4   | 0.0     | 1.2      | 0.6     | 1.6    | 1.9     | 6.4    |
| Unskilled              | 33.3    | 40.3   | 0.0     | 1.1      | 0.0     | 1.4    | 0.0     | 5.7    |
| TOTAL                  | 41.0    |        | 0.45    |          | 1.34    |        | 1.78    |        |

| Level                  | Female  |        |         |             |         |        |         |        |
|------------------------|---------|--------|---------|-------------|---------|--------|---------|--------|
|                        | Afric   | an     | Colo    | Coloured In |         | ian    | White   |        |
|                        | Current | Target | Current | Target      | Current | Target | Current | Target |
| Top Management         | 0.0     | 23.1   | 0.0     | 1.0         | 0.0     | 0.8    | 0.0     | 4.3    |
| Senior Management      | 47.6    | 38.9   | 0.0     | 1.0         | 0.0     | 0.8    | 14.3    | 9.6    |
| Professional qualified | 36.5    | 34.9   | 1.4     | 1.6         | 0.7     | 0.8    | 5.4     | 7.4    |
| Skilled                | 39.1    | 36.7   | 0.7     | 1.0         | 0.7     | 1.1    | 29.1    | 12.5   |
| Semi-skilled           | 37.7    | 35.1   | 4.5     | 2.3         | 0.0     | 0.8    | 4.5     | 8.2    |
| Unskilled              | 66.7    | 45.4   | 0.0     | 1.0         | 0.0     | 0.8    | 0.0     | 4.3    |
| TOTAL                  | 39.0    |        | 2.2     |             | 0.4     |        | 13.6    |        |

| Level                  | Disabled Staff |         |        |
|------------------------|----------------|---------|--------|
|                        | Male           | Female  |        |
|                        | Current        | Current | Target |
| Top Management         | 0.0            | 0.0     | 2.7    |
| Senior Management      | 0.0            | 0.22    | 2.7    |
| Professional qualified | 0.22           | 0.0     | 2.7    |
| Skilled                | 0.67           | 0.89    | 2.7    |
| Semi-skilled           | 0.67           | 0.67    | 2.7    |
| Unskilled              | 0.0            | 0.0     | 2.7    |
| TOTAL                  | 1.56           | 1.78    |        |

The Fund regards the filling of posts in line with employment equity targets as a high priority. Employment equity targets are always taken into account during the recruitment and selection process.



### REPORT ON BUSINESS OPERATIONS AND OTHER SUPPORT SERVICES

PART

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LOOKING FOR A JOB

#### **Business Operations**

The Operations directorate of the Fund continues to enable the Fund to fulfil its mandate through the provision of the following functions:

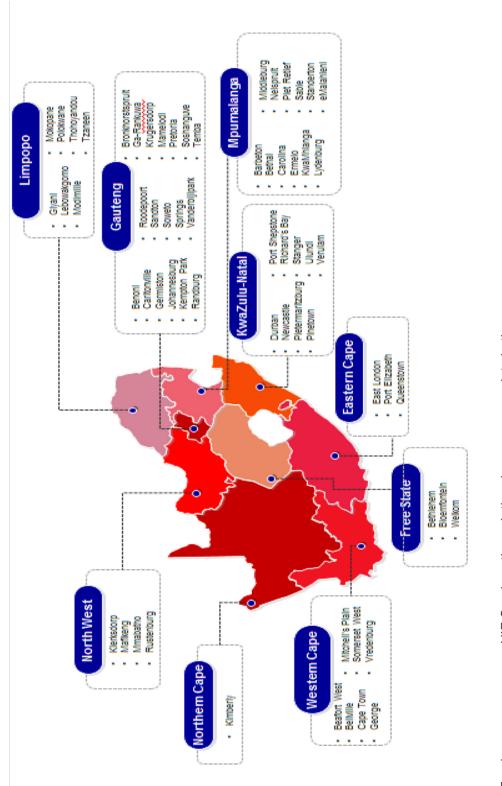
- Management and administration of the UIF database
- · Management and administration of claims assessments and benefits payments
- Rendering assistance on UIF matters to provincial offices, labour centres and service points
- Provision of Call Centre services
- Provision of operational system support for the business system Siyaya
- User Functional Training
- · Issuing, monitoring and maintaining of standard operating procedures
- Monitoring performance
- Making inputs on policy and related matters
- Systems administration (operational systems administration) and role allocation

The operations of the Fund are delivered through the various labour centres, satellite offices (visiting points) and mobile units. There are currently 125 labour centres that members of the public can access for UIF services. These labour centres further service almost 823 visiting points within their geographical location. The table below reflects the centres that have the capacity to process claims within the various provinces.

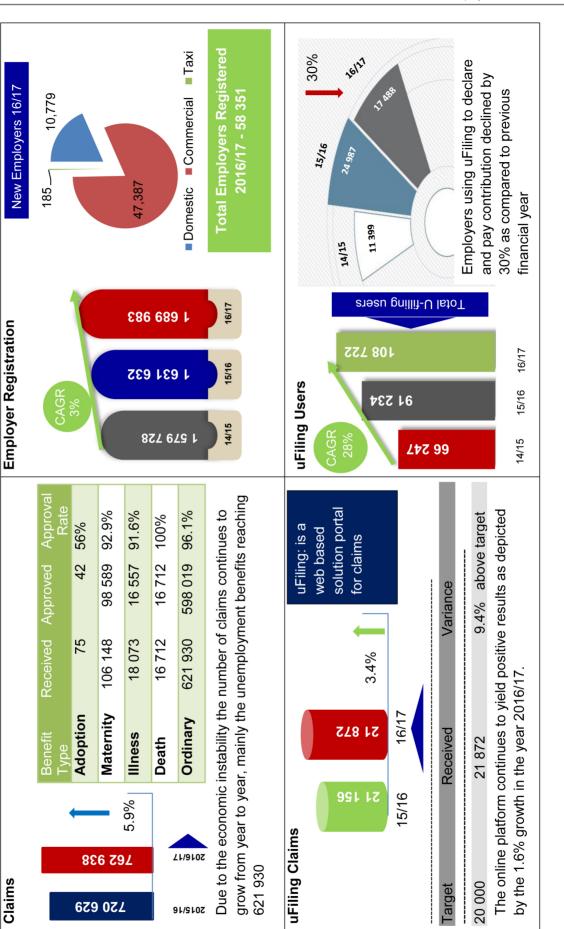








Employers and Employees can access UIF Services through the above access points in the country.

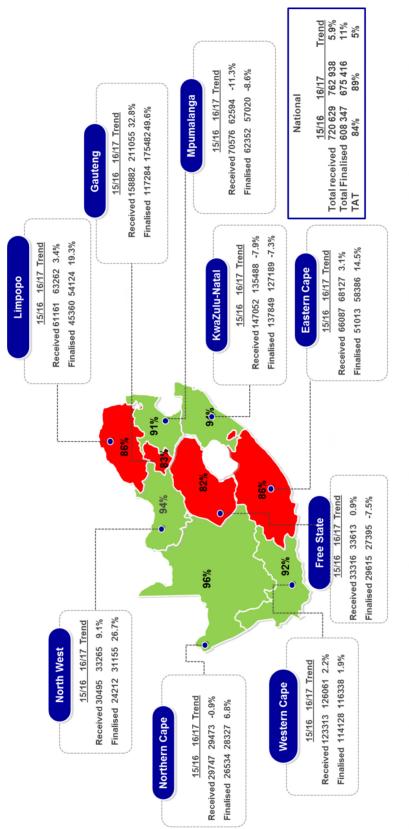


**Business Operations Performance Highlights** 

|  |         | 90,562 98,631                          | 568,408 598,019                  | 2016 2017 |
|--|---------|--|----------------------------------|-----------|
| 17,005<br>16,506                                       | 17,005  | 97,232                                 | 577,724                          | 2015      |
| 19,670<br>19,670                                       | 19,670  | 105,021                                | 618,293                          | 2014      |
| 20,986<br>22,732                                       | 20,986  | 106,339                                | 581,074                          | 2013      |
| 20,966<br>24,513                                       | 20,966  | 104,407                                | 555,969                          | 2012      |
| 22,727<br>27,123                                       | 22,727  | 104,042                                | 578,266                          | 2011      |
| 24,720<br>21,760                                       | 24,720  | 104,529                                | 628,595                          | 2010      |
| 25,648<br>15,959                                       | 25,648  | 94,336                                 | 474,793                          | 2009      |
| 25,000<br>16,000                                       | 25,000  | 89,000                                 | 397,000                          | 2008      |
| 30,000<br>25,000                                       | 30,000  | 96,000                                 | 421,000                          | 2007      |
| 26,000<br>31,000                                       | 26,000  | 81,000                                 | 451,000                          | 2006      |
| <ul> <li>Illness</li> <li>Death/ dependents</li> </ul> | Illness | <ul> <li>Maternity/adoption</li> </ul> | <ul> <li>Unemployment</li> </ul> |           |

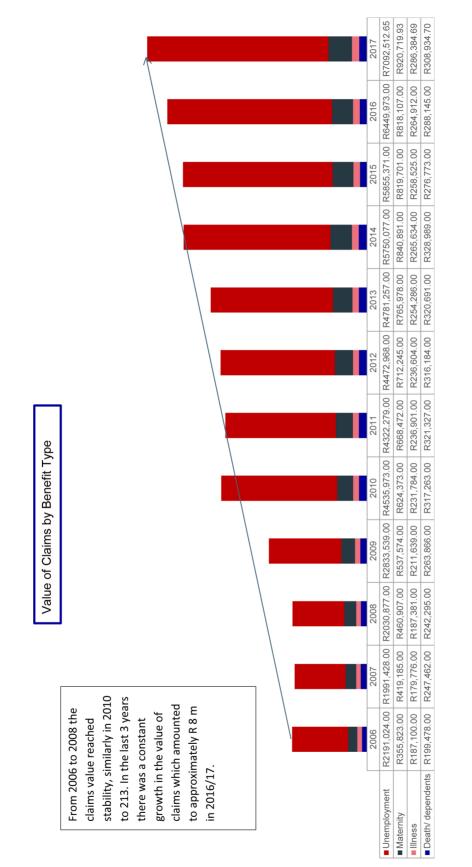
**Claim Processing** 

Unemployment increased by 5.2%; Maternity/Adoption increased by 8.9%; Illness increased by 4.0% and Death increased by 1.5%. For the period between 2005/06 the number of claims approved has increased by 23.9%. Over the 12 years period, the highest number of claims approved was during 2009/10 financial year with Overall, approved benefit claims for 2016/17 have increased by 5.6% when compared to similar claims in 2015/16. 779604 claims.

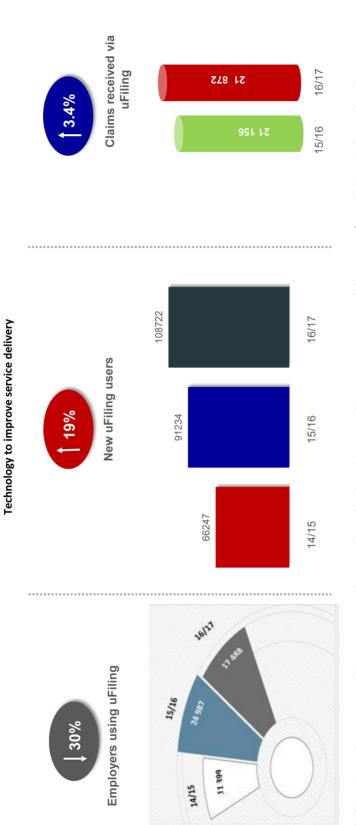


**Claim Processing** 

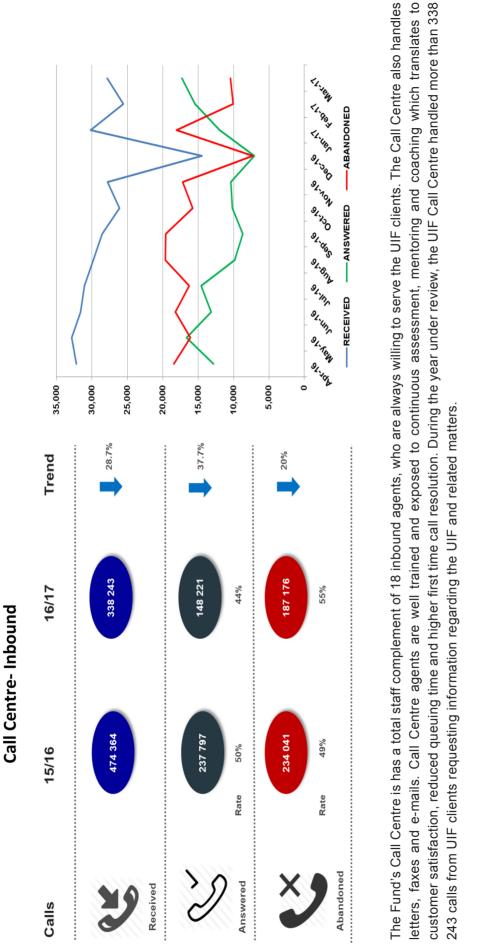
For the financial year 2016/17, five (5) provinces achieved the target of either approving or rejecting 90% of the claims received within five weeks. The five provinces previous year. The provinces of KwaZulu-Natal, Mpumalanga and Northern Cape experienced a drop in the number of claims for the year ending March 2017. On the represent just over 50% of the claims that were received for the year. Overall, 762 938 claims were received for the year 2016/17, which is 5.9% more than the other hand, Gauteng Province had a 23% increase in the number of claims received for the same period.



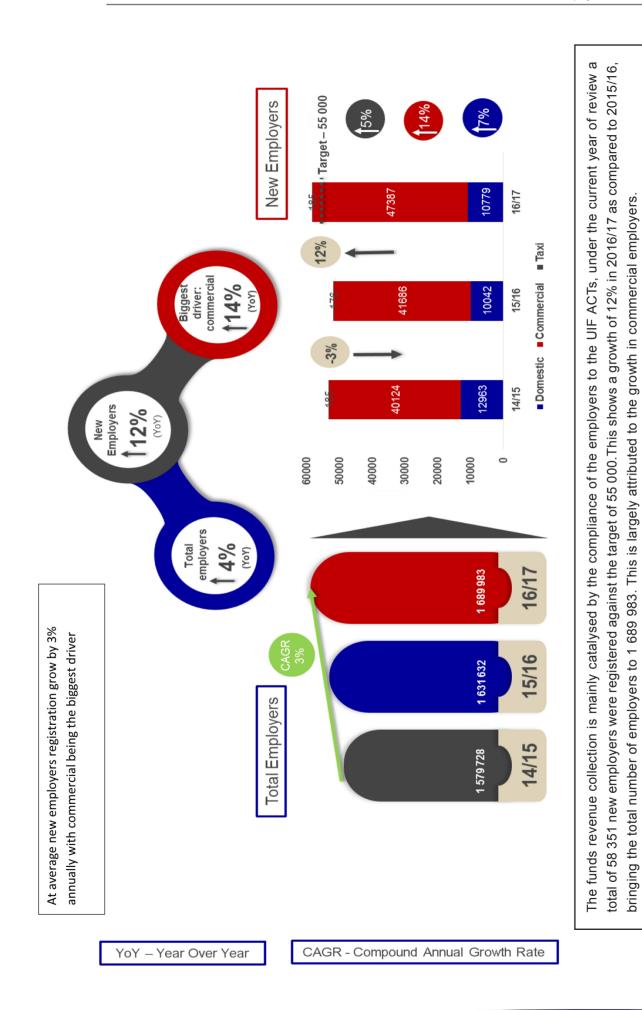




A total of 17 488 employers using uFiling system to submit employee details and pay contributions were registered during 2016/17, which is 30% lower than the previous year The new users of uFiling system went up to 108 722 during 2016/17, which represents 19% increase as compared to 2015/16. During the 2016/17, the number of claims (2015/16). The Operational efficiency is mainly driven by the use of internet and mobile technologies to serve its clients in their own comfort submitted through uFiling went up by 1.6% as compared to 2015/16.



Call centre inbound recorded a drop in calls received, answered and abandoned for the year 2016/17 when compared to the previous year. Calls received dropped by 28.7%, calls answered dropped by 37.7% and abandoned calls dropped by 20%. The rate of calls abandoned for 2016/17 is 55% while 49% of calls were abandoned in the previous year.



#### **COMMUNICATION AND MARKETING**

The Communication and Marketing section's mandate is to create awareness about products and services offered by the UIF to its stakeholders, whiles maintaining a positive public image. To pursue this mandate the section uses various communication and marketing techniques such as multimedia advertising campaigns, stakeholder engagement, publicity, promotional events and media engagements.

The Section embarked on provincial communication campaigns to assist UIF to achieve its strategic objectives. Provincial campaigns include mall activations, advocacy sessions and seminars, outside broadcast and door-to-door visits to businesses. In the 2016/17 reporting period the Section committed to undertake 36 provincial communication campaigns by the end of March 2016. The section managed to participate in 42 provincial communication campaigns throughout the country, thus ensuring that workers are aware of their rights, and employers understand their obligations under the Unemployment Insurance Act.

In addition to the provincial campaigns the section engaged with various stakeholders particularly those who had entered into the Memorandum of Understanding with UIF such as the Pay Day Software System, South African Institute of Charted Accountants, South African Institute of Professional Accountants and other related professional bodies. Through these engagements, UIF was able to reach 2 930 stakeholders who were informed and educated about online declaration and payment of contributions using the uFiling system.

The Section facilitated participation of UIF in various exhibitions. Exhibitions provide an opportunity to interact with clients directly and enable UIF officials to assist them with queries relating to



their claims. The Section participated in exhibitions targeting employers and workers to educate them about their rights and obligations, and also assist them with various queries. The exhibitions have enabled the Fund to assist 3 652 stakeholders with queries varying from claims applications to compliance certificates.

In an effort to reach as many people as possible the Section conducted four multimedia advertising campaigns using communication channels that have a wider reach such as newspapers, radio, outdoor, and social

media to educate, inform and communicate critical strategic issues pertinent to the UIF. The advertising campaigns assisted in increasing the awareness of UIF services amongst stakeholders from 12% to 28%.

The section also used media networking sessions to generate publicity for the work done by the UIF. Last year the section conducted five media networking sessions in four provinces and these assisted in educating the community media about the new Unemployment Insurance Amendment Act.

The success of any organisation lies in its ability to communicate internally to ensure that staff is kept abreast of strategic developments within the organisation. In this regard the section facilitated 3 Staff Lekogtla, a gathering where the Commissioner and senior management of the Fund engage staff members on various issues pertaining to organisational performance.

In addition, the Section produced 5 internal newsletters which carried information about projects undertaken by Fund and kept them abreast of strategic issues varying from Minister's budget vote speech, UIF investment projects, LAP's support of training and re-skilling of UIF beneficiaries, and human interest stories.

The unit was also able to timeously produce all the statutory publications as required by the Public Finance Management Act. The publications produced and presented in parliament were the Annual Performance Plan, Strategic Plan and the Annual Report.



#### LABOUR ACTIVATION PROGRAMMES

South Africa has been experiencing high rate of unemployment (26.5% March 2017) especially amongst the youth. There is lack of opportunities in the labour market. Unemployed UIF beneficiaries and youth lack skills required in the labour market, and in some instances they lack work experience.

Therefore, the UIF has effected Section 48(1)(a)(iv) of the Unemployment Insurance Act, 2001, as amended), to implement interventions towards job preservation, creation, retention and skills development through the Labour Activation Programmes (LAP) LAP is an intervention through which UIF supports social security and National Development Plan.

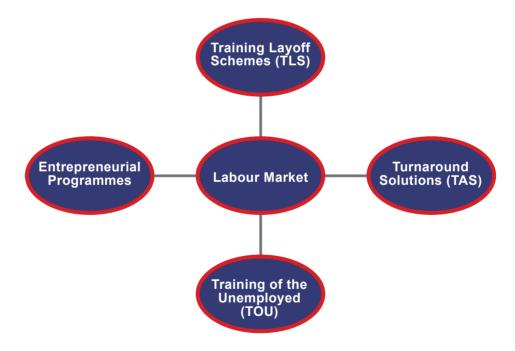
#### 1. LAP PURPOSE:

To ensure that unemployed UIF beneficiaries are re-integrated/ integrated into the Labour Market.

#### 2. THE LAP OBJECTIVES:

- Upskill UIF beneficiaries
- Preserve Jobs

The UIF through LAP directly services its beneficiaries with measures for their reintegration and retention in the Labour Market. The Chief Directorate: Labour Activation Programmes realises these objectives through focusing on:



#### 3. LAP PERFORMANCE 2016/17

During the 2016/17 the Chief Directorate: Labour Activation Programme budget was R289 million. The budget was utilised on the above objectives through partnerships with different stakeholders (e.g. Technical and Vocational Education and Training (TVET) Colleges, Sector Education and Training Authorities(SETAs) and Universities).

| PARTNER(S)         | PROGRAMME(S)   | NUMBER OF<br>BENEFICIARIES | FUNDS PAID     |
|--------------------|--|----------------------------|----------------|
| TVET Colleges (23) | Building and Civil<br>Construction                       |                            | R21,9 million  |
| SETA               | Skill programmes,<br>Apprenticeships and<br>Learnerships | 1786                       | R102,8 million |
| TLS                | Social plan Funding                                      | 135                        | R 2 million    |
| TAS                | Jobs Saved   | 4760                       | R17,5 million  |
| NWU                | Entrepreneurial  | 100                        | R1.3 million   |
| TOTAL              |  | 6781                       | R145.5 million |



#### 3.1. Training of the Unemployed and Aspiring Entrepreneurs

Skills Development is central to the reduction of unemployment and poverty alleviation. In order to enhance the employability of UIF beneficiaries and to ensure that they are reintegrated back into the labour market, the UIF trained 100 aspiring entrepreneurs on business skills as indicated in the table above. The long term plan of this approach is to ensure that the trainees are linked with state financial institutions whereby they will receive financial and nonfinancial support. The Fund also partnered with TVET colleges across the country

and SETAs to train f 1786 beneficiaries on the above outlined programmes.





#### 3.2. Social Plan Funding

During the reporting period UIF paid R19.5 million for Social Plan.

#### 3.3. Turnaround Solution

The current economic conditions in the country are affecting companies/ employers negatively and this results into job losses if not curbed timeously.

Productivity South Africa (Productivity SA) is a key stakeholder of the UIF in the implementation of the Social Plan Programme. The Programmes is aimed at providing turnaround solutions to companies in distress. An amount of R24 million was transferred to Productivity SA during the 2016/17 financial year for the provision of support to 100 companies in distress. Productivity South Africa has supported 49 companies in distress and managed to save 4760 jobs, as part of this programme.

#### 3.3. Turnaround Solution

"Training Layoff Scheme (TLS) is a temporary suspension of work for a worker or a group of workers that will be sent for training. The scheme is aimed at companies that face a potential risk of retrenching workers due to economic conditions. It is meant companies which will retain employees. During the training the UIF pays 75% of the employee wages and the relevant SETA pays for the training. The TLS programme was able to impact positively through paying 75% for training of 135 employees.



LOOKING FOR A JOB

### FINANCIAL INFORMATION

## PART F

#### **Unemployment Insurance Fund**

Annual Financial Statements for the year ended 31 March 2017 **General Information** 

| Nature of business and principal activities | he Unemployment Insurance Fund (the Fund/UIF) collects and receives contributions under the Unemployment Insurance Contributions Act (Act no.4 of 2002). In accordance with the Unemployment Insurance Act (Act no.63 of 2001), contributions received are managed and unemployment insurance claims are paid. |
|---|--|
| Legal form of entity                        | The Unemployment Insurance Fund is in terms of section 48 of the Public Finance Management Act (Act no. 1 of 1999), classified as a Schedule 3 "National Public Entity".   |
| Registered office                           | ABSA Towers<br>230 Lillian Ngoyi Street<br>Pretoria<br>0001  |
| Business address                            | ABSA Towers<br>230 Lillian Ngoyi Street<br>Pretoria<br>0001  |
| Postal address                              | ABSA Towers<br>230 Lillian Ngoyi Street<br>Pretoria<br>0001  |
| Auditors                                    | The Auditor-General of South Africa  |

**Accounting Authority** 

Director-General Department of Labour: Mr. T Lamati

#### Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2017 Index

The reports and statements set out below comprise the annual financial statements presented to the Board:

| Index  | Page |
|--|------|
| Report of the Auditor-General                        | 99   |
| Accounting Authority's responsibilities and approval | 107  |
| Unemployment Insurance Commissioner's report         | 108  |
| Statement of Financial Performance                   | 116  |
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| Accounting Policies                                  | 121  |
| Notes to the Annual Financial Statement              | 141  |

#### Report of the Auditor-General to Parliament on the Unemployment Insurance Fund

#### **Report on the audit of financial statements**

#### **Disclaimer of opinion**

- 1. I was engaged to audit the financial statements of the Unemployment Insurance Fund set out on pages 108 to 213 which comprise the statement of financial position as at 31 March 2017, the statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
- 2. I do not express an opinion on the financial statements of the public entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer opinion

#### Investments

- 3. The value of unlisted investments in the annual financial statements did not agree to amounts in the supporting evidence. Consequently investments were understated by R721 262 989. There was a resultant impact on the surplus for the period and on the accumulated surplus in the financial statements. Additionally, significant investments in subsidiaries and associates were not consolidated and equity accounted respectively in accordance with GRAP 6, Consolidated and separate financial statement and GRAP 7, Investments in associates. I was not able to determine the impact of not consolidating and/or equity accounting on the overall financial statements.
- 4. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the balances disclosed for investments due to number of adjustments to the supporting evidence. I was unable to confirm the stated amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the investments amounts stated at R135 667 993 000 in the financial statements.

#### Investment revenue and fair value adjustments

5. I was unable to obtain sufficient appropriate audit evidence that investment revenue and fair value adjustments for the year under review had been properly accounted for, due to number of adjustments to the supporting evidence. I was unable to confirm investment revenue and fair value adjustments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to confirm investment revenue and fair value adjustments stated at R9 199 602 000 and R2 610 167 000 respectively in the financial statements.

#### Cash flow Statement

6. The entity did not account for the increase in statutory receivable when calculating the cash generated from operations in accordance with GRAP 2, Cash flow statements. Consequently, cash generated from operations was overstated by R2 992 344 000 in the financial statements.

#### Other matter

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### Software licences

- 8. The software licences were procured on 23 March 2017 via a conditional deviation granted by the National Treasury on 2 February 2017, without all the conditions of the deviation being met. While software licences are fundamental to the operation of the entities, the concern is that some of the conditions set out by the National Treasury appear to be unreachable. Not meeting these conditions will be considered non-compliance and may contribute to irregular expenditure.
- 9. The amount of the new contract increased by 385% due to the perpetual nature of the licences procured as well as the increase of modules from 25 to 85. Although the usage was 16% as at 31 March 2017, the department have implemented a plan to fully use the licence capacity.
- 10. Furthermore, there remains some uncertainty over the extent of use of the licences at the UIF, as the UIF did not commit to the system "goes live date", which will affect the amount of users of the system. However 40% (R92 731 248) expenditure for licences and support on the current contract has been incurred by the fund. The UIF was unable to implement the system on time due to the developed on the software not fulfilling the required business need for the UIF. This may lead to possible fruitless and wasteful expenditure if UIF decides not to implement the system as a result of inadequate procurement and contract management processes.
- 11. We will continue the monitor and trace the progress on the contract in order to evaluate the envisage benefits.

#### Responsibilities of accounting authority for the financial statements

- 12. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of Generally Recognised Accounting Practice and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- 13. In preparing the financial statements, the accounting authority is responsible for assessing the Unemployment Insurance Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

#### Auditor-general's responsibilities for the audit of the financial statements

- 14. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
- 15. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

#### Report on the audit of the annual performance report

#### Introduction and scope

- 16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
- 17. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
- 18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2017:

| Programmes                                | Pages in the annual performance report |
|---|--|
| Programme 2– Business Operations          | 31 – 35                                |
| Programme 3– Labour Activation Programmes | 36                                     |

- 19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
- 20. The material findings in respect of the usefulness and reliability of the selected programmes are as follows:

#### **Programme 2- Business Operations**

#### Indicator 3.3 Percentage reduction in overpayments balance

21. I was unable to obtain sufficient appropriate audit evidence to support the reported reason for the variance, as required by the Annual report guide for schedule 3A and 3C public entities. This was due to limitations placed on the scope of my work as a result of insufficient evidence being provided. I was unable to confirm the reason for the variance by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reason for the variance as reported.

#### **Programme 3- Labour Activation programmes**

#### Various indicators

22. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculation of the achievements was not predetermined, as required by the Framework for managing programme performance information (FMPPI). In addition, the related performance targets were not specific in clearly identifying the nature and required level of performance and measurable during the planning process, as required by the FMPPI. Due to the lack of technical indicator descriptions that could clearly define the method of calculation and required level of performance, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

| Indicator  | Target  | Reported achievement  |
|--|---|---|
| Indicator 4.2 Turnaround time<br>to approve or reject Training<br>Lay- Off Scheme application<br>received from SETA per year   | Within 30 days after receipt<br>of application  | 5 application received, 2<br>approved and 3 rejected<br>within 30 days,                                     |
| Indicator 4.3 Turnaround time<br>to transfer funds to a SETA<br>after the approval of a Training<br>Lay-off Scheme application | Within 30 days after approval<br>of application | Funds were transferred<br>to SETA 53 days after the<br>approval of a Training Lay-off<br>scheme application |

#### Other matters

23. I draw attention to the matters below.

#### Achievement of planned targets

24. Refer to the annual performance report on pages 21 to 36, 37 to 49 for information on the achievement of planned targets for the year and explanations provided for the under/over achievements of a number of targets.

#### Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 2- Business Operations and programme 3 – Labour Activation Programmes. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

#### Report on audit of compliance with legislation

#### Introduction and scope

- 26. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
- 27. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Annual financial statement, performance report and annual report

28. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1) (a) and (b) of the PFMA. Material misstatements identified by the auditors in the submitted financial statements were not corrected and the supporting records could not be provided, resulting in the financial statements receiving an adverse audit opinion.

#### **Expenditure management**

29. Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.

#### Procurement and contract management

- 30. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R500 000 were procured by means of obtaining the required price quotations, as required by Treasury Regulation 16A6.1.
- 31. Sufficient appropriate audit evidence could not be obtained that quotations were accepted only from bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, which is prescribed in order to comply with Treasury Regulation 16A8.3.
- 32. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers whose tax matters have been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1 (d) and the Preferential Procurement Regulations.
- 33. Goods and services of a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. Deviations were approved by the approved delegated official even though it was not impractical to invite competitive bids, in contravention of Treasury regulation 16A6.4
- 34. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official as required by Treasury Regulation 8.1 and 8.2.
- 35. Persons in service of the entity whose close family members, partners or associates had a private or business interest in contracts awarded by the entity failed to disclose such interest, as required by Treasury Regulation 16A8.4

#### **Other Information**

- 36. The Unemployment Insurance Fund accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the report by Director-General of labour, the audit committee's report and report of the UI commissioner. The other information does not include the financial statements, the auditor's report thereon and those selected programmes presented in the annual performance report that have been specifically reported on in the auditor's report.
- 37. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
- 38. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.

39. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

#### Internal control deficiencies

40. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

#### Leadership

- 41. The accounting authority did not exercise oversight responsibility to ensure that the performance indicators included in the strategic plan and annual performance plan are well defined and/or performance targets are specific and measurable in accordance with the framework for managing programme performance information (FMPPI),
- 42. The UIF management did not exercise effective monitoring and oversight to ensure complete and credible financial records and information are kept throughout the year.

#### Financial and performance management

- 43. The Fund did not maintain proper record-keeping so that complete, relevant and accurate information is accessible and available to support performance reporting.
- 44. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented.
- 45. Management did not ensure that the financial statements are supported by accurate, reliable information which fairly presents the financial position of the public entity as at year end.

#### Other reports

46. I draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the public entity's financial statements, reported performance information and compliance with applicable legislation and other related matters. The reports noted do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

#### Investigations

- 47. At the request accounting authority of the public entity, an independent consultant investigated allegations of an award made to a supplier in contravention of procurement regulations. The outcome of the investigation was finalised on 20 June 2017 and the recommendations of the report have not yet been implemented.
- 48. An independent consultant is investigating an allegation of possible misappropriation of the public entity's funds at the request of the public entity, which covers the period 1 April 2012 to 31 December 2016. The preliminary outcome of the investigation was finalised 30 June 2017.

Auchter- General

Auditor General Pretoria 10 August 2017



Auditing to build public confidence

#### **Unemployment Insurance Fund**

#### Annual Financial Statements for the year ended 31 March 2017 Accounting Authority's responsibilities and approval

The Accounting Authority is required by the Public Finance Management Act (PFMA), (Act no. 1 of 1999) (as amended by Act no. 29 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Authority to ensure that the annual financial statements fairly present the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for the year ended. The Auditor-General was engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

In terms of section 55(1) of the Public Finance Management Act, the Unemployment Insurance Fund is required to comply with South African Statements of Generally Accepted Accounting Practice, unless the Accounting Standards Board approves the application of Generally Recognised Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The Accounting Authority acknowledges that the ultimate responsibility for the system of internal financial control established by the Fund resides with him and places considerable importance on maintaining a strong control environment. To enable the Accounting Authority to meet these responsibilities, the Unemployment Insurance Board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Fund and all employees are required to maintain the highest ethical standards in ensuring the Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. Some operating risks cannot be fully eliminated. The Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures.

The Accounting Authority is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. Any system of internal financial control can however only provide reasonable, and not absolute, assurance against material misstatement or loss.

As Accounting Authority I reviewed the Fund's cash flow forecast for the year to 31 March 2018 and, in the light of this review and the current financial position, I am satisfied that the Fund has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements set out on pages 4 to 98, which have been prepared on the going concern basis were reviewed by the Unemployment Insurance Board on 30 May 2017 and was signed by me the Accounting Authority on recommendation of the Unemployment Insurance Board.

T. Lamati Director-General: Department of Labour Date:

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

The Unemployment Insurance Commissioner submits his report for the year ended 31 March 2017.

#### 1. General financial review of activities

#### Main business and operations

The Fund was established under section 4 of the Unemployment Insurance Act (Act no. 63 of 2001), hereinafter referred to as "the UI Act" administered by the Unemployment Insurance Commissioner with delegated powers from the Director-General: Labour, to provide for the payment from the Fund of unemployment benefits to certain employees, and for the payment of illness-, maternity-, adoption- and dependants benefits related to the unemployment of such employees.

The Unemployment Insurance Fund collects and receives revenue contributions under the Unemployment Insurance Contributions Act (Act no. 4 of 2002), administered by the Commissioner of the South African Revenue Services.

The Unemployment Insurance Fund's (the Fund) business model is based on a "Pay as You Go" system. There are limited risks to the financial sustainability of the Fund due to constant stream of inflows and outflows of funds. The Fund is fully reserved and conducts regular actuarial valuations to determine future financial obligations and benefits. Based on the valuation that was conducted on 31 March 2017, the Fund is in a sound financial position and will be able to meet the projected unemployment insurance claims.

The net surplus of the Fund continues to rise due to improved collection of contributions and income from investments. Revenue growth projections are based on a model that tracks a combination GDP and CPI. The Fund has experienced above inflation growth rates over the last three years and continues to outperform base projections.

The surpluses of the Fund are invested through the Public Investment Corporation and the Accounting Authority approves an investment mandate on an annual basis. The investment mandate comprises of asset classes to be invested in, the relevant benchmarks and weights to be held in each asset class.

Net surplus of the Fund was R 13,2 billion (2016: surplus R 10,7 billion).

#### 2. Accounting policies

In terms of section 55(1) of the Public Finance Management Act, the Unemployment Insurance Fund is required to comply with South African Statements of Generally Accepted Accounting Practice, unless the Accounting Standards Board approves the application of Generally Recognised Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

#### 3. Public Private Partnership

The Department of Labour concluded a Public Private Partnership (PPP) agreement with Siemens IT Solutions and Services (Pty) Ltd dated 27 November 2002 in terms of which Siemens IT Solutions and Services (Pty) Ltd renders an integrated and comprehensive Information Technology (IT) enabling service to the Department. The Unemployment Insurance Fund is not a party to the Public Private Partnership agreement between the Department of Labour and Siemens IT Solutions and Services (Pty) Ltd.

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

The Unemployment Insurance- and Compensation Funds are integral in the Department's functions, accordingly the Department ensures information technology enablement of the two Funds to enable them to comply with the requirements of their respective legislation and improve service delivery, based on its Public Private Partnership (PPP) agreement.

A "Consensus on Co-operation" was approved on 16 August 2002 by the Director-General of the Department of Labour. It was agreed that the Department and the Unemployment Insurance- and Compensation Funds will benefit equally in the integrated Information Technology enablement to be provided by Siemens IT Solutions and Services (Pty) Ltd. Based on this agreement the Department of Labour, Unemployment Insurance- and Compensation Funds undertook to pay equal portions of the amount making up the Annual Unitary charges for the IT services provided.

The Annual Unitary fee payable was adjusted on an annual basis by the application of the CPI adjustment and additional user's formula. Risk was shared by the IT Provider and the Department of Labour and ownership retained by the Department of Labour. The Unemployment Insurance Fund recognises the amount of the PPP unitary fee paid in the statement of financial performance within "administrative costs" in accordance with the financial directive issued by the Director-General Labour.

In accordance with the PPP agreement, the Contractor opened a separate account ("the Reinvestment Fund") with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- money deposited as excess profits
- any foreign exchange rate amounts
- any service credits
- any penalties paid for later service commencement

The Reinvestment Fund was opened to manage the benefits derived from credits to which the Department of Labour became entitled to in terms of the PPP agreement. Based on the payment arrangements for "in scope services", the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund were entitled to credits emanating from additional services that were allocated to the relevant entity's portion in the Reinvestment account.

The Reinvestment Fund was equally divided between the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund with effect from November 2006 on a 1/3 (one third) basis. The amount in the Reinvestment account is recognised in the statement of financial position within "trade and other receivables".

The Public Private Partnership agreement between the Department and Siemens IT Solutions and Services (Pty) Ltd expired on 30 November 2012. Siemens IT Solutions and Services (Pty) Ltd was taken over by EOH Management Services: PS (Pty) Ltd during the transition period and the Department exercised its option of contracting Siemens IT Solutions and Services (Pty) Ltd, now referred to as EOH Management Services: PS (Pty) Ltd, for a further 12 months to offer termination support while the Department implements its new IT Strategy.

The termination support agreement expired on the 30 November 2013 after which the Department exercised its rights in terms of the PPP agreement and implemented section 197 of the Labour Relations Act to absorb all the officials of EOH who were rendering service to the Department and its entities.

Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

#### 4. Compliance with applicable legislation

The Fund needs to comply with various sections of the Public Finance Management Act (Act no. 1 of 1999) (PFMA), Treasury Regulations, the Unemployment Insurance Contributions Act (Act no. 4 of 2002) and the Unemployment Insurance Act (Act no. 63 of 2001) with its Regulations and other relevant legislation.

Section 51(1)(a)(i) of the PFMA requires the Public Entity to have and maintain effective, efficient and transparent systems of Financial- and Risk Management and Internal Control. In an ever changing environment, additional improvements and enhancements are constantly required to improve controls and service delivery.

Section 51(1)(b)(i) of the PFMA, paragraph 31.2(a) of the National Treasury Regulations and section 12 and 13 of the Unemployment Insurance Contributions Act require collection of all revenue due to the Public Entity, and requires the levying of interest and penalties on late payments from non-SARS registered employers. The Fund recognises contribution revenue in the period in which it is measurable and probable that the economic benefit associated with the transaction will flow to the Fund.

The non-timely submission of employee/declaration information to the Fund by employers as required by **Section 56(1) and 56(3) of the Unemployment Insurance Act** prevents the Fund from determining the measurability and probability of contributions payable by employers until the consideration is actually received. This results in a limited ability to do debt collection on revenue due by non-SARS registered employers and to levy penalties and interest on revenue due. To improve on determining the measurability and probability of contributions payable by employers, revenue streams were classified in accordance with revenue stream source documents. Systems are developed to improve revenue recognition and debt collection on revenue due based on the source document information available.

The Fund implemented the U-Filing declaration and payment portal as a total online service. This automation of processes seeks to improve compliance and improve service to registered employers and employees. The enhancement will assist with enforcement of non-compliant employers. The automated processes will simplify the receipt of employee remuneration information from employers directly into the Funds systems and streamline the payment of contributions in line with the declaration information. The Fund has enhanced the U-Filing system by introducing a claims application portal to enable online claims. Unemployment insurance claims processes have been simplified through an online claims process for employers and employees, aligned with the declaration information submitted. This should release resources in the Fund to improve on service delivery and enforcement initiatives.

Section 57(1) of the Unemployment Insurance Act requires the UIF Commissioner to create and maintain a database of contributors, beneficiaries and employers. The timely and accurate updating and maintenance of the database is reliant on receiving Employee Remuneration Information from employers. In various instances the information is captured manually. The Fund takes every precaution to ensure that capturing errors are minimised and a continuous business process was implemented to review and correct information in the database.

The Fund recognises the importance of the information captured on the database as it forms the basis for the payment of unemployment insurance claims. To obtain a level of comfort regarding the completeness, accuracy and validity of the data captured on the database the Fund implemented a process to validate the declarations.

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

#### **Control measures**

In addition to the system controls based on various business rules built into the SIYAYA operational system the Fund implemented various other controls. Declarations received are screened by Team Leaders in the Employee Declaration Section (EDS), the employer record is verified to ensure that the addresses matches the master record, that the form is properly and correctly completed and that dates and other fields meet business rule requirements. Declarations captured at UIF Head Office are further subjected to a random sampling by supervisors in the section and errors identified are corrected. Where employers submit declarations electronically as extracts from their payroll systems, the submissions must conform to set standards before any information is accepted and loaded into the database. This system will be further enhanced by the new Virtual Office system described above.

Claimants ID numbers captured on the SIYAYA operational system are verified against the population register as an additional control. Employee information update letters are sent to employers for verification/notification and all cases where employers subsequently question the update, the information is referred to the Fund's Risk Management Unit for further investigation.

Section 35(1) of the Unemployment Insurance Act requires contributors or dependants, who received benefits that they were not entitled to in terms of this Act, or who received benefits in excess of their entitlement to repay such benefits to the Fund. Paragraph 31.1.2(e) of the National Treasury Regulations requires pursuing of debtors with appropriate rigour to ensure that amounts receivable are collected and banked promptly.

The Fund is dependent on accurate employee information declared to the Fund by employers in calculating entitled benefits. Based on available employee information the calculation can be less or more than the entitlement. Despite the application of preventative measures, instances of erroneous payments may occur due to:

- Claimants obtaining new employment and continue to claim benefits (Work and Draw main reason)
- Late or non-submission of declarations by employers in accordance with UIF requirements
- Submission of inaccurate declarations by employers
- Benefits paid in error (operational errors)

The Fund implemented an electronic adjudication function that detects transactions or entries with discrepancies (possible under- or overpayments) based on the continuous updating of employee information as declared by employers. Lists of exceptions are sent to the Provincial offices monthly for assessment and any overpayments identified are raised immediately. The system blocks further payments until the matter is resolved. Exceptions Assessors investigate these discrepancies that can result in either overpayments or underpayments being raised, in some cases the discrepancy results in non-financial transaction corrections.

The Fund implemented various mitigating processes to prevent paying benefits in error including enhanced recovery processes as discussed in the "Notes to the Annual Financial Statements", note 15 "Trade and other receivables" under "Mitigation of the risk of paying benefits in error".

Section 51(1)(b)(ii) of the PFMA requires that effective and appropriate steps be implemented to prevent, amongst other things, losses from criminal conduct. The Fund is vulnerable to fraudulent claims and dependent on employee information supplied by employers via declarations and claimants' affidavits that

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

they are unemployed. Based on the employee information declared the Fund calculates entitled benefits and pays benefits based on the claimants' affidavits. The accuracy, completeness and timeliness of this information impacts on the correctness of the claim calculation and payment.

The Fund conducts intensive communication and marketing campaigns on an annual basis to inform employers and employees of their rights and obligations. The Fund ensures that its systems and procedures are robust to detect and prevent payments made in error and/or fraudulent payments where possible. Under- and overpayments are raised in the period it is noted.

The Fund starts with the "Recovery of benefits paid in error" as per section 35 of the UI Act when overpayments (benefits paid in error) are noted, and institutes steps in terms of section 61(6) of the UI Act to recover the loss from any outstanding benefits payable due. In addition the Fund may institute "Suspension of Contributors" as per UI Act Section 36.

The Fund constantly enhances debt collection policies and procedures since recovering benefits paid in error from claimants remains one of the Fund's major challenges. The new automated processes as explained above enhanced controls to ensure the correct payment of claims and the reduction of claims paid in error.

During the financial year under review, the Fund introduced verification on all manual declarations received.

The verification process is as follows:

- Confirm UI19 received is signed off by the employer who is registered on the UIF database and confirm with the employer on the system if there is any discrepancy
- Verify if declared employees on the form exist under the employer's records in the system and confirm with the employer if there is any discrepancy.
- Verify employees' details on the form with the system e.g. period of service, salary, identification numbers, name and surname and reason for termination and confirm with the employer if there is any discrepancy.
- Verify with the employer for employees that are declared for the first time at the time of the application. This verification is performed on all manual UI19's received at the time of application and normal update.

#### 5. Spending trends

The Fund's administration budget caters for Head Office and provincial operations. The operations of the Fund are carried out at provincial offices through the Department of Labour. The expenditure at provincial offices is charged back to the Fund on a split percentage basis including the staff costs associated with personnel carrying out the functions of the UIF. The main cost drivers in the Fund during the year under review are:

- Staff costs for the over 2000 personnel that carry out UIF functions (including provincial personnel)
- Commission for collection of revenue
- Operating leases, which includes the payment for IT enablement costs
- Investment related expenses

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

#### 6. Capacity constraints and challenges

The Fund needs to comply with various sections of the Public Finance Management Act (Act no 1 of 1999), Treasury Regulations, the Unemployment Insurance Contributions Act (Act no 4 of 2002) and the Unemployment Insurance Act (Act 63 of 2001) as amended with its regulations.

Section 51(1)(a)(i) of the Public Finance Management Act requires the Public Entity to have and maintain effective, efficient and transparent systems of financial and Risk Management and Internal Control. In an ever changing environment, additional improvements and enhancement s are constantly required to improve controls and service delivery.

Furthermore, section 51(1)(b)(i) of the Public Finance Management Act, paragraph 31.2 (a) of the Treasury Regulations as well as section 12 and 13 of the Unemployment Insurance Contributions Act require the collection of all revenue due to the public entity. Interest and penalties should be levied on late payments from employers. The Fund recognises contribution revenue in the period in which it is measurable and probable that the economic benefits associated with the transaction will flow to the Fund.

The non-timely submission of employee/declaration information to the Fund by employers as required by section 56(1) and 56(3) of the Unemployment Insurance Act prevents the Fund from determining the measurability and probability of contributions payable by employers until the actual consideration is received. This results in limited ability to perform effective debt collection on revenue due by non SARS registered employers. To improve on determining the measurability and probability of contributions payable by employers with revenue stream source documents. Systems are developed to improve revenue recognition and debt collection on revenue based on the source document information available.

The Fund implemented the U-Filing declaration and payment portal as a total online service that is aimed at enabling online claims capability. The U-Filing system is an automated contributions and claims handling system. The automated process seeks to improve compliance to UIF legislation and service delivery to clients as follows:

- It simplifies the receipt of employee remuneration information from employers directly into the Fund's systems and also seeks to streamline the payment of contributions in line with the employee remuneration information submitted through the U-Filing Portal.
- It creates an online capability for receiving and processing claims submitted online for all clients who wish to submit their applications online through the Virtual Office portal of U-Filing.

#### 7. New/proposed activities

The Fund continues to support government initiatives of creating decent jobs in the South African economy. As a response to the challenges of poverty and unemployment, the UI Board advised the Minister of Labour on schemes that should be used to alleviate the harmful effects of unemployment among the UIF beneficiaries. In 2009, the Fund had committed R1,2 billion towards a Training Layoff Scheme and in addition recommended training programmes for unemployed UIF beneficiaries.

### Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

A review of the Funds mandate, in line with the current challenges facing the country and its workforce, was necessitated by the need to play a more active role in the labour market. The Fund has now in addition to reactive measures of paying unemployment benefits decided to introduce a Labour Activation Programme. The Labour Activation Programme comprises of all active interventions in the labour market to retrain workers faced with possible retrenchments and to up-skill the unemployed UIF beneficiaries.

The Unemployment Insurance Board made recommendations to the Minister of Labour on the amendments to the Unemployment Insurance Act, 63 of 2001. These amendments are aimed at improving unemployment insurance benefits for the beneficiaries and it is anticipated that they will reduce the accumulated surpluses of the Fund in the long term. The Fund will continue to exercise prudency in its management of the funds to ensure long term sustainability.

#### 8. Roll over of funds

The Fund prepares its budget on zero bases and does not roll over its budgets from prior years.

#### 9. Supply Chain Management

The Fund did not respond to any unsolicited proposals during the financial year under review. It is the policy of the Fund that competitive bidding processes should be followed for procurement of goods and services. The Public Finance Management Act, 1999 places certain responsibilities and obligations to the Accounting Authority regarding Supply Chain Management. The Accounting Authority of the Fund has delegated his responsibilities over the supply chain management functions to management of the Fund to ensure effective and efficient delivery of services to the beneficiaries of the UIF.

The Fund has developed Supply Chain Management policies and procedures that are used to guide and implement the provision of the Public Finance Management Act and its regulations regarding procurement activities and procurement of goods and services.

#### 10. Audit report matters of the previous financial year

Material findings during the audit on the 2015/16 financial year with regards to performance management and supply chain management required major attention. The Fund continues to improve its control environment to ensure that there are transparent and effective systems for managing the financial resources at its disposal. There was a concerted effort by Fund in the year under review on the management of organisational performance, specifically those areas that were under achieved during the 2015/16 financial year.

#### 11. Post reporting date events

The Unemployment Insurance Board recommended various amendments to the current UI Act to improve unemployment coverage of excluded employees as well as improvements to the unemployment benefit structure. The new amendment Act was published into law in the Government Gazette on the 11 January 2017. It is expected that the new UIF amendment Act will reduce the net surplus of the Fund.

Annual Financial Statements for the year ended 31 March 2017 Unemployment Insurance Commissioner's report

#### 12. Future outlook and plans to address challenges

The Fund currently utilise various systems to manage its core operations, support services as well as finances. These systems are functioning well and are continuing to provide the Fund with reliable and accurate data that is used to produce financial statements. However a need has been identified by management to streamline the processes of managing the Fund in order to further enhance its service delivery capability and effectiveness within which data is produced and managed.

The Fund has appointed Accenture an implementation partner to rollout the SAP ERP for its operations for a period of three years commencing November 2014. The current financial and operational systems will be replaced by the new SAP system with the first deployment of the finance modules during the 2017/2018 financial year. The project is expected to introduce some efficiencies in the way the Fund does its business and will improve the functioning of the operations of the Fund. The first phase will see the replacement of the core financial modules while the second phase will be the replacement of the systems that drive the core business of the Fund, namely contributions and claims management.

#### 13. Auditors

The annual financial statements have been audited by the Auditor-General of South Africa, who was given unrestricted access to all financial records and related data, including minutes of all meetings of the Unemployment Insurance Board and committees of the Board. The Auditor-General of South Africa is responsible for independently reviewing and reporting on the Funds annual financial statements.

In accordance with the Public Finance Management Act (Act no. 1 of 1999 as amended by Act no. 29 of 1999), the Auditor-General remains responsible as the external auditors of the UIF.

#### 14. Appreciation

The excellent performance of the Fund during the year under review is a reflection of the dedication and commitment of the UIF staff.

The Minister of Labour, the Deputy Minister of Labour, the Director General: Labour and the Unemployment Insurance Board were the constant source of support to the management of the Fund. It is this support that has assisted to unlock bottlenecks in the service delivery chain and ensured that all targets set by the Fund are pursued with vigour.

T. Maruping Unemployment Insurance Commissioner

Annual Financial Statements for the year ended 31 March 2017 Statement of Financial Performance for the financial year ended 31 March 2017

(Illustrating the classification of expenses by nature)

|  | Note(s) | 2017<br>R '000 | 2016<br>R '000 |
|--|---------|----------------|----------------|
|  | _       |                |                |
| Revenue                                    | 3       | 18 256 811     | 17 120 381     |
| Benefit payments                           | 4       | (8 478 357)    | (7 691 153)    |
| Changes in benefits payable                | 4       | (968 450)      | (392 211)      |
| Unemployment alleviation schemes           | 5       | (145 478)      | (80 571)       |
| Gross surplus                              | _       | 8 664 526      | 8 956 446      |
| Other income                               | 6       | 7 657          | 6 147          |
| Auditors fees                              | 7       | (6 516)        | (4 456)        |
| Administrative costs                       |         | (462 193)      | (434 093)      |
| Depreciation, amortisation and impairments | 8       | (50 361)       | (15 707)       |
| Employee costs                             |         | (1 065 877)    | (941 945)      |
| Other operating expenses                   |         | (464 114)      | (392 539)      |
| Operating surplus                          | -       | 6 623 122      | 7 173 853      |
| Investment revenue                         | 9       | 9 199 602      | 7 746 161      |
| Fair value adjustments                     | 10      | (2 610 167)    | (4 233 877)    |
| Net surplus for the year                   | _       | 13 212 557     | 10 686 137     |

# Annual Financial Statements for the year ended 31 March 2017 Statement of Financial Position as at 31 March 2017

|  | Note(s) | 2017<br>R '000 | 2016<br>R '000 |
|--|---------|----------------|----------------|
| Assets                                 |         |                |                |
| Non-Current Assets                     |         |                |                |
| Investment property                    | 11      | 1 990          | 1 990          |
| Property, plant and equipment          | 12      | 102 166        | 113 476        |
| Intangible assets                      | 13      | 149 455        | 101 962        |
| Investments                            | 14      | 80 805 859     | 76 420 403     |
|  | _       | 81 059 470     | 76 637 831     |
| Current Assets                         |         |                |                |
| Investments                            | 14      | 54 862 134     | 44 020 591     |
| Trade and other receivables            | 15      | 17 745         | 5 392          |
| Statutory receivables                  | 15      | 1 718 672      | 222 500        |
| Cash and cash equivalents              | 16      | 1 297 434      | 3 812 875      |
|  |         | 57 895 985     | 48 061 358     |
| Total Assets                           | -       | 138 955 455    | 124 699 189    |
| Net Assets and Liabilities             |         |                |                |
| Net Assets                             |         |                |                |
| Technical reserves                     |         | 23 121 174     | 21 621 408     |
| Accumulated surplus                    |         | 110 216 225    | 98 503 433     |
|  | -       | 133 337 399    | 120 124 841    |
| Liabilities                            | -       |                |                |
| Non-Current Liabilities                |         |                |                |
| Provisions                             | 19      | 27 739         | 25 817         |
| Current Liabilities                    |         |                |                |
| Trade and other payables               | 20      | 350 580        | 313 591        |
| Benefits payable                       | 22      | 6 253          | 6 870          |
| Benefits payable - technical provision | 22      | 5 196 507      | 4 228 058      |
| Derivative financial instruments       | 18      | 36 974         | -              |
| Bank overdraft                         | 16      | 13             | 12             |
|  |         | 5 590 327      | 4 548 531      |
| Total Liabilities                      | -       | 5 618 066      | 4 574 348      |
| Total Net Assets and Liabilities       | -       | 138 955 455    | 124 699 189    |

Annual Financial Statements for the year ended 31 March 2017 Statement of Changes in Net Assets

|  | Technical<br>reserves<br>R '000 | Accumulated<br>surplus<br>R '000 | Accumulated<br>surplus<br>R '000 |
|--|---------------------------------|----------------------------------|----------------------------------|
|  |                                 |                                  |                                  |
| Balance at 1 April 2015<br>Changes in net assets   | 19 145 892                      | 90 292 812                       | 109 438 704                      |
| Transfers to technical reserves                    | 2 475 516                       | (2 475 516)                      | -                                |
| Prior period adjustment<br>Surplus for the year    | -                               | (2 475 516)<br>10 686 137        | (2 475 526)<br>10 686 137        |
| Total recognised income and expenses for the year  | -                               | 8 210 621                        | 8 210 621                        |
| Total changes                                      | -                               | 8 210 621                        | 8 210 621                        |
| Balance at 31 March 2016<br>Changes in net assets: | 21 621 408                      | 98 503 433                       | 120 124 841                      |
| Surplus for the year                               | -                               | 13 212 557                       | 13 212 557                       |
| Transfers to technical reserves                    | 1 499 765                       | (1 499 765)                      | -                                |
| Total changes                                      | 1 499 765                       | 11 712 792                       | 13 212 557                       |
| Balance at 31 March 2017                           | 23 121 174                      | 110 216 225                      | 133 337 399                      |

Annual Financial Statements for the year ended 31 March 2017

# **Cash Flow Statement**

|  | Note(s) | 2017<br>R '000            | 2016<br>R '000            |
|--|---------|---------------------------|---------------------------|
| Cash flows from operating activities   |         |                           |                           |
| Cash receipts from contributors, tenants and other Cash paid to suppliers, employees and beneficiaries |         | 16 795 582<br>(7 554 923) | 16 981 691<br>(9 503 314) |
| Cash generated from operations<br>Interest received on cash at banks                                   | 24      | 9 240 659<br>36 852       | 7 478 377<br>30 112       |
| Net cash from operating activities   |         | 9 277 511                 | 7 508 489                 |
| Cash flows from investing activities   |         |                           |                           |
| Acquisition of property, plant and equipment   | 12      | (15 812)                  | (59 301)                  |
| Acquisition of intangible assets   | 13      | (195 543)                 | · · ·                     |
| Acquisition of financial assets  |         | · /                       | (51 668 239)              |
| Disposal of financial assets   |         | 34 637 354                |                           |
| Interest received on investments Dividends received  |         | 2 706 706                 | 4 263 079<br>977 045      |
|  |         | 1 165 873                 |                           |
| Net cash used in investing activities  |         | (11 792 953)              | (5 187 751)               |
| Net increase in cash and cash equivalents<br>Cash and cash equivalent at the beginning of the year     |         | (2 515 442)<br>3 812 863  | 2 320 738<br>1 492 125    |
| Cash and cash equivalents at end of the year   | 16      | 1 297 421                 | 3 812 863                 |

## Annual Financial Statements for the year ended 31 March 2017 Statement of Comparison of Budget and Actual Amounts for the financial year ended 31 March 2017

|  | Note(s) | Approved<br>R '000 | Final<br>R '000 | Actual<br>R '000 | Variance<br>R '000 |
|--|---------|--------------------|-----------------|------------------|--------------------|
| Revenue                                    | 33.2    | 18 313 702         | 17 979 407      | 18 256 811       | (277 404)          |
| Benefit payments                           | 33.3    | (9 220 708)        | (8 313 414)     | (8 478 357)      | 164 943            |
| Changes in benefits payable                |         | (294 915)          | (253 153)       | (968 450)        | 715 297            |
| Unemployment alleviation schemes           | 33.4    | (1 948 400)        | (706 000)       | (145 478)        | (560 522)          |
| Gross surplus                              | -       | 6 849 679          | 8 706 840       | 8 664 526        | 42 314             |
| Other income                               |         | 2 424              | 2 424           | 7 657            | 5 233              |
| Auditors fees                              | 33.5    | (12 000)           | (12 000)        | (6 517)          | (5 483)            |
| Administrative costs                       | 33.6    | (314 969)          | (705 067)       | (462 193)        | (242 874)          |
| Depreciation, amortisation and impairments | 33.7    | (146 595)          | (128 136)       | (50 360)         | (77 776)           |
| Employee costs                             | 33.8    | (1 170 908)        | (1 195 396)     | (1 065 876)      | (129 520)          |
| Other operating expenses                   | 33.9    | (752 621)          | (535 426)       | (464 115)        | (71 311)           |
| Operating surplus                          | -       | 4 455 010          | 6 133 239       | 6 623 122        | (479 417)          |
| Investment revenue                         | 33.10   | 10 726 985         | 8 936 086       | 9 199 601        | (263 515)          |
| Fair value adjustments                     |         | -                  | -               | (2 610 167)      | 2 610 167          |
| Finance cost                               |         | (6)                | (3)             | -                | (3)                |
| Unearned premium reserve                   |         | (1 304 490)        | (1 184 989)     | (1 499 766)      | 314 777            |
| Net surplus for the year after reserving   | -       | 13 877 499         | 13 884 333      | 11 712 790       | 2 182 009          |
|  |         | Note 33            | Note 33         |                  |                    |
| Capital                                    |         |                    |                 |                  |                    |
| Capital expenditure                        | -       | 115 660            | 145 195         | 74 599           | (70 597)           |

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### 1. Basis of preparation

In terms of section 55(1) of the Public Finance Management Act, the Unemployment Insurance Fund is required to comply with South African Statements of Generally Accepted Accounting Practice, unless the Accounting Standards Board approves the application of Generally Recognised Accounting Practice.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These accounting policies are consistent with the previous period, except for the changes set out in Note 2.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value less point of sale costs, and incorporate the principal accounting policies set out below.

The annual financial statements have been prepared on the going concern basis and the Fund will continue in operation and meet its statutory obligations for the foreseeable future.

The Unemployment Insurance Fund concluded that the annual financial statements present fairly the Fund's financial position, financial performance and cash flow.

#### 1.1 Investment property

Investment property includes property held to earn rentals/capital appreciation. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria is met and excludes the cost of day to day servicing of an investment property.

Investment properties are derecognised when either they have been disposed of or when the investment property is no longer held for capital appreciation and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in surplus or deficit in the year of retirement or disposal.

Transfers are made to or from investment property when there is a change in use.

#### Cost model

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation less any accumulated impairment losses. Annual valuations are obtained for the purpose of testing impairments of investment properties.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

| Item                            | Useful life |
|---------------------------------|-------------|
| Investment property - land      | Indefinite  |
| Investment property - buildings | 50 years    |

Land has an unlimited useful life and therefore is not depreciated.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

The residual value of assets are reviewed at each reporting date. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero until its residual value subsequently decreases to an amount below the asset's carrying amount.

#### **1.2** Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the Fund and
- the cost or fair value of the item can be measured reliably.

Cost include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part of it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on all property, plant and equipment other than land, to write down the cost, less residual value, on a straight line basis over their useful lives.

Land has an unlimited useful life and therefore is not depreciated

| Item<br>Land<br>Buildings<br>Air conditioning<br>Lifts<br>Power supply<br>Carpets<br>Dry Walling<br>Power Packs<br>Demountable Partitioning<br>Leasehold improvements<br>Furniture and fixtures<br>Motor vehicles<br>Office equipment<br>IT equipment<br>Other property, plant and equipment | Years<br>Indefinite<br>50 years<br>15 - 20 years<br>3 years<br>6 - 10 years<br>5 - 10 years<br>3 - 5 years |
|--|--|
| Telecom equipment  | 5 - 7 years  |

The depreciation charge for each period is recognised in surplus or deficit. Useful lives of individual assets in a category are reviewed and adjusted if appropriate at each reporting date.

The residual value of assets are reviewed at each reporting date. If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero until its residual value subsequently decreases to an amount below the asset's carrying amount.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus of deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### 1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the economic entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. For an intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

Amortisation is provided to write down computer software, on a straight line basis, to their residual values as follows:

| Item                  | Useful life |
|-----------------------|-------------|
| Intellectual property | Indefinite  |
| Computer software     | 1 - 5 years |

Intellectual property is not amortised as it is considered to have an indefinite useful life.

Intangible assets are derecognised:

- · on disposal or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

#### 1.4. Impairment of non-financial assets

The Fund assesses at each reporting date whether there is any indication that an asset may be impaired. If

any such indication exists, the Fund estimates the recoverable service amount of the asset.

If there is any indication that assets may be impaired, the recoverable service amount is estimated for the individual asset.

The recoverable service amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

The Fund assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of assets attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

With regards to intangible assets with indefinite useful lives, the Fund tests annually for impairment.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### 1.5. Financial assets and liabilities

The Fund has the following financial assets and liabilities: investments in equities, capital market instruments, money market instruments and derivatives which are classified as financial assets at fair value through surplus or deficit. Cash and cash equivalents, trade and other receivables are classified as financial assets at amortised cost and trade and other payables as financial liabilities at amortised cost.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or residual interest of another entity. It is evident from this definition that three elements need to be present before a financial instrument can exist, namely a contract, a financial asset and a financial liability or an residual interest.

In terms of the statement, a contract is an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, because the agreement is enforceable by law.

The Unemployment Insurance Fund receives contribution revenue in accordance with the Unemployment Insurance Contributions Act (Act no. 4 of 2002) and pays Unemployment Insurance benefits including the recovery of benefits paid in error in accordance with the Unemployment Insurance Act (Act no. 63 of 2001).

The relationship is accordingly not established by contract but by legislation. Management decided to enhance certain related disclosures by applying some of the principles of GRAP 104. The following items are accordingly presented in Note 15 and Note 22 to the annual financial statements:

- Disallowances (Benefits paid in error)
- Transactions under investigation
- Benefit payments
- Legal claims contributions

#### 1.5. Financial assets and liabilities (continued)

#### 1.5.1. Classification of financial assets and liabilities

#### Financial assets and financial liabilities at fair value through surplus or deficit:

#### Financial instruments held-for-trading

These include equities, capital market instruments, money market instruments, options and all derivatives in a net receivable position (positive fair value). All derivatives in a net payable position (negative fair value) are reported as financial liabilities. Derivatives are designed to facilitate the transfer and isolation of risk and are used by the Fund for both risk transfer and investment purposes. The Fund does not use derivatives for speculative or gearing purposes. Fair value adjustments and gains and losses are recognised in the statement of financial performance.

Assets in this category are classified as current assets if they are expected to be realised within 12 months from the statement of financial position date.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

If an instrument is a non-derivative instrument with fixed or determinable payments an entity may designate non-derivative instruments with fixed or determinable payments at fair value at initial recognition when the following criteria is met:

- The designation is made at initial recognition, on an instrument by instrument basis
- A narrative description of the criteria used to designate financial assets at fair value should be provided.

Bills and promissonary notes have been designated at fair value due to the money market curve valuation method that is used to value these financial assets. This is consistent with prior years.

#### Financial instruments at amortised cost

#### Investments

Investments at amortised cost are non-derivative financial assets with fixed or determinable payments that

are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Investments at amortised cost are subsequently measured using the effective interest method.

#### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with central banks and amounts due from banks and National Treasury on demand. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

Bank overdrafts are shown as current liabilities on the statement of financial position. Bank overdrafts are due to bank accounts on which after trading hours transactions were processed and only cleared on the following banking date, which is after the reporting date.

#### Trade and other receivables

Trade receivables are initially measured at fair value (transaction price), and are subsequently measured using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired.

#### 1.5. Financial assets and liabilities (continued)

#### Trade and other payables

Trade payables are initially measured at fair value (transaction price) and are subsequently measured using the effective interest rate method. Trade and other payables are presented at their respective outstanding balances at year-end. These are subject to normal trade credit terms and relatively short payment cycles.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### 1.5.2. Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument, i.e. trade-date accounting.

Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of GRAP 104.

#### 1.5.3. Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability subsequently measured at amortised cost, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are excluded from financial instruments which are subsequently measured at fair value at initial recognitionthese transaction costs are expensed in the statement of financial performance, while on other financial instruments they are capitalised.

#### 1.5.4. Fair value measurement principles

The fair value of investments that are actively traded in organised financial markets is determined byreference to quoted market bid prices at reporting date. For instruments where there are no active markets the fair value of the instrument is determined using valuation techniques, including use of recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow techniques or any other valuation technique making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve, volatility factors and/or prepayment rates of the underlying positions. The use of different pricing

models and assumptions could produce materially different estimates of fair values. Inputs are based on market data at the statement of financial position date where other pricing models are used.

The fair value of derivatives that are not exchange-traded is estimated as the amount that the Fund would receive or pay to terminate the contract at the statement of financial position date, taking into account current market conditions (volatility, appropriate yield curve) and the current creditworthiness of the counterparties.

Investments in other unlisted open-ended investment funds are recorded at the net asset value per share as reported by the managers of such funds.

The fair value of floating rate and overnight deposits with credit institutions are their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the statement of financial position date.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

#### 1.5. Financial assets and liabilities (continued)

#### 1.5.5. Gains and losses on subsequent measurement

Gains or losses arising from changes in the fair value of the "Financial assets at fair value through surplus or deficit" category are presented in the statement of financial performance within "Fair value adjustment" losses/gains – net in the period in which they arise.

#### 1.5.6. Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets that are stated at amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of financial performance as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the writedown, the write-down is reversed through the statement of financial performance. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been previously recognised.

A provision for trade receivables impairment is made when there is objective evidence (the probability of insolvency or significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired) that the Fund will not be able to collect all the amounts due under the original term of the invoice.

The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Short-term receivables are not discounted. The carrying amount of the asset is reduced through the use of an allowance account, and the

amount of the loss is recognised in the statement of financial performance within "administrative costs". An

uncollectable trade receivable is written off against the allowance account for trade receivables. Changes in

the carrying amount of the allowance account are recognised in the statement of financial performance. Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

In the case of financial assets at fair value through surplus or deficit, gains and losses arising from changes in fair value are included in surplus or deficit of the statement of financial performance.

#### 1.5.7. De-recognition

#### **Financial Assets**

Financial assets or a portion of a financial asset are derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without any material delay to a third party under a "pass-through" arrangement; or
- The Fund has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

#### 1.5. Financial assets and liabilities (continued)

#### **Financial Liabilities**

The financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the statement of financial performance.

#### 1.5.8. Interest income and expense

Interest income and expenses of financial instruments measured at amortised cost and interest bearing financial instruments classified as designated at fair value through surplus or deficit are recognised in the statement of financial performance as it accrues, using the original effective interest rate of the instrument calculated at the acquisition at origination date. Interest income includes amortisation of any discount or premium or any other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis. Interest income and expenses are recognised as part of "Investment Revenue".

### 1.5.9. Dividend income

Dividend income relating to exchange-traded equity investments is recognised in the statement of financial performance on the ex-dividend date (when the Fund's right to receive payment is established). In some cases, the Fund may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Fund recognises the dividend income for the amount of the cash dividend alternative with the corresponding debit treated as an additional investment. Dividend income is recognised as part of "Investment Revenue".

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### 1.5.10. Expenses

All expenses, including management fees, custodian fees and other transaction costs, are recognised in the statement of financial performance on an accrual basis.

#### 1.5.11. Investments in associates

Associates are all entities over which the Fund has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

GRAP 7 exempts venture capital organisations from equity accounting investments in associates if they, upon initial recognition decide to designate the investment at fair value through surplus or deficit. The Fund's SRI investment strategy and mandate provided to the PIC, allows for the direct investment in equity of unlisted entities for the dual purpose of seeking reasonable financial returns but also a social return in the form of positive contribution to the economy, social and poverty alleviation through the creation of jobs, entrepreneurship, enterprise development and upliftment of the historically disadvantaged individuals. The Fund regards these investments as venture capital investments, and the Fund has elected to apply this exemption and accordingly all such investments are not equity accounted but designated as investments at fair value through surplus or deficit.

#### 1.6. Non-financial assets - trade and other receivables

#### **Disallowances (Benefits paid in error/Overpayments)**

Disallowances (benefits paid in error) are measured at initial recognition at cost. Benefits paid in error in current and prior years, noted/detected by the Fund, are continuously corrected by raising overand underpayments against individual beneficiaries in the financial year the error is noted/detected. Recovery of the "Benefits paid in error" is collected in terms of Section 35 of the Unemployment Insurance Act.

#### 1.6. Non-financial assets - trade and other receivables (continued)

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. (Significant changes in the disallowance debtors are when they become unemployed, and/or default or delinquent in payments more than 150 days are considered indicators that the disallowances debtor is impaired).

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within "administrative costs". An uncollectable disallowance debt is written off against the debtors account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance. Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### Legal Claims Debtors – Contributions

Legal claims debtors are initially measured at cost when employer information becomes available that the contribution debtor registered as a company has been liquidated, an insolvent individual has been sequestrated or an estate of a deceased contributor has been lodged with the master of the Supreme Court. Recovery of the legal claims debtors is in terms of the Unemployment Insurance Act.

Legal claim debt is written off against the debtors account when informed that the distribution account has been finalized and that no dividend will be paid. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit based on the recoverability/non-recoverability experience of legal claims.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within "administrative costs". Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

#### **Transactions under Investigation**

Transactions under investigation are initially recognised at cost when there is objective evidence requiring investigation by Risk Management.

#### Risk Management Transactions are categorised in:

- Transactions under investigation
- Actual Fraud Detected

#### Impairment is based on:

- Known debtors
- Unknown debtors

#### **Known Debtors**

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant changes in the known debtors are specific characteristics of the known debtor, the age of the debt and default on any payment arrangements should be considered as indicators that the known debtor is impaired.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of financial performance within "administrative cost". An uncollectable transactions under investigation debt is written off against the debtors account. Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

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#### Non-financial assets - trade and other receivables

#### **Unknown Debtors**

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when the Risk Management Transaction relates to an unknown debtor.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within "administrative costs". An uncollectable transaction under investigation debt is written off against the debtors account. Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

#### Statutory receivables

Statutory receivables arises from the operation of legal statute. These arise from both exhange and nonexchange transactions and are recognised at their transaction amount according to the cost method at amortised cost.

Funds at National Treasury are Contribution Revenue collected by SARS, declared as owing to the UIF on reporting date through the National Revenue Account. The funds do not earn interest and the amount is payable to UIF as per the Unemployment Insurance Contributions Act, section 11(3). The Director-General must, within 14 days after receipt of the notice from the Commissioner in terms of section 8(4), authorise the transfer of the amount of the contributions, interest and penalties paid into the National Revenue Fund to the Unemployment Insurance Fund.

The carrying amount of the statutory receivable asset is recognised in the statement of financial position under "statutoryreceivables", whereas the contributions collected on behalf of the Fund, which are classified as exhange transactions are recognised and included in the statement of financial perfomance within "revenue".

The adoption of the policy on statutory receivables represents a change in accounting policy which lead to the reclassification of funds owed to the Fund by National Treasury from "cash and cash equivalents" to "statutory receivables"

#### 1.7. Unemployment insurance and liabilities

Unemployment insurance is the providing of benefits under the Unemployment Insurance Act (Act no. 63 of 2001) as amended which includes unemployment benefits to qualifying employees, and the payment of illness-, maternity-, adoption- and dependants benefits related to the unemployment of such employees.

A contributor's entitlement to benefits in terms of the Unemployment Insurance Act accrues at a rate of one day's benefit for every completed six days of employment as a contributor, subject to a maximum accrual of 238 days benefits in the four year period immediately preceding the date of application for benefits, less any days of benefits received by the contributor during the period.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

The allocation of credit days within the maximum accrual of 238 days in a four year cycle is calculated in accordance with "Regulation no. 98 Government Notice no. 29594" on an equal basis of 59.5 days per year. To calculate the benefit payable to a contributor, the daily rate of remuneration of the contributor, subject to the prescribed maximum, must be determined. A graduated income replacement rate, ranging from 60% for the low-income earners to 38% for the middle and high income earners is then applied.

For maternity claims, the maximum period of maternity leave is 17.29 weeks and 6 weeks for a miscarriage or stillbirth. The contributor may not earn more than their standard remuneration when illness-, maternity and adoption benefits are included.

Applications must be submitted within six months of the termination of the contract of employment for unemployment benefits, for illness within six months from the date the contributor ceases to work as a result of the illness, for maternity benefits eight weeks before childbirth, and dependants benefits within six months of the death of the contributor. The Commissioner may accept an application submitted after the prescribed time limit has expired on just cause shown.

#### 1.7 Unemployment insurance and liabilities (continued)

Benefit payments are recognised on the approval of the benefit claim.

Benefits paid in error in current and prior years, noted/detected by the Fund, based on updated employee information and control processes are continuously corrected by raising over- and underpayments against individual beneficiaries in the financial year the error is noted/detected.

The over- or underpayment is accordingly accounted for against "benefit payments" in the statement of financial performance and "trade and other receivables - disallowances"/"benefits payable" in the statement of financial position.

Recovery of benefits paid in error is done in accordance with Section 35 of the Unemployment Insurance Act and accounted for against "trade and other receivables - disallowances" on receipt of the recovery.

Unemployment insurance liabilities are recognised when employees are registered with the Unemployment Insurance Fund as contributors. The liability for unemployment insurance comprises of:

- · Technical reserve an unexpired risk reserve for contribution revenue
- · Benefits payable provision for outstanding benefits
- Incurred but not reported (IBNR) benefits
- Incurred but not enough reported (IBNER) benefits

#### **Technical reserve**

The Technical Reserve is set aside to cover the cost of future benefit payments in respect of contributions collected as at the valuation date. The need for this reserve arises from the four year contribution period. Based on actuarial valuation, a portion of the net surplus is allocated to the Technical Reserve on an annual basis.

The provision is not discounted.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### Outstanding benefits provision

Provision is made on a best-estimate basis for the future amounts payable on all claims incurred as at the valuation date. This provision provides for:

- future payments on benefits already in payment at the valuation date these benefits are classified as incurred but not enough reported ("IBNER"); and
- benefits incurred but not reported ("IBNR") by the valuation date.

The outstanding benefits provision is calculated at the reporting date using actuarial techniques. Adjustments to the provision are recorded in the statement of financial performance at each reporting date.

Claims handling expenses are taken into account and allowed for explicitly.

The provision is not discounted.

#### 1.7.1. Liability adequacy test

The sufficiency of the outstanding benefits provision is determined by conducting an experience analysis over the period since the previous valuation.

The Fund's incurred PAYG rate is used to set the level of the Technical Reserve. Use of an incurred rate reflects the ultimate cost of benefits in relation to the contributions earned in the period.

#### 1.8. Leases

#### **Operating leases - lessor**

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating lease income is recognised as income on a straight-line basis over the lease term, except where it is immaterial in relation to the total lease income.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under "other income" in the statement of financial performance.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### **Operating leases – lessee**

The lease of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease, except where it is immaterial in relation to the total lease payments and where variable escalation forms part of the payments.

#### 1.9. Provisions and contingencies

Provisions are recognised when:

- the Fund has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. Provisions shall not be recognised for future operating losses.

#### 1.10. Contribution revenue - revenue from exchange transactions

Contributions are collected under the Unemployment Insurance Contributions Act (Act no. 4 of 2002). Every employer and **employee** to whom this Act applies must, on a monthly basis contribute to the Unemployment Insurance Fund. The amount of the contribution payable in terms of this Act by an employee, must be one percent (1%) of the remuneration paid or payable to that employee by his or her employer during any month and by an employer in respect of any one of its employees, must be equal to one percent (1%) of the remuneration paid or payable by that **employer** to that employee during any month.

#### **Recognition and measurement**

Unemployment Insurance Fund's revenue is recognised when it is measurable and probable that economic benefits will flow to the Fund. In certain circumstances measurability and probability cannot be determined until the consideration has actually been received.

Contribution revenue is measured at the fair value of the consideration received/receivable in the period in which measurability and probability can be determined with certainty and/or the consideration has actually been received and banked in the Unemployment Insurance Fund's bank accounts and/or the National Revenue Fund.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### **1.10.** Contribution revenue - revenue from exchange transactions (continued)

The Commissioner for the South African Revenue Service (SARS) collects contributions from employers (registered in terms of the Fourth Schedule to the Income Tax Act) according to the Unemployment Insurance Contributions Act. All contributions collected are paid into the National Revenue Fund before it is transferred to the Unemployment Insurance Fund. Currently this constitutes 98% of the total annual revenue recognised by the Fund. Contribution collection information from SARS and the transfer of the funds from National Treasury to the Unemployment Insurance Fund is based on when the consideration is actually received by SARS.

The Unemployment Insurance Fund collects contributions in accordance with Section 9 of the Unemployment Insurance Contributions Act from all employers who are not required to register in terms of the Fourth Schedule to the Income Tax Act.

Revenue consists of Unemployment Insurance contributions, interest and penalties received from all registered employers in terms of the Unemployment Insurance Contributions Act. Interest is accrued on a time basis recognising the effective rate applicable on the underlying assets. As per Section 13(1) of the Unemployment Insurance Contributions Act a penalty of 10% is raised on the unpaid amounts.

This policy is consistent with prior years.

#### Employee remuneration information gap

In accordance with the Unemployment Insurance Act (Act no. 63 of 2001):

**Section 56(2)(c)** - Every employer must furnish the names, identification numbers and monthly remuneration of each of its employees.

**Section 56(3)** - Every employer must, before the seventh of each month, inform the Commissioner of any changes during the previous months in any information furnished in terms of 2(c).

The lack of employees information received in terms of the above mentioned legislation versus the payments received and banked by the Unemployment Insurance Fund is referred to as the **employee remuneration information gap**.

Contribution electronic fund transfers (payments) compound the information gap. Employers deposit contributions electronically directly into the Fund's bank accounts but fail to comply with supplying the necessary employee information to the Fund as required by the above mentioned sections of the Unemployment Insurance Act. The monthly remuneration information of employees are required to determine measurability and probability to facilitate the invoicing of contributions payable.

The **employee remuneration information gap** is significant to the extent that if revenue is recognised on available information the financial position of the Fund will not be fairly represented.

In terms of revenue recognition the accrual basis has not been achieved. Revenue contributions received from SARS and the UIF is recognised when measurability and probability can be determined with certainty and/or the consideration has actually been received and banked in the Unemployment Insurance Fund's bank accounts and/or the National Revenue Fund.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### Mitigation of the "employee remuneration information gap".

The U-Filing declaration and payment system was implemented to assist in the collection of declaration data (employee's information) to enable improve determination of measurability and probability to invoice contributions payable.

The Fund implemented the U-Filing declaration and payment portal as a total online service and is in the process of enhancing the U-Filing through the implementation of Virtual Office that will further enable online claims. This automation of processes seeks to improve compliance and improve service to registered employers and employees. The enhancement will assist with enforcement of non-compliant employers.

#### 1.10. Contribution revenue - revenue from exchange transactions (continued)

The automated processes will simplify the receiving of employee remuneration information from employers directly into the Funds systems and streamline the payment of contributions in line with the declaration information. Unemployment insurance claims will simultaneously be simplified through an online claims process for accredited employers and employees, aligned with the declaration information submitted.

The Fund is developing a debt collection- and financial system based on the revenue streams to invoice contributions payable.

The following revenue streams have been classified:

- SARS Declaration and collection information
- U-Filing Declaration and collection information
- · Contribution Legal Claims
- EFT Bank Deposits
- Cash and Cheques (UI 7)

Employee remuneration information is inaccurate and incomplete and measurability and probability cannot be determined until the consideration has actually been received.

To mitigate the "employee remuneration information gap" on the various revenue streams the Fund plans to migrate the various employer groups systematically to the enhanced U-Filing system working procedure.

Contributions receivable is accordingly not measurable and the probability cannot be determined.

#### 1.11. Benefit payments

Benefit payments consist of unemployment insurance benefits approved for payment to claimants in accordance with the conditions of the Unemployment Insurance Act including correction of benefits paid in error in current and prior years, noted by the Fund in the year under review.

Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

#### 1.12. Significant judgments, estimates and assumptions

In the process of applying the Unemployment Insurance Fund's accounting policies, management made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognised in the annual financial statements.

#### Derivatives

The Fund's derivatives are all Over-the-Counter derivatives (OTC) that are privately negotiated financial contracts between PIC and various financial institutions.

To obtain the fair value the mark-to-model approach is used. The valuations are subjected to expected cash flows, volatility assumptions (historical volatility) time horizon, and the risk free rate of the various financial institutions underpinned by the assumption of relatively stable and liquid markets.

#### Outstanding benefits provision

The ultimate cost of incurred benefits is estimated using actuarial techniques, namely the Chain-Ladder and Generalised Cape Cod techniques. The principle assumption of these techniques is that the Fund's past claims experience provides a reasonable guide to future claims experience. No explicit assumption is made regarding future rates of claims inflation. Six years of historical data were used.

#### **Technical Reserve**

Contributions are assumed to be earned uniformly over a 4-year period. The Technical Reserve does not recognise unearned contributions at full value, but allows for the Fund's incurred pay-as-you-go-rate.

#### 1.12. Significant judgments, estimates and assumptions (continued)

#### Unexpired risk liabilities and assumptions used

The average claim amount is currently approximately R3,804.00.

Claims handling expenses (CHE) are approximately 14.8% of the value of a claim.

The run-off pattern of claims is assumed to remain stable. No explicit assumption about claims inflation was made. While the inclusion of an explicit inflation assumption has the potential to stabilise development patterns, the claims development experience of the Fund has been very stable over the period considered. The requirement for further stabilisation was therefore considered to be negligible.

The development of claims is considered on a quarterly basis from financial year 2008.

The average salary of the claimants is R6,961.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

The PAYG rate is set at 1.33% of which 1.07% is contributed by the cost of benefits and 0.26% is contributed by claims handling expenses. The cost of benefits PAYG rates for the last three financial years are 1.07%, 1.07% and 1.11% for 2017, 2016 and 2015 respectively. The claims handling expense PAYG rates are 0.26%, 0.24% and 0.22%. The overall rate is a weighted average of these rates.

#### **Provisions - Capped leave**

The provision encompasses capped leave based on employees that retained all audited leave credits accrued prior to 1 July 2000. The number of accrued leave days is converted in accordance with a prescribed formula by DPSA utilizing the net leave entitlement at reporting date multiplying it with the employee's remuneration (levels 1-10 and MMS the annual basic salary only). Payouts in respect of such leave credits are only made in the event of Death, Retirement or Medical boarding.

#### 1.13. Unauthorised, irregular, fruitless and wateful expenditure

Unauthorised, irregular, fruitless and wasteful expenditure is expenditure that is contrary to the Public Finance Management Act (Act No.1 of 1999). Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset in the Statement of Financial Position until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

#### 1.14. Investment Management

The investment assets of the Fund are managed Public Investment Corporation. However, in terms of their mandate the PIC appointed the following external managers to manage part of the investment portfolio.

- Mazi Capital (PTY) LTD Portfolio-Assets under management R1.55 billion
- Mergence Investment Managers (PTY) LTD Assets under management R1.59 billion
- Mvunonala Asset Managers (PTY) LTD Assets under management R1.5 billion
- Sentio Asset Managers (PTY) LTD Assets under management R1.55 billion
- Robeco Asset Managers (Foreign Investors) Assets under management R3.25 billion

During the current financial year, Standard Bank of South Africa performed the custodian functions of the Fund investment portfolio on behalf of PIC.

#### 1.15. Budget

The Fund aligns its budget priorities with that of National Government and the Department of Labour by ensuring the budget delivers on priorities such as efficient service delivery, poverty alleviation and building sound institutional arrangements.

The Unemployment Insurance Fund compiles its budget on a zero basis and the financial statements on the accrual basis. The budget is approved on a zero basis by classification of expenditure by nature.

### Annual Financial Statements for the year ended 31 March 2017 Accounting Policies

The financial strategy of the Fund takes into account the requirements of the PFMA and National Treasury Regulations which requires an integrated approach between the strategic plans of the Fund when allocating resources.

The Fund is mandated to operate on the basis of a surplus i.e. that current revenue exceeds current expenditure. The medium term budget is based on an approach ensuring that revenue exceeds the planned expenditure and potential liabilities. The Unemployment Insurance Fund does not receive a budget allocation (Vote) from National Treasury and the surplus as at reporting date is due to contribution collected exceeding claims and expenditure paid for the period under review. The Unemployment Insurance Fund however carries the liability of future claims based on the contribution received.

Written approval is annually obtained from the National Treasury to retain surplus funds according to the PFMA Section 53 (2).

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
|        |        |
| R '000 | R '000 |

#### 2. Standards and interpretations of GRAP and changes in accounting policies

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

#### New Standards of GRAP

The following Standards of GRAP and Interpretations of the Standards of GRAP were approved by the Accounting Standards Board during the financial year, but are not yet effective and the effective date of the Standards has not yet been announced:

#### **GRAP 20: Related Parties**

The requirements of the Standard are applicable to the Fund. Related party relationships and transactions are disclosed according to the Standard and is presented in note 32.

#### **GRAP 32: Service Concession Arrangements (Grantor)**

It is expected that the requirements of the Standard would not be applicable to the Fund and therefore its effect on the financial statements is not determined since the Fund is not engaged in any service concession arrangements.

# IGRAP 17: Service concession arrangements where the grantor controls a significant risidual interest in an asset

It is expected that the requirements of the Interpretation would not be applicable to the Fund since the Fund is not engaged in any service concession arrangements and therefore its effect on the financial statements is not determined.

#### **GRAP 108: Statutory Receivables**

It is expected that the requirements of the Interpretation will be applicable to the Fund. Based on industry comparison and inputs received from National Treasury, the Fund formulated an accounting policy around statutory receivables according to Directive 5 paragraph 30 issued by the Accounting Standards Board.

### 3. Revenue

|   | 18 256 811 | 17 120 381 |
|---|------------|------------|
| Penalties and interest received from contributors | 417 997    | 419 138    |
| Contributions received                            | 17 838 814 | 16 701 243 |

Revenue consists of Unemployment Insurance contributions, interest and penalties received from registered employers in terms of the Unemployment Insurance Contributions Act (Act No.4 of 2002).

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|    |                                   | 2017<br>R '000 | 2016<br>R '000 |
|----|-----------------------------------|----------------|----------------|
| 4. | Benefit payments                  |                |                |
|    | Benefit payments to beneficiaries |                |                |
|    | Benefit payments - Unemployment   | 6 973 704      | 6 332 857      |
|    | Benefit payments - Illness        | 283 496        | 262 098        |
|    | Benefit payments - Maternity      | 909 036        | 808 523        |
|    | Benefit payments - Adoption       | 714            | 789            |
|    | Benefit payments - Dependants     | 311 407        | 286 886        |
|    |                                   | 8 478 357      | 7 691 153      |
|    | Changes in benefits payable       |                |                |
|    | Changes in benefits payable       | 968 450        | 392 211        |
|    |                                   | 9 446 807      | 8 083 364      |

### **Calculation of benefits**

Section 13(3) of the Unemployment Insurance Act (Act no. 63 of 2001)

The Unemployment Insurance Act (Act no. 63 of 2001) amended and the Unemployment Insurance Contributions Act (Act no. 4 of 2002) brought a complete change in the manner in which the Unemployment Insurance Fund received contributions and calculates insurance benefits and liabilities.

Section 13(3) of the UI Act states:"....a contributor's entitlement to benefits in terms of the Chapter accrues at a rate of one day's benefit for every completed six days of employment as a contributor subject to a maximum accrual of 238 days benefit in the four year period immediately preceding the date of application for benefits in terms of the Chapter, less any days of benefit received by the contributor during the period."

"Regulation no. 98 Government Notice no. 29594" issued by the Minister of Labour, published on 5 February 2007, entrenched the annual capping principles used by the Fund in the calculation of credit days and the processing of benefit claims in the SIYAYA Operational System.

Creation and maintenance of database

Section 57 of the Unemployment Insurance Act (Act no. 63 of 2001)

In terms of Section 57 of the Unemployment Insurance Act, 2001 the Fund has to maintain a database of

contributors. The Fund recognises the importance of the information captured on the database as it forms the basis for the payment of unemployment insurance claims. Apart from the system controls by way of the various business rules built into the application, the Fund implemented various other controls:

- Declarations received are screened by the Team Leaders in the Employee Declaration Section (EDS),
- · Employer record is verified to ensure that the address matches the master record

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  | 2017<br>R '000 | 2016<br>R '000 |
|--|----------------|----------------|
|--|----------------|----------------|

- Information on the form is verified to ensure that it is properly and correctly completed and dates and other fields meet business rule requirements
- Declarations captured at UIF Head Office are subjected to a random sampling by the supervisors in the section and errors identified are corrected
- Declarations are updated directly from extracts of auditable payrolls of employers
- ID numbers captured are validated against the population register

The Fund implemented a process to validate the declarations through basic electronic validation on claims and verification with UI19 declarations received, to obtain a level of comfort regarding the completeness, accuracy and validity of the data captured on the database. The Fund validated the declarations on which the current year claims were based on before validating previous year's due to the volume of declarations.

The Fund constantly investigates options to enhance its business processes regarding the collection and maintenance of declaration data.

### 5. Unemployment alleviation schemes

| Training and Social Plan Funding<br>Training lay-off scheme | 130 550 | 51 772 |
|---|---------|--------|
|   | 14 928  | 28 799 |
|   | 145 478 | 80 571 |

#### Section 48(1)(a)(iv) of the Unemployment Insurance Act, 2001 as amended

Section 48(1)(a)(iv) of the Unemployment Insurance Act, 2001 as amended stipulates that the Unemployment Insurance Board must advise the Minister on the creation of schemes to alleviate the effects of unemployment.

#### Training Lay-off Scheme

The UI Board recommended to the Minister of Labour who approved on 23 September 2009 to commit R1.2 billion of the Funds money for the "Training Layoff Schemes".

"Training Layoff" is temporary suspension of work for a worker or a group of workers that will be sent for training. The scheme is aimed at companies that are in distress due to economic conditions and at workers who may be at risk of retrenchment that might become unemployment claimants.

The "Training Layoff Scheme" depends on an agreement between an employer and workers that there will be continued employment and that the employer will pay all contributions to social security benefits during the training period. The worker(s) agree to forego their normal wage, to attend the training programme and to accept a training allowance during the period of training. Employers gain a recovery period by reducing payroll costs for a period of six months and improve the skills of their workers at limited cost to the company.

The various Sector Education Training Authorities (SETA's) facilitate the training interventions. To fund the "Training Layoff Schemes" training allowance, the National Skills Fund (NSF) committed R1.2 billion and the UIF R1.2 billion and administer the payment thereof.

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| R '000 R '000 | 2017 201<br>R '000 R '0 |
|---------------|-------------------------|
|---------------|-------------------------|

Applications to participate in the project go through a strict process that includes the Commission for Conciliation, Mediation and Arbitration (CCMA) and a Project Evaluation Committee (PEC) convened by the UIF.

The Fund's committed R1.2 billion to the "Training Layoff Scheme" was budgeted for expenditure over the MTEF period. The Fund signed funding agreements to the value of R172 million (2016: R156 million) since the inception of the scheme and paid R14.93 million during the year under review (2016: R28.78 million) based on withdrawal conditions. The committed funds will be disclosed as a contingent liability until the project is exhausted or cancelled and actual expenditure will be disclosed in the Statement of Financial Performance under Unemployment Alleviation Schemes.

#### **Training and Social Plan Funding**

Skilling of the unemployed in general and the UIF unemployment beneficiaries is needed in order to improve their chances to be reintegrated back into the employment environment.

The Minister of Labour approved in principle projects to provide funding to "Poverty Alleviation Schemes" including up-skilling/training to the unemployed and Social Plan funding. The Fund budgeted R803 million for up-skilling/training and Social Plan funding for the financial year ended 31 March 2017 (2016: R400 million). The up-skilling/training and Social Plan funding are to be executed in close relationship with the Training Institutions, the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives.

#### 5. Unemployment alleviation schemes (continued)

R518 million has been committed through funding agreements since the inception of the "Training of the Unemployed" initiative. The Fund signed funding agreements to the value of R129 million with the Mining Qualifications Authority (MQA) and the Manufacturing, Engineering and Related Services SETA (merSETA to train 1,000 and 1,500 artisans respectively. A further R78 million was signed with the Media Information Communication and Technology SETA (MICT SETA) to train 3,000 unemployed on End-user Computing. Additional contracts to the value of R72 million were signed with the Energy and Water SETA to train 300 learners on solar geyser installation and the Transport SETA (TETA) to train 777 learners on the different artisan programmes; 140 on learnerships, 20 pilots and 100 on scuba diving. In the prior year R228 million was committed through 33 funding agreements with different TVET Colleges for Building and Civil Construction Learnerships.

The Social Plan is implemented through Productivity South Africa. Productivity South Africa implements Turnaround Solutions to companies that want to improve their productivity. This services has also been extended to companies that are in distress through the Training Lay-off Scheme. The three year service level agreement which was signed with Productivity South Africa according to which the UIF has committed to pay R62 million for the year under review, R62 million for 2016/2017 and R78.72 million for 2017/2018. R24.4 million was paid to Productivity South Africa with regards to Social Plan Funding for the year under review based on the funding conditions in the agreement (2016: R17.67 million).

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|    |  | 2017<br>R '000 | 2016<br>R '000 |
|----|--|----------------|----------------|
| 6. | Other income                           |                |                |
|    | Rental income                          | 3 425          | 2 247          |
|    | Recoveries on overpayments written off | 7 624          | 3 640          |
|    | Other recoveries                       | 55             | 8              |
|    | Proceeds on disposals                  | (3 447)        | 252            |
|    |  | 7 657          | 6 147          |

#### **PPP Reinvestment Fund**

In accordance with the PPP agreement, the contractor (Siemens Business Services (Pty) Ltd) shall open a separate account (the "Reinvestment Fund") with a registered bank. The Reinvestment Fund was opened to manage the benefits derived from all the credits to which the Department of Labour became entitled to in terms of the PPP agreement. The Reinvestment Fund was equally divided with effect from November 2006 on a 1/3 (one third) basis between the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund.

#### 7. Auditors' fees

| -     | 2 695              |
|-------|--------------------|
| -     | 37                 |
|       |                    |
| 2 193 | 1 447              |
| 197   | 277                |
|       |                    |
| 4 059 | -                  |
| 67    | -                  |
| 6 516 | 4 456              |
|       | 197<br>4 059<br>67 |

The Auditor-General's budgeted audit fee for the financial year ended 31 March 2017 amounts to R6,304,401 (2016: R5,404,739) excluding VAT.

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|    |  | 2017<br>R '000 | 2016<br>R '000 |
|----|--|----------------|----------------|
| 8. | Depreciation, amortisation and impairments |                |                |
|    | Depreciation and amortisation              |                |                |
|    | Depreciation and amortisation              |                |                |
|    | Buildings                                  | 931            | 1 156          |
|    | Furniture and fixtures                     | 1 007          | 1 185          |
|    | Motor vehicles                             | 480<br>188     | 221<br>527     |
|    | Office equipment<br>IT equipment           | 10 208         | 5 142          |
|    | Computer software                          | 26 694         | 6 066          |
|    | Leasehold improvements                     | 1 198          | 399            |
|    | Other property, plant and equipment        | 1 531          | 1 010          |
|    |  | 42 238         | 15 706         |
|    | Impairments loss/(reversal)                |                |                |
|    | Land                                       | 8 123          | -              |
|    | Depreciation and amortisation              | 42 238         | 15 706         |
|    | Impairments loss/(reversal)                | 8 123          | -              |
|    |  | 50 361         | 15 707         |

No depreciation was calculated on investment property during the current year since the residual values of the properties increased to amounts greater than the carrying amounts. The depreciation charge on investment property will remain zero until the property's residual value subsequently decreases to an amount below its carrying amount.

#### 9. Investment revenue

| Interest - Financial assets<br>Dividends received<br>Interest - Bank (Commercial banks)<br>Other interest<br>Investment revenue earned on financial assets by category<br>Interest earned on financial assets at fair value<br>Dividends earned on financial assets at fair value | 7 964 545<br>1 165 873<br>36 852<br>32 332 | 6 736 752<br>977 045<br>29 899<br>2 465 |
|---|--|---|
|   | 9 199 602                                  | 7 746 161                               |
| Interest earned on financial assets at fair value   | 7 319 513                                  | 6 102 738                               |
| Dividends earned on financial assets at fair value<br>Interest earned on financial assets at amortised cost   | 1 165 872<br>714 216                       | 977 045<br>666 378                      |
|   | 9 199 601                                  | 7 746 161                               |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|   |               | 2017<br>R '000 | 2016<br>R '000 |
|---|---------------|----------------|----------------|
| 9. Investment revenue (continued)                       |               |                |                |
| Rates of interest                                       |               |                |                |
| Government bonds  |               |                |                |
| Government bonds  | Fixed Rate    | 8.55%          | 5.39%          |
| Government bonds  | Floating Rate | 3.19%          | 0.00%          |
| Parastatal bonds  |               |                |                |
| Parastatal bonds  | Fixed rate    | 8.63%          | 7.49%          |
| Parastatal bonds  | Floating Rate | 2.74%          | 0.00%          |
| Corporate bonds   |               |                |                |
| <ul> <li>Manufacturing bonds</li> </ul>                 | Fixed Rate    | 7.96%          | 7.97%          |
| <ul> <li>Manufacturing bonds</li> </ul>                 | Floating Rate | 0%             | 7.60%          |
| - Service bonds   | Fixed Rate    | 9.57%          | 9.57%          |
| - Financial bonds                                       | Fixed Rate    | 9.92%          | 9.34%          |
| - Financial Bonds                                       | Floating Rate | 4.65%          | 0.00%          |
| Commercial papers                                       | Fixed Rate    | 0%             | 7.52%          |
| Certificate of deposits                                 | Fixed Rate    | 8.54%          | 7.88%          |
| Promissionary notes                                     | Fixed Rate    | 7.86%          | 7.85%          |
| Bills   | Fixed Rate    | 7.91%          | 7.78%          |
| Fixed deposits - FNB                                    | Fixed Rate    | 6.97%          | 6.82%          |
| Fixed deposits - PIC                                    | Fixed Rate    | 7.96%          | 7.57%          |
| Cash and cash equivalents                               | Floating Rate | 6.32%          | 6.49%          |
| 10. Fair value adjustments                              |               |                |                |
| At fair value   |               | (2 610 167)    | (4 233 877)    |
| Fair value per asset category                           |               |                |                |
| Listed Equity   |               | (478 072)      | (398 963)      |
| Bonds   |               | (1 444 104)    | (3 846 967)    |
| Bills<br>Bromission / Notos                             |               | 1 381          | (633)          |
| Promissiory Notes<br>Negotiable Certificates of Deposit |               | 2 990<br>1 085 | (2 658)<br>90  |
| Derivatives   |               | (36 974)       | 90             |
| Social Responsible Investments                          |               | (815 087)      | -<br>15 210    |
| Commercial papers                                       |               | (45)           | 45             |
| Foreign Instruments                                     |               | 158 660        | -              |
| -   |               | (2 610 167)    | (4 233 877)    |
|   |               |                |                |

In December 2016 the Fund implemented a zero cost collar derivative structure aimed at hedging.R1 billion Naspers equity exposure to mitigate stock concentration risk. This hedge was approximately 25% of Naspers exposure in the internally managed portion of the equity portfolio. On 25 January 2017 the cost structure was executed with RMB for an average period of 12 months. The details of the structure is as follows: Notional amount: R333 million per month for 3 months;Expiry months: Dec 2017, Jan 2018 and Feb 2018; Naspers spot price on trade date: R2,138.95 UIF buys Put at 90% of Spot price; UIF sells Calls at 121.85% (Dec 2017), 123.80% (Jan 2018) and 125.10% (Feb 2018).

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  |  | 2017<br>R '000 | 2016<br>R '000 |  |
|--|--|----------------|----------------|--|
|--|--|----------------|----------------|--|

#### 10. Fair value adjustments (continued)

Independent valuations of all the Social Responsible Investments were performed as at 31 March 2017 and all the market values adjusted. However one instrument's valuation report, Modderfontein, was not received from the asset manager and the value remained unchanged. Based on the revised strategic asset allocation which was approved by the Director-General and implemented on the first of February 2017, the Fund invested in foreign unit trusts to the value of R4,658,660,440.51. These investments are managed by Robeco Asset Managers. Some of the Social Responsible Investments the PIC invests in on behalf of the Fund in their capacity as the Fund's asset manager have been impaired based on the independent valuations performed. The factors considered for impairment of investments that was taken into consideration was: Uncertainties on the going concern on audited financial statements of its investees; actual breaches of any original funding agreements that resulted in recognition of those agreements; where cash flow projections have been revised downwards, it resulted in a decrease in enterprise values of investees; anticipated pressure on investees in servicing their debt obligations.

#### **Reconciliation of Impairment**

| Musa Capital | 4 981   | - |
|--------------|---------|---|
| LA Crushers  | 280 922 | - |

#### 11. Investment property

|                     |                     | 2017                     |                   |                     | 2016                     |                   |
|---------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|
|                     | Cost /<br>Valuation | Accumulated depreciation | Carrying<br>value | Cost /<br>Valuation | Accumulated depreciation | Carrying<br>value |
| Investment property | 2 799               | 9 (809)                  | 1 990             | 2 799               | (809)                    | 1 990             |

#### **Reconciliation of investment property - 2017**

|                     | Opening<br>Balance | Closing<br>Balance |
|---------------------|--------------------|--------------------|
| Investment property | 1 990              | 1 990              |

#### **Reconciliation of investment property - 2016**

|                     | Opening<br>Balance | Closing<br>Balance |
|---------------------|--------------------|--------------------|
| Investment property | 1 990              | 1 990              |

#### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|   | 2017<br>R '000 | 2016<br>R '000 |
|---|----------------|----------------|
| 11. Investment property (continued)                         |                |                |
| Details of property   |                |                |
| Erf 895 (a portion of erf 252) Bisho                        |                |                |
| Purchase price: 2 February 1985<br>Additions since purchase | 41<br>818      | 41<br>818      |
| -   | 859            | 859            |
| Portion 4 and 5 (remainder extent) of Erf 43, Thohoyandou   |                |                |
| Purchase price: 2 July 1991<br>Additions since purchase     | 1 940<br>-     | 1 940<br>-     |
|   | 1 940          | 1 940          |

#### **Details of valuation**

#### Erf 895 (a portion of erf 252) Bisho

The effective date of the valuation was 31 March 2017. The market valuation was performed by Andrew Taylor and A Eckler, as professional registered valuers. Andrew Taylor and A Eckler are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. Andrew Taylor and A Eckler certified that the present day market value of the property was R5,500,000 as at 31 March 2017.

#### Portion 4 and 5 (remainder extent) of Erf 43, Thohoyandou

The effective date of the valuation was 31 March 2017. The market valuation was performed by J.D Dateling, professional registered valuers. A Eckler is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. JD Dateling Professional Associated Valuer and A Eckler certified that the present day market value of the property was R6,000,000 as at 31 March 2017.

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|   | 2017<br>R '000 | 2016<br>R '000 |
|---|----------------|----------------|
| 11. Investment property (continued)   |                |                |
| Erf 895 (a portion of erf 252) Bisho  |                |                |
| The following income and expenditure are included in the surplus/deficit of the Fund: |                |                |
| Rental income   | 969            | 904            |
| Direct operational expenses   | (198)          | (203)          |
| -   | 771            | 701            |
| Portion 4 and 5 (remainder extent) of Erf 43, Thohoyandou                             |                |                |
| The following income and expenditure are included in the surplus/deficit of the Fund: |                |                |
| Rental income   | 834            | 828            |
| Direct operational expenses   | (496)          | (586)          |
| -   | 338            | 242            |

### 12. Property, plant and equipment

| -                                   | 2017                |                          |                | 2016                |                          |                   |  |
|-------------------------------------|---------------------|--------------------------|----------------|---------------------|--------------------------|-------------------|--|
| -                                   | Cost /<br>Valuation | Accumulated depreciation | Carrying value | Cost /<br>Valuation | Accumulated depreciation | Carrying<br>value |  |
| Land                                | 35 025              | 5 (3 507)                | 31 518         | 35 025              | ; -                      | 35 025            |  |
| Buildings                           | 57 204              | (19 810)                 | 37 394         | 68 505              | i (22 152)               | 46 353            |  |
| Furniture and fixtures              | 14 083              | 3 (9 378)                | 4 705          | 12 767              | (9 250)                  | 3 517             |  |
| Motor vehicles                      | 3 004               | (851)                    | 2 153          | 3 004               | (371)                    | 2 633             |  |
| Office equipment                    | 2 691               | (1 587)                  | 1 104          | 3 557               | (2 775)                  | 782               |  |
| IT equipment                        | 36 652              | 2 (18 393)               | 18 259         | 25 214              | (9 806)                  | 15 408            |  |
| Leasehold improvements              | 3 593               | 3 (1 597)                | 1 996          | 3 593               | 3 (399)                  | 3 194             |  |
| Other property, plant and equipment | 7 576               | (2 539)                  | 5 037          | 7 704               | (1 140)                  | 6 564             |  |
| Total                               | 159 828             | 3 (57 662)               | 102 166        | 159 369             | (45 893)                 | 113 476           |  |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017  | 2016     |
|-------|----------|
| R '00 | 0 R '000 |
|       |          |

#### 12. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

|   | Opening<br>Balance | Additions | Disposals | Depreciation reversal | Depreciation | Impairment<br>loss | Total   |
|---|--------------------|-----------|-----------|-----------------------|--------------|--------------------|---------|
| Land                                      | 35 025             | -         | -         | -                     |              | (3 507)            | 31 518  |
| Buildings                                 | 46 353             | -         | -         | (3 636)               | (707)        | (4 616)            | 37 394  |
| Furniture and                             | 3 517              | 2 208     | (888)     | -                     | · (132)      | -                  | 4 705   |
| fixtures                                  |                    |           |           |                       |              |                    |         |
| Motor vehicles                            | 2 633              | -         | -         | -                     | · (480)      | -                  | 2 153   |
| Office equipment                          | 782                | 535       | (139)     | -                     | · (74)       | -                  | 1 104   |
| IT equipment                              | 15 408             | 13 066    | (1 629)   | -                     | (8 586)      | -                  | 18 259  |
| Leasehold improvements                    | 3 194              | -         | -         | -                     | (1 198)      | -                  | 1 996   |
| Other property,<br>plant and<br>equipment | 6 564              | 3         | (132)     | -                     | . (1 398)    | -                  | 5 037   |
|   | 113 476            | 15 812    | (2 788)   | (3 636)               | (12 575)     | (8 123)            | 102 166 |

#### Reconciliation of property, plant and equipment - 2016

|                                     | Opening<br>Balance | Additions | Disposals | Depreciation | Total   |
|-------------------------------------|--------------------|-----------|-----------|--------------|---------|
| Land                                | 9 519              | 25 506    | -         |              | 35 025  |
| Buildings                           | 41 946             | 5 563     | -         | . (1 156)    | 46 353  |
| Furniture and fixtures              | 2 077              | 2 628     | (2)       | (1 186)      | 3 517   |
| Motor vehicles                      | 320                | 2 534     | -         | . (221)      | 2 633   |
| Office equipment                    | 1 193              | 303       | (187)     | (527)        | 782     |
| IT equipment                        | 5 403              | 15 147    | -         | . (5 142)    | 15 408  |
| Leasehold improvements              | -                  | 3 593     | -         | . (399)      | 3 194   |
| Other property, plant and equipment | 3 542              | 4 027     | -         | (1 005)      | 6 564   |
|                                     | 64 000             | 59 301    | (189)     | (9 636)      | 113 476 |

#### **Details of properties**

#### Erf 3384, Pretoria, Reg. Div. J.R. Gauteng, Extent: 8,454m2

#### Details of valuation:

The effective date of the valuation was 31 March 2017. The market valuation was performed by Y van Dyk, professional registered valuers. Y van Dyk is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. Y van Dyk certified that the present day market value of the property was R42,000,000 as at 31 March 2017.

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 12. Property, plant and equipment (continued)

Erf 34, Randjespark, Extension 30, Midrand Details of valuation:

The effective date of the valuation was 31 March 2017. The market valuation was performed by Y.van Dyk professional registered valuers. Y van Dyk is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. Y van Dyk certified that the present day market value of the property was R8,500,000 as at 31 March 2017.

# Erf 834 Portion 50, Sunnyside, Pretoria Details of valuation:

The effective date of the valuation was 31 March 2017. The market valuation was performed by Y van Dyk, professional registered valuers. Y van Dyk is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. Y van Dyk certified that the present day market value of the property was R22,000,000 as at 31 March 2017.

#### 13. Intangible assets

|                          |                     | 2017                     |                   |                     | 2016                     |                   |  |
|--------------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|--|
|                          | Cost /<br>Valuation | Accumulated amortisation | Carrying<br>value | Cost /<br>Valuation | Accumulated amortisation | Carrying<br>value |  |
| Computer software, other | 165 299             | 9 (30 562)               | 134 737           | 92 988              | (5 744)                  | 87 244            |  |
| Intellectual property    | 14 718              | - 3                      | 14 718            | 14 718              | -                        | 14 718            |  |
| Total                    | 180 017             | 7 (30 562)               | 149 455           | 107 706             | (5 744)                  | 101 962           |  |

#### Reconciliation of intangible assets - 2017

|                       | Opening<br>Balance | Additions | Disposals | WIP   | Amortisation | Total   |
|-----------------------|--------------------|-----------|-----------|-------|--------------|---------|
| Computer software     | 87 244             | 195 543   | (124 739) | 1 507 | (24 818)     | 134 737 |
| Intellectual property | 14 718             | -         | -         | -     | -            | 14 718  |
| -                     | 101 962            | 195 543   | (124 739) | 1 507 | (24 818)     | 149 455 |

#### **Reconciliation of intangible assets - 2016**

|                       | Opening<br>Balance | Additions | WIP      | Amortisation | Total   |
|-----------------------|--------------------|-----------|----------|--------------|---------|
| Computer software     | 15 926             | 92 176    | (14 792) | (6 066)      | 87 244  |
| Intellectual property | 14 718             | -         | -        | -            | 14 718  |
|                       | 30 644             | 92 176    | (14 792) | (6 066)      | 101 962 |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 13. Intangible assets (continued)

#### Work-in-progress

Included in computer software additions for the financial year ended 31 March 2017 is an amount of R1,507,595 with regards to computer software that is in the process of development with the implementation of the Fund's ERP system. The lifespan could not be assessed as at 31 March 2017 due to the fact that the asset's full service potential was not yet known.

#### Intellectual property

The Fund developed various computer applications (Intellectual Property) that will enable the Fund to automate processes that will simplify the receipt of employee remuneration information from employers directly into the Funds systems and streamline the payment of contributions in line with the declaration information. Unemployment claims will simultaneously be aligned through an online claims process.

#### 14. Investments

| At fair value through surplus or deficit<br>Listed equity<br>Unlisted shares<br>Unit trusts<br>Terms and conditions<br>Bonds<br>Bills and Negotiable Certificates of Deposits<br>Promissory Notes<br>Commercial papers | 39 902 694<br>935 730<br>547 979<br>76 757 120<br>1 308 035<br>1 374 019<br>-<br><b>120 825 577</b> |  |
|--|---|--|
| At amortised cost<br>Loans and receivables<br>Investment income receivable<br>Fixed deposits   | 4 299 485<br>220 980<br>10 321 951<br><b>14 842 416</b>   | 11 023 816                                   |
| Total investments  | 135 667 993   | 120 440 994                                  |
| <b>Non-current assets</b><br>At fair value through surplus or deficit<br>At amortised cost   | 76 506 374<br>4 299 485<br><b>80 805 859</b>  | 75 266 737<br>1 153 662<br><b>76 420 403</b> |
| <b>Current assets</b><br>At fair value through surplus or deficit<br>At amortised cost   | 44 319 203<br>10 542 931<br>54 862 134<br>135 667 993   | 9 870 154                                    |

#### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|     |   | 2017<br>R '000 | 2016<br>R '000 |
|-----|---|----------------|----------------|
| 15. | Trade and other receivables                                       |                |                |
|     | Trade and other receivables - financial assets                    |                |                |
|     | Rent receivable   | 3 750          | 1 271          |
|     | Provision for impairment of rental debtors                        | (336)          | (246)          |
|     | Sundry debtors  | 1 457          | 1 325          |
|     | Provision for impairment of sundry debtors                        | (1 335)        | (1 307)        |
|     | PPP Reinvestment Fund   | 324            | 324            |
|     | Bank interest receivable  | 6 770          | 2 477          |
|     | Uncleared bank deposits   | 13             | 12             |
|     |   | 10 643         | 3 856          |
|     | Trade and other receivables - non-financial assets                |                |                |
|     | Transactions under investigation debt                             | 12 693         | 10 801         |
|     | Provision for impairment of transactions under investigation debt | (12 693)       | (10 801)       |
|     | Disallowances and overpayments debt                               | 188 385        | 209 635        |
|     | Provision for impairment of disallowances/overpayments debt       | (186 198)      | (208 099)      |
|     | Legal claims - contributions debt                                 | 9 335          | 9 482          |
|     | Provision for impairment of legal claims debt                     | (9 335)        | (9 481)        |
|     | Prepayments   | 4 914          |                |
|     |   | 7 102          | 1 536          |
|     |   | 17 745         | 5 392          |

#### **Disallowances/overpayments debt**

Disallowances/overpayments debt balance decreased by 11.3% (2016: 3.3% decrease) from R209,634,647 in 2015/16 to R188,384,777 in 2016/17 due to the recovery of overpayment debt.

#### Risk of paying benefits in error

Inherent business risk of paying benefits in error with reference to the Unemployment Insurance Act:

The UI Act proclaims:

- 1. Section 14(a)(ii) "A contributor is not entitled to benefits for any period that the contributor (a) was in receipt of (ii) any benefit from the Compensation Fund ..., as a result of an occupational injury or disease, which injury or disease caused the total or temporary unemployment of that contributor."
- 2. Section 56(2)(c) Every employer must furnish the names, identification numbers and monthly remuneration of each of its employees.
- Section 56(3) Every employer must, before the seventh of each month, inform the Commissioner of any changes during the previous months in any information furnished in terms of 2(c). Section 56(4) empowers the Commissioner of the Fund to request the employer to provide additional particulars which may be required to give purpose to the Act.

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|   | 2017   | 2016   |
|---|--------|--------|
| I | R '000 | R '000 |

The Fund is dependent on employee information declared to the Fund by employers in calculating entitled benefits. The UIF receives electronic declarations from employers with payroll facilities (according to specific UIF requirements) and manual declarations from employers without payroll facilities or when limited employee information has changed. Employers neglect to submit information, submit incomplete information, submit information in the wrong format or submit required employee information late.

#### 15. Trade and other receivables (continued)

The accuracy, completeness and timeliness of the information in the UIF declaration database impacts on the correctness of the calculation of benefits and payments. Based on available employee information the calculation can be less or more than the entitlement, which creates possible liabilities or debtors for the Fund. To detect possible under- or overpayments, an electronic adjudication functionality was introduced by the Fund.

The lack of timely employee information compromises controls to prevent employees claiming whilst in employment.

#### Mitigation of the risk of paying benefits in error

The Unemployment Insurance Fund's claims approval process requires affidavits from the applicants that **at the time of application** for unemployment benefits he/she "**is not in receipt**" of benefits from the Compensation Fund and is unemployed.

The lack of timely employee information and misrepresentation from claimants' compromise controls to prevent claims been paid to claimants whilst "in receipt" of benefits from the Compensation Fund and is employed. The Fund confirms with the Compensation Fund where possible whether claimants are in receipt of Compensation Benefits.

#### Adjudication/Updated employee information received

Electronic adjudication functionality was introduced by the Fund to enable detection of transactions or entries with discrepancies when updated employee information is received from the employer. Exceptions Assessors investigation reveal that these discrepancies results in either overpayments or underpayments being raised, in some cases the discrepancy results in no financial transaction or correction required. The underpayments raised as a liability are settled in the period noted. When overpayments are raised the debt is pursued in accordance with the UI Act, PFMA and National Treasury Regulations.

#### **Overpayment Policy**

An overpayment policy was developed to guide, assist and standardise the management of debts arising from benefits paid in error by the Provincial Offices. When overpayments (benefits paid in error) are noted the Fund starts with the "Recovery of benefits paid in error" as per section 35 of the UI Act and institutes section 61(6) to recover the loss from any outstanding benefits payable due.

#### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

In addition the Fund may institute the "Suspension of Contributors" as per UI Act Section 36. Since the approval of the policy there has been a major improvement in the general administration of debt management.

#### **Debt Collection**

During the financial year under review, the Fund collected R60,757,926.74; in set-offs R56,523,811.79 and bank deposits R4,234,114.95. For the financial year ending 31 March 2016 the Fund collected R59,278,884.76 in total; set-offs R53,881,287.07 and bank deposits R5,397,597.69.

The Fund utilises the services of third party debt collectors to assist with the collection of overdue debts arising out of benefits paid in error.

The Fund continues to utilise the Office of the State Attorney in the various provinces with the intention to pursue legal action against the non complying debtors.

The Fund started to utilise employee information from the Fund's declarations database to follow up debts through the assistance of employers where it is found that the employee has started work.

#### 15. Trade and other receivables (continued)

A bank account verification process was implemented. This prevented overpayments raised due to incorrect bank details (capturing errors).

#### Reconciliation of provision for impairment of trade and other receivables - financial assets

| Opening balance | 1 553 | 232   |
|-----------------|-------|-------|
| New provision   | 118   | 1321  |
| -               | 1 671 | 1 553 |

The creation and release of provision for impaired trade and other receivables - financial assets, have been included in "administrative expenses" in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The provision for impairment was only made for rent receivable from third parties. Rent receivable includes rent receivable from other Government Departments for which no provision for impairment was made.

The provision for impairment on sundry debtors was made in respect of recoveries from staff where the employee is no longer employed by the Fund.

No provision for impairment was made for prepayments as these receivables originate from transactions entered into with other Government Departments and UIF staff.

Trade and other receivables - financial assets are individually impaired when there is objective evidence that the asset is impaired.

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  |  | 017<br>'000 | 2016<br>R '000 |
|--|--|-------------|----------------|
|--|--|-------------|----------------|

Reconciliation of provision for impairment of other trade and receivables - non-financial assets

| Provision for impairment of transactions under investigation debt |          |                 |
|---|----------|-----------------|
| Opening balance   | 10 801   | 6 621           |
| New provision   | 1 891    | 4 180           |
|   | 12 692   | 10 801          |
| Provision for impairment of disallowances/overpayments debt       |          |                 |
| Opening balance   | 208 099  | 215 804         |
| Movement in prior year provision                                  | (3 748)  | (4 702)         |
| Written off   | (79 887) | (62 168)        |
| New provision   | 61 735   | <b>`59 16</b> 5 |
|   | 186 199  | 208 099         |
| Provision of impairment of legal claims - contribution debt       |          |                 |
| Opening balance   | 9 483    | 3 354           |
| Movement in prior year provision                                  | (4)      | -               |
| Written off   | (897)    | -               |
| Recovered   | -        | (38)            |
| New provision   | 753      | 6 167           |
|   | 9 335    | 9 483           |
|   | 208 226  | 228 383         |

#### 15. Trade and other receivables (continued)

Provision for impairment for "transactions under investigation" is provided for the total carrying value as the ability to recover the money is unknown and very limited at best since some transactions are still under investigation and dependant on court ruling. Provision for impairment for "disallowances/ overpayments" and "legal claims" are individually impaired when there is objective evidence that the asset is impaired as per set business rules and a formula based on prior recovery experience.

#### Trade and other receivables - financial assets, past due but not impaired

Trade and other receivables less than 3 months past due are not considered to be impaired. At 31 March 2017, R1,938,026 (2016: R2,812,982) were less than 3 months past due but not impaired.

The amounts past due but not impaired are as follows:

| PPP Reinvestment Fund    | 324   | 324   |
|--------------------------|-------|-------|
| Bank interest receivable | 6 769 | 2 477 |
| Uncleared bank deposits  | 13    | 12    |
|                          | 7 106 | 2 813 |

No provision for impairment was made for the PPP Reinvestment Fund as the funds are held in a deposit bank account. No provision for impairment was made on bank interest receivable due to the fact that the interest is received within days in the new financial year.

## Annual Financial Statements for the year ended 31 March 2017

## Notes to the Annual Financial Statements

| 201<br>R '0 | 0 |
|-------------|---|
|             |   |

Uncleared bank deposits at year-end are cleared within seven days in the new financial year.

#### Trade and other receivables - financial assets, impaired

As of 31 March 2017, trade and other receivables - "rent receivable" of R3,750,405 were impaired with R335,524 (2016: R1,271,060 impairment R245,868).

The ageing of trade and other receivables - "rent receivable" is as follows:

| 0 to 3 months | 1 557 | 331   |
|---------------|-------|-------|
| 3 to 6 months | 332   | 251   |
| Over 6 months | 1 861 | 689   |
|               | 3 750 | 1 271 |

As of 31 March 2017, trade and other receivables - "sundry debtors" of R1,457,011 (2016: R1,324,773) were impaired. The amount provided for was R1,335,298 as of 31 March 2017 (2016: R1,307,158). The ageing of trade and other receivables - "sundry debtors" is as follows:

| 0 to 3 months | 141   | 1 308 |
|---------------|-------|-------|
| 3 to 6 months | 1     | (1)   |
| Over 6 months | 1 314 | 18    |
|               | 1 456 | 1 325 |

The carrying amount of trade and other receivables are denominated in the following currencies:

#### 15. Trade and other receivables (continued)

#### **Statutory receivables**

#### Funds held at National Treasury

Funds at National Treasury are Contribution Revenue collected by SARS, declared as owing to the UIF on reporting date through the National Revenue Account. The funds do not earn interest and the amount is payable to UIF as per the Unemployment Insurance Contributions Act, section 11(3). The Director-General must, within 14 days after receipt of the notice from the Commissioner in terms of section 8(4), authorise the transfer of the amount of the contributions, interest and penalties paid into the National Revenue Fund to the Unemployment Insurance Fund. Funds are requested by the Unemployment Insurance Fund. Funds are requested by the Unemployment Insurance Fund via the Department of Labour.

| National Treasury    | 1 718 670 | 149 879 |
|----------------------|-----------|---------|
| Department of Labour | -         | 72 621  |
|                      | 1 718 670 | 222 500 |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|     |                                       | 2017<br>R '000    | 2016<br>R '000    |
|-----|---------------------------------------|-------------------|-------------------|
| 16. | Cash and cash equivalents             |                   |                   |
|     | Cash on hand                          | 10                | 10                |
|     | Bank balances                         | 1 297 424         | 3 812 865         |
|     | Bank overdraft                        | (13)              | (12)              |
|     |                                       | 1 297 421         | 3 812 863         |
|     | Current assets<br>Current liabilities | 1 297 434<br>(13) | 3 812 875<br>(12) |
|     |                                       | 1 297 421         | 3 812 863         |

#### Cash on hand and bank balances

Cash at banks earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is R1,297,421 (2016: R3,812,862).

#### Bank overdraft

Bank overdrafts are due to bank accounts on which after trading hours transactions were processed and only cleared the following banking date that is after the reporting date. The Fund does not have approved overdraft facilities and accordingly there are not any unused bank overdraft facilities. None of the Funds assets have been pledged as collateral of any kind.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017       | 2016   |
|------------|--------|
| <br>R '000 | R '000 |

#### 17. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

| 2017  | Fair value<br>(R'000)   | Amortised<br>Cost<br>(R'000)  | Non-financial<br>assets<br>(R'000)  | Total<br>(R'000)  |
|---|---|---|---|---|
| Trade and other receivables   |   | - 10 64   |   | 17 745  |
| Statutory receivables   |   | - 171867  |   | 1 718 672   |
| Investments - unit trusts   | 547 979   |   |   | 547 979   |
| Investments - unit trusts   | • • • • •   | •   |   |   |
| (foreign)   | 4 658 660   | 0   |   | 4 658 660   |
| Investments - listed equity   | 35 244 034  |   |   | 35 244 034  |
| Investments - unlisted shares   | 1 064 09  |   |   | 1 064 095   |
| Investments - bonds   | 76 628 75   | -   |   | 76 628 755  |
| Investments - bills,  | 10 020 100  | 0   |   | 10 020 100  |
| promissionary notes and   |   |   |   |   |
| certificate of deposits   | 2 682 058   | 8   |   | 2 682 058   |
| Fixed deposits  |   | - 10 321 95   |   | 10 321 950  |
| Investment income receivable  |   | - 220 98  |   | 220 980   |
| Cash and cash equivalents   |   | - 1 297 43  | -   | 1 297 434   |
| Loans and receivables   |   | - 4 299 48  |   | 4 299 485   |
| Investment property   |   | - 429940  | - 1990  | 4 299 485   |
| Property, plant and equipment   |   | -   | - 102 166   | 102 166   |
| Intangible assets   |   | -   | - 149 455   | 149 455   |
| intangible assets   |   | -   |   |   |
|   | 120 825 58  | 1 17 869 16   | <b>260 713</b>  | 138 955 458   |
|   |   |   |   |   |
| 2016  | Fair value<br>(R'000)   | Amortised<br>Cost   | Non-financial<br>assets   | Total<br>(R'000)  |
|   |   | Cost<br>(R'000)   | assets<br>(R'000)   | (R'000)   |
| Trade and other receivables   |   | Cost<br>(R'000)<br>- 3 85   | assets<br>(R'000)<br>56 1 536   | ( <b>R'000)</b><br>5 392  |
| Trade and other receivables<br>Statutory receivables  | (R'000)   | Cost<br>(R'000)<br>- 3 85<br>- 222 50   | <b>assets</b><br>( <b>R'000)</b><br>56 1 536<br>50 -  | ( <b>R'000</b> )<br>5 392<br>222 500  |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts   | ( <b>R'000)</b><br>296 506  | Cost<br>(R'000)<br>- 385<br>- 222 50<br>6   | assets<br>(R'000)<br>56 1 536<br>50 -   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506  |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity  | ( <b>R'000)</b><br>296 506<br>30 259 914  | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4   | assets<br>(R'000)<br>56 1 536<br>50 -<br><br>   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506<br>30 259 914  |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares   | ( <b>R'000)</b><br>296 506<br>30 259 914<br>705 720                                       | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0  | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br>   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds   | ( <b>R'000)</b><br>296 500<br>30 259 914<br>705 720<br>74 930 879                         | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9   | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br>   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper   | ( <b>R'000)</b><br>296 506<br>30 259 914<br>705 720                                       | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9   | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br>   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory  | ( <b>R'000)</b><br>296 500<br>30 259 914<br>705 720<br>74 930 879                         | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9   | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br>   | ( <b>R'000)</b><br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of   | ( <b>R'000)</b><br>296 500<br>30 259 914<br>705 720<br>74 930 879<br>156 422              | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2  | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br>   | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits   | ( <b>R'000)</b><br>296 500<br>30 259 914<br>705 720<br>74 930 879                         | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7   | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br><br><br><br><br>   | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737  |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits   | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 726<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53   | assets<br>(R'000)<br>56 1 536<br>50 -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>- | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535   |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable   | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 726<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61                             | assets<br>(R'000)<br>56 1 536<br>50 -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>- | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619                                      |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable<br>Cash and cash equivalents  | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 726<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61<br>- 3 812 87               | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br><br><br><br><br>   | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619<br>3 812 875                         |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable<br>Cash and cash equivalents<br>Loans and receivables   | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61<br>- 3 812 87<br>- 1 153 66 | assets<br>(R'000)<br>56 1 536<br>50 -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>- | ( <b>R'000</b> )<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619<br>3 812 875<br>1 153 662            |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable<br>Cash and cash equivalents<br>Loans and receivables<br>Investment Property                                  | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61<br>- 3 812 87               | assets<br>(R'000)<br>56 1 536<br>50 -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>- | (R'000)<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619<br>3 812 875<br>1 153 662<br>1 990            |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable<br>Cash and cash equivalents<br>Loans and receivables<br>Investment Property<br>Property, Plant and Equipment | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61<br>- 3 812 87<br>- 1 153 66 | assets<br>(R'000)<br>56 1 536<br>50 -<br><br><br><br><br><br><br><br><br>   | (R'000)<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619<br>3 812 875<br>1 153 662<br>1 990<br>113 476 |
| Trade and other receivables<br>Statutory receivables<br>Investments Unit Trusts<br>Investments - listed equity<br>Investments - Unlisted Shares<br>Investment Bonds<br>Commercial Paper<br>Investments-bills,promisory<br>notes and certificates of<br>deposits<br>Fixed Deposits<br>Investment Income Receivable<br>Cash and cash equivalents<br>Loans and receivables<br>Investment Property                                  | ( <b>R'000</b> )<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 73 | Cost<br>(R'000)<br>- 3 85<br>- 222 50<br>6<br>4<br>0<br>9<br>2<br>7<br>- 9 609 53<br>- 260 61<br>- 3 812 87<br>- 1 153 66 | assets<br>(R'000)<br>56 1 536<br>50 -<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>-<br>- | (R'000)<br>5 392<br>222 500<br>296 506<br>30 259 914<br>705 720<br>74 930 879<br>156 422<br>3 067 737<br>9 609 535<br>260 619<br>3 812 875<br>1 153 662<br>1 990            |

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |
|        |        |

#### 17. Financial assets by category (continued)

#### Fair values of financial assets by hierarchy level

The UIF adopted GRAP 104 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Fixed deposits and Loans and receivables are excluded from the table below since it is valued at amortised cost and not fair value.

| Financial assets measured at fair value                            | Level 1    | Level 2              | Level 3   |
|--|------------|----------------------|-----------|
| Bonds  | 37 410 041 | 39 218 714           | -         |
| Listed equities  | 35 244 034 | -                    | -         |
| Unlisted equities  | -          | -                    | 1 064 094 |
| Unit trusts:   | -          | -                    | 547 979   |
| Unit Trusts: (Foreign)   | 4 658 660  | -                    | -         |
| Bills<br>Bromissony potes  | -          | 578 921<br>1 374 019 | -         |
| Promissory notes<br>Certificate of deposits                        | -          | 729 115              | -         |
| Derivative financial instruments                                   | -          | - 123 113            | (36 974)  |
|  | 77 312 735 | 41 900 769           | 1 575 099 |
| Reconciliation of Level 3 values: Unit Trusts                      |            |                      |           |
| Opening book value<br>Net capital movement in the period           |            | 341 298              | 47 515    |
| - Purchases  |            | 173 977              | 268 941   |
| - Sales  |            | (1 193)              | (3 508)   |
| - Management fees  |            | (5 945)              | 28 350    |
| Closing book value before return on investment                     | -          | 508 137              | 341 298   |
| Closing book value<br>Plus:  |            | 508 137              | 341 298   |
| - Fair value adjustments (unrealised surplus and deficit)<br>Less: |            | (65 463)             | (25 621)  |
| - Fair value adjustments (unrealised surplus and deficit)          | _          | 65 463               | 25 621    |
| Closing book value after return on investment                      | -          | 508 137              | 341 298   |
| Mark to market   |            |                      |           |
| Book value   |            | 508 137              | 341 298   |
| Fair value adjustment  |            | 39 842               | (34 620)  |
| Market value of investment   | -          | 547 979              | 306 678   |

(36 974)

## **Unemployment Insurance Fund**

#### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  | 2017<br>R '000 | 2016<br>R '000 |
|--|----------------|----------------|
| 17. Financial assets by category (continued)                       |                |                |
| Reconciliation of Level 3 values: Unlisted equity                  |                |                |
| Opening book value   | 675 001        | -              |
| Net capital movement in the period                                 |                |                |
| - Opening book value   | 675 001        | -              |
| - Purchases  | 449 739        | 1 155 001      |
| - Sales  | (32)           | (480 000)      |
| - Management fees  | 1 103          | -              |
| Closing book value before return on investment                     | 1 124 740      | 675 001        |
| Closing book value<br>Plus:  | 1 125 843      | 675 001        |
| - Fair value adjustments (unrealised surplus and deficit)<br>Less: | 79 251         | 141 000        |
| - Fair value adjustments (unrealised surplus and deficit)          | (79 251)       | (141 000)      |
| Closing book value after return on investment                      | 1 125 843      | 675 001        |
| Mark to market   |                |                |
| Book value   | 1 125 843      | 675 001        |
| Fair value adjustment  | (61 749)       | 141 000        |
| Market value of investment   | 1 064 094      | 816 001        |

#### 18. Derivative financial instruments

The Fund has adopted a conservative approach to investment in equities. To remove the risk of capital loss to the equity portfolio, the Fund uses Over-the-counter (OTC) equity options to hedge its exposure to changes in the fair value of its equity portfolio. The Fund also utilises zero-cost-fences to lock in acceptable levels of upside and downside movements on the equity portfolio.

#### Current

#### Equity/index contracts

OTC Equity options - liability

he structure comprises of bought and sold put options and bought call options at strike prices which provide a zero premium at inception of the structure. This protects the capital base of the equity portfolio.

#### 19. Provisions

| Reconciliation of provisions - 2017 | Opening<br>Balance (R'000) | Adjustment<br>provision for the<br>year (R'000) | Total<br>(R'000) |
|-------------------------------------|----------------------------|---|------------------|
| Capped leave pay                    | 25 817                     | 1 922   | 27 739           |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|     |                                       |                               |   | 2017<br>R '000                                     | 2016<br>R '000   |
|-----|---------------------------------------|-------------------------------|---|--|------------------|
| 19. | Provisions (continued)                |                               |   |  |                  |
|     | Reconciliation of provisions-<br>2016 |                               |   |  |                  |
|     |                                       | Opening<br>Balance<br>(R'000) | Utilised<br>during<br>the year<br>(R'000) | Adjustment<br>provision for<br>the year<br>(R'000) | Total<br>(R'000) |
|     | Capped leave pay                      | 26 099                        | (378)                                     | 96   | 25 817           |

The Fund changed its leave policy in 2002 due to the new dispensation. The Fund capped all employees' unused leave from the previous years prior to June 2000, limiting employees to take such leave during their working life at the Fund under specific conditions. Capped leave is payable, based on the salary notch at the date of termination, which is only applicable if the termination of service is as a result of retirement, illhealth, death or specific leave conditions.

#### 20. Trade and other payables

| Trade payables            | 267 570 | 247 303 |
|---------------------------|---------|---------|
| Salary accrual            | 31 886  | 27 651  |
| Current leave pay accrual | 44 815  | 32 430  |
| Deposits received         | 6 309   | 6 207   |
|                           | 350 580 | 313 591 |

#### **Trade payables**

Trade payables are subject to normal trade credit terms and relatively short payment cycles.

#### Leave pay and service bonus

The current leave pay accrual and service bonus accrual are based on the liability for the current leave cycle not utilised and service bonuses payable.

#### 21. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  |  | 2017<br>R '000 | 2016<br>R '000 |
|--|--|----------------|----------------|
|--|--|----------------|----------------|

| 2017                           | Amortised<br>cost<br>(R'000) | Fair value<br>through<br>surplus/deficit<br>(R'000) | Non-financial<br>liabilities<br>(R'000) | Total<br>(R'000) |
|--------------------------------|------------------------------|---|---|------------------|
| Provisions                     | -                            |   | 27 738                                  | 27 738           |
| Derivative financial liability | -                            | 36 974  | -                                       | 36 974           |
| Trade and other payables       | 305 766                      | 44 814  | -                                       | 350 580          |
| Bank overdraft                 | 13                           | ; –   | -                                       | 13               |
| Benefits liability             | -                            |   | 5 202 760                               | 5 202 760        |
|                                | 305 779                      | 81 788  | 5 230 498                               | 5 618 066        |

## 21. Financial liabilities by category (continued)

| 2016                     | Amortised<br>cost<br>(R'000) | Fair value<br>(R'000) | Non-financial<br>liabilities<br>(R'000) | Total<br>(R'000) |
|--------------------------|------------------------------|-----------------------|---|------------------|
| Provisions               | -                            | -                     | 25 817                                  | 25 817           |
| Trade and other payables | 281 161                      | 32 430                | -                                       | 313 591          |
| Bank overdraft           | 12                           | -                     | -                                       | 12               |
| Benefits liability       | -                            | -                     | 4 234 928                               | 4 234 928        |
|                          | 281 173                      | 32 430                | 4 260 745                               | 4 574 348        |

#### 22. Benefits liability

| Benefits payable - Technical provision: estimated reported benefits<br>payable and claims incurred but not reported (IBNR) |             |             |
|--|-------------|-------------|
| Opening balance  | 4 228 058   | 3 835 846   |
| Net movement in estimate   | 968 449     | 392 212     |
| Provision for benefit payments - current year  | 5 729 124   | 4 166 267   |
| Revised ultimate claim amounts - prior years   | 665 930     | 605 025     |
| Claims paid - prior years  | (5 426 605) | (4 379 080) |
|  | 5 196 507   | 4 228 058   |
| Benefits payable - approved  |             |             |
| Opening balance  | 6 870       | 4 766       |
| Claims approved  | 8 477 740   | 7 693 257   |
| Payments made  | (8 478 357) | (7 691 153) |
|  | 6 253       | 6 870       |
| Total benefits liability   | 5 202 760   | 4 234 927   |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

### 23. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Fund's financial instruments that are carried in the financial statements. The table does not include the fair value of nonfinancial assets and non-financial liabilities.

| Financial assets   | 2017<br>Carrying<br>value<br>(R'000) | 2017<br>Fair value<br>(R'000) | 2016<br>Carrying<br>value<br>(R'000) | 2016<br>Fair value<br>(R'000) |
|--|--------------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| Fair value - unit trusts   | 547 979                              | 547 979                       | 296 506                              | 296 506                       |
| Fair value - unit trusts (foreign)                                     | 4 658 660                            | 4 658 660                     | -                                    | -                             |
| Fair value - listed equity   | 35 244 034                           | 35 244 034                    | 30 259 914                           | 30 259 914                    |
| Fair value - unlisted shares   | 1 064 095                            | 1 064 095                     | 705 720                              | 705 720                       |
| Fair value - commercial papers   | -                                    | -                             | 156 422                              | 156 422                       |
| Fair value - bonds   | 76 628 755                           | 76 628 755                    | 74 930 879                           | 74 930 879                    |
| Fair value - certificate of  | 2 682 054                            | 2 682 054                     | 3 067 737                            | 3 067 737                     |
| deposits, promissionary notes<br>and bills                             |                                      |                               |                                      |                               |
| *Amortised cost - loans and<br>receivables                             | 4 299 485                            | 4 299 485                     | 1 153 662                            | 1 153 662                     |
| * Amortised cost - fixed deposits                                      | 10 321 950                           | 10 321 950                    | 9 609 535                            | 9 609 535                     |
| * Amortised cost - investment<br>income receivable                     | 220 980                              | 220 980                       | 260 619                              | 260 619                       |
| * Amortised cost - cash and<br>cash equivalents                        | 1 297 434                            | 1 297 434                     | 3 812 875                            | 3 812 875                     |
| <ul> <li>* Amortised cost - trade and<br/>other receivables</li> </ul> |                                      |                               |                                      |                               |
| - Rent receivable  | 3 415                                | 3 415                         | 1 025                                | 1 025                         |
| <ul> <li>Sundry receivables</li> </ul>                                 | 122                                  | 122                           | 18                                   | 18                            |
| - PPP Reinvestment Fund  | 324                                  | 324                           | 324                                  | 324                           |
| <ul> <li>Bank interest receivable</li> </ul>                           | 6 770                                | 6 770                         | 2 477                                | 2 477                         |
| - Uncleared bank deposits  | 13                                   | 13                            | 12                                   | 12                            |

| Financial liabilities   | 2017<br>Carrying<br>value<br>(R'000) | 2017<br>Fair value<br>(R'000) | 2016<br>Carrying<br>value<br>(R'000) | 2016<br>Fair value<br>(R'000) |
|---|--------------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| Fair value - derivative liability<br>Amortised cost - trade and other<br>payables | 36 974                               | 36 974                        | -                                    | -                             |
| - Trade payables  | 295 087                              | 295 086                       | 274 954                              | 274 954                       |
| - Salary accrual  | 31 886                               | 31 886                        | 32 430                               | 32 430                        |
| <ul> <li>Deposits received</li> </ul>   | 6 308                                | 6 308                         | 6 207                                | 6 207                         |
| * Amortised cost - bank<br>overdraft  | 13                                   | 13                            | 12                                   | 12                            |

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 23. Fair value of financial instruments (continued)

#### \* Assets and liabilities for which fair value approximates carrying value

Financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that their carrying amounts approximate their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity (PPP Investment Account) and variable financial instruments.

#### Fixed rate financial instruments

Fixed interest bearing deposit carrying amounts are assumed to approximate to their fair value because the maturity of all the deposits are less than 12 months.

#### 24. Cash generated from operations

| Surplus for the year                   | 13 212 557  | 10 686 137  |
|--|-------------|-------------|
| Adjustments for:                       |             |             |
| Depreciation and amortisation          | 42 238      | 15 703      |
| Investment revenue                     | (9 199 602) | (7 746 161) |
| Fair value adjustments                 | 2 610 167   | 4 233 877   |
| Impairment loss                        | 8 123       | 1           |
| Movements in provisions                | 1 922       | (282)       |
| Changes in working capital:            |             |             |
| Trade and other receivables            | (12 352)    | 5 301       |
| Statutory receivables                  | 1 496 172   | (22 558)    |
| Loans and receivables                  | 39 639      | (127 587)   |
| Trade and other payables               | 36 989      | 39 629      |
| Benefits payable                       | (617)       | 2 104       |
| Benefits payable - technical provision | 968 449     | 392 212     |
| Derivative financial instruments       | 36 974      | -           |
|  | 9 240 659   | 7 478 377   |

#### 25. Contingencies

#### Labour Activation Programmes

| Poverty alleviation schemes |         |         |
|-----------------------------|---------|---------|
| Training Lay-off Scheme     | 67 181  | 66 685  |
| Training of the unemployed  | 283 567 | 221 963 |
| Social Plan Funding         | 201 322 | 220 860 |
|                             | 552 070 | 509 508 |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017       | 2016   |
|------------|--------|
| <br>R '000 | R '000 |

#### Litigation against the Fund

Three cases were lodged against the Fund during the 2016/2017 financial year. Two of the cases were resolved. One case is still outstanding and the amount needs to be determined. 1. Two Plumbing Service (PTY)LTD who claimed an amount of R4, 681.31 for plumbing services rendered, claim was paid and the matter was finalised. 2. Samantha Fay Margolis who claimed an amount of R22, 604.00 for maternity benefits, claim was paid and the matter was finalised. 3. S Khepelele whose claim amount still to be determined, the case relates to the Unemployment Benefit of an ex-mine worker. Case is pending.

#### 26. Commitments

#### Authorised contractual expenditure

| IT Enablement<br>Contracted for but not provided for                         |             |           |
|--|-------------|-----------|
| - Interfile: U-Filing  | -           | 15 143    |
| - Accenture  | 92 148      | 69 426    |
| Insurance  |             |           |
| Contracted for but not provided for  |             |           |
| - FirstRand  | 2 811       | 5 129     |
| - Marsh Alexander Forbes Risk Services                                       | 11          | 331       |
| Actuarial Services   |             |           |
| Contracted but not provided for  |             |           |
| <ul> <li>QED Actuaries and Consultants (Pty) Ltd (Previously AON)</li> </ul> | 888         | 75        |
| Professional Services  |             |           |
| Contracted for but not provided for  |             |           |
| - CQS Technology Holdings (Pty) Ltd  |             | 113       |
| - PricewaterhouseCoopers Inc   | 724         | 904       |
| - Sekela Consulting  | 1 934       | 2 265     |
| - VPS Africa<br>- Vodacom Communications                                     | 8 071<br>18 | 893<br>56 |
| - New Integrated Credit Solution   | 4 627       | 5 322     |
| - Nexus Lexus  | 34 411      |           |
| Authorised but not contracted for  |             |           |
| - XDS Solutions  | 59 590      | 62 238    |
| Other Commitments  |             |           |
| Contracted for but not provided for  |             |           |
| - Sundry suppliers   | 11 447      | 15 485    |
|  | 216 680     | 177 380   |
|  |             |           |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

### 27. Emoluments (continued)

The Director-General of Labour is the Accounting Authority of the Unemployment Insurance Fund.

#### 27.1. Directors (past and present) emoluments

| T.B. Seruwe (UI Commissioner)<br>Resigned: 31 August 2016<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund<br>- Performance Award  | 435<br>96<br>45 | 1 105<br>210<br>108<br>65 |
|---|-----------------|---------------------------|
|   | 576             | 1 488                     |
| Vuyo Mafata (Chief Financial Officer)<br>Appointed in position: 1 December 2012<br>Seconded to Compensation Fund: 1 June 2015<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund | -<br>-<br>-     | 125<br>30<br>14           |

| T.S. Maruping (Commissioner)           |
|--|
|  |
| Appointed in position: 1 December 2016 |

|  | 1 233 | 1 043 |
|--|-------|-------|
| - Acting allowance                                   | 58    | -     |
| <ul> <li>State contribution: Pension Fund</li> </ul> | 100   | 95    |
| - Expense allowances                                 | 23    | -     |
| - Salary   | 1 052 | 948   |
|  |       |       |

| A.S C. Fourie (Director: Treasury, Investments and Actuarial Services) |     |     |
|--|-----|-----|
| Appointed in position: 1 June 2014                                     |     |     |
| - Salary   | 706 | 680 |
| - Expense allowances   | 80  | 72  |
| - State contribution: Pension Fund                                     | 80  | 79  |
| - State contribution: Medical Aid                                      | 33  | 33  |
|  | 899 | 864 |

169

-

|     |  | 2017<br>R '000 | 2016<br>R '000 |
|-----|--|----------------|----------------|
| 27. | Emoluments (continued)   |                |                |
|     | M.R. Makgamatho (Director: Compliance)   |                |                |
|     | Appointed in position: 1 November 2014 - Salary  | 778            | 747            |
|     | - Expense allowances   | 57             | 30             |
|     | - State contribution: Pension Fund   | 80             | 79             |
|     | - State contribution: Medical Aid  | 16             | 16             |
|     |  | 931            | 872            |
|     |  |                |                |
|     | Z. Fololo (Director: Income and Accounts Receivable)<br>Appointed in position: 1 December 2013 |                |                |
|     | - Salary   | 708            | 669            |
|     | - Expense allowances   | 106            | 99             |
|     | - State contribution: Pension Fund   | 80             | 79             |
|     | - State contribution: Medical Aid  | 17             | 17             |
|     |  | 911            | 864            |
|     | G.M. Buthelezi (Director: Communications)  |                |                |
|     | Appointed: 1 June 2014   |                |                |
|     | - Salary   | 747            | 708            |
|     | - Expense allowances   | 84             | 72             |
|     | - State contribution: Pension Fund   | 80             | 79             |
|     | - State contribution: Medical Aid  | 5              | 5              |
|     |  | 916            | 864            |
|     |  |                |                |
|     | N.L. Mahlangeni (Director: HRM)<br>Resigned: 30 June 2015                                      |                |                |
|     | - Salary   | -              | 192            |
|     | - Expense allowances   | -              | 29             |
|     | - State contribution: Pension Fund   | -              | 16             |
|     | - State contribution: Medical Aid  |                | 6              |
|     |  | -              | 243            |

|  | 2017<br>R '000   | 2016<br>R '000  |
|--|--|---|
| Emoluments (continued)   |  |   |
| L.M. Molefe (Director: Organisational Effectivene<br>Appointed in position: 1 September 2011 |  |   |
| - Salary   | 867  | 808   |
| - Expense allowances   | 5  |   |
| - State contribution: Pension Fund   | 72   | 7   |
| - State contribution: Medical Aid  | 22   | 2   |
|  | 966  | 90  |
| L. Briedenhann (Director: Reporting)   |  |   |
|  | 007  | 0.0   |
|  |  | 869   |
|  | -  | 74  |
| - Performance award  | 87   |   |
|  | 1 094  | 94  |
|  | <ul> <li>L.M. Molefe (Director: Organisational Effectivene<br/>Appointed in position: 1 September 2011 <ul> <li>Salary</li> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> <li>State contribution: Medical Aid</li> </ul> </li> <li>L. Briedenhann (Director: Reporting)<br/>Appointed in position: 1 October 2008 <ul> <li>Salary</li> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> </ul> </li> </ul> | R '000         Emoluments (continued)         L.M. Molefe (Director: Organisational Effectivene<br>Appointed in position: 1 September 2011<br>- Salary         - Salary       867         - Expense allowances       5         - State contribution: Pension Fund       72         - State contribution: Medical Aid       22         966         L. Briedenhann (Director: Reporting)<br>Appointed in position: 1 October 2008<br>- Salary       927         - Salary       927         - State contribution: Pension Fund       5 |

| Appointed in position. I march 2000 |       |       |
|-------------------------------------|-------|-------|
| - Salary                            | 868   | 980   |
| - Expense allowances                | 30    | 17    |
| - State contribution: Pension Fund  | 74    | 73    |
| - State contribution: Medical Aid   | 16    | 16    |
| - Performance award                 | 47    | -     |
|                                     | 1 035 | 1 086 |

|     |  | 2017<br>R '000 | 2016<br>R '000 |           |
|-----|--|----------------|----------------|-----------|
| 27. | Emoluments (continued)   |                |                |           |
|     | V. Mulindi (Director: Internal Audit)<br>Appointed in position: 1 January 2014   |                |                |           |
|     | - Salary   | 694            |                | 703       |
|     | - Expense allowances   | 227            |                | 128       |
|     | - State contribution: Pension Fund   | 81             |                | 77        |
|     | - Adjustments<br>- Performance award   | (36)           |                | -<br>41   |
|     |  | 966            |                | 949       |
|     | J. Kumbi (Director: Operations)  |                |                |           |
|     | Appointed in position: 1 March 2012  |                |                |           |
|     | - Salary   | 752            |                | 672       |
|     | - Expense allowances   | 158            |                | 126       |
|     | - State contribution: Pension Fund   | 72             |                | 70        |
|     | - State contribution: Medical Aid  | 23             |                | 23        |
|     |  | 1 005          |                | 891       |
|     | H.D. Mhlongo (Chief Director: Corporate Services)                                |                |                |           |
|     | Appointed in position: 1 March 2013  | 750            |                |           |
|     | - Salary   | 752            |                | 703       |
|     | <ul> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> </ul> | 301<br>84      |                | 273<br>83 |
|     | - Adjustments  | (2)            |                |           |
|     |  | 1 135          | 1              | 059       |
|     | T.S. Puzi (Chief Financial Officer)  |                |                |           |
|     | Transferred from the Compensation Fund: 1 April 20                               |                |                |           |
|     | - Salary   | 911            |                | 859       |
|     | - Expense allowances   | 160            |                | 156       |
|     | - State contribution: Pension Fund   | 90             |                | 89        |
|     | - State contribution: Medical Aid  | 34             |                | 34        |
|     |  | 1 195          | 1              | 138       |
|     | P. Roux (Director : Human Resource Management)                                   |                |                |           |
|     | Appointed: 1 April 2016  |                |                |           |
|     | - Salary   | 772            |                | -         |
|     | <ul> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> </ul> | 38<br>80       |                | -         |
|     | - State contribution: Medical Aid  | 8              |                | -         |
|     | - Performance Bonus  | 34             |                | -         |
|     | - Acting allowance   | 25             |                | -         |
|     |  | 957            |                | -         |
|     |  |                |                |           |

|  |     |   | 2017<br>R '000 | 2016<br>R '000 |
|--|-----|---|----------------|----------------|
| Appointed: 1 July 2016- Salary493- Expense allowances93- State contribution: Pension Fund61- Resettlement Fees50- Performance Bonus49746746M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016- Salary- Salary769- Expense allowances15- State contribution: Pension Fund808644M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016- Salary- State contribution: Pension Fund- Salary847- Expense allowances62- State contribution: Pension Fund72- Adjustment(1)980S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary- State contribution: Pension Fund- State contribution: Pension Fu   | 27. | Emoluments (continued)                          |                |                |
| Appointed: 1 July 2016- Salary493- Expense allowances93- State contribution: Pension Fund61- Resettlement Fees50- Performance Bonus49746746M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016- Salary- Salary769- Expense allowances15- State contribution: Pension Fund808644M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016- Salary- State contribution: Pension Fund- Salary847- Expense allowances62- State contribution: Pension Fund72- Adjustment(1)980S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary- State contribution: Pension Fund- State contribution: Pension Fu   |     | P A Pagavaloo ( Director: Provincial Support)   |                |                |
| - Salary       493         - Expense allowances       93         - State contribution: Pension Fund       61         - Resettlement Fees       50         - Performance Bonus       49         746       746         M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016       769         - Salary       769         - State contribution: Pension Fund       80         864       864         M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016       847         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (2)         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Pension Fund       17         - Adjustment       (2)         - Resettlement       50         V. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015         - Salary   |     |   |                |                |
| <ul> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> <li>Resettlement Fees</li> <li>Solary</li> <li>State contribution: Pension Fund</li> <li>M.W Nape (Director: Labour Activation Programme<br/>Appointed: 1 April 2016</li> <li>Salary</li> <li>State contribution: Pension Fund</li> <li>864</li> </ul> M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016 <ul> <li>State contribution: Pension Fund</li> <li>864</li> </ul> M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016 <ul> <li>State contribution: Pension Fund</li> </ul> 864 M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016 <ul> <li>State contribution: Pension Fund</li> <li>State contribution: Medical Aid</li> <li>Adjustment</li> <li>(2)</li> <li>Resettlement</li> <li>Sol</li> <li>1005</li> </ul> X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015 <ul> <li>Salary</li> <li>State contribution: Pension Fund</li> <li>Sol</li> <li>State contribution: Pension Fund</li> <li>Sol</li> <li>Sol</li> </ul>  |     |   | 493            |                |
| - Resettlement Fees       50         - Performance Bonus       49         746       746         M.W Nape (Director: Labour Activation Programme Appointed: 1 April 2016       769         - Salary       769         - Expense allowances       15         - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme Appointed: 1 April 2016       847         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme Appointed: 1 April 2016       814         - Salary       814         - Adjustment       (2)         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       802         Appointed: 1 August 2015       802         - Salary       802         - Expense allowances       6         - State contribution: Pension Fund       50   |     |   |                |                |
| - Performance Bonus       49         746       746         M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary       769         - Expense allowances       15         - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary       847         - State contribution: Pension Fund       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary       814         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary       814         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         V       1005         X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015<br>- Salary       802       49         - State contribution: Pension Fund       80       5   |     |   |                |                |
| 746         M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016         - Salary       769         - Expense allowances       15         - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016       847         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Adjustment       (2)         - State contribution: Pension Fund       80         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         I 0005       1005         X. Monakali (Chief Information Officer)       802       49         - Salary       802       49         - Expense allowances       6       5  |     |   |                |                |
| M.W Nape (Director: Labour Activation Programme<br>Appointed: 1 April 2016       769         - Salary       769         - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016       864         - Salary       847         - Expense allowances       62         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       71         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Salary       814         - Salary       814         - Salary       80         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         V       1005         X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015       802       49         - Salary       60       50         - Salary       802       49  |     | - Performance Bonus                             | 49             |                |
| Appointed: 1 April 2016769- Salary769- Expense allowances15- State contribution: Pension Fund80M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016847- Salary847- Expense allowances62- State contribution: Pension Fund72- Adjustment(1)980980S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016814- Salary814- Expense allowances46- State contribution: Pension Fund80- State contribution: Pension Fund80- State contribution: Medical Aid17- Adjustment(2)- Resettlement50- Resettlement50- State contribution: Officer)<br>Appointed: 1 August 2015- Salary802- Salary802- State contribution: Pension Fund- State contribution: Officer)<br>Appointed: 1 August 2015- Salary802- State contribution: Pension Fund- State contribution: Pension Fund- Salary802- State contribution: Pension Fund- Stat  |     |   | 746            |                |
| - Salary       769         - Expense allowances       15         - State contribution: Pension Fund       80         864       864         M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016       847         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       802         Appointed: 1 August 2015       50         - Salary       802       49         - Expense allowances       6         - State contribution: Pension Fund       80       5  |     | M.W Nape (Director: Labour Activation Programme |                |                |
| - Expense allowances       15         - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme       864         Appointed: 1 April 2016       847         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980         S.F Zungu (Director: Labour Activation Programme         Appointed: 1 April 2016         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Pension Fund       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       50         Appointed: 1 August 2015       50         - Salary       802       49         - Expense allowances       6         - State contribution: Pension Fund       50         - Resettlement       50         - State contribution: Pension Fund       802         - State contribution: Pension Fund       802   |     | Appointed: 1 April 2016                         |                |                |
| - State contribution: Pension Fund       80         M.S Mono (Director: Labour Activation Programme       864         Appointed: 1 April 2016       847         - Salary       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme       814         - State contribution: Pension Fund       814         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       802         Appointed: 1 August 2015       6         - Salary       802       49         - Expense allowances       6       5   |     |   |                |                |
| 864         M.S Mono (Director: Labour Activation Programme         Appointed: 1 April 2016         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980         S.F Zungu (Director: Labour Activation Programme         Appointed: 1 April 2016         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         1 005       1 005         X. Monakali (Chief Information Officer)       802       49         - Salary       802       49         - Expense allowances       6       50         - Salary       802       49         - Expense allowances       6       50   |     |   |                |                |
| M.S Mono (Director: Labour Activation Programme<br>Appointed: 1 April 2016       847         - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015         - Salary       802       49         - Expense allowances       6         - Salary       802       49         - Expense allowances       6       5  |     | - State contribution: Pension Fund              | 80             |                |
| Appointed: 1 April 2016- Salary847- Expense allowances62- State contribution: Pension Fund72- Adjustment(1)980S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016814- Salary814- Salary814- State contribution: Pension Fund80- State contribution: Medical Aid17- Adjustment(2)- Resettlement50X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015802- Salary802- Salary802- Salary802- Salary802- State contribution: Pension Fund50   |     |   | 864            |                |
| - Salary       847         - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015       802       49         - Salary       802       49         - Expense allowances       6       5   |     |   |                |                |
| - Expense allowances       62         - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016       814         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       1005         X. Monakali (Chief Information Officer)       802       49         - State contribution: Pension Fund       802       49         - Salary       802       49         - State contribution: Pension Fund       80       5  |     |   | 847            |                |
| - State contribution: Pension Fund       72         - Adjustment       (1)         980       980         S.F Zungu (Director: Labour Activation Programme Appointed: 1 April 2016       980         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       802         Appointed: 1 August 2015       802         - Salary       6         - State contribution: Pension Fund       802  |     |   |                |                |
| 980S.F Zungu (Director: Labour Activation Programme<br>Appointed: 1 April 2016<br>- Salary<br>- Staler contribution: Pension Fund<br>- State contribution: Pension Fund<br>- State contribution: Medical Aid<br>- State contribution: Medical Aid<br>- State contribution: Medical Aid<br>- Resettlement814<br>- 800<br>- 800<br>- 800<br>- 800<br>- 800<br>- 800X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund<br>- State contribution: Pension Fund<br>- State contribution Officer)<br>- Salary<br>- Salary<br>- State contribution: Pension Fund802<br>- 49<br>- 50   |     |   |                |                |
| S.F Zungu (Director: Labour Activation Programme         Appointed: 1 April 2016         - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)         Appointed: 1 August 2015         - Salary       802         - Salary         - State contribution: Pension Fund  |     | - Adjustment                                    | (1)            |                |
| Appointed: 1 April 2016- Salary814- Expense allowances46- State contribution: Pension Fund80- State contribution: Medical Aid17- Adjustment(2)- Resettlement501 005X. Monakali (Chief Information Officer)Appointed: 1 August 2015802- Salary802- Salary6- State contribution: Pension Fund80- State contribution: Pension Fund80  |     |   | 980            | 1              |
| - Salary       814         - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       1005         X. Monakali (Chief Information Officer)       802         - Salary       802         - State contribution: Pension Fund       6         - State contribution: Pension Fund       80  |     |   |                |                |
| - Expense allowances       46         - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         X. Monakali (Chief Information Officer)       1005         Appointed: 1 August 2015       802       49         - Salary       802       49         - Expense allowances       6       50         - State contribution: Pension Fund       80       50  |     |   |                |                |
| - State contribution: Pension Fund       80         - State contribution: Medical Aid       17         - Adjustment       (2)         - Resettlement       50         I 005       1005         X. Monakali (Chief Information Officer)       802         Appointed: 1 August 2015       802       49         - Salary       802       49         - Expense allowances       6       50         - State contribution: Pension Fund       80       50  |     |   |                |                |
| - State contribution: Medical Aid<br>- Adjustment<br>- Resettlement<br><b>1005</b><br><b>X. Monakali (Chief Information Officer)</b><br>Appointed: 1 August 2015<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund<br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>100</b><br><b>1</b> |     | •   |                |                |
| - Adjustment (2)<br>- Resettlement 50<br>1 005<br>X. Monakali (Chief Information Officer)<br>Appointed: 1 August 2015<br>- Salary 802 49<br>- Expense allowances 6<br>- State contribution: Pension Fund 80 5  |     |   |                |                |
| - Resettlement 50<br><b>1 005</b><br><b>X. Monakali (Chief Information Officer)</b><br>Appointed: 1 August 2015<br>- Salary 802 49<br>- Expense allowances 6<br>- State contribution: Pension Fund 80 5  |     |   |                |                |
| X. Monakali (Chief Information Officer)Appointed: 1 August 2015- Salary- Expense allowances- State contribution: Pension Fund8005.   | _   |   |                |                |
| Appointed: 1 August 2015- Salary802- Expense allowances6- State contribution: Pension Fund80   |     |   | 1 005          |                |
| Appointed: 1 August 2015- Salary802- Expense allowances6- State contribution: Pension Fund80   |     | X. Manakali (Chief Information Officer)         |                |                |
| - Salary 802 49<br>- Expense allowances 6<br>- State contribution: Pension Fund 80 5   |     |   |                |                |
| - Expense allowances 6<br>- State contribution: Pension Fund 80 5  |     |   | <b>Ջ</b> Ոን    | 106            |
| - State contribution: Pension Fund 80 5  |     |   |                | 490            |
|  |     |   | -              | 52             |
|  |     |   | 888            | 548            |

| 27. Emoluments (continued) D.J. Khumalo (Director: Monitoring and Evaluation) Appointed in position: 1 November 2006 - Salary - Expense allowances - State contribution: Pension Fund - State contribution: Medical Aid  M. Rasebopye (Director: SCM) Resigned: 31 July 2016 - Salary - Expense allowances - State contribution: Pension Fund - State contribution: Pension Fund - State contribution: Pension Fund - State contribution: Medical Aid | 787<br>111<br>88<br>21<br>007<br>218<br>36<br>28<br>9<br>291 | 1<br>9<br>7<br>1   | 727<br>111<br>85<br>21<br>944<br>112<br>85<br>29 |
|---|--|--------------------|--|
| Appointed in position: 1 November 2006<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund<br>- State contribution: Medical Aid<br>M. Rasebopye (Director: SCM)<br>Resigned: 31 July 2016<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund   | 111<br>88<br>21<br>007<br>218<br>36<br>28<br>9               | 1<br>9<br>7<br>1   | 712<br>85<br>712<br>85                           |
| - Salary<br>- Expense allowances<br>- State contribution: Pension Fund<br>- State contribution: Medical Aid<br>M. Rasebopye (Director: SCM)<br>Resigned: 31 July 2016<br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund   | 111<br>88<br>21<br>007<br>218<br>36<br>28<br>9               | 1<br>9<br>7<br>1   | 712<br>85<br>712<br>85                           |
| <ul> <li>State contribution: Pension Fund</li> <li>State contribution: Medical Aid</li> </ul> 1 M. Rasebopye (Director: SCM) Resigned: 31 July 2016 <ul> <li>Salary</li> <li>Expense allowances</li> <li>State contribution: Pension Fund</li> </ul>  | 88<br>21<br>007<br>218<br>36<br>28<br>9                      | <b>9</b><br>7<br>1 | 85<br>21<br>944<br>712<br>12<br>85               |
| - State contribution: Medical Aid  M. Rasebopye (Director: SCM)  Resigned: 31 July 2016  - Salary  - Expense allowances  - State contribution: Pension Fund   | 21<br>007<br>218<br>36<br>28<br>9                            | <b>9</b><br>7<br>1 | 21<br>944<br>712<br>112<br>85                    |
| M. Rasebopye (Director: SCM)         Resigned: 31 July 2016         - Salary         - Expense allowances         - State contribution: Pension Fund  | 218<br>36<br>28<br>9   | <b>9</b><br>7<br>1 | 712<br>112<br>85                                 |
| <b>Resigned: 31 July 2016</b><br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund   | 36<br>28<br>9  | 1                  | 12<br>85   |
| <b>Resigned: 31 July 2016</b><br>- Salary<br>- Expense allowances<br>- State contribution: Pension Fund   | 36<br>28<br>9  | 1                  | 12<br>85   |
| - Salary<br>- Expense allowances<br>- State contribution: Pension Fund  | 36<br>28<br>9  | 1                  | 12<br>85   |
| - Expense allowances<br>- State contribution: Pension Fund  | 36<br>28<br>9  | 1                  | 12<br>85   |
|   | 9  |                    |  |
| - State contribution: Medical Aid   | -  |                    | 20   |
|   | 291  | 9                  | 29   |
|   |  |                    | 938  |
| L. van Wyk (Director: Office of the UIC)  |  |                    |  |
| Transferred from the Compensation Fund: 1 September 2015  | CE A   | 2                  |  |
| - Salary<br>- Expense allowances  | 654<br>182   |                    | 358<br>100                                       |
| - State contribution: Pension Fund  | 80   |                    | 46   |
| - Long service award  | 9  |                    | -  |
| ·   | 925  | 5                  | 504  |
| Advocate M.C. Phathela (Legal and Board Services)   |  |                    |  |
| Appointed: 1 September 2009   |  |                    |  |
| - Salary  | 649<br>281   |                    | SO1  |
| - Expense allowances<br>- State contribution: Pension Fund  | 201<br>72  |                    | 221<br>70  |
| - State contribution: Medical Aid   | 8  |                    | 8  |
| - Adjustment  | (39)   |                    | -  |
|   | 971  | 9                  | 900  |
| N.B. Mconywa (Chief Director: Labour Activation Programmes  |  |                    | _  |
| Transferred from the Department of Labour: 1 March 2013   |  |                    |  |
| - Salary  | 989  | 9                  | 957  |
| - Expense allowances  | 107  |                    | 69   |
| - State contribution: Pension Fund  | 89   |                    | 88   |
| - State contribution: Medical Aid   | 9  |                    | 9  |
| 1   | 194  | 11                 | 23   |
| Total Directors emoluments 22   | 2 700  | 18 3               | 32   |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017<br>R '000 | 2016<br>R '000 |
|----------------|----------------|
|                |                |

### 27. Emoluments (continued)

| 27.2.                        | Non-Executive Board members (past and present) fees |                      |                       |       |
|------------------------------|---|----------------------|-----------------------|-------|
| 2017                         |   | Fees for<br>services | Expense<br>allowances | Total |
| Board Members                |   |                      |                       |       |
| G.H. Strauss                 | Re-appointed: 1 November 2014                       | 150                  | 59                    | 209   |
| N.M.W. Vermeulen*            | Re-appointed: 1 November 2014                       | 123                  |                       | 127   |
| L. Kganyago*                 | Re-appointed: 1 November 2014                       | 38                   | 1                     | 39    |
| M.V. Macikama                | Appointed: 1 November 2014                          | -                    | -                     | -     |
| W.M. Nzimande                | Re-appointed: 1 February 2016                       | 50                   | -                     | 50    |
| A. Crawford                  | Appointed: 1 November 2014                          | 33                   | 3                     | 36    |
| A. Franks                    | Appointed: 1 November 2014                          | 4                    |                       | 4     |
| J. Mahlangu                  | Appointed: 1 November 2014                          | 24                   | 5                     | 29    |
| D. Mthalane                  | Appointed: 1 November 2014                          | 51                   | 38                    | 89    |
| N.E. Nwedo                   | Appointed: 1 November 2014                          | 58                   |                       | 65    |
| T. Tshefuta                  | Appointed: 1 November 2014                          | 55                   | 60                    | 115   |
| Audit Committee              |   |                      |                       |       |
| D. Hlatshwayo                | Appointed: 5 March 2014                             | 373                  | 8                     | 381   |
| S. Makhubu                   | Term ended: 13 June 2016                            | -                    | -                     | -     |
| D. Botha                     | Appointed: 22 January 2016                          | 15                   | -                     | 15    |
| K. Reddy                     | Appointed: 4 June 2015                              | -                    | -                     | -     |
| Appeals Committee<br>L. Bale | Regional  | -                    | -                     | -     |
| L.E. Baloyi                  | Regional  | -                    | -                     | -     |
| A.P. Brandmuller             | Regional  | 2                    | -                     | 2     |
| M. Crockett                  | Regional  | -                    | -                     | -     |
| K.C. Cotoza                  | Regional  | 2                    | -                     | 2     |
| S.H. Dlamini                 | Regional  | -                    | -                     | -     |
| J.V. Dliso                   | Regional  | -                    | -                     | -     |
| N. Gceba                     | Regional  | 1                    | 3                     | 4     |
| K. Hlonyana                  | Regional  | 3                    | -                     | 3     |
| K.K. Konopi                  | Regional  | -                    | -                     | -     |
| T. Mabuza                    | Regional  | 3                    | 3                     | 6     |
| M. Majola                    | Regional  | -                    | -                     | -     |
| M.D. Makhafola               | Regional  | -                    | -                     | -     |
| C.P. Maseko                  | Regional  | 5                    | -                     | 5     |
| M. Mazwi                     | Regional  | -                    | -                     | -     |
| R.B.T. Mcetywa               | Regional  | 1                    | -                     | 1     |
| M. Moleme                    | Regional  | 3                    | 2                     | 5     |
| M. Motsepe                   | Regional  | -                    | -                     | -     |
| P.G.F. Ndaba                 | Regional  | 3                    | 3                     | 6     |
| G. Nduluka                   | Regional  | -                    | -                     | -     |
| P.M. Ntuli                   | Regional  |                      | -                     |       |
| J.D. Nzanzeka                | Regional  | 7                    |                       | 7     |
| A Ott                        | Regional  | 4                    | -                     | 4     |

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017       | 2016   |
|------------|--------|
| <br>R '000 | R '000 |

## 27. Emoluments (continued)

| Appeals Committee<br>(continued)   |   | Fees for<br>services  | Expense<br>allowances                 | Total   |
|--|---|---|---------------------------------------|---|
| L.W. Palweni<br>S.M. Seabi<br>K.P. Timmal<br>J.J. Tshupe   | Regional<br>Regional<br>Regional<br>Regional  | 2<br>4<br>-<br>2  | 2                                     | 2<br>6<br>-<br>3  |
| J.G. van Graan<br>C.R. Waterson<br>F. Xaba<br>B.S. Zitha<br>O. Raleka  | Regional<br>Regional<br>Regional<br>Regional<br>Regional  | 1<br>-<br>-<br>3<br>6   | -<br>-<br>-<br>-                      | 1<br>-<br>-<br>3<br>6   |
| Total  | -   | 46  | 15                                    | 1 225   |
| 2016   |   |   |                                       |   |
| Board Members<br>M.V. Macikama<br>G.H. Strauss<br>N.M.W. Vermeulen*<br>L.Kganyago*<br>W.M. Nzimande<br>A. Crawford<br>A. Franks<br>J. Mahlangu<br>D. Mthalane<br>N.E. Nwedo<br>T. Tshefuta | Appointed: 1 November 2014<br>Re-appointed: 1 November 2014<br>Re-appointed: 1 November 2014<br>Re-appointed: 1 November 2014<br>Appointed: 29 January 2013<br>Appointed: 1 November 2014<br>Appointed: 1 November 2014 | -<br>85<br>98<br>41<br>25<br>28<br>16<br>43<br>30<br>35<br>40 | 8<br>-<br>1<br>6<br>2<br>11<br>8<br>7 | 1<br>148<br>106<br>41<br>26<br>34<br>18<br>54<br>38<br>42<br>75 |
| Audit Committee  |   |   |                                       |   |
| D. Hlatshwayo<br>S. Makhubu  | Appointed: 5 March 2014<br>Appointed: 5 March 2012  | 181<br>15   | -<br>5<br>1                           | 186<br>16   |
| Appeals Committee<br>L. Bale<br>L.E. Baloyi<br>A.P. Brandmuller<br>K.C. Cotoza<br>S.H. Dlamini<br>J.V. Dliso<br>M. Crockett<br>A.B. Gxoyiya  | Regional<br>Regional<br>Regional<br>Regional<br>Regional<br>Regional<br>Regional  | -<br>6<br>-<br>2<br>6<br>-                                    | -<br>-<br>2                           | -<br>7<br>-<br>6<br>-<br>4<br>11                                |

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 27. Emoluments (continued)

| Appeals Committee<br>(continued) |          | Fees for<br>services | Expense<br>allowances | Total |
|----------------------------------|----------|----------------------|-----------------------|-------|
| K. Hlonyana                      | Regional | 4                    | 2                     | 6     |
| K.K. Konopi                      | Regional | 2                    | 1                     | 3     |
| T. Mabuza                        | Regional | 3                    | 4                     | 7     |
| T.M Thebe                        | Regional | 1                    | -                     | 1     |
| M. Mazwi                         | Regional | (3)                  | -                     | (3)   |
| C.P. Maseko                      | Regional | 3                    | -                     | 3     |
| R.B.T. Mcetywa                   | Regional | 1                    | 6                     | 7     |
| M. Molewe                        | Regional | 2                    | 4                     | 6     |
| M. Motsepe                       | Regional | 4                    | 2                     | 6     |
| P.G.F. Ndaba                     | Regional | 10                   | 8                     | 18    |
| P.M Ntuli                        | Regional | 1                    | 4                     | 5     |
| J.D. Nzanzeka                    | Regional | 6                    | -                     | 6     |
| L.W. Palweni                     | Regional | 1                    | -                     | 1     |
| S.M. Seabi                       | Regional | 3                    | 2                     | 5     |
| J.J. Tshupe                      | Regional | 3                    | 2                     | 5     |
| J.G. van Graan                   | Regional | 2                    | -                     | 2     |
| C.R. Waterson                    | Regional | 6                    | -                     | 6     |
| F. Xaba                          | Regional | -                    | 1                     | 1     |
| B.S. Zitha                       | Regional | 3                    | -                     | 3     |
| O. Raleka                        | Regional | 2                    | 1                     | 3     |
|                                  |          | -                    | -                     | -     |
| Total                            |          | 846                  | 258                   | 1 104 |

\* Board Members who served on the Audit Committee.

#### 28. Transactions under investigation

The Fund is vulnerable to fraudulent claims and is dependent on employee information supplied by employers via declarations and claimants' affidavits that they are unemployed. The Fund ensures that its systems and procedures are robust to detect and prevent payments made in error and/or fraudulent payments where possible.

Transactions under investigation are transactions when there is objective evidence requiring investigation by Risk Management such as intercepted payments, office errors, bank errors, unauthorised bank transactions, incorrect contribution refunds and all other transactions where objective evidence require investigation. Risk Management Transactions are categorised in Transactions under investigation and Actual Fraud Detected and form part of "Trade and other receivables" – non financial assets.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|                                      | 2017<br>R '000 | 2016<br>R '000 |
|--------------------------------------|----------------|----------------|
| Transactions under Investigation     |                |                |
| Actual Fraud detected - Benefits     | 12 381         | 10 512         |
| Actual Fraud detected - Non benefits | 281            | 281            |
| Transactions under Investigation     | 30             | 8              |
|                                      | 12 692         | 10 801         |
| Impairment                           | 12 692         | 10 801         |

#### 28. Transactions under investigation (continued)

Transactions under investigation are 100% impaired until evidence exist that measurable and probable economic benefits will flow to the Fund or there is no recovering probability and amounts are written off against the debtor's account. The portion not impaired for during the financial year under review are new transactions under investigation for which the recovering probability was not certain.

Recoveries of amounts previously written off are disclosed against "other income" in the statement of financial performance.

#### 29. Write off of overpayments

#### **Overpayments – Irrecoverable**

The Overpayment Policy and Procedures of the Fund makes provision for write-off of debts that are deemed irrecoverable after all reasonable steps have been taken to recover the debt. These write-offs are in line with Section 11.4 of the Treasury Regulations and Section 76(1)(e) of the Public Finance Management Act.

Included in the "administrative expenses" is an amount of R67,312,453 (2016: R49,797,664) for irrecoverable overpayments which were written off during the financial year.

| Overpayments written off   |        |        |
|----------------------------|--------|--------|
| Irrecoverable overpayments | 67 312 | 49 798 |

#### **Cancellation of Invalid Overpayments**

#### Invalid overpayments

The Fund is regularly faced with cases where overpayment debts are disputed by clients or new evidence that comes to the Fund's attention that make the overpayment noted earlier invalid. In the cases where the dispute or new information is valid and the debts are found not to be valid, these debts need to be cancelled as invalid on the system. The reasons for the invalid overpayment cancellations are:

- · New declaration lodged by the Employer and/or
- Credit days incorrectly calculated the old overpayment is cancelled and new one created and/or
- · Proof of prior payment in the LINC system and/or
- · Overpayment erroneously created against an incorrect debtor

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|     |  | 2017<br>R '000        | 2016<br>R '000            |
|-----|--|-----------------------|---------------------------|
| 30. | Irregular expenditure  |                       |                           |
|     | Opening balance<br>Add: Irregular expenditure - current year<br>Less: Amounts condoned | 64 456<br>35 497<br>- | 20 710<br>43 895<br>(149) |
|     |  | 99 953                | 64 456                    |

The following irregular expenditure under investigation which was incurred in the 2016/2017 Financial Year is as follows:

Expenditure of R8,341,875.00 in respect of the funding agreement entered into between the Fund and MERSETA for the period of November 2011 to December 2014. Expenditure of R14,901,135.00 in respect of memorundum agreement entered into between the Fund and MERSETA for the Funding of training allowances for the period April 2013 to November 2016. Expenditure of R8,455,000.00 in respect of the Funding agreement entered into between the Fund and MQA for the period November 2011 to December 2014. Expenditure of R3,621,750.00 in respect of the Funding agreement entered into between the Fund and MQA for the period November 2011 to December 2014. Expenditure of R3,621,750.00 in respect of the Funding agreement entered into between the Fund and EWSETA for the period November 2011 to December 2014.

#### 30. Irregular expenditure (continued)

Expenditure R28,782.72 in respect of the interest payable to Toyota whic accumulated as a result of the delayed payment of he shortfall amount in relation of the four(4) Toyota Corolla procured through the RT57 still at the transeversal contract.

#### 31. Risk management

#### Introduction

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Fund's continuing sustainability and each individual within the Fund is accountable for the risk exposure relating to his or her responsibilities. The Fund is exposed to a variety of risks: operational risk, regulatory and legislative risk, litigation risk, insurance risk and financial risk including (market risk – price and interest rate risk- credit risk, and liquidity risk) as well as model/valuation risks, and concentration risk.

#### **Risk management structure**

The Accounting Authority is ultimately responsible for identifying and controlling risks however there are separate bodies and business units responsible for managing and monitoring risks, as per section 51(1)(a)(i) of the Public Finance Management Act (Act no. 1 of 1999).

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017  | 2016     |
|-------|----------|
| R '00 | 0 R '000 |

#### **Unemployment Insurance Board**

The Fund's Board recommends the principles for overall risk strategy, as well as policies covering specific areas, such as operational risk, insurance risk, market risk (price and interest rate risk) liquidity risk and credit risk, use of derivative financial instruments, and investment of excess liquidity to Management and the Accounting Authority for approval. The Board appointed sub-committees such as the Financial and Risk Advisory Committee (previously Finance Advisory Committee) to oversee special areas of risk.

#### Investment Committee (Sub Committee of Unemployment Insurance Board)

The Investment Committee has the overall responsibility to monitor operational risk, insurance risk, market risk (price and interest rate risk) liquidity risk and credit risk, use of derivative financial instruments and investment of excess liquidity. The Committee provides an independent control process to ensure the maintaining of risk related procedures over the Asset Manager in line with the approved investment mandate that is based on an asset and liability modeling study.

#### **Risk Management Unit**

The Risk Management unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies including implementing and maintaining risk related procedures to ensure an independent control process. The Risk management strategy and policy of the Fund encompasses all significant business risks including financial, operation and compliance risks. The oversights of risk management processes in the Provinces are provided for by an Integrated Provincial Risk Management Committee under the control of the Provincial Executive Manager.

#### **Internal Audit Unit**

Risk management processes throughout the Fund are independently audited by the internal audit function that examines both the adequacy and efficiency of the risk management programmes of the Fund. Internal Audit discusses the results of assessments with management, and reports its findings and recommendations to the Fund's Audit Committee.

#### **Investment and Treasury Unit**

The Fund's Treasury Unit is responsible for managing the Fund's financial assets and liabilities and the overall financial structure. It is primarily responsible for the funding and liquidity risks of the Fund.

In terms of section 7 of the Unemployment Insurance Act the Public Investment Corporation Limited (PIC) invests funds on behalf of the Fund and acts as the Fund asset managers based on an approved mandate.

During the course of conducting its business, PIC and UIF could be exposed to a variety of risks that may arise for various reasons that are inherent to the investment management processes and business. A summary of major risks that are of particular significance to PIC's business to funds under management are presented below. These risks are managed in accordance with the UIF's investment mandate and established and approved risk management policies and procedures.

# Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The PIC recognises that the most significant financial risks to invested assets are: market risk (price risk and interest rate risk) credit risk and liquidity risk. The PIC manages these risks by setting limits on individual assets, sector and asset classes taking into account relationships between assets and the benefits of diversifying investment risk.

The investment management objective is to achieve above market returns within acceptable risk parameters. The risk appetite is determined by the investment mandates in the form of risk parameters and limits. These parameters are customarily set very conservatively or at least lower than the market average. Risk management's more specific objective is to minimise potential losses without impeding excessively on the potential upside that some risky assets can produce.

#### PIC – Risk Parameters

Monitoring and controlling risks are primarily performed based on limits established by the Fund. These limits reflect the business strategy and market environment of the Fund as well as the level of risk that the Fund is willing to accept. In addition, the Fund monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from businesses units and the Asset Manager is examined and processed in order to analyse, control and identify early risks by Management and the Investment Committee. This information is presented and explained to the Unemployment Insurance Board that makes the necessary recommendations to the Accounting and Executive Authority. The PIC in addition executes their investment management processes according to their own risk management policy and procedures.

#### **Capital Management**

#### Approach to capital management

The Unemployment Insurance Fund seeks to optimize the structure and source of capital to ensure a sustainable organization that can meet its Unemployment Insurance obligations as per the Unemployment Insurance Act (Act no. 63 of 2001) and consistently strive to improve benefits to its stakeholders.

The Fund's approach to managing capital involves managing assets, liabilities and risks in a coordinated way.

#### **Regulatory framework**

Regulators are primarily interested in protecting the rights of registered Employers and Employees and monitor the Fund closely to ensure that Management is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Fund maintains an appropriate solvency position to meet liabilities arising from unemployment.

The Fund collects and receives contributions under the Unemployment Insurance Contributions Act (Act no. 4 of 2002).

In accordance with the Unemployment Insurance Act (Act no. 63 of 2001), contributions received is managed and unemployment insurance claims are paid.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 201  | 7 20     | 16 |
|------|----------|----|
| R '( | 000 R '0 | 00 |

Section 5 of the Unemployment Insurance Act (Act no. 63 of 2001) regulates the **Application of the Fund.** 

#### The Fund must be used for the:

- payment of benefits in terms of this Act;
- · reimbursement of excess contributions to employers;
- payment of remuneration and allowances to members of the Unemployment Insurance Board and

its

- committees; and
- any other expenditure reasonably incurred and relating to the application of this Act.

Section 7 of the Unemployment Insurance Act (Act no. 63 of 2001) regulates the **Investment of money** of the Fund.

The money of the Fund, other than money required to meet the current expenditure of the Fund, may be deposited on behalf of the Fund by the Director-General with the Public Investment Corporation Limited (PIC) to be invested in terms of the Public Investment Corporations Act and the Funds Investment mandate.

Section 9 of the Unemployment Insurance Act regulates the **Appointment of an annual review by an actuary.** 

The Director-General must appoint an actuary within two months after the end of each financial year. The actuary must review the financial soundness of the Fund for that financial year, and provide an actuarial valuation report to the Director-General.

The actuarial valuation report must contain at least a statement reflecting the actuarial value of the assets and liabilities of the Fund, the financial soundness of the Fund and recommendations for the maintenance or improvement of the financial soundness of the Fund (Technical Reserves, Claims incurred but not enough reported (IBNER) and Claims incurred but not reported (IBNR).

Section 10 of the Unemployment Insurance Act regulates the Surplus and deficit in the Fund.

The Director-General must report and make recommendations to the Minister if the difference between income and expenditure of the Fund is greater than is required to meet payments for benefits or insufficient or not increasing at a sufficient rate to meet payments for benefits that may reasonably be anticipated.

The Minister, after consultation with the Board, may utilise the surplus to give effect to the purposes of this Act, including improving the administrative efficiency and capacity of the Board and Fund and establishing a reserve fund.

The Minister may request the Minister of Finance to adjust the national budget in the manner contemplated in sections 16 and 30 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), in order to cover any deficit in the Fund.

Financial Management of the Fund is in accordance with the Public Finance Management Act (Act 1 of 1999) (PFMA) and relevant National Treasury Regulations.

| Annual Financial Statements for the year ended 31 March 2017 |
|--|
| Notes to the Annual Financial Statements                     |

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### Section 53 of the PFMA

The accounting authority must submit to the responsible executive authority, at least six months before the start of a financial year of the designated department, a budget of estimated revenue and expenditure for that financial year.

The Schedule 3 non-business public entities may not budget for a deficit or a surplus unless prior written approval of the National Treasury has been obtained.

Capital management objectives, policies and approach

The Fund's capital management objectives, policies and approach are based on the relevant legislation.

An annual business plan and budget recommended by the UI Board supported by the actuarial valuation report is submitted to the executive authority for approval.

The actuarial valuation report and recommendations for the maintenance or improvement of the financial soundness of the Fund is utilized annually to make provision for the required Technical Reserves and Provision for outstanding benefits which comprises of Claims incurred but not reported (IBNR) and Claims incurred but not enough reported (IBNER).

Written approval is annually obtained from the National Treasury to budget for a surplus.

The Fund has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

The capital structure of the Fund consists of net debt (benefits payable as detailed in note 22 offset by cash and cash equivalents as detailed in note 16) and equity of the Fund (comprising the technical reserves and accumulated surplus).

#### The ratio at the end of the reporting period was as follows:

| Benefits payable          | 5 202 760          | 4 234 927          |
|---------------------------|--------------------|--------------------|
| Cash and cash equivalents | (1 297 421)        | (3 812 863)        |
| Net benefits payable      | 3 905 339          | 422 064            |
| Technical reserves        | 23 121 174         | 21 621 408         |
| Accumulated surplus       | 110 216 225        | 98 503 433         |
| <b>Equity</b>             | <b>133 337 399</b> | <b>120 124 841</b> |

Benefits payable is set out in note 23 and excludes trade and other payables and derivative financial instruments.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017<br>R '000 | 2016<br>R '000 |
|----------------|----------------|
|                |                |

#### Asset Liability Management (ALM) framework

The main risk that the Fund faces is unemployment insurance claims as per the Unemployment Insurance Act (Act no. 63 of 2001) and financial risks due to the nature of its investments. The Fund manages these positions through an investment mandate with the PIC that is informed by Asset and Liability Modeling (ALM) studies. The Funds Investment Committee commission regular Asset and Liability Modeling studies to ensure an appropriate investment policy and mandate.

The principal technique of the Funds ALM is to match assets to the liabilities arising from administrating the Unemployment Insurance Act (Act no. 63 of 2001). The Funds ALM is integrated with the management of the financial risks associated with the Funds assets and liabilities directly associated with unemployment insurance and form an integral part of the unemployment insurance risk management to ensure that in each period there is sufficient cash flow available to meet liabilities arising from unemployment insurance claims and administrating the Unemployment Insurance Act (Act no. 63 of 2001).

#### **Operational risk**

Operational risk is the risk of loss arising from system failure, human error or external events. When controls fail to perform; operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Unemployment Insurance Fund can not eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risk, the Unemployment Insurance Fund is able to manage the risk. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff education and assessment processes, including the use of a risk management section and internal audit that review the effectiveness of the control environment and external insurance policies. Business risk such as change in environment and technology are monitored through the Unemployment Insurance Fund's strategic planning process.

#### Insurance risk

The Unemployment Insurance Fund provides unemployment-, illness-, maternity-, adoption- and dependant benefits as prescribed by the Unemployment Insurance Act (Act no. 63 of 2001) amended. For unemployment claims, the most significant risk arises from changes in the employment market. The insurance risk covers a four year period based on the fact that benefits accrue to a maximum of 238 days in the four year period immediately preceding the date of application for benefits.

The Unemployment Insurance Fund's risk is limited through the Unemployment Insurance Act (Act no. 63 of 2001) amended, that allows a maximum accrual of 238 days benefit in a four year period, calculating the benefit payable to a contributor, based on the daily rate of remuneration of the contributor, subject to the prescribed maximum. Further, strict claim review policies to assess all new and ongoing claims in the operational system, SIYAYA, that apply numerous controls based on external verification. Regular detail review of the claims handling procedures and ongoing investigation of possible fraudulent claims are some of the policies and procedures put in place to reduce the risk exposure of the Unemployment Insurance Fund.

The Fund maintains a fully funded position to mitigate its insurance risk.

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  | 2017<br>R '000 | 2016<br>R '000 |
|--|----------------|----------------|
| Technical Reserve  |                |                |
| "Unearned contribution revenue" (UCR) the "unexpired risk" - Statement |                |                |
| of financial position  | 23 121 174     | 21 621 408     |
| Benefits payable   |                |                |
| Claims incurred but not reported (IBNR) and approved reported benefits |                |                |
| payable - Note 23  | 5 196 507      | 4 228 058      |
|  | 28 317 681     | 25 849 466     |

#### Market risk

Accot class

Market risk is the potential loss due to an adverse movement in the market value of assets. The financial services industry is influenced by various unpredictable factors, that include economic conditions, monetary and fiscal policies, market liquidity, cost and availability of capital, political events, acts of terror and investor sentiment. Any change to these factors may result in volatility in interest rates, exchange rates, equity and commodity prices and credit spreads.

Exposure to market risk is formally managed through a diverse investment portfolio in accordance to the risk parameters and limits agreed with the PIC in a formal investment mandate. The following benchmarks are set out in the Fund's mandate and tracked by the PIC:

Ronchmark

| A3361 Cla33                   | Dencimiark   |
|-------------------------------|--|
| Bonds<br>Cash & Money Markets | Besa All Bond Index (ALBI) and CILI<br>STEFI Indexes |
| Equities<br>Listed Property   | FTSE/JSE(SWIX) excluding Property<br>J253            |
| African Investments           | MSCI(African ) excluding Propertyt                   |
| Foreign Equity                | MSCI (All Country World Index) Excl SA               |

Risk parameters were set as follows

#### Total risk of the Fund

#### Additional text

Maximum total risk (volatility or annualised standard deviation) of the Fund will be set at 2% above the average total risk of the benchmark measured over 24 months of monthly returns. The maximum tracking error will be 2% per annum measured over 24 months of monthly returns.

#### **Fixed Income**

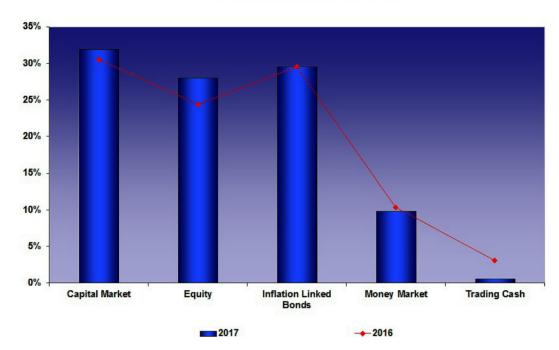
Modified duration of fixed income portfolio will not be more than 6. A combination of conventional bonds and inflation linked bonds will be used to achieve the target duration.

#### Equities

The volatility of the equity portion of the Fund will not be more than 2% above the benchmark volatility. Tracking error maximum of 1.5% ensures that the Fund does not take excessive risk relative to the benchmark.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017<br>R '000 | 2016<br>R '000 |
|----------------|----------------|
|                |                |



### **UIF Investment Portfolio Summary**

#### **Concentration Risk**

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentration in a particular or correlated asset class, sector, issuer, term structure or financial instrument type can result in undesirable risk exposures. PIC manages this risk in accordance with the investment mandate, which dictates the level of concentration.

#### Establishment of investment limits per counterparty

Capital Market

RSA Government Bonds Explicit RSA Government Guaranteed AA rated or better A rated or better Maximum 100% Maximum 40% Maximum 20% Maximum 10%

Money Market and Cash

Money market investments are spread across the Top Five South African Banks in order to diversify the Clients exposure. Limits are set utilizing the DI900 information supplied to the South African Reserve Bank.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |
|        |        |

#### Establishment of investment limits per investment instrument

#### **Capital Markets**

| Government Bonds     | Maximum 100% |
|----------------------|--------------|
| Non-Government Bonds | Maximum 20%  |

In order to avoid excessive concentration of risk, the Fund's policies and procedures include the above mentioned specific guidelines that focus on maintaining a diversified portfolio.

| 2017                  | 2016  | Movement  |
|-----------------------|---|---|
| 10.48%                | 13.71%  | -3.24%  |
| 6.65%                 | 18.51%  | -11.86%   |
| 17.17%                | 12.33%  | 4.84%   |
| 16.80%                | 19.06%  | -2.26%  |
| 16.72                 | 12.90%  | 3.81%   |
| 16.86%                | 12.89%  | 3.97%   |
| 3.75%                 | 4.93%   | -1.19%  |
| 11.29                 | 9.39%   | 1.90%   |
| 4.76%                 | 4.07%   | 0.69%   |
| 5.99%                 | 4.37%   | 1.63%   |
| 0.00%                 | 0.60%   | -0.60   |
| 0.00%                 | 0.94%   | -0.94   |
| 61.49%                | 61.36%  | 0.13%   |
| 30.63%                | 33.04%  | -2.41%  |
| 18.82%                | 15.05%  | 3.76%   |
| 2.50%                 | 2.75%   | -0.26%  |
| 48.06%                | 49.51%  | -1.09   |
| <b>24.93%</b><br>100% | <b>24.93%</b><br>100%   | <b>0.00%</b><br>0.00%   |
|                       | 10.48%<br>6.65%<br>17.17%<br>16.80%<br>16.72<br>16.86%<br>3.75%<br>11.29<br>4.76%<br>5.99%<br>0.00%<br>0.00%<br>61.49%<br>30.63%<br>18.82%<br>2.50%<br>48.06% | 10.48%         13.71%           6.65%         18.51%           17.17%         12.33%           16.80%         19.06%           16.72         12.90%           16.86%         12.89%           3.75%         4.93%           11.29         9.39%           4.76%         4.07%           5.99%         4.37%           0.00%         0.60%           0.00%         0.94%           61.49%         61.36%           30.63%         33.04%           18.82%         15.05%           2.50%         2.75%           48.06%         49.51%           24.93%         24.93% |

The Funds change in exposure to Liquidity-, Credit-, Concentration- and Market Risk is directly related to the changes in allocation of the investment portfolio to the various approved asset classes. The Fund's Money Markets decreased with 11.86% and decreased its holding on Capital Markets with 3.24%.

#### Price risk

#### Equity price risk

Equity Portfolio value R36,966,875 (2016: R30,259,911,691)

This risk is the potential financial loss as a result of movements in the level or volatility of equity prices, which affects the value of equity and equity derivative instruments. UIF has exposure to equity price risk as a result of its investments in equity instruments and equity derivatives.

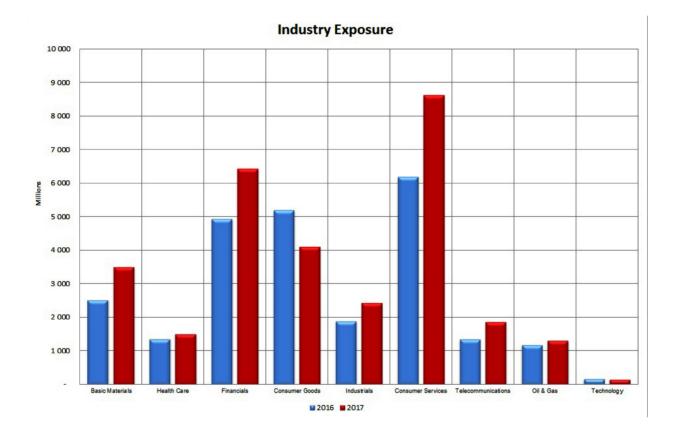
## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The sensitivity to equity market is measured by the beta of the equity exposure. Such beta is managed relative to the industry classification benchmark. The equity exposure is closely tracking the index and has more or less the same beta as the benchmark. Derivatives are used to hedge the equity exposure at all times and therefore help minimise the downside risk.

Stress testing is a risk management technique to evaluate the potential effects on an institution's financial condition, of a set of specified changes in risk factors (particularly market risk), corresponding to exceptional but plausible events. Stress testing includes scenario testing and sensitivity testing.

To perform stress testing listed equity needs to be grouped using industry classification benchmark.



Portfolio sensitivity testing highlights the key risks or touch points of the portfolio to the market. In this case, sensitivity testing of the UIF portfolio were performed to the equity indices.

Sensitivity testing typically involves an incremental change in a risk factor (or a limited number of risk factors). Analysis over a shorter time horizon were conducted to simulate an instantaneous shock.

Using a historical beta, for any instantaneous shock on our risk factor determined the impact on the portfolio.

# Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

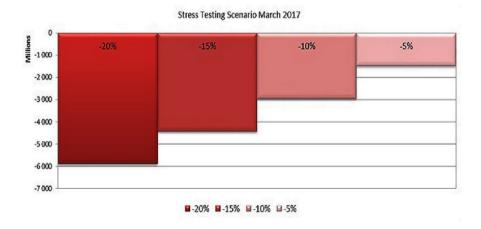
| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The sensitivity to equity market is measured by the beta of the equity exposure. Such beta is managed relative to the industry classification benchmark. The equity exposure is closely tracking the index and has more or less the same beta as the benchmark. Derivatives are used to hedge the equity exposure at all times and therefore help minimise the downside risk.

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condition, of a set of specified changes in risk factors (particularly market risk), corresponding to exceptional but plausible events. Stress testing includes scenario testing and sensitivity testing.

To perform stress testing listed equity needs to be grouped using industry classification benchmark.



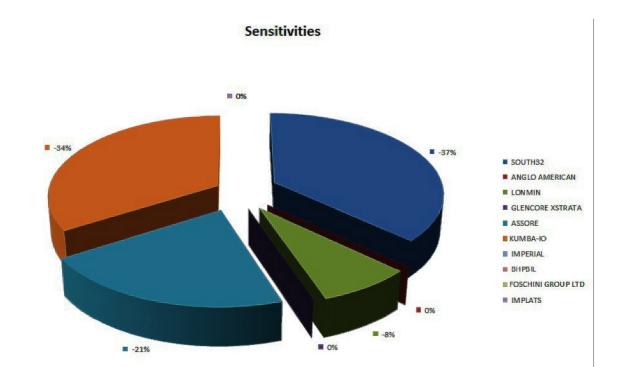
| Price change (%) | Profit/Loss<br>(Rand) | % Change<br>profit/loss | Market value<br>fund (Rands) |
|------------------|-----------------------|-------------------------|------------------------------|
| -1.00%           | (55 899 235)          | -1.00%                  | 5 773 234 851                |
| 0.00%            |                       | 0.00%                   | 5 829 134 087                |
| 1.00%            | 55 899 235            | 1.00%                   | 5 885 033 322                |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The table below shows the top 10 high beta or highly sensitive stocks - listed equity.

| Security name      | Betas | Sensitivity (Rands) |
|--------------------|-------|---------------------|
| SOUTH32            | 2.13  | (851 560)           |
| ANGLO AMERICAN     | 2.07  | (15 845 080)        |
| LONMIN             | 2.04  | (180 204)           |
| GLENCORE XSTRATA   | 1.64  | (2 750 283)         |
| ASSORE             | 1.61  | (487 882)           |
| KUMBA-IO           | 1.57  | (780 994)           |
| IMPERIAL           | 1.54  | (2 058 369)         |
| BHPBIL             | 1.5   | (8 001 040)         |
| FOSCHINI GROUP LTD | 1.45  | (3 656 408          |
| IMPLATS            | 1.45  | (2 149 643)         |



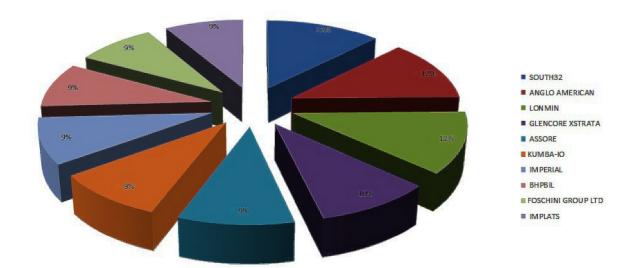
Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

| Security name        | Betas | Risk       |
|----------------------|-------|------------|
| MEDICLINIC INT. PLC  | -5.39 | 16 168 834 |
| AFRICAN PHOENIX INV  | -4.06 | (12 720)   |
| GAIA INFRASRTUCTURE  | -3.23 | 83 690     |
| TRELLIDOR HOLDINGS   | -3.07 | 172 680    |
| PREMIER FOOD FISHING | -0.6  | (92 674)   |
| NEWGOLD              | -041  | 6 814      |
| PAN-AF               | -0.26 | 18 481     |
| ELLIES               | -0.22 | 6 081      |
| HULISANI             | -0.17 | (284 833)  |
| BRIMSTN-N            | -0.17 | 19 477     |

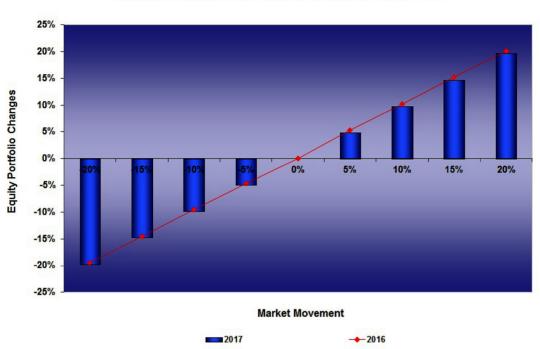
The table below shows the bottom 10 betas or defensive stocks - listed equity.

**Beta Adjusted Exposure** 



Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |



## Sensitivity analysis of UIF Equities to market movements

The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.

#### Equities

Effect on value of equities

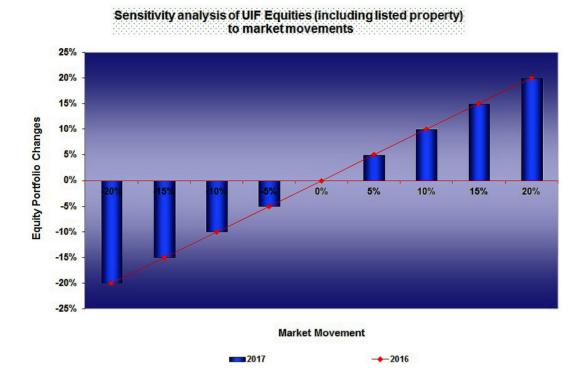
| <b>R</b> 'billion | -15%   | -10%   | -5%    | 0%     | 5%     | 10%    | 15%    |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| 2016              | 21,068 | 22,287 | 23,507 | 24,640 | 25,946 | 27,164 | 28,383 |
| 2017              | 25,183 | 26,630 | 28,077 | 29,523 | 30,970 | 32,417 | 33,863 |

Effect on surplus/deficit

| %    | -15%   | -10%   | -5%   | 0% | 5%   | 10%    | 15%   |
|------|--------|--------|-------|----|------|--------|-------|
| 2016 | -14.5% | -9.55% | -4.6% | 0% | 5.3% | 10.24% | 5.19% |
| 2017 | -14.7% | -9.8%  | -4.9% | 0% | 4.9% | 9.8%   | 14.7% |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |



The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.

Equities (including listed property) excluding equity options

Effect on value of listed property

| <b>R</b> 'billion | -15%   | -10%   | -5%    | 0%     | 5%     | 10%    | 15%    |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| 2016              | 25,721 | 28,234 | 28,747 | 30,260 | 31,773 | 33,285 | 34,799 |
| 2017              | 29,957 | 31,719 | 33,482 | 35,244 | 34,006 | 38,768 | 40,530 |

Effect on surplus/deficit

| %    | -15%    | -10%    | -5%    | 0% | 5%    | 10%    | 15%    |
|------|---------|---------|--------|----|-------|--------|--------|
| 2016 | -15%    | - 10%   | -5%    | 0% | 5%    | 10%    | 15%    |
| 2017 | -15.00% | -10.00% | -5.00% | 0% | 5.00% | 10.00% | 15.00% |

The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017 | 7 2016    |
|------|-----------|
| R '0 | 00 R '000 |
|      |           |

#### Listed property

Effect on value of listed property

| <b>R</b> 'billion | -15%  | -10%  | -5%   | 0%    | 5%    | 10%   | 15%   |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| 2016              | 4     | 5     | 5     | 5 239 | 5 448 | 5 763 | 6 024 |
| 2017              | 4 453 | 4 715 | 4 977 | 5 239 | 5 448 | 5 763 | 6 024 |

Effect on surplus/deficit

| %    | -15%    | -10%   | -5%    | 0%    | 5%     | 10%   | 15%    |
|------|---------|--------|--------|-------|--------|-------|--------|
| 2016 | -14.00% | -9.33% | -4.67% | 0.00% | -4.67% | 9.33% | 14.00% |
| 2017 | -14.00% | -9.33% | -4.67% | 0.00% | -4.67% | 9.33% | 14.00% |

Below is the portfolio sensitivities of a -1% move to the SA property Index (J253)\*.

| Price change (%) | Profit/loss (Rands) | % Change profit/loss | Market value fund (Rands) |
|------------------|---------------------|----------------------|---------------------------|
| -1.00%           | (56 194 267)        | -1.00%               | 5 563 232 486             |
| 0.00%            |                     | 0.00%                | 5 619 426 753             |
| 1.00%            | 54 194 267          | 1.00%                | 5 675 621 021             |

The table below shows the top 10 high beta or highly sensitive stocks.

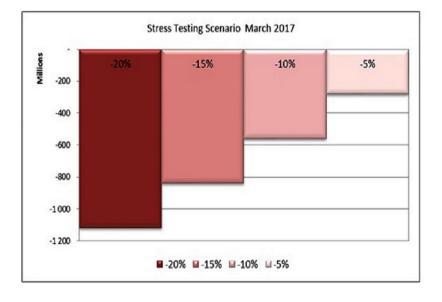
| Stocks               | Betas | Risk (Rands) |
|----------------------|-------|--------------|
| HYPROP               | 1.25  | (11 622 507) |
| REDEFINE             | 1.25  | (6 189 455)  |
| GROWPNT              | 1.2   | (13 584 291) |
| RESILIENT REIT LTD   | 1.1   | (5 719 030)  |
| NEW EUROPE PROP INV  | 0.8   | (4 065 025)  |
| VUKILE               | 0.94  | (1 755 835)  |
| FORTRESS INCOME FUND | 0.99  | (3 639 163)  |
| FORTRESS INCOME FUND | 0.71  | (1 962 826)  |
| SA-CORP              | 0.78  | (1 694 079)  |
| OCTODEC              | O.8   | (441 484)    |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017<br>R '00 | 2010 |
|---------------|------|
|               |      |

The table below shows the bottom 10 betas or defensive stocks.

| Stocks                  | Betas | Risk (Rands) |
|-------------------------|-------|--------------|
| ACCELERATE PROP<br>FUND | -0.78 | 490 752      |
| STENPROP                | 0.02  | (7 699)      |
| ECHO POLSKA PROP        | 0.08  | (45 538)     |
| MAS PLC                 | 0.16  | (109 220)    |
| DELTA PROPERTY FUND     | 0.23  | (132 101)    |
| INTU PROPERTIES PLC     | 0.35  | (359 541)    |
| INVESTEC PROP. FUND     | 0.38  | (275 288)    |
| CAPITAL COUNTIES        | 0.38  | (397 671)    |
| TRADEH                  | 0.43  | (48 666)     |
| ATTACQ LIMITED          | 0.55  | (824 194)    |



#### Interest rate risk

Bond Portfolio value R76,628,755,360 (2016: R74,495,790,272) Bills, Promissory notes and Negotiated certificates of deposit Portfolio value R2,682,054,810 (2016: R3,067,733,175) Fixed deposit Portfolio value R10,321,950,803 (2016: R9,609,535,410) Social Responsible Investments value R6,175,115,943(2016: R2,590,972,734)

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The Money market instruments are stressed via shifting the curve and hence its yield by the specified quantum and then revaluing the instruments (present valued at the effective yield). The aggregate value of all the instruments represents the money market portfolio value and the difference with the base value i.e. the current value, represents the gain or loss. For the bonds the yields to maturity is moved by the specified quantum and the bond re-valued (bond pricing formula). The aggregate value of all the instruments represents the bond portfolio value and the difference with the base value i.e. the current value represents the gain or loss. The Equity prices are moved by the specified percentage and the instruments is then revalued (price multiplied by holdings) at the new price. The aggregate value of all the equity instruments represents the equity portfolio value and the difference with the base value i.e. the current value represents the equity portfolio value and the difference with the base value of all the equity instruments represents the equity portfolio value and the difference with the base value of all the equity instruments represents the equity portfolio value and the difference with the base value of all the equity instruments represents the equity portfolio value and the difference with the base value i.e. the current value represents the gain or loss.

Similarly for the option the underlying index value is moved by the specified percentage and the options revalued (Black-Scholes formula). The aggregate value of all the option instruments represents the option portfolio value and the difference with the base value i.e. the current value represents the gain or loss. The addition of the stressed values of the equity and option portfolios represents the stressed values of the hedged equity portfolio.

#### Bonds

Effect on value of bonds

| <b>R</b> 'billion | -150%  | -100%  | -50%   | 0%     | 50%    | 100%   | 150%   |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| 2016              | 75,052 | 75,008 | 74,968 | 74,931 | 74,897 | 74,865 | 74,836 |
| 2017              | 88,889 | 84,291 | 80,460 | 76,628 | 73,563 | 69,732 | 67,433 |

Effect on surplus/deficit

| %    | -150%  | -100%  | -50%  | 0% | 50%    | 100%   | 150%    |
|------|--------|--------|-------|----|--------|--------|---------|
| 2016 | 16.24% | 10.36% | 4.96% | 0% | -4.57% | -8.79% | -12.69% |
| 2017 | 16%    | 10%    | 5%    | 0% | -4%    | -9%    | -12%    |

# Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |
|        |        |

### Money Markets (Excluding Fixed Deposits)

Effect on value of money markets (excluding fixed deposits)

| <b>R</b> 'billion | -150% | -100% | -50%  | 0%    | 50%   | 100%  | 150%  |
|-------------------|-------|-------|-------|-------|-------|-------|-------|
| 2016              | 3,245 | 3,238 | 3,231 | 3,224 | 3,217 | 3,210 | 3,204 |
| 2017              | 2,699 | 2,693 | 2,687 | 2,682 | 2,676 | 2,670 | 2,664 |

#### Effect on surplus/deficit

| %    | -150% | -100% | -50%  | 0% | 50%    | 100%   | 150%   |
|------|-------|-------|-------|----|--------|--------|--------|
| 2016 | 0.65% | 0.435 | 0.21% | 0% | -0.21% | -0.42% | -0.64% |
| 2017 | 0.66% | 0.44% | 0.22% | 0% | -0.22% | -0.43% | -0.65% |

#### Money Markets (Including Fixed Deposits)

Effect on value of money markets (including fixed deposits)

| <b>R</b> 'billion | -150%  | -100%  | -50%   | 0%     | 50%    | 100%   | 150%   |
|-------------------|--------|--------|--------|--------|--------|--------|--------|
| 2016              | 12,905 | 12,882 | 12,858 | 12,834 | 12,809 | 12,786 | 12,761 |
| 2017              | 13,076 | 13,052 | 13,027 | 13,004 | 12,980 | 12,955 | 12,932 |

Effect on surplus/deficit

| %    | -150% | -100% | -50%  | 0% | 50%    | 100%   | 150%   |
|------|-------|-------|-------|----|--------|--------|--------|
| 2016 | 0.56% | 0.38% | 0.19% | 0% | -0.19% | -0.37% | -0.56% |
| 2017 | 0.56% | 0.37% | 0.18% | 0% | -0.18% | -0.37% | -0.55% |

## Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

### Liquidity risk

Liquidity risk arises when there are insufficient liquid assets (cash and readily convertible securities) available to meet financial obligations.

The UIF's investment mandate stipulates the strategic asset allocation percentage of the total holdings that must comprise of liquid assets (Cash and Money markets). A significant portion of assets is held in cash and near-cash (money market).

The Fund's strategic asset allocation stipulates that minimum 10% to maximum 30% of the total holdings must comprise of liquid assets.

Liquidity risk is also managed by investing a large portion of assets in instruments (money market, bonds and equities) that trade actively in efficient and liquid markets.

Asset allocation ranges and attribution analysis on overall performance passive benchmark as per investment mandate.

| Category                         | Asset allocation<br>Ranges (%) | Strategic asset allocation<br>(%) |
|----------------------------------|--------------------------------|-----------------------------------|
| Cash and Money Market            | 5% - 20%                       | 10.50%                            |
| Capital Market: Nominal Bonds    | 20% - 40%                      | 30.00%                            |
| Capital Market: CPI Linked Bonds | 20% - 40%                      | 30.00%                            |
| Domestic Equity                  | 10% - 30%                      | 21.00%                            |
| Listed Property                  | 0% - 5%                        | 2.50%                             |
| African Investments              | 0% - 5%                        | 2.00%                             |
| Foreign Investments              | 0% - 10%                       | 4.00%                             |

#### **Social Responsible Investment**

Social Responsible Investments was not modelled as a separate asset class since it is a theme across other asset classes and could be listed or un-listed instruments. The decision to invest in Social Responsible Investments is a tactical decision made on a case-by-case basis. The maximum strategic asset allocation for Social Responsible Investments is capped at 10% with a permitted range of 0%-20%.

The above investment mandate was amended and implemented on 1 February 2016, applying a phasedin approach best suited for the Fund, allowing the Fund to still capture opportunities in the market, but ensuring a transition to the new mandate is achieved at minimal cost and with minimal realised losses.

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

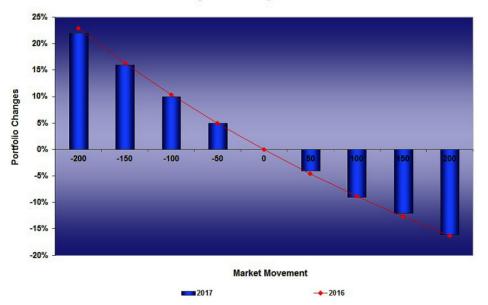
| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

This risk is the potential financial loss as a result of adverse movement in interest rates that affects the value of bonds and money market instruments. The Fund has exposure to interest rate risk through investments in money markets and bonds.

Nominal interest rate risk can be split into real interest rate risk and inflation risk. The inflation portion of the interest rate risk is minimised by investing a significant amount in inflation linked bonds.

The sensitivity to interest rate movements is managed by managing the duration of fixed interest exposure. Such duration is managed relative to an appropriate benchmark. To manage the duration PIC utilises a combination of instruments to get closer to the benchmark duration.

The fixed income asset class is not as volatile as the equity markets; an assumption of this sensitivity analysis is that the interest rates move by 50 basis points at a time.



#### Sensitivity of UIF Bond portfolio to market movements

#### Sensitivity of the UIF Asset Class Portfolios to different market movements

The investment portfolio sensitivity is evaluated through stress testing the portfolio using the following methodology:

The portfolio is separated into its instruments type's viz. money market, bonds, equity, options. The stress test is a point in time estimate.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |
|        |        |

The new investment mandate is structured as follows:

| Category                         | Asset allocation<br>Ranges (%) | Strategic asset allocation<br>(%) |
|----------------------------------|--------------------------------|-----------------------------------|
| Cash and Money Market            | 1% - 10%                       | 5.00%                             |
| Capital Market: Nominal Bonds    | 20% - 40%                      | 27.50%                            |
| Capital Market: CPI Linked Bonds | 20% - 40%                      | 30.00%                            |
| Domestic Equity                  | 10% - 30%                      | 24.00%                            |
| Listed Property                  | 0% - 5%                        | 2.50%                             |
| African Investments              | 0% - 5%                        | 2.00%                             |
| Foreign Investments              | 0% - 10%                       | 4.00%                             |
| Unlisted Property                | 1% - 7%                        | 5.00%                             |

Social Responsible Investments was not modelled as a separate asset class since it is a theme across other asset classes and could be listed or un-listed instruments. The decision to invest in Social Responsible Investments is a tactical decision made on a case-by-case basis. The maximum strategic asset allocation for Social Responsible Investments was increased and will be capped at 20% with a permitted range of 10%-30%.

The Social Responsible Investments wil be allocated as follow:

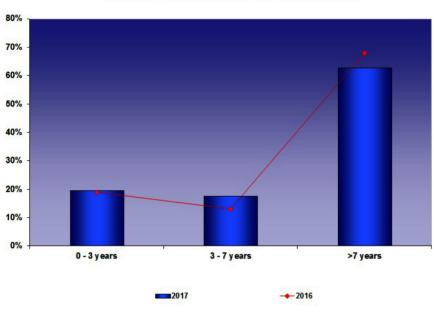
| Category                         | Asset allocation<br>Ranges (%) | Strategic asset allocation<br>(%) |
|----------------------------------|--------------------------------|-----------------------------------|
| Equity                           | 4% - 10%                       | 7.50%                             |
| Capital Market: Nominal Bonds    | 4% - 10%                       | 7.50%                             |
| Capital Market: CPI Linked Bonds | 2% - 10%                       | 5.00%                             |

The portfolio asset allocation as at 31 March 2017 was as follow:

| Category                         | Value (R'000) | Actual asset allocation (%)                         | Difference (%)                                      |
|----------------------------------|---------------|---|---|
| Cash and Money Market            | 14 301 430    | 10.93%  | -5.93%  |
| Capital Market: Nominal Bonds    | 37 608 618    | 28.75%  | -1.25%  |
| Capital Market: CPI Linked Bonds | 38 968 734    | 29.79%  | -0.21%  |
| Domestic Equity                  | 29 523 620    | 22.57%  | -1.43%  |
| Listed Property                  | 5 720 414     | 4.37%   | -1.87%  |
| African Investments              | 51 404        | 0.04%   | -1.96%  |
| Foreign Investments              | 4 658 660     | 3.56%   | -0.44%  |
| Total                            | 130 832 880   | 100.00%   | 5.00%   |
| Social Responsible Investments   | 5 363 580     | 3.94%   | Excluding SRI commitments and deals in the pipeline |
| Total                            | 136 196 460   | Total value of the Fund's portfolio including SRI's |   |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |



#### UIF: Maturity analysis for interest bearing assets

#### Maturity profile on financial assets

| 2017   | Receivable<br>on demand<br>(R'000) | 0 - 12 months<br>(R'000) | 1 - 3 years<br>(R'000) | 3 - 7 years<br>(R'000) | > 7 years<br>(R'000) | Total<br>(R'000)        |
|--|------------------------------------|--------------------------|------------------------|------------------------|----------------------|-------------------------|
| Money Market<br>Commercial<br>Papers               |                                    | 13 004 006<br>-          | -                      | -                      | -                    | 13 004 006<br>-         |
| Capital Market<br>Cash and cash<br>equivalents     | -<br>1 297 425                     | 1 734 455<br>-           | 1 803 209<br>-         | 16 068 126<br>-        | 57 022 965<br>-      | 76 628 755<br>1 297 425 |
| Listed equity<br>Trade and<br>other<br>receivables | -                                  | 39 902 694<br>-          | -                      | -                      | -                    | 39 902 694<br>-         |
| Investment<br>income<br>receivable<br>SRI          | -                                  | -                        | -                      | -                      | -<br>5 363 580       | -<br>5 363 580          |
|  | 1 297 425                          | 54 641 155               | 1 803 209              | 16 068 126             | 62 386 545           | 136 196 460             |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|                                    |                                    |                          |                        |                        | 2017<br>R '000       | 2016<br>R '000   |
|------------------------------------|------------------------------------|--------------------------|------------------------|------------------------|----------------------|------------------|
| 2016                               | Receivable<br>on demand<br>(R'000) | 0 - 12 months<br>(R'000) | 1 - 3 years<br>(R'000) | 3 - 7 years<br>(R'000) | 7 > years<br>(R'000) | Total<br>(R'000) |
| Money Market                       |                                    | 12 833 691               | -                      | -                      | -                    | 12 833 691       |
| Capital Market                     | -                                  | 666 364                  | 3 007 052              | 11 462 672             | 59 359 702           | 74 495 790       |
| Cash and cash equivalents          | 3 812 865                          | -                        | -                      | -                      | -                    | 3 812 865        |
| Listed equity                      | -                                  | 30 259 912               | -                      | -                      | -                    | 30 259 912       |
| Trade and<br>other<br>receivables  | 324                                | 3 532                    | -                      | -                      | -                    | 3 856            |
| Investment<br>income<br>receivable | -                                  | 260 779                  | -                      | -                      | -                    | 260 779          |
| SRI                                | -                                  |                          | -                      | -                      | 2 590 973            | 2 590 973        |
|                                    | 3 813 189                          | 44 024 278               | 3 007 052              | 11 462 672             | 61 950 675           | 124 257 866      |

The following table analyses the Fund's financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 6 to 12 months equal their carrying balances as the impact of discounting is not significant.

#### Maturity analysis on financial liabilities

| 2017                                       | Payable<br>on demand<br>(R'000)    | Within<br>1 month<br>(R'000) | Within<br>3 months<br>(R'000)  | Within<br>12 months<br>(R'000) | Total<br>(R'000)  |
|--|------------------------------------|------------------------------|--------------------------------|--------------------------------|-------------------|
| Trade and other payables                   | -                                  | 267 570                      | -                              | -                              | 267 570           |
| Salary accrual                             | -                                  | 4 782                        | 11 977                         | 15 304                         | 31 886            |
| Deposits received                          | 6 309                              | -                            | -                              | -                              | 6 309             |
| Bank overdraft                             | 13                                 | -                            | -                              | -                              | 13                |
|  | 6 322                              | 272 352                      | 11 977                         | 15 304                         | 305 778           |
| 2016                                       | Payable<br>on demand<br>(R'000)    | Within<br>1 month<br>(R'000) | Within<br>3 months             | Within<br>12 months            | Total<br>(R'000)  |
|  | (1, 000)                           | · ·                          | (R'000)                        | (R'000)                        |                   |
| Trade and other payables                   | -                                  | 247 303                      | (R'000)<br>-                   | (R <sup>.</sup> 000)<br>-      | 247 303           |
| Trade and other payables<br>Salary accrual |                                    | · ·                          | ( <b>R'000)</b><br>-<br>11 695 | ( <b>R'000)</b><br>-<br>15 161 | 247 303<br>31 886 |
| Salary accrual Deposits received           | ( <b>K 000)</b><br>-<br>-<br>6 207 | 247 303                      | -                              | -                              |                   |
| Salary accrual                             | -                                  | 247 303                      | -                              | -                              | 31 886            |

### Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  |  | 2017<br>R '000 | 2016<br>R '000 |
|--|--|----------------|----------------|
|--|--|----------------|----------------|

### Credit risk

This risk represents the risk that a counterparty or issuer fails to meet an obligation when it falls due.

The exposures may arise, for instance, from a deterioration in a counterparty's financial position, from a reduction in the value of securities held as collateral and from entering into contracts under which counterparties have long term obligations to repay.

Factors that influence PIC's credit decisions include credit rating agencies assessments of the general operating environment, the competitive market position of a counterparty or issuer, reputation, deal tenor as longer dated deals increases uncertainty of repayment, the level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The Credit Risk policy is the primary tool used to communicate credit limits and exposures by constraining the magnitude and tenor of exposures to counterparties and issuers. A credit risk policy has been approved by the Fund, which is a standard inclusion in the investment mandates. The current investment policy states that listed investments will be done with issuers that have a credit rating of at least "A" from one of the recognised domestic and /or International credit rating agencies.

Credit risk limits incorporate measures of both current and potential exposures and are set and monitored by broad risk type, product type and maturity. Credit mitigation techniques include, where appropriate, the

right to be furnished with collateral or an equity injection by counterparties in unlisted investments, mitigation techniques are deal dependent.

UIF's mandate only allows investments in listed instruments that are rated and listed on an approved exchange. The use of PIC developed models, the DI900 as a guide on limit setting for Banks, as well as the rating of external credit rating agencies are used to manage credit risk further. The mandate permits investment in the following asset classes, cash, money markets, capital markets and domestic equities.

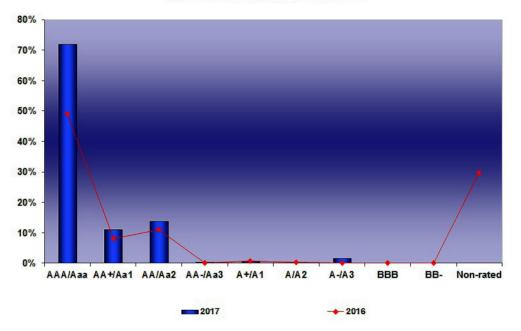
The Fund's maximum exposure to credit risk is equal to the total value of the following financial assets:

| <b>2017</b><br>At fair value<br>At amortised cost | <b>Rated</b><br>( <b>R'000)</b><br>119 213 505<br>11 619 376 | Non-rated<br>(R'000)<br>1 612 074<br>4 299 485  | <b>Total</b><br>( <b>R'000)</b><br>120 825 579<br>15 918 861 |
|---|--|---|--|
|   | 130 832 880  | 5 911 559                                       | 136 744 439  |
| <b>2016</b><br>At fair value<br>At amortised cost | <b>Rated</b><br>( <b>R'000)</b><br>78 295 122<br>14 576 072  | Non-rated<br>(R'000)<br>30 259 914<br>1 126 617 | <b>Total</b><br>( <b>R'000)</b><br>108 555 036<br>15 702 689 |
|   | 92 871 194   | 31 386 531                                      | 124 257 725  |

# Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

The following graph shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, with external credit ratings as at 31 March 2016:



#### **UIF: Credit rating of Financial Assets**

#### **Collateral Risk**

This is regarded as integral to credit risk; no collateral was held on the Fund for the period under review, which is consistent with previous periods.

#### Other financial risks

#### Model/Valuation risk

This risk arises from the dependence on systems, models, algorithms and assumptions used to price instruments and structures. The PIC utilises Bloombergs, Reuters and INet, as well as internally developed models. This risk is managed by ensuring that only models from credible sources are used. Audits are done on models to ensure that they are accurate and reliable. Models developed by PIC output are benchmarked against external sources to ensure accuracy and reliability.

#### Sovereign risk

The Fund is invested in domestic assets only and has no direct sovereign exposure.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### Commodity price risk

No funds under management have direct or derivative exposure to commodities. Indirect exposure through equities is well diversified and managed using equity risk limits.

#### **Currency risk**

Currency risk is the potential financial loss or adverse cash flow resulting from unanticipated movement in exchange rates. No foreign assets or denomination in foreign currency were held during the financial year under review, therefore there was no exposure to currency risk.

#### **Regulatory and Legal Risk**

"Regulatory risk is the risk arising from a change in regulations in any legal (legal risk being the risk that the company will be exposed to contractual obligations which have not been provided for), taxation and accounting pronouncements or specific industry regulations that pertain to the business of the Fund" hence financial instruments are exposed to these risks.

In accordance with chapter 6, paragraph 48 of the Public Finance Management Act (Act no. 1 of 1999), the Fund is classified as a Schedule 3 "National Public Entity".

In terms of section 55(1) of the Public Finance Management Act, the Unemployment Insurance Fund is required to comply with South African Statements of Generally Accepted Accounting Practice, unless the Accounting Standards Board approves the application of Generally Recognised Accounting Practice.

The Unemployment Insurance Fund received contribution revenue in accordance with the Unemployment Insurance Contributions Act, 2002 and pays Unemployment Insurance benefits including the recovery of benefits paid in error in accordance with the Unemployment Insurance Act (Act no. 63 of 2001).

The Unemployment Insurance Fund is accordingly exposed to any changes in legislation and accounting pronouncements. The Fund is exceptionally vulnerable to the interpretation of legislation. In an attempt to mitigate the risk management exercises a proactive approach where possible, with reference to the Unemployment Insurance Act (Act no. 63 of 2001) the Fund issues regulations in an effort to mitigate the risk of interpretation and complies with regulations issued regarding other applicable legislation.

The Funds Internal Audit and Risk Management sections undertake frequent reviews to ensure compliance where the Fund has interests.

#### Litigation Risk

Legal proceeding could adversely impact the Fund's operating results and financial position for a particular period. The Fund has a well established Legal Services team to deal with risks that may arise. Legal Services instruct the State Attorney's Office to either settle or defend litigation against the Fund depending on the circumstances of the case and external lawyers are involved when required.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 32. Related parties

#### **Related party transactions**

The UIF operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of Corporate Executives up to the Board of Directors are regarded as key management.

Close family members of key management are considered to be those family members who may be expected to influence, or be influenced by key management individuals or other parties related to the entity.

The following transactions pertaining to the major related parties to the Unemployment Insurance Fund are disclosed:

#### **Unemployment alleviation schemes**

Section 48(1)(a)(iv) of the Unemployment Insurance Act, 2001 as amended stipulates that the Unemployment Insurance Board must advise the Minister on the creation of schemes to alleviate the effects of unemployment.

The Minister of Labour approved in principle projects to provide funding to "Poverty Alleviation Schemes" including up-skilling/training to the unemployed and Social Plan funding. The up-skilling/training and Social Plan funding are to be executed in close relationship with the National Skills Fund (NSF), the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives.

#### **Productivity South Africa**

The Social Plan is implemented through Productivity South Africa. Productivity South Africa implements Turnaround Solutions to companies that want to improve their productivity. This services has also been extended to companies that are in distress through UIF funding.

There were no year-end balance arising from the above transactions included in "Trade and other payables" for the current and previous financial years.

The contractual commitment as at 31 March 2017 amounted to R201,322,000 (2016: R220,860,000).

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 32. Related parties (continued)

#### National Skills Fund (NSF) and various Sector Education Training Authorities (SETA's)

The Training of the Unemployed is executed in close relationship with the National Skills Fund (NSF), the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives. Skilling of the unemployed in general and the UIF unemployment beneficiaries is needed in order to improve their chances to be reintegrated back into the employment environment.

Year-end balance arising from the above transactions included in "Trade and other payables" - R49,936,984.(2016: R16,945,387) comprising of MERSETA R13,932,930 (2016: R7,599,375), MQA R Nil (2016: R470,000), MICTSETA 78 R14,960,067 (2016: Rnil) and EWSETA 78 Rni (2016: R3,621,750), TETA R12,936,916 (2016: R4,174,263) and TVET College R8,107,070 (2016: R1,080,000).

The contractual commitments as at 31 March 2017 amounted to R111,697,694.67 (2016: R 221,963,123) comprising of MQA R8,445,000 (2016: R9,185,000), MERSETA R36,697,695 (2016: R50,630,625), MICTSETA R4,361,357 (2016: R57,280,073), EWSETA R90,750 (2016: R90,750) and TETA R123,257,742.28 (2016: R48,631,075). Contractual commitments with TVET Colleges amounted to R35,714,520 (2016: R57,945,600).

#### **Training Lay-off Scheme**

"Training Layoff" is temporary suspension of work for a worker or a group of workers that will be sent for training. The scheme is aimed at companies that are in distress due to economic conditions and at workers who may be at risk of retrenchment that might become unemployment claimants.

The "Training Layoff Scheme" depends on an agreement between an employer and workers that there will be continued employment and that the employer will pay all contributions to social security benefits during the training period. The worker(s) agree to forego their normal wage, to attend the training programme and to accept a training allowance during the period of training. Employers gain a recovery period by reducing payroll costs for a period of six months and improve the skills of their workers at limited cost to the company.

The various Sector Education Training Authorities (SETA's) facilitate the training interventions.

Applications to participate in the project include the design elements as agreed by the social partners announced by the President on 5 August 2009 and go through a strict process that includes the Commission for Conciliation, Mediation and Arbitration (CCMA) and a Project Evaluation Committee (PEC) convened by the UIF.

The year-end balance arising from the above transactions included in "Trade and other payables" - R13,935,577.03 (2016: 13,247,971) comprising of MERSETA R13,935,577.03 (2016: R13,247,971)

The contractual commitments as at 31 March 2017 amounted to R67,180,671 (2016: R66,684,646) comprising of MERSETA R66,850,802(2016: R66,354,777) and FP and M SETA R329,867 (2016: R329,867).

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 32. Related parties (continued)

#### Department of Labour

The Director-General of the Department of Labour is the Accounting Authority of the Unemployment Insurance Fund that forms part of the Department's Programme 5: Social Insurance.

The Unemployment Insurance Fund shares various resources with the Department of Labour. Cost incurred by the Department of Labour on behalf of the Unemployment Insurance Fund in executing its mandate in accordance with the Unemployment Insurance Act (Act no. 63 of 2001) is recovered from the Fund in accordance with agreements between the Department and the Fund.

The following costs were incurred by Department of Labour on behalf of the Fund:

| Employee cost            | 1 040 631 | 937 706   |
|--------------------------|-----------|-----------|
| Administrative expenses  | 214 803   | 220 234   |
| Other operating expenses | 3 353     | 2 914     |
|                          | 1 258 787 | 1 160 854 |

Year-end balance arising from the above transactions included in "Trade and other payables" - R230,442,553 (2016: R34,265,994).

The following transactions were carried out with the Department of Labour

#### **Rental income**

| Rental of offices and diginet lines | 1 525 | 478 |
|-------------------------------------|-------|-----|
|                                     |       | ,   |

Year-end balances arising from the above transactions are included in "Trade and other receivables, Sundry Debtors" - R1,456,546.43(2016: R70,598.61).

#### South African Revenue Service

Unemployment Insurance Contributions is regulated by the Unemployment Insurance Contributions Act, sections 8 and 9, which are administered by the SARS Commissioner.

The relationship between the South African Revenue Service and the Unemployment Insurance Fund is strictly regulated by the Unemployment Insurance Contributions Act, 2002. Collection costs are charged to the Unemployment Insurance Fund on a monthly basis equal to one and a half percent of the total amount of the contributions collected.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|     |  | 2017<br>R '000                   | 2016<br>R '000                   |
|-----|--|----------------------------------|----------------------------------|
| 32. | Related parties (continued)  |                                  |                                  |
|     | Contributions collected<br>- Contributions collected - received<br>- Penalties<br>- Interest | 17 441 141<br>236 055<br>179 472 | 16 335 795<br>240 033<br>175 237 |
|     |  | 17 856 668                       | 16 751 065                       |
|     | <b>Collection costs charged</b><br>- Collection fees   | 267 401                          | 251 266                          |

Year-end balance arising from the above transactions is included in "Statutory Receivables" - R1,718,671 (2015: R222,500,280) and "Trade and other payables" - R25,780,060.11 (2016: R44,690,983.91).

#### Public Investment Corporation Limited (PIC)

In terms of the Unemployment Insurance Act (Act no. 63 of 2001), as amended, the Unemployment Insurance Fund appointed the Public Investment Corporation Limited as its Investment Manager to invest, manage and administer investments for the Unemployment Insurance Fund on the terms and conditions of an agreed mandate.

The following transactions were carried out with PIC:

| Transfers - Net contributions transferred to PIC for investments   | 5 500 000  | 7 300 000         |
|--|--|-------------------|
| Paid<br>- Management fees paid to PIC<br>- Equity transaction cost | nvestments 5 500 000<br>164 048<br>41 002<br>205 050 | 120 593<br>39 166 |
|  | 205 050  | 159 759           |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

| 2017   | 2016   |
|--------|--------|
| R '000 | R '000 |

#### 32. Related parties (continued)

Year end balances arising from the above transactions:

- R809,832,545 (2016: R3,081,783,267) PIC UIF bank account (funds not invested in instruments), included in "Cash and Cash Equivalents". PIC manages this account on behalf of the Fund.
   R17,029,608 (2016: R38,170,552) Management fees payable to PIC, included in "Trade and Other Payables".
- R8,533,378 (2016: R31,091,131) Investment expenditure payable to PIC, included in "Trade and Other Payables".
- R120,788,604 (2016: R119,680,568) Financial assets managed by PIC on behalf of the Fund.

#### 33. Budget information

The Fund aligns its budget priorities with that of National Government and the Department of Labour by ensuring the budget delivers on priorities such as efficient service delivery, poverty alleviation and building sound institutional arrangements.

The Unemployment Insurance Fund presents its approved budget on a zero basis and the financial statements on the accrual basis. The budget is approved on a zero basis by classification of expenditure by nature and covers the fiscal period 1 April 2016 to 31 March 2017.

The financial strategy of the Fund takes into account the requirements of the PFMA and National Treasury Regulations which requires an integrated approach between the strategic plans of the Fund when allocating resources.

The Fund is mandated to operate on the basis of a surplus i.e. that current revenue exceeds current expenditure. The medium term budget is based on an approach ensuring that revenue exceeds the planned expenditure and potential liabilities.

The Unemployment Insurance Fund does not receive a budget allocation (Vote) from National Treasury and the surplus as at reporting date is due to contribution collected exceeding claims and expenditure paid for the period under review. The Unemployment Insurance Fund however carries the liability of future claims based on the contribution received.

Written approval is annually obtained from the National Treasury to retain surplus funds according to the PFMA Section 53 (2).

#### Changes from the approved Original Budget to the approved Revised Budget

Operating items such as contributions, investment income and benefit expenditure were reviewed based on latest trends and activity levels and updated actuarial valuation reports.

Contribution revenue were revised up based on a revenue indicator measure model which is linked to a number of economic variables in the setting of assumptions for revenue on an annual basis. Contribution revenue for budget purposes is based on the relationship between actual past revenue, CPI and GDP.

The increase in investment income was based on the expected growth of the Fund's investment portfolio with the revised estimated surplus as per the actuarial valuation report of 2017.

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|  |  | 2017<br>R '000 | 2016<br>R '000 |
|--|--|----------------|----------------|
|--|--|----------------|----------------|

### 33. Budget information (continued)

#### Comparison of budget and actual amounts

33.1 Reconciliation of budget surplus with the surplus in the Statement of Financial Performance

|   | 2017<br>Actual<br>(R'000) | 2017<br>Budget<br>(R'000) | 2017<br>Variance<br>(R'000) |
|---|---------------------------|---------------------------|-----------------------------|
| Net surplus according to the Statement of Financial |                           |                           | (11 712 791)                |
| Performance   |                           |                           |                             |
| Revenue   | 18 256 811                | 17 979 407                | 277 404                     |
| Benefit payments                                    | (8 478 357)               | , ,                       | · · · · ·                   |
| Change in benefit payments                          | (968 450)                 | (253 153)                 | (715 297)                   |
| Unemployment alleviation schemes                    | (145 478)                 | (706 000)                 | 560 522                     |
| Other income  | 7 657                     | 2 424                     | 5 233                       |
| Auditors remuneration                               | (6 517)                   | (12 000)                  | 5 483                       |
| Administrative cost                                 | (462 193)                 | (705 067)                 | 242 874                     |
| Depreciation and impairment                         | (50 360)                  | (128 136)                 | 77 776                      |
| Employee cost                                       | (1 065 876)               | (1 195 396)               | 129 519                     |
| Other operating expenditure                         | (464 115)                 | (535 426)                 | 71 311                      |
| Investment revenue                                  | 9 199 601                 | 8 936 086                 | 263 515                     |
| Fair value adjustments                              | (2 610 167)               | -                         | (2 610 167)                 |
| Finance cost  | -                         | (3)                       | 3                           |
| Unearned premium reserve                            | (1 499 765)               | (1 184 989)               | (314 776)                   |
| Net surplus per approved budget                     |                           |                           | (13 884 334)                |
|   |                           | _                         |                             |
| Budget surplus                                      |                           |                           |                             |
| Budget surplus as approved by the Minister          |                           |                           | 13 739 136                  |
| Plus: Capital and virements                         |                           | _                         | 145 197                     |
|   |                           | _                         | 13 884 333                  |

The main variances between actual expenditure and income and the revised budget can be attributed to the following :

| The main variances between actual expenditure and income and the revised budget can be attributed to the following : |  | 2017<br>Variance<br>R'000 |
|--|--|---------------------------|
| 33.2. Revenue  |  |                           |
| revenue is based or<br>utilises a combination<br>of growth in the reve   | collected than the budgeted amount. The budget for<br>a revenue indicator developed for the Fund, which<br>on projected CPI and GDP to determine the likely rate<br>enue of the Fund. Based on this revenue indicator,<br>vas slightly lower than the actual amount collected<br>financial year. | 277 404                   |

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# **Unemployment Insurance Fund**

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|       |   | 2017<br>R '000 | 2016<br>R '000            |
|-------|---|----------------|---------------------------|
| 33.   | Budget information (continued)  |                | 2017<br>Variance<br>R'000 |
| 33.3. | <b>Benefit payments</b><br>The budget was compiled based on the experienced economic conditions<br>and past events in South Africa. The unemployment rate increased at<br>lower rates over the previous years and as a result the budget was set<br>based on such experience and based on the forecast. Estimates were<br>lesser than the actual unemployment rate for 2016/17. The average<br>unemployment rate in 2014/15 was 25.10 %. In 2015/16 the average<br>unemployment rate increased by 0.25% to an average unemployment rate<br>of 25.35%. In 2016/17 there was a much more significant increase in the<br>rate of unemployment compared to 2015/16. The increase in the<br>unemployment rate was 1.38% compared to 0.25% increase for the<br>previous year.   |                | 164 943                   |
| 33.4. | <b>Unemployment alleviation schemes</b><br>The Unemployment Alleviation Schemes budgeted amount took into<br>consideration projects in the implementation phase and projects that were<br>on hold but due for implementation in the 2016/2017 financial year. In<br>addition to these projects an Expression of Interest was to be issued for<br>new projects for which a budget estimate was made. An amount of R706<br>million was budgeted, with R506 million budgeted towards the Training of<br>the Unemployed anticipating the increase in the number of TVET Colleges<br>being funded and the funding of new training projects however the delays<br>with the TVETs acquiring accreditation for the proposed learner ship<br>hindered expenditure as well as the late issuing of the Expression of<br>Interest to bring in new applications and projects. This resulted in a<br>77.59% under-expenditure from the budgeted amount. R200 million was<br>budgeted for expenditure on the Training Layoff Scheme and the Social<br>Fund (Productivity SA). The Fund reviewed the Labour Activation<br>Programme (LAP) validation processes and implemented additional<br>controls during financial year under review. The changes effected stricter<br>measures on the approval of applications relating to the Training Lay-off<br>Schemes (TLS) and Turnaround Solutions (TAS) funding. This led to only<br>19.69% being spent under this scheme based on validated applications<br>that adhere to the control measures put in place. |                | 560 522                   |

### 33.5. Auditors fees

46% less than budget. As at the end of the financial year, the Fund had paid invoices relating to the finalisation of the 2015/16 audit. During the conclusion of the financial year 2016/17 the audit was not concluded due to timelines set by the PFMA to submit annual financial statements

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|       |   | 2017<br>R '000 | 2016<br>R '000   |
|-------|---|----------------|--|
| 33.   | Budget information (continued)  |                | 2017<br>Variance<br>R'000  |
| 33.6. | Administrative cost   |                |  |
|       | Savings incurred by the Fund on various budget items as a result of cost<br>containment measures that were implemented in order to comply with the<br>cost containment measures as imposed by the National Treasury.<br>34.45% saved on administration costs<br>Stationery and Printing<br>Venues and Facilities: The Fund continues to consider the cost-effective<br>options when hosting events and meetings to comply with cost<br>containment measures<br>Entertainment/Catering<br>Advertising: Cost containment measures to comply with the circular<br>issued by National Treasury.<br>External IT services: SITA services and software licenses expenditure<br>were less than the amount budgeted for.<br>SARS contribution commission: Over budget based on higher than |                | 242 874<br>9 421<br>3 545<br>3 675<br>6 239<br>150 698<br>18 064 |
|       | expected contribution revenue   |                | 10 00 1  |
| 33.7. | Depreciation and impairment   |                |  |
|       | 67% saved against the following main budget items:  |                | 85 899   |
| 33.8. | Employee cost   |                |  |
|       | The Unemployment Insurance Fund is reflecting a 11% underspending on<br>employee cost in comparison to the budget. The Fund observes the<br>compensation budget limits as directed by National Treasury to curb the<br>wage bill of the country. The Fund will focus on service delivery focal<br>points (labour centres).  |                | 129 519  |

Annual Financial Statements for the year ended 31 March 2017 Notes to the Annual Financial Statements

|       |   | 2017<br>R '000 | 2016<br>R '000   |
|-------|---|----------------|------------------|
| 33.   | Budget information (continued)  |                | 2017<br>Variance |
| 22.0  | On a setting a superson   |                | R'000            |
| 33.9. | Operating expenses<br>saving against the following main budgeted items:   |                |                  |
|       | 13.32% saving on Operating expenses against the following main<br>budgeted items:   |                | 71 312           |
|       | Management and investment fees. As from 01 February 2016 the Fund<br>increased its Strategic Asset Allocation (SAA) towards Social Responsible<br>Investments (SRI) from 10% of the Total Value of the Portfolio to 20% of<br>the Total Value of the Portfolio. When the 2016-17 budget was calculated<br>this approval has not been obtained yet. The implementation of the new<br>SRI mandate increased the Investment Management Fees substantially<br>since it is calculated on the instrument's Initial Commitment Capital and<br>thereafter on the investment value for that year. The SRI Management<br>Fee also depends on the type of investment instrument, for example<br>Direct SRI investment is calculated on 150 basis points per annum,<br>Strategic partnerships and Funds-of-Funds management fees is<br>calculated based on 50 basis points per annum. The type of unlisted<br>instrument that will be procured during the financial year cannot be<br>predicted beforehand since it depends what is available in the market or<br>what project is developed. There will therefore always be a difference<br>between the budget amount and the amount actual amount paid towards<br>management fees that can't be estimated. |                | 57 852           |
|       | Consumables: Cost containment measures to comply with the circular  |                | 1 967            |
|       | issued by National Treasury.<br>Communications: cell phones, telephone ,postage. Cost containment<br>measures to comply with the circular issued by National Treasury.  |                | 15 206           |
|       | Travel and Subsistence: The Fund is complying with National Treasury<br>Instructions issued in 2016/17 financial to reduce spending in travelling.  |                | 32 353           |
| 33.10 | Investment revenue  |                |                  |
|       | 3% more investment income received than budget. During the previous financial year 2015/16 the Fund received 17.38% less investment income than budgeted for. This was attributed to the deteriorating economic conditions in the country at that stage. Since then, there has been even more turbulence affecting all sectors of the South African economy. The Fund therefore adopted a very conservative approach when budgeting for investment income during the 2016-17 financial years.   |                | 263 516          |

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