FAISOmbud

Office of the Ombud for Financial Services Providers

ANNUAL REPORT | 2015/2016

Constantly striving to educate both ourselves and those we serve

Contents

01 Legislative Mandates, pg 1

02 Vision, Mission and Credo, pg 2

03 Minister's Report, pg 4

04 Chairperson's Report, pg 6

05 Ombud's Operational Report, pg 7

06 Settlements, pg 27

07 Statistics, pg 34

08 Organisational Structure, pg 37

09 Staffing, pg 38

10 Financial Statements Index, pg 41

11 Performance Information, pg 78

LEGISLATIVE MANDATES

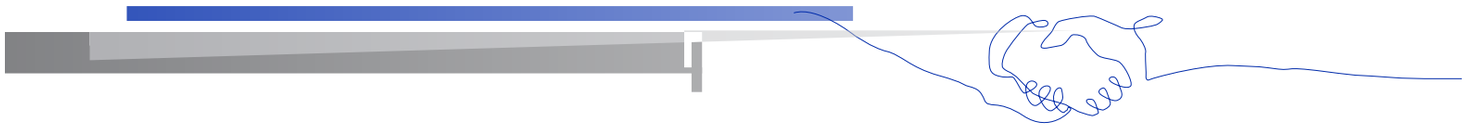
The FAIS Ombud was established in terms of section 20 of the Financial Advisory and Intermediary Services Act, (Act 37 of 2002) (FAIS Act). The FAIS Ombud is a schedule 3A entity in terms of the Public Finance Management Act, (Act 1 of 1999) (PFMA) and reports to the Minister of Finance through the Board of the Financial Services Board (FSB). From time to time as may be required, the FAIS Ombud reports to the Select Committee on Finance and Public Service, by invitation. The report to this committee includes reporting on its work and finance.

a) FAIS Act

The main objective of the FAIS Ombud is to investigate and resolve complaints in terms of the FAIS Act and the Rules promulgated thereunder.

b) FSOS Act

A further function of the FAIS Ombud is to resolve complaints in terms of the Financial Services Ombud Schemes Act, (Act No. 37 of 2004) (FSOS Act), which is not covered by any of the other voluntary ombud schemes or where there is uncertainty over jurisdiction.



VISION

The vision of the FAIS Ombud is to be a preferred and world-class dispute resolution forum providing an accessible, impartial, efficient and professional service, respected by all stakeholders, provided by committed and passionate staff.

MISSION

The mission of the FAIS Ombud is to promote consumer protection and enhance the integrity of the financial services industry through resolving complaints impartially, expeditiously and economically.

OUR CREDO

We believe our first responsibility is to the Constitution of the Republic of South Africa and to the statutory mandate which created our organisation. We are completely independent and deal with all disputes fairly and impartially.

Our service is for people from all backgrounds. We will look at the facts of each complaint, not at how well the case is presented. No one should need any special expertise or professional help in order to bring their complaint to us.

We aim to give clear, sound and logical reasons for our decisions- any fair-minded person will understand why we reached a particular conclusion.

We are not bound by formal and rigid procedures to resolve complaints and we aim to be flexible in our approach.

We will engage all concerned to help both consumers and financial services providers understand their respective rights and responsibilities. Our ultimate aim is to reduce the level of complaints and improve confidence in the financial services industry.

We must constantly strive to educate both ourselves and those we serve about our services and make our services easily accessible. We will ensure all parties in a dispute have an opportunity to present their case. In doing so, we will ensure the dignity of those we serve, by treating each with the utmost respect and courtesy.

We must at all times build a collegiate base that is diverse and equitable, and encourage contributions to our core business. We are responsible to ensure that each of our colleagues is regarded as an individual and experiences an affirming and empowering learning environment.

We must be mindful of the ways in which we help our colleagues fulfil their family responsibilities. We must encourage each other to communicate our opinions, feelings and indeed, our grievances in an environment conducive to amicable resolutions, not recriminations. We will support each other, to be innovative, to exercise reasonable initiative, and to share our learning.

We are responsible to the communities in which we live and work, and to the larger international community. We must be good citizens and support civic initiatives.

We believe our final responsibility is to the industry. Business must make a sound profit, underpinned by good corporate governance and moral values. We must explore and suggest fresh approaches to consumer services in the course of our enterprise.

We believe when we operate according to these principles, we will all realise a significant improvement.

THE REPORTS

Pravin J Gordhan, MP
Minister of Finance

MINISTER'S REPORT

South Africa's financial services sector touches the lives of all South Africans in one way or another, and is a vital part of our economy. However, we know that this sector can work more effectively to better serve the needs of South African citizens. It is for this reason, the National Treasury has undertaken one of the most significant changes to regulating the sector by implementing the new Twin Peaks model of regulation.

A key aspect of this model is a dedicated focus on the protection of customers in the financial sector. By providing customers with an accessible, effective, independent and impartial arbiter of complaints, customers can hold institutions to account, thereby improving the behaviour of financial institutions towards customers they serve. In addition, customers who go through the process of resolving complaints, are educated on their rights and responsibilities, enabling them to manage future engagements with financial institutions more effectively.

"By providing customers with an accessible, effective, independent and impartial arbiter of complaints, customers can hold institutions to account, thereby improving the behaviour of financial institutions towards customers they serve."

"The Twin Peaks reforms further seeks to improve oversight of the ombud system, to ensure that ombuds grow in stature, become more accessible, trusted; and ultimately more effective for consumers and the industry."

The Office of the FAIS Ombud forms an integral feature of the ombud landscape as it provides customers with an alternative dispute mechanism thus obviating the need to access the courts. The enforcement of strict internal controls and risk management practices has resulted in the achievement of the Office's strategic goals for the 2015/2016 financial year. The increase in the number of justiciable[1] complaints received in the 2015/2016 financial year from 3 699 in the preceding year to 4 263 is indicative of a growing awareness amongst South Africans in this ombud system. The rand value of settled and determined cases stood at R50.2 million at the end of the 2015/2016 financial year. These numbers are likely to increase as the Office of the FAIS Ombud strengthens its visibility and reputation as an effective dispute resolution mechanism, and South Africans gain stronger financial empowerment.

The Twin Peaks reforms further seeks to improve oversight of the ombud system, to ensure that ombuds grow in stature, become more accessible, trusted; and ultimately more effective for consumers and the industry. I have no doubt that the Office of the FAIS Ombud will contribute to making these critical reforms a success, thereby supporting Government's efforts to protect the rights of customers in the financial sector.

It is my firm expectation that all entities reporting to the Ministry of Finance will always enhance integrity, financial prudence and make every effort to expose and fight corruption and mismanagement of public funds.

I congratulate the Ombud and her team and will be following the progress of the Office with keen interest as it continues to grow from strength to strength.

Pravin J Gordhan, MP
Minister of Finance

[1] Means complaints that fall within the ambit of the FAIS Ombud when assessed in terms of the FAIS Act.

CHAIRPERSON'S REPORT

Abel Sithole
Chairperson of the Board of the FSB

In the 2015/2016 financial year, the office of the FAIS Ombud has continued its commitment to resolving complaints informally, expeditiously and economically in terms of section 20 of the FAIS Act, balancing the importance of educating its stakeholders through its work alongside attaining operational excellence. The FAIS Ombud continues to learn and grow as it gains perspective through its processes of complaints resolution.

As South Africans are increasingly encouraged to make better financial decisions and provision for their futures, financial literacy has become imperative. The FAIS Ombud utilises its resources creatively to educate its workforce as well as members of the public. Each complaint that is investigated and resolved provides a learning experience for all the parties involved, including the office, and especially the most vulnerable consumers of financial products and services.

Seven years ago Ms Bam took leadership of the FAIS Ombud and has since steered it in a complex environment with great success.

I congratulate the FAIS Ombud and her team for achieving its strategic goals.

"The FAIS Ombud utilises its resources creatively to educate its workforce as well as members of the public."

Abel Sithole
Chairperson of the Board of the FSB

OMBUD'S OPERATIONAL REPORT

Noluntu Bam
Ombud

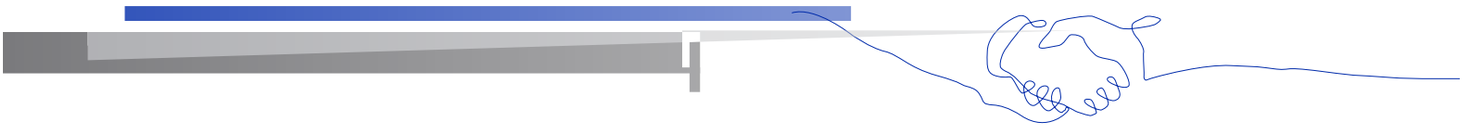
Our greatest task has been to resolve complaints in terms of our mandate and to do so in a way that creates shared value for all our stakeholders. The combination of increasing consumer complaints and operational demands that are inevitable in a growing organisation have created a challenging yet stimulating environment for complaints resolution. We have taken to stride lessons that we have learnt from the issues that we have been confronted with and have constantly endeavoured to enlighten those that we serve.

The 2015/2016 financial year also signifies the commencement of preparations for my departure as the Ombud. Most of my first term was spent revisiting and overhauling various aspects of our operational systems. Later, focus was on enhancements, including strengthening the internal controls environment with the objective of establishing a sustainable institution. The necessary work has been carried out to ensure that the transition phase will run smoothly.

From the time the office first evolved under the leadership of the late Charles Pillai, the main focus of the office has been to prioritise consumer awareness and access. Through our own creativity and meaningful partnerships we have realised significant gains in this area. The office has taken the fight for access a step further by highlighting and measuring it in our internal processes. Although there is a lot to be proud of today, we are still mindful of the struggles experienced by the consumer in reaching our office. Their stories are contained in the determinations section.

To highlight a few, many complaints which appear to be about contractual terms have their origin in unsound or inappropriate advice[1]. While there may seem to be no correlation between advice and access to the office, consider the example of a bank customer who entrusted proceeds of her immovable property while house hunting for a smaller home. In less than three months she had found the home.

[1] The significance here is that the FAIS Ombud's mandate is not concerned with the terms of the contract between the client and the financial institution but with the quality of advice. In these circumstances, the matter would automatically appear to be relevant to other ombudsmen.



She signed an offer to purchase and went to the bank to retrieve her funds, only to be told that she was bound by the contract she had signed, which effectively saw her money being invested in an insurance product and had to remain in that position for ten years. She was made to sign forms acceding to heavy penalties, after which the remainder was paid into her account. The bank employee she was dealing with did not direct her to the FAIS Ombud because the consumer was 'in breach of the contract'. It was the consumer's persistence to see justice being done that led her to the FAIS Ombud. Following a review of the complaint and subsequent decision by this office, the bank had to pay back the penalties confiscated from the consumer's investment.

In some instances, the complaint finds itself in a different forum before it lands at the FAIS Ombud and by then, the complainant has long given up on the complaint because the true issues are hidden in the advice process.

Another case is that of a senior citizen, who had purchased a senior citizen's bond from a bank. The peculiar features, which attracted the professor, were the favourable rate and compound interest. Four months after concluding the transaction, the professor had still not received his investment papers from the bank. When he eventually received them, he noted the bond offered nothing more than simple interest. His numerous attempts to resolve the dispute were unsuccessful. One forum, to which the consumer was referred to by the bank, noted that terms of the contract were pretty clear. Using the reasonable man's test, the forum dismissed the consumer's claims of how the product was represented to him.

The complaint was later lodged with the FAIS Ombud. Upon interrogating the bank's records of advice, the flaws in the advice were evident. The bank agreed to resolve the dispute in favour of the consumer. The real issues, yet again, were hidden in the advice process.

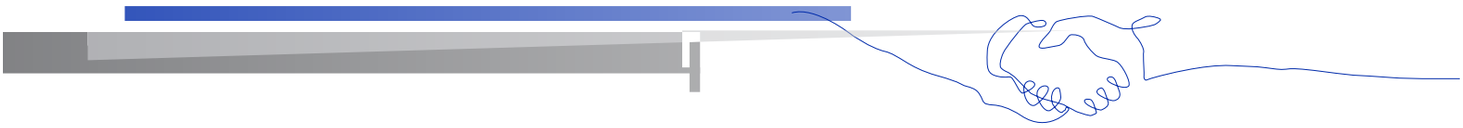
Due to the intangible nature of financial products, the consumers are unable to identify the disparity between their needs and what the product can really do. Unlike tangible products, there is no opportunity to examine or put the product to test. The consumer relies on the advice of the insurer's or bank's representative. By the time the consumer awakens to the limitations of the product, the damage has already been done; by then it is the consumer's recollection of the advice, against the written contract. The legislature in its wisdom, enacted sections aimed to address, amongst other scenarios, this mischief by enacting section 8 and 9 of the General Code of Conduct to eradicate this mischief. Section 8 deals with provider's duty to provide suitable advice and section 9 with the duty to maintain records of advice. These sections, along with sections 2 and 3, are pivotal in the FAIS Ombud's assessment of complaints.

During the year under consideration, the FAIS Ombud saw a significant spike in complaints involving retirement savings. An examination of the complaints reveals that complainants were in need of accessing their retirement savings for a variety of reasons. Some of the consumers had lost their homes, had their lifestyles compromised, or claimed to have impaired health, as a result of inappropriate advice.

A significant number of consumers have lost their life savings following advice to invest in complex investments like public property syndications. Although the financial advisors involved boasted decades of service in the financial services industry, including being licensed by the regulator, it has been found that they knew very little about these investments and were not in a position to adequately advise their clients of the risk of losing their capital.

We have also spent the year clearing the remainder of complaints relating to the infamous Relative Value Arbitrage Fund, (RVAF). The investments were sold to clients on the basis that they carried little or no risk, were unique and not affected by financial market movements because they relied on the skill and smart manouvering of the traders. Like property syndication investments, RVAF was marketed to the elderly. Following the collapse of the fund, financial advisors sought to distance themselves from the consequences of their advice.

There is no question, appropriate advice is indispensable when it comes to dealing with financial products. Yet to many consumers, financial advice remains mythical until they come face to face with the consequences of poor advice.



Having said that, there are decent financial advisors out there who appreciate the value of appropriate advice. But their work is undermined by the sharp practices of the unscrupulous, who play fast and loose with consumers' life savings. The latter group are like potholes on the road to appropriate advice. Access to the Office therefore, is vital.

In this fast paced world of financial services, the FAIS Ombud is compelled to continually develop its personnel to keep abreast with the changes. Not only are there changes to the financial products and services as the industry continues to innovate, the manner in which business is done keeps evolving. Unless we take seriously the need to educate ourselves and those we serve, including the alignment of our business processes, we run the risk of failing to deliver on the FAIS Ombud's mandate.

Our contribution to the financial services industry is evident through the following:-

- We help financial services providers resolve complaints they cannot resolve with their clients;
- We help financial providers resolve complaints they have either ignored or failed to resolve;
- We inform clients and financial services providers of their rights and responsibilities and dismiss complaints with no merit;
- Through the informal nature of our processes we help financial services providers heal their relationship with their clients, by communicating properly;
- Our processes are designed in such a manner that a formal determination is the last resort, thus a financial services provider has sufficient opportunity to resolve the complaint informally at minimal cost;
- By sharing news of our decisions on cases through various media, we educate our stakeholders; and
- We add value in all corners.

Today a significant number of consumers are free to participate in the financial services industry because the South African legal system has provided them with a forum that is accessible. As one of the fora that is tasked with the responsibility of administering remedial action, we appreciate the enormity of the responsibility entrusted upon us.

In our last Annual Report we shared the news about our shelving of about two thousand complaints relating to public property syndication schemes, while awaiting the pronouncement of the Appeals Board on the two determinations of Siegrist and Bekker. Since the Appeals Board pronouncement on 10 April 2015, the Office embarked on one of the most resource-intensive projects of its times in order to deal with these complaints. There were teething problems in the beginning but we are confident of the Office's ability to complete the project.

Building co-operative stakeholder relationships has become fundamental in the way we perceive ourselves and our role. Through meaningful stakeholder relationships, we have been able to stimulate innovation and adequately respond to changing stakeholder requirements.

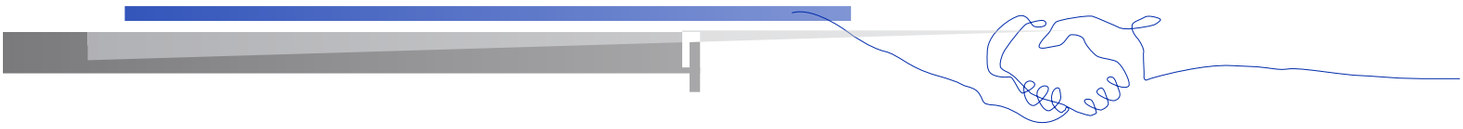
This stakeholder-inclusive approach has assisted us to maintain a sustainable organisation where all those who have an interest in our work are kept informed.

Trends

Forex Investments

A growing trend in complaints investigated by this Office is the emergence of third party entities that act as introducing brokers for forex trading companies. These third party entities are not registered with the regulator (FSB), and utilise the relationship that they have with their trading partners, who are registered in accordance with the FAIS Act, to legitimise their operations. These entities target mainly individuals in the rural areas where for as little as R5000, prospective clients are lured with the promise of significant monthly returns that will improve the prospective client's lifestyle and standard of living.

These entities normally position themselves as offering training to those who wish to trade directly in the markets, by providing the necessary software, training manuals and technical support, when in actual fact, they are actively involved in opening and monitoring the investment, as well as the management thereof, often to the detriment of the client. In many instances the funds, which are often paid directly to the introducing entity, never reach the trading companies.



It goes without saying that the main aim is to benefit from unsuspecting clients with no regard for the client's personal circumstances.

Disability and Retrenchment Benefits

There continues to be indiscriminate selling of disability products and benefits, which in turn contributes to overselling. The office has also noted a surge in complaints received regarding retrenchment benefits. Both disability and retrenchment benefits are mentioned together as there is a similarity in the channels through which these products are sold, often without appropriate advice.

The complaints received by this office suggest that these benefits are often sold as an adjunct to a credit transaction, where one is likely to be offered a credit life policy to provide for any outstanding balances in the event the insured dies, becomes disabled or is retrenched. These policies often provide cover in respect of these benefits irrespective of whether the client has a need for the benefits provided. The indiscriminate manner in which these benefits are provided results in self-employed individuals, contract workers etc. being provided retrenchment cover where there is no hope of ever having a successful claim.

In addition, the channels through which these products are distributed continue to show resistance to the provisions of the General Code of Conduct by claiming that there is no requirement for them to provide the client with advice, and that merely providing the client with factual information (which is not recorded) with regards to the features and benefits of the policy is sufficient to discharge their responsibilities. Despite this resistance, the FAIS Ombud continues to hold these providers, who are often conflicted (as credit grantors), accountable for their actions and in that way, resolves these complaints.

Cellphone Insurance

There has been an increase in the number of complaints this office receives with regards to cellphone insurance, specifically with those policies provided by the mobile networks themselves. When consumers purchase a new mobile device, they are offered cellphone insurance by the representative at the branch, however many consumers are not always informed of the terms and conditions of the policy. For example, many consumers are not informed of the provision which states that a claim will only be paid if the original SIM was in the correct device at the time of loss. The acronym SIM refers to the 'Subscriber Identity Module Card' that is supplied by the specific network provider, which when activated and used together with the mobile device provides access to network services.

The concerns around the non-disclosure of the exclusion applicable to SIM cards is not restricted to the purchase of a new handset, it is also prevalent where one accepts an upgrade of the contract which results in a SIM swap to a new device. In such a scenario the client retains the original device, which may not be compatible with the SIM that is utilised by the new device, and so when the consumer chooses to utilise the original device with another SIM card, cover will be excluded in the event of a claim.

The failure by representatives at the various branches of network providers, to disclose the material clauses, is heightened by the fact that the language used in the application forms is extremely technical in nature, and falls short of adequately advising the client of the consequences of utilising the incorrect SIM. The fact that the representatives of the various networks do not maintain additional records as provided for by the General Code of Conduct for Authorised Financial Services Providers and Representatives, compounds the problem.

Short Term Insurance

The statistics will once again indicate that short term insurance providers and their representatives continue to shy away from the provisions of the FAIS Act when providing short term insurance solutions to their clients. Short term insurance, along with other life assurance products, is essential to financial inclusion, which in turn would have positive effects on economic growth and the reduction of income inequalities. Without the protection against unexpected loss as provided by insurance, households and small businesses that have

established some financial security may find themselves in poverty.

Yet despite relevant legislation, the focus of those who provide short term insurance would appear to remain on the most affordable premium possible, without any regard for what may or may not be in the client's interests.

The failure to adequately obtain relevant and available information from the prospective client is what ultimately leads to the rejection of claims in both the domestic and commercial insurance space, as insurance solutions presented by the providers are not suitable to the specific needs of the client. This, together with a lack of understanding [on the part of the intermediaries of the intricacies of the policy wording, often results in a crippling effect for individuals and small businesses, in the event of a significant loss.

Assistance (Funeral) Business

The trend in respect of complaints regarding funeral business continues where clients are still plagued by unlicensed operators who have no intention of complying with the provisions of the FAIS Act or the General Code of Conduct. This office continues to receive complaints where claims have not been honoured as a result of the scheme not having been underwritten, and without the necessary capital to pay out the claim. There are continuous problems with claims being rejected due to lack of insurable interest. Most of these could be minimised if intermediaries carried out their duties in terms of the Code.

As communicated in the previous annual report, this remains a difficult area of our work as we must first trace these providers over a lengthy period. Even after all that effort, there is often an unwillingness by the provider to co-operate. As a result, dealing with these cases continues to pose enormous challenges to our resources.

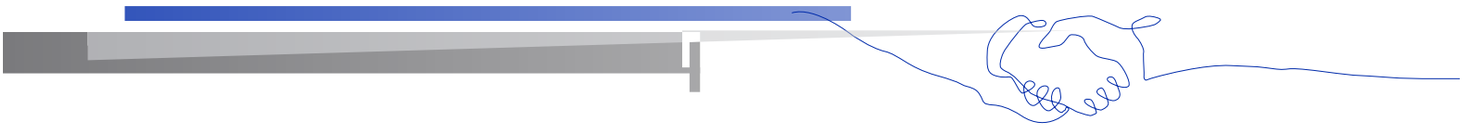
Post Retirement Planning

South Africans continue to procrastinate when it comes to saving for retirement. Many still rely solely on the benefits provided by their employers' pension and/or provident funds that they have as a result of their employment. The result is that the majority do not adequately provide for retirement, yet the expectation that they maintain their standard of living into retirement remains.

The concerning aspect of this is that a large number of complaints dealt with by this office are as a result of intermediaries having failed to be forthright with their clients. What intermediaries fail to communicate to their clients is the reality of the sacrifices and changes in lifestyle that are required if a client has not saved sufficiently for his retirement. Instead, intermediaries, to the detriment of the client, attempt to remedy the shortfall in retirement capital by recommending that clients invest into living annuities where they can choose an income of between 2.5% and 17.5%. They do not inform the client about the real risk of depleting the capital. A worst case scenario is where clients are advised to invest in little unknown companies with no track record and no apparent means to generate what appears to be attractive returns. There are two problems with the last scenario. In the first instance, two materially different products would be compared solely on the basis of a return. This is frowned upon by the Code because it is misleading. The second is failure to act with honesty and integrity, care and diligence, with no regard to the interests of the client and the integrity of the financial services industry.

A significant number of complaints in this area have to do with clients whose entire capital has been fully annuitized without allowing the consumer the opportunity to consider the option of withdrawing the one third portion and the implications thereof. These clients find themselves stranded as the income is significantly reduced compared to their employment income, without having had the opportunity to either settle their mortgage loan or carefully consider their position and make informed decisions in the light of the size of their savings.

We still have complaints involving the sale of single life annuities having been sold to people with surviving spouses and children both of whom had a clear case of dependency at the time of providing advice. These complaints are as a result



of the financial advisor having failed to gather necessary and available information from their clients. They however do not hesitate to inform us that their deceased clients wanted a higher level of income, which would not have been possible if they had 'disclosed' that they had dependants. We continue to resolve these complaints on a 'without prejudice' basis.

Determinations

One of the areas that the FAIS Ombud still has to contend with is the misconception, within the financial services industry, that the FAIS Act does not apply to financial services providers in the short-term insurance business. This could not be further from the truth, however, it is worthy of mention that not all FSPs who sell short term insurance products subscribe to this kind of thinking. For these FSPs, embracing the spirit of the FAIS Act is a sensible step toward building credibility and a sustainable business.

Of the 24 determinations issued in the 2015/2016 financial year, half of these determinations tackled non-compliance with the FAIS Act for short-term insurance products. What follows are samples of some of these complaints which are a measure to support the inference. They have been selected with the appreciation that many South Africans will relate to them, but are also often oblivious to some of the pitfalls.

Samples: Complaints

I. Zakhele Buthelezi v Actobis 406 CC/ta Pro Brokers and Louise Kempen

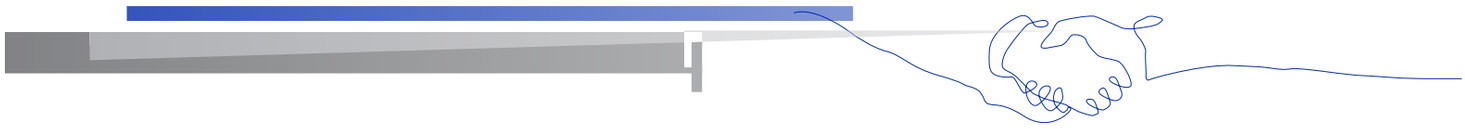
- *Failure to appropriately advise, including inter alia, comparing financial products on the basis of premium, failure to disclose material terms of the contract;*
- *Obtaining client's signature on partial forms in violation of section 7 (2) of the General Code;*
- *Failure to maintain records;*
- *Failure to adopt necessary risk management measures, including the use of technology.*

The complainant lodged a complaint with the FAIS Ombud following the rejection of his claim (by his insurer, Santam) after the hijacking of his vehicle. The insurer rejected the claim on the basis that the complainant had failed to install a tracking device in violation of the terms of the insurance contract. Complainant's case to the FAIS Ombud was that he had never been advised by the respondent about the requirement. Following an investigation by this office, it transpired that the complainant had signed partially completed proposal forms. An employee of the respondent subsequently filled in the remainder of the details in the proposal form, including the security features (indicating to the insurer that the vehicle had been fitted with a Netstar tracking device when this was not the case). Although the respondent claimed the information had been obtained from the complainant via the telephone, the respondent failed to provide a record of the telephone conversation, which was in violation of section 11 of the General Code. The investigation further revealed that the respondent, in advising the complainant, had compared various financial products on the basis of a premium, leading to the product with the cheapest premium being selected by the complainant. The Ombud having considered the evidence found in favour of the complainant, ordered respondent to indemnify the complainant for his loss. Respondents were ordered to pay complainant the amount of R317 500 with interest.

ii. A.N Khoza v Bensure Management Services - Statutory Ombud ruling in terms of the FSOS Act

- *Refusal by the respondent to honour a valid claim with no valid reason;*
- *Unilateral variation of the terms of the agreement without prior notice to the client.*

The complaint in question was dealt with by the FAIS Ombud under the jurisdiction established under the FSOS Act. The complainant, who commutes to work using public transport including taxis, entered into a written contract with the respondent for a policy known as "Journey Traveller ER". This policy provided cover for events where the complainant was admitted to the casualty or trauma ward in hospital following an accident as well as for instances where she remained in the trauma ward for more than 24 hours. Having been involved in a serious accident where the taxi that the complainant was travelling in rolled over, the complainant was admitted and spent a total of four days in hospital. The complainant lodged a claim with the respondent. This was, however, subsequently rejected by the respondent on the basis that the reason for the complainant's admission to hospital could not be deemed as life threatening.



The terms and conditions of the policy that were presented to the complainant, including the definition of what "an insured event" is, what an "accident" is, and the circumstances under which the policy terms could be amended were material terms of the contract. The latter term (and how it is given effect to) was the turning point in the complaint. The respondent relied on having adequately communicated changes made to the policy, but the respondent could not substantiate this either by providing the FAIS Ombud with a copy of the notice posted or the address to which this notice was relayed. Through this failure the Ombud found, on the probabilities, that no reliance could be placed on the alleged notice.

To the exclusion of the purported notice, the Ombud found that all other requirements of the policy had been met. Further, that the respondent was thus obliged to pay an amount of R 30 000 to the complainant including interest.

iii. Luke Carazzo v Aquarius Insurance Consultants and Maurizio Scolari

- *Failure to have appropriate systems and procedures in rendering a financial service.*

The complainant lodged a claim under a short-term insurance policy to the respondent who was his insurance broker at the time. The respondent, unbeknown to the complainant, failed to timeously submit the complainant's insurance claim to the insurer. This fact emerged later after numerous follow up calls were made by the complainant. The effect of this is that the complainant's insurer rejected the complainant's claim.

During the course of the investigations by this office, the respondent had made positive statements about having submitted the complainant's claim to the insurer timeously, yet the respondent (despite ample opportunity to do so) could not provide such proof.

On the basis of the respondent's failure to provide the necessary documentation, the Ombud found that the probabilities favoured the conclusion that the complainant's claim was not properly submitted. The Ombud further found that the respondent had breached section 11 of the Code in allowing the complainant to suffer loss through poor administration or negligence. Having established the value of the loss through the assistance of a loss adjustor, the Ombud ordered the respondent to pay the complainant an amount of R20 173.35 plus legal interest.

iv. Ntombendleko January v Magajana Financial Services CC and Lindiwe Mtasa Magajana

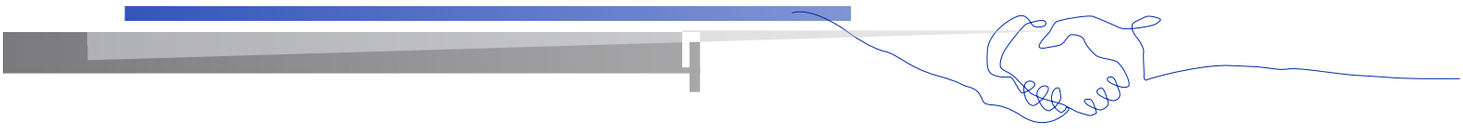
- *Failure to act in the interest of client and failure to act with due care, skill and diligence.*

The complainant entrusted an amount of R100 000 to the respondent on the understanding that she was investing the money with the view of realising a return of R750 per month, payable as and when she requested it. Among other terms of the contract was that the complainant would obtain 10% return on withdrawal of the funds, and that a notice of 60 days was required to effect a withdrawal. A year after the date of concluding the investment, the complainant submitted a notice with the intention of withdrawing her funds.

The respondent, despite several promises to honour this request failed to pay the funds to the complainant. It was only after the intervention of the FAIS Ombud that the respondent acknowledged her indebtedness to the complainant. As at the date of issue of the determination the respondent had only made part payment of what was outstanding. The issue under determination was not whether the respondent was indebted to the complainant but about the manner in which the complainant and other clients' funds were dealt with by the respondent.

For example, it emerged during the investigations that the payments that were made to the complainant (following the notice of withdrawal) had come directly from the respondent's personal bank account. There was also no further evidence of the involvement of a third party, to hold the funds in trust and account to the investors. All these compromised the safety of clients' funds as there was no evidence to suggest that the respondents had proper infrastructure in place to safeguard monies collected from clients.

The respondent appeared oblivious to its duties under the FAIS Act and any law designed to protect members of the pubic in such instances. On the facts and evidence provided, the respondent had caused the complainant's loss and was ordered to pay the complainant the outstanding balance of R25 000 with legal interest.



Acknowledgements

We would like to firstly thank our Board for their commitment and guidance. They continue to provide unwavering support to the office.

We would also like to thank National Treasury for the support and guidance that they provide in realising the vision of the National Development Plan.

A well deserved thank you goes to the staff of the FAIS Ombud, without whom we would not have achieved many of the wonderful things we have achieved.

It has become increasingly important for us to nurture relationships with our stakeholders who assist us to strengthen our operations and build a strong brand. One of our most significant collaborations has been with the Financial Services Board. Working closely with the FSB, we have strengthened controls within our ICT Department and continue to mature in that area.

We have made efforts to further educate the public about our services through our brochures and relationship building engagements at places like police stations and clinics. Our exertions have been embraced by various public facilities across the country.

As we strive to be an employer of choice, we have maintained momentum in attracting bright and committed individuals who continue to support the objectives of our organisation. We thank members of the public who have believed in our service, the Financial Services Providers that appreciate our mandate and are cooperative in our strides of empowering South African citizens.

Strategic objectives

The FAIS Ombud has the following three strategic goals:

- To resolve complaints in a fair, expeditious and informal manner to the satisfaction of customers;
- Achieve operational excellence; and
- Enhanced stakeholder management.

It is with great pride that we announce that the FAIS Ombud has achieved its strategic goals. (Please refer to pages 78 - 82 for more detail)

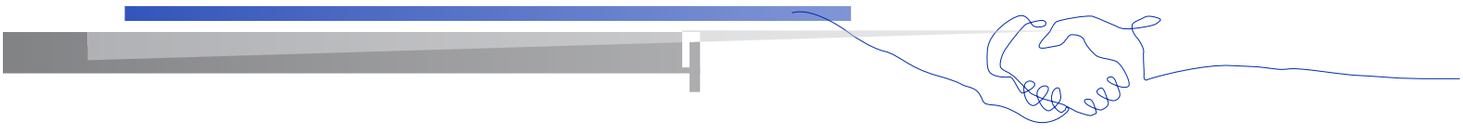
Our people

The value derived from the service and commitment of our employees has been instrumental in the achievement of our strategic goals. Our mandate and its underlying principles is rooted in the respective roles of each employee and serves as a compass, guiding us to the achievement of our strategic objectives. The FAIS Ombud is privileged to have young, bright and dedicated employees.

Development

We encourage and support the development of all our employees. Personal development is an on-going activity throughout the organisation; our employees are continually training and engaging in various forms of study. Our in-house development includes the services of professionals and various institutions. We are privileged that a number of highly qualified professionals have availed themselves to impart their knowledge and expertise to our office.

Our employees in the technical division are required to have a minimum of the National Qualification Framework Level 5 (NQF 5) qualification in financial planning. A number of them have gone further and obtained their NQF level 6 (NQF 6) qualification. The environment in which we do our work is constantly changing and this demands that our people keep abreast of the developments in the financial services space. In so doing, we are able to execute our mandate in a manner that is relevant and aligned with best practice. During the year under review, one employee completed an NQF 5 qualification and another employee completed an NQF 8 qualification. Issues of good governance remain a regular feature in all development discussions.



The FAIS Ombud Graduate Programme

The FAIS Ombud Graduate Trainee Programme was established in December 2010 with the aim of grooming promising law graduates from previously disadvantaged communities and institutions through mentorship and training for a period of 12 months. Candidates are selected from various law schools and as a requirement, must be in the process of completing their Practical Legal studies.

The programme has since launched the careers of 43 Graduate Trainees and continues to afford selected law graduates the opportunity to kick-start their careers in a high performing professional environment while gaining exposure to various legal aspects in financial services.

The programme continues to mature and a growth in the number of graduates joining our organisation every year signifies the development of the programme as well as the confidence of the FAIS Ombud in the benefit received by each graduate at the end of the 12-month period.

The training that is provided on topics such as investments, financial services legislation and retirement planning as well as soft skills that are imparted will assist each graduate to be successful in their future endeavors. We are confident that the programme contributes to the wider economic development of South Africa.

We are excited to announce that the FAIS Ombud has expanded the Graduate Trainee Programme. In January 2016, the programme welcomed two Information and Technology (IT) graduates to gain experience and training at the FAIS Ombud for a period of 12 months.

Retention

It is important for us to balance the resources we invest in talent attraction with employee retention. Taking into consideration the dynamics of our employees, we constantly work towards cultivating an environment that is stimulating and accommodating to different perspectives. Our approach to retention also incorporates methods of ensuring that our employees feel secure and appreciated.

Like any work environment, employees will at some stage in their careers leave the organisation to pursue other interests. We gather the sentiments of those employees who leave the FAIS Ombud through exit interviews and utilise this information to improve our approach to recruitment and retention and guard against any emerging risks.

Remuneration Report

We remain cognisant of the provisions of the Employment Equity Act, No. 55 of 1998 (as amended) and are committed to improving this area in terms of the outcome of the 2014/2015 remuneration survey.

The FAIS Ombud incentivises its employees in terms of the Remuneration Strategy. In line with our approach to retention and ensuring that our employees feel appreciated, peer nominated non-cash incentives are offered to employees that have contributed significantly to the organisation. Cash incentives are paid at the end of the year to the top 20% performing employees. All cash incentives are recommended to the Remuneration Committee of the Board for approval.

Employment Equity

The FAIS Ombud Employment Equity Forum (FOEEF) was established on 4 December 2014. FOEEF has so far implemented government's requirements and successfully submitted two reports with the Department of Labour during January 2015 and January 2016 respectively. FOEFF has also successfully pursued two programmes namely:

1. The Golden Age programme – translators;
2. The Graduate Trainee programme; and
3. The Trainee Assistant Ombud programme.

FOEFF is also committed to the Disabled People's programme. The programme is still receiving attention as we strive to have this very important initiative realised.

Employment Equity Report

During the year 2013 the Office of the FAIS Ombud became a designated employer, with its staff compliment having exceeded 50 employees. As a designated employer the Office became obligated to observe the prescripts of the Employment Equity Act 55 of 1998 (the Act). The fundamental purpose of the Act is to recognise the discriminatory laws which have led to disparities in the labour market and ensure implementation of employment equity to redress the effects of such discrimination.

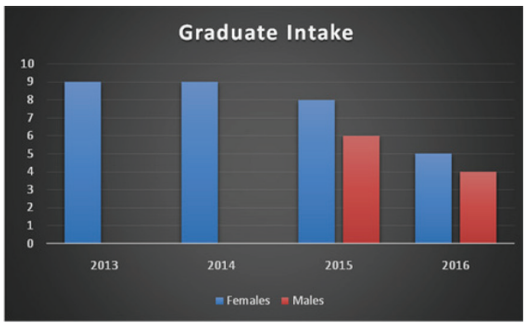
The Office recognized that, from both business and legislative perspectives, it is imperative to entrench employment equity in the workplace and to comply with all requirements of the Act. To further this, the FAIS Ombud Employment Equity Forum was established.

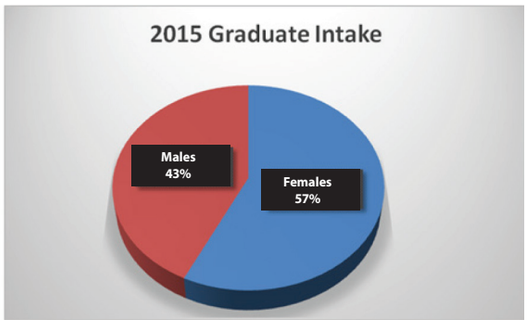
With its key function being to monitor and/ or introduce Employment Equity (EE) related strategies and initiatives within the FAIS Ombud environment, FOEEF officiated its establishment by immediately redressing the issue of under representation of members of designated groups, specifically black males, in the staff complement.

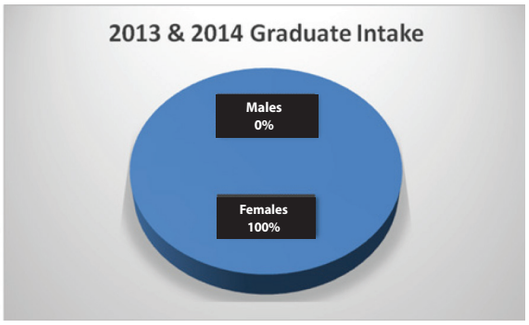
Members of the forum actively participated in all recruitment activities and provided constructive advice during interview processes.

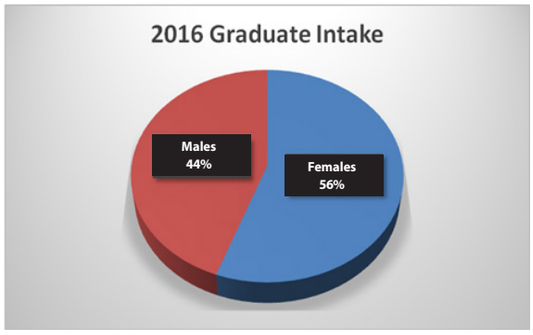
One of the already existing initiatives of the Office, prior to the establishment of FOEEF, was the Graduate Trainee Programme. The programme which is aimed at grooming and exposing law graduates to the working environment was primarily focused on candidates who had already undergone Practical Legal Training (PLT) in a duly recognised Law School. FOEEF finessed the structure of the programme and shifted its focus from "women" to the broader concept of "members from designated groups".

The following graphs show the recruitment trends in the programme from the period 2013 to 2016:









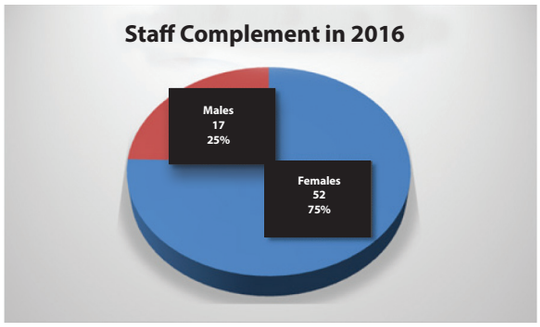
Over the years it became apparent that by only selecting candidates who had already completed PLT, the Office may be limiting the impact that this programme ought to be making in our society. In response, the programme has since been adapted to cater to a number of deserving candidates who are financially unable to register for PLT. In this regard the Office facilitates registration of candidates into respective Law Schools and upon completion of their studies they can become part of the Graduate Trainee Programme.

In carrying out its mandate FOEEF also developed the translation programme initiative. This initiative focuses on the elderly citizens of our society (specifically retirees), wherein the Office obtains translation services in exchange for a market related stipend. The Office provides facilities needed by the translators to carry out their duties.

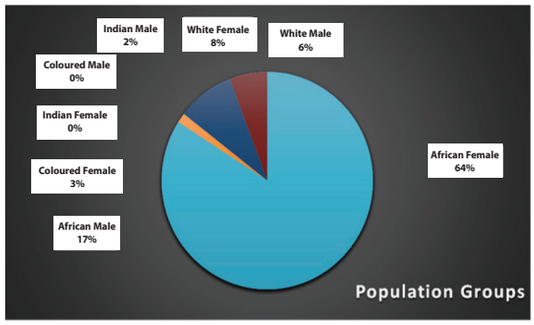
In our bid to observe the prescripts of the Act we are constantly developing EE related strategies and initiatives and hope to continue implementing well-needed transformation in the future.

Employment statistics

The diagram below represents our male / female employees split as at 31 March 2016.



The diagram below represents our employees population group split as at 31 March 2016.



Population groups, continued

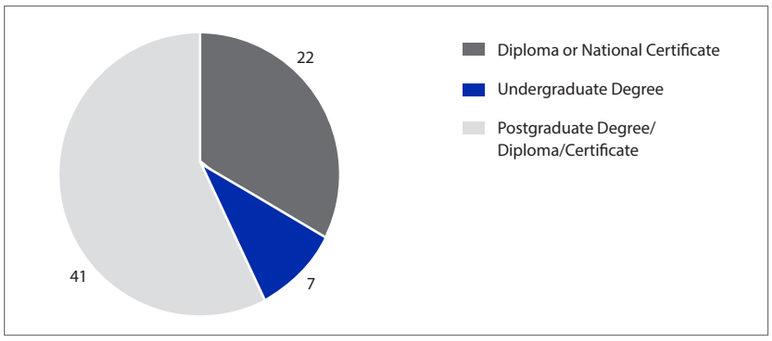
Population Group	Female		Male	
African	44	64%	12	17%
Coloured	2	3%	-	0%
Indian	-	0%	1	2%
White	6	8%	4	6%
Foreign	-	0%	-	0%
Total	**52**	**75%**	**17**	**25%**

Representation at management levels

Level	Executive management		Senior and middle management	
	Female	Male	Female	Male
African	2	-	4	-
Coloured	-	-	-	-
Indian	-	-	-	1
White	1	3	1	-
Foreign	-	-	-	-
Total	**3**	**3**	**5**	**1**

The diagrams below represent the skills and qualification levels, as well as the areas of specialisation as at 31 March 2016.

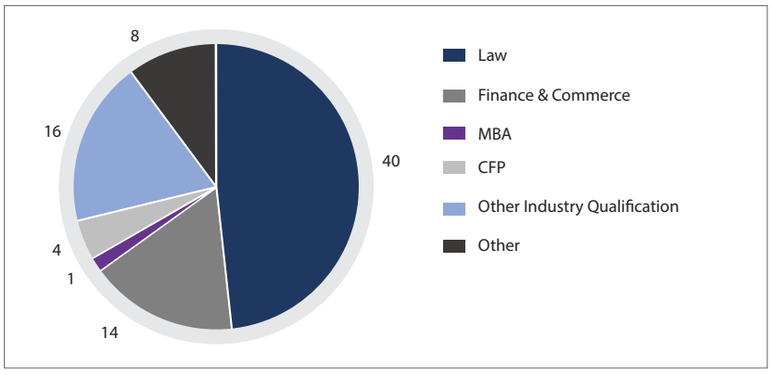
SKILLS AND QUALIFICATIONS

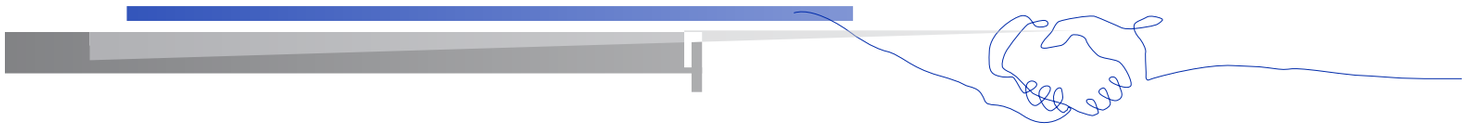


EMPLOYEES WITH HIGHEST QUALIFICATION

Qualification	Number of employees
Diploma or National Certificate	22
Undergraduate Degree	7
Postgraduate Degree/Diploma/Certificate	41
Total	70

AREAS OF SPECIALISATION





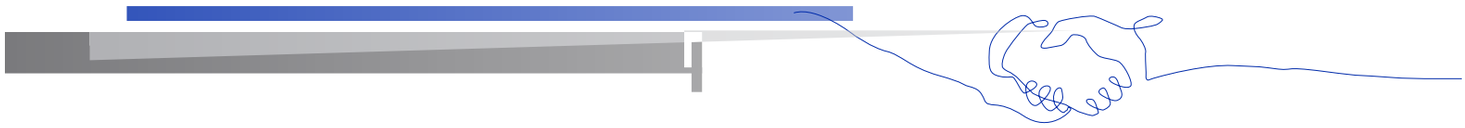
SPECIALISATION	
Law	40
Finance & Commerce	14
MBA	1
CFP and/or Advanced CFP	4
Other industry qualification	16
Other areas	8

PERSONNEL COST BY OBJECTIVE

Objective	Total Expenditure for the FAIS Ombud (R'000)	Personnel Expenditure (R'000)	Personnel expenditure as % of total expenditure	Average No. of employees	Average personnel cost per employee (R'000)
Satisfied customers (complaints resolution)	19 900	19 214	97%	43	447
Operational excellence	15 765	4 110	26%	9	457
Stakeholder management	1 516	1 213	80%	3	404

PERFORMANCE REWARDS

Level	Performance Rewards (R'000)	Personnel Expenditure (R'000)	% of performance rewards to total personnel cost
Top Management	952	7 765	12.3%
Senior Management	64	2 593	2.5%
Professionally Qualified	44	8 091	0.5%
Skilled	-	2 943	0.0%
Semi-skilled	28	2 698	1.0%
Unskilled	15	446	3.4%
Total	**1 103**	**24 536**	**4.5%**

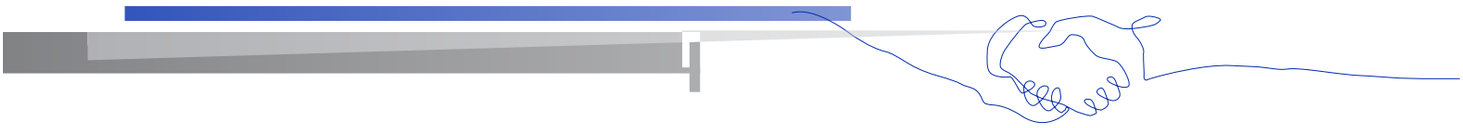


TRAINING COSTS			
Objective	Training Expenditure (R'000)	No. of employees trained	Avg training cost per employee (R'000)
Financial Planning Studies	99	20	5.0
Legal Studies	14	2	7.0
Other Commercial Studies	23	3	7.7
Other Skills training Costs	83	36	2.3

EMPLOYMENT AND VACANCIES					
Level	2014/2015 Ave No. of Employees	2015/2016 Approved Posts	2015/2016 Ave No. of Employees	2015/2016 Ave No. of Vacancies	% of vacancies
Top Management	5	7	5	2	29%
Senior and Middle Management	5	6	5	1	17%
Skilled	31	38	36	2	5%
Semi-skilled	13	15	15	-	-
Unskilled	3	3	3	-	-
Total	**57**	**69**	**64**	**5**	**7%**

REASONS FOR STAFF LEAVING		
Reason	Number	% of total no. of staff leaving
Death	-	-
Resignation	10	72%
Dismissal	2	14%
Retirement	-	-
Ill Health	-	-
Expiry of Contract	2	14%
Other	-	-
Total	**14**	**100%**

LABOUR RELATIONS: MISCONDUCT AND DISCIPLINARY ACTION	
Reason	Number
Verbal Warning	Nil
Written Warning	Nil
Final Written Warning	Nil
Dismissal	2



Sustainability

For the FAIS Ombud, sustainability means executing our mandate in a way that enables our people, the natural environment and the community which we serve, to thrive. As our organisation grows, we are excited as we look to further advance in this area.

Our Sustainability Approach

Our approach to sustainability is to integrate best practice in order to deliver long term value to our people, the community which we serve, as well as the environment. Striking a balance between complaints resolution and issues of sustainability is a continuous assignment that we are happy to engage.

Our people

Some of the most pertinent discussions have been those of succession planning and issues of business continuity. As the Ombud's term comes to an end, the vacancy for the Deputy Ombud position was a critical business concern. We are excited to announce, however, that at the time of compiling this report, a Deputy Ombud had been appointed.

Our Trainee Assistant Ombud (TAO) Programme has also been pivotal, not only as an employment equity initiative but also as an effort to implement effective succession planning and sustainability. During the financial year, we appointed two TAOs. In the programme, the TAOs are given the opportunity to develop skills and gain training on areas such as Risk and Compliance Management, Governance and Stakeholder Relationship Management.

As a part of our employment equity plans, the FAIS Ombud has introduced a "Team Leader" role within our Case Management division. The objective of this training and development initiative is to ensure that the FAIS Ombud will always have a well-trained pool of candidates from whom to draw future leaders of the organisation.

These initiatives, together with the Graduate Trainee Programme are underpinned by the objectives of the National Development Plan. Our Graduate Trainee Programme continues to mature as we continue to groom law graduates from previously disadvantaged communities and institutions through mentorship and training. Since its inception, the programme has launched the careers of 43 Graduate Trainees and continues to afford selected law graduates the opportunity to kick-start their careers in a high performing professional environment while gaining exposure to various legal aspects in financial services.

Our commitment to service delivery

In line with our commitment to service delivery and with the aim of investing in customer relations management, we have made significant improvements to our ICT structure. We continue to mature in this area and are well on our way to establishing ICT systems that effectively support our core business.

In working towards the finalisation of the thousands of complaints in relation to the public property syndication schemes, we have engaged the services of various legal practitioners from whom we can draw representatives from, for the purposes of defending the organisation when our decisions are challenged. Part of our aim with this initiative has been to develop an ecosystem of legal practitioners on the backdrop that these service providers would otherwise not have been exposed to the kind of work conducted by the FAIS Ombud, given the systematic challenges in the financial services industry and the legal fraternity.

We have also engaged in various consumer education exercises. In line with the underlying principles of the NDP and in the spirit of the Use of Official Languages Act, we have made our newsletter available in various indigenous languages. With the aim of empowering members of our community, the newsletter, has been distributed to various public facilities across South Africa.

The Environment

In 2014 we teamed up with the National Cleaner Production Centre of South Africa (NCPC) to conduct a detailed assessment of our facilities, the use thereof and any identifiable areas of improvement. We have since applied some of the recommendations made in the report and have noted positive changes, particularly those relating to the use of electricity.

We have created awareness on the importance of sustainability in relation to natural resources not only as a requirement by National Treasury but also in the interest of preserving our environment.

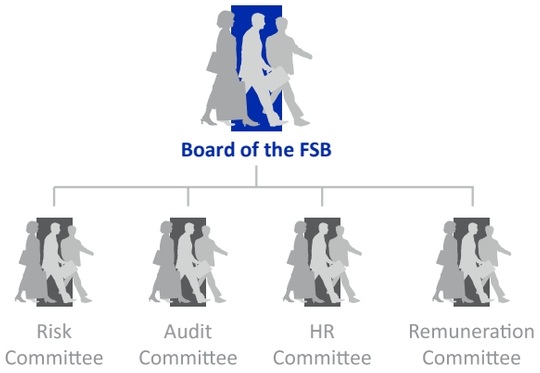
Although the size of the FAIS Ombud often means that we will not always have the bargaining power to influence our suppliers and partners to adopt similar policies, we do however, remain cognisant of our responsibility in this area too.

Governance, Risk and Compliance

Good corporate governance involves the establishment of structures and processes with appropriate checks and balances which enables the Board to discharge on its legal responsibilities and promote accountability, transparency and fairness.

Accountability

We account to the Board of the Financial Services Board (the Board), which exercises oversight responsibility over the operations of the FAIS Ombud in line with the principles of the King III Code of Corporate Governance (King III). The Board has adopted and fully endorses the principles of King III. The Board provides strategic direction to the FAIS Ombud within the bounds of the Board Charter, and fulfils its responsibilities with the contribution of the Audit Committee, the Risk Management Committee, the Human Resources Committee and the Remuneration Committee.



Audit Committee

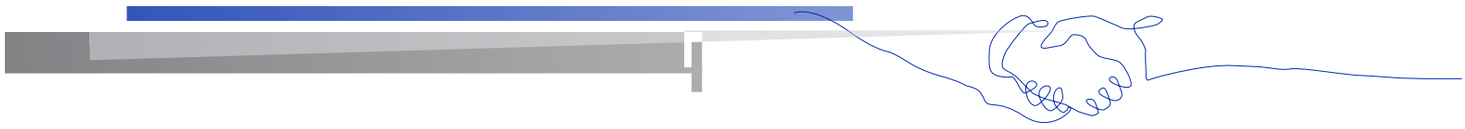
The Audit Committee is responsible for overseeing the internal and external audit functions, maintaining effective and efficient internal controls, reviewing the financial information and overseeing the preparation of the annual financial statements.

Risk Management Committee

The Risk Management Committee's role is to evaluate and advise the Board on the adequacy of risk management processes and strategies. The Risk Management Committee ensures that identified risks are monitored and appropriate measures are put in place and implemented to manage such risks.

Human Resources Committee

The Human Resources Committee's function is to ensure that the FAIS Ombud's Human Resources strategy and policies are implemented.



Remuneration Committee

The Remuneration Committee ensures that the FAIS Ombud's remuneration strategy and policies are implemented. It reviews remuneration and benchmarks salaries of the Ombud and the Deputy and makes recommendations to the Board.

The terms of reference for the sub-committees of the Board are reviewed annually, in line with best practice.

Board Member Appointments

The Board is appointed by the Minister of Finance and is made up of 11 non-executive members of diverse backgrounds. Their appointment is made with due regard to experience, technical skills and the interests of users and providers of financial services, including financial intermediaries and the public interest.

COMPOSITION OF THE BOARD					
BOARD MEMBER	BOARD	AUDIT COMMITTEE	RISK MANAGEMENT COMMITTEE	HR COMMITTEE	REMUNERATION COMMITTEE
Total number of meetings	4	6	4	4	4
A Sithole	4	N/A	N/A	4	4
H Wilton	2	2	2	4	4
Z Bassa	4	N/A	3	4	4
O Makhubela	4	N/A	N/A	N/A	N/A
J Mogadime	4	6	4	N/A	N/A
F Groepe	4	N/A	N/A	N/A	N/A
I Momoniat	2	N/A	N/A	N/A	N/A
D Msomi	3	6	N/A	N/A	N/A
H Ratshefola	2	N/A	4	N/A	N/A
PJ Sutherland	3	5	N/A	N/A	N/A
D Turpin	3	N/A	4	N/A	N/A

Delegation of Board Authority

The Ombud is the Accounting Officer in terms of the FAIS Act and the PFMA. The Ombud, through the delegation of authority, assumes further authority and responsibility arising under the PFMA, enabling the Ombud to run the day-to-day operations of the FAIS Ombud efficiently.

Quarterly reports on Organisational Performance against the Annual Performance Plan are submitted to the Minister of Finance and National Treasury in accordance with Treasury Regulations.

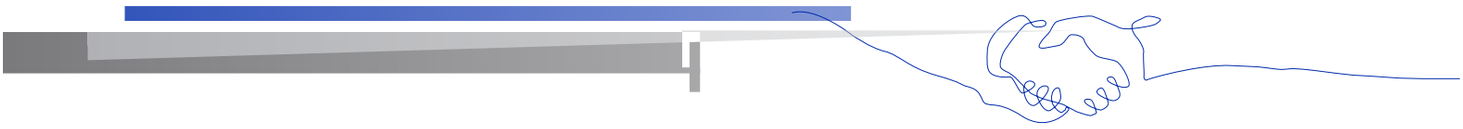
We also report to Parliament, by invitation, usually on an annual basis.

Defined and Separate Roles: Chairman and Ombud

In line with King III, the roles of the Chairman of the Board and the Ombud are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairman of the Board has non-executive functions.

Ethics

The Board provides ethical leadership to the FAIS Ombud. It has a Code of Ethics, which it expects all its members to abide by. In so doing, the Board expects and holds all of its members to high ethical standards. The FAIS Ombud has a Code of Ethics for its employees, and holds employees to the standards as set out in the Code. Ethics is a standard topic in team meetings.



Conflict of interest

The Board has a duty to protect the legitimate interests of all stakeholders. In discharging its duty, the Board has the necessary checks and balances to avoid conflict of interest when it comes to its members and expects the same of the employees of the FAIS Ombud.

Compliance with laws

The Board has oversight responsibility when it comes to the FAIS Ombud's compliance with the law. In this regard, the Board approves the FAIS Ombud's Compliance Framework. In turn, the FAIS Ombud applies and reports to the Board on the extent of compliance and the degree to which a compliance culture is embedded in the organisation. Overall, the FAIS Ombud has very low risk appetite in respect of top ranking strategic risks.

Risk Management

Effective risk management is a strategic imperative rather than an option within high performing organisations. This is supported by King III. Being a PFMA regulated entity, the Board has adopted the Public Sector Risk Management Framework (the framework). The framework incorporates the King III principles.

The framework assigns risk governance to the Board. The Board, however, achieves its responsibilities through the Risk Management Sub-Committee of the Board within the parameters of the Risk Management Sub-Committee's terms of reference. Through the recommendation of the Risk Management Committee, the Board reviews and approves the FAIS Ombud's Risk Management Framework, the FAIS Ombud's Risk Management Plans, and its risk appetite on an annual basis.

The implementation of the FAIS Ombud's Risk Management Framework and Risk Management Plans is the responsibility of Management. The on-going measurement of the effectiveness of the risk management plans is jointly monitored by internal risk governance structures and by the internal and external audit function, who collectively provide assurance to the risk management systems of the FAIS Ombud.

Internally, the FAIS Ombud has the following structures for managing risk:

1. *EXCO (Performance)*
2. *FAIS Ombud Risk and Compliance Sub-Committee (FAIS OMBUD RCS)*
3. *ICT Steering Committee*
4. *Heads of Departments supported by the Risk Department*

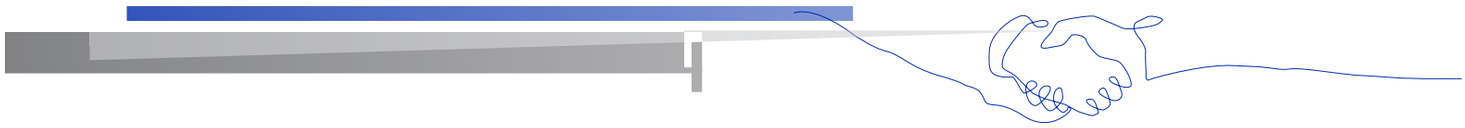
The Risk and Compliance Sub-Committee is the point of consolidation for the Office's reporting and the central body for the execution of management's risk responsibility.

The FAIS Ombud RCS meets on a quarterly basis and reports to EXCO. The RCS discharges its functions by reviewing the adequacy of controls against enterprise-wide emerging risks.

The FAIS Ombud's philosophy, as set out in the FAIS Ombud's Risk Management Framework, is that risk management is everyone's business. As such, although the Accounting Officer is considered the Chief Risk Officer in terms of the Public Sector Risk Management Framework, this responsibility is cascaded to members of the internal risk governance structures, all the way into the individual performance contracts of each employee.

Awareness of each employee's responsibility for managing risk in the area that employees perform their technical duties is re-enforced through the rolling out of risk management activities, such as the Annual Risk Workshop. Over the years, we have learnt that the sustenance of risk management practices will not be effective unless members of the office can relate to the risks confronting the Office in their day-to-day activities.

Much focus is placed on the risk of fraud and corruption in the Public Sector Management Framework, as one of the major risks faced by public entities. We believe, to that end, that no entity is immune to fraud. Accordingly, this is one of the risks that the entity manages relentlessly. We achieve this by ensuring that newly-appointed employees are made aware (during induction) about the FAIS Ombud's zero tolerance attitude to fraud. During these sessions, cases of how fraud can manifest in our environment are discussed with parallels being drawn to the FAIS Ombud's Code of Ethics. Throughout their journey at the FAIS Ombud, employees are sensitised of the Office's stance to fraud during monthly staff meetings, where once again case studies are used and during our annual risk workshop. As such, work in this area is a never ending exercise.



The FAIS Ombud's strategic risks are listed below.

No.	Risk
1	Threat to the independence of the Office
2	Inadequate information security
3	Inadequate stakeholder relationship management
4	Non-compliance with legislation
5	Ineffective complaints handling process
6	Fraud, corruption and unethical behaviour
7	Inability to attract, develop and retain talent
8	Complex and dynamic regulatory environment
9	Disruption of service
10	Inadequate funding
11	Inconsistent decisions on cases

ICT Governance

ICT governance arrangements define the decisions, the various stakeholder involvement, the structures, processes, responsibilities and other mechanisms required to make decisions. This involves building the right capacities, creating the right processes and structures in order to make the right decisions that achieve alignment, manage risks, enable change, deliver quality IT services and manage service costs. IT governance is about setting the rules and building the capabilities to run IT in order to create stakeholder value.

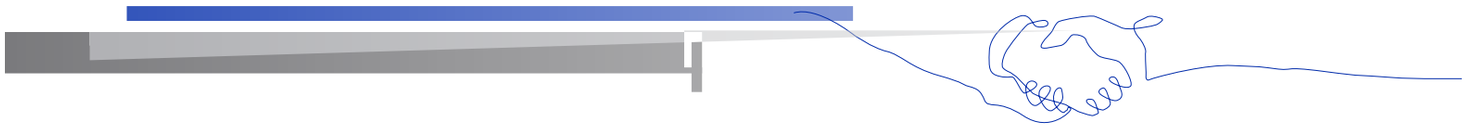
The FAIS Ombud has incorporated the requirements of the Department of Public Service and Administration's Corporate Framework in its ICT Governance Framework. The FAIS Ombud ICT Governance Framework also articulates the responsibilities of EXCO, IT Steering Committee, line managers, and the IT Operational Committee with regard to key areas of strategic alignment, value delivery, ICT resource management, risk management and performance management.

IT strategy was developed and approved by the Board as per the governance framework. The ICT department then develops the IT implementation plan annually to achieve its 3 year strategy, which in turn is approved by EXCO. The achievement of the IT implementation plan is one of the strategic goals of the entity.

Having IT governance, strategy and implementation plans in place does not mean that the FAIS Ombud does not face challenges. The FAIS Ombud conducted a technology assessment, focussing primarily on the infrastructure, supporting business applications and voice services, in order to determine the current level of ICT maturity to address challenges that the office is faced with. The main aim was to determine if there are any gaps that may result in loss of services or breach of policies and to recommend remedial solutions to ensure proper IT governance is followed by the entity.

At the close of the financial year, we were moving towards implementing the recommendation of the technology assessment in order to ensure that the ICT environment is adequate enough to handle a 'new complaints handling management system,' which the entity is in the process of implementing.

SETTLEMENTS



SETTLEMENTS

– Complaint: N v F

Issue: Failure to provide appropriate investment advice.

The complainant had approached the respondent during October 2015 for advice on how to invest the proceeds received from the Road Accident Fund. These funds represented the complainants entire portfolio and he had required that these funds provide him with a monthly income. The complainant accepted the respondent's recommendation which he believed was a straight forward investment. Following the investment, the complainant attempted to access the funds but was subsequently informed that his funds had been placed in an endowment policy and that should he persist with his withdrawal request, he would incur penalties.

An endowment policy is a life insurance contract designed to pay a lump sum after a specific term, the minimum term being 5 years. This minimum 5 year term is also referred to as a restriction period during which the investor has two access points to the funds namely; one loan and one surrender, a full withdrawal from the endowment policy during this time will however be met with significant penalties. Endowment policies are as a result not always the most appropriate option for those individuals with limited resources and who may require access to their funds at any time.

The complainant claimed that he had not been informed that penalties would apply in the event of the proceeds being accessed prior to maturity. In its response to the initial correspondence from this Office the respondent claimed that all the relevant disclosures had been made to the complainant and that he was therefore aware of the implications of withdrawing from the policy prior to maturity.

This Office responded that when one considered the personal circumstances of the complainant it was evident that an endowment policy would not have been an appropriate recommendation and the respondent was asked to review its decision with regards to the resolution of the complaint. The respondent conceded that the policy may not have been an appropriate investment vehicle for the complainant and refunded all the penalties levied against the policy to the satisfaction of the complainant.

Settlement: R71 013

– Complaint: W v P

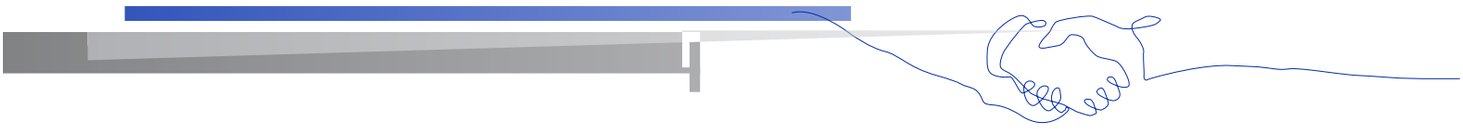
Issue: Failure to disclose the minimum security requirements.

The complainant, owner of a transport company, had applied for an insurance policy to provide cover for his fleet of trucks. The policy had been intermediated by the respondent and was to have provided comprehensive insurance cover. When one of the complainant's trucks were hijacked a claim was submitted to the insurers in the amount of R1 417 930, which was rejected on the basis that the vehicle had not been fitted with an approved tracking device.

In an attempt to manage the risk posed and to mitigate the effects of a total loss as a result of theft and or hijacking, insurers will require that a client's vehicle is fitted with certain security devices as a requirement of being provided with cover. Failure to adhere to the minimum security requirements will not preclude one from being covered in terms of the policy, but it will prevent one from claiming for losses sustained as a result of the vehicle being stolen or hijacked. The duty of an FSP, when advising a prospective client, is to ensure that the client is not only aware of the minimum security requirements, but is also able to comply with the policy's requirements.

The complainant claimed that he had never been informed of the requirement for his trucks to have been fitted with tracking devices when he approached this Office for assistance. The response received from the respondent claimed that this had indeed been disclosed and that the complainant had been provided with a policy schedule subsequent to the inception of the policy and consequently should have been aware of the requirement.

A policy schedule is an outline of the cover provided, and will show details of the policyholder, the cover provided and the relevant limits, sums insured, excesses etc. Policy schedules are however issued at the conclusion of the transaction, and are subsequent to the advice provided. As a result this Office is unable to consider the provision of a policy schedule, or indeed any other post facto documentation as proof that the required disclosures had been made to the complainant.



The respondent was as a result informed that this Office cannot accept any post facto statements, and that the respondent would need to provide documentation to support its claims that the complainant had been informed prior to the conclusion of the transaction of this material term of the contract, that would have allowed the complainant to have made an informed decision.

The respondent acknowledged that it was unable to provide proof that they disclosed the minimum security requirements at inception, and provided an offer of R800 000 which is the limit of this Office's jurisdiction. The offer was accepted by the complainant in full and final settlement of the complaint.

Settlement: R800 000

– Complaint: C v S

Issue: Failure to adequately provide for the Complainant's needs.

After having successfully applied for a home loan, the complainant and her husband had been offered a home loan protection plan by the respondent's representative.

Home Loan Protection Plans, are policies that cover the payment of one's home loan in the event of death, dread disease, permanent disability or retrenchment. These policies, also commonly referred to as credit life policies. There is no medical underwriting at application stage, and the insurers therefore utilise exclusionary clauses such as a pre-existing condition clause to manage the risk posed by the prospectiveclient. It is therefore the responsibility of the financial services provider to obtain all relevant and available information to determine the appropriateness of this type of product in relation to the client's circumstances. By obtaining all relevant and material information from the client, the financial services provider will consequently also be prompted to make the relevant disclosures that will allow the prospective client to make an informed decision as to the suitability of the policy.

Upon the passing of the complainant's husband the complainant was shocked to have received a pay-out that was less than the outstanding loan.

The complainant and the deceased had been under the impression that the home loan protection plan would cover the entire outstanding amount owed on the home loan.

The respondent, in its response to the complaint, claimed that the representative had been a member of its home loan department and as a result was not required to provide advice and that the representative had provided the complainant with all the factual information regarding the product provided.

This Office maintained its view that a financial service provider (FSP) cannot recommend such a policy without providing the required advice, the least of which would have been to ensure that the policy recommended would have provided the required level of cover to meet the client's needs, in this instance the outstanding loan amount on the home. The respondent subsequently resolved to settle the matter with the complainant to the maximum amount in terms of this Office's jurisdiction, which was accepted by the complainant in full and final settlement of the complaint.

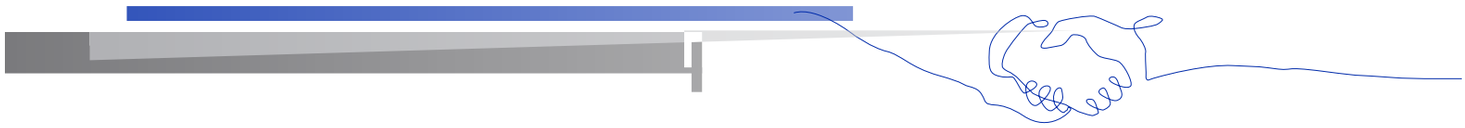
Settlement: R800 000

– Complaint: G v O

Issue: Failure to adequately provide for the Complainant's needs.

The complainant had an existing short-term insurance policy, and when she purchased a second hand vehicle, she had requested that the respondent replace the existing vehicle on the policy with the 'new' vehicle. When the complainant subsequently lodged a claim, the settlement value provided by the insurer was lower than the outstanding amount owed by the complainant.

Comprehensive vehicle insurance policies typically insure a vehicle at the prevailing retail value/market or replacement value. In the event of the vehicle being stolen or written off, the settlement value offered by the insurer may be insufficient to cover the outstanding amount owed to the finance house. The solution is Credit Shortfall Insurance or Top-Up Insurance, which pays the difference between what the vehicle is insured for, and the outstanding amount to the bank or finance house.



This is however dependent on the vehicle being insured for the correct value, which includes having any additional extras such a mag wheels, sunroofs etc., specifically noted on the policy.

The complainant also noticed that the settlement value provided had included a deduction in respect of excesses that she claims had not been discussed with her. Dissatisfied by the outcome of her claim, and the fact that she still owed the finance house a significant sum of money, the complainant submitted her complaint to this Office for assistance. Therespondent claimed that credit shortfall cover had not been recommended as it did not provide such an option.

The respondent also pointed to the fact that the complainant had been sent a policy schedule clearly detailing the various aspects and material terms of the policy. This Office was of the view that an FSP has a duty to obtain all relevant and available information, to ensure that any recommendation made was appropriate to the complainant's needs.

The relevance of the vehicle having been financed with a value that may have exceeded the prevailing retail value was material in determining the suitability of the product recommended. Furthermore this Office could find no documentation to support what had been disclosed to the complainant, with regards to the extent of the excesses applicable that would have allowed the complainant to have made an informed decision.

The respondent in response to the recommendation made by this Office made an offer to resolve the matter that was accepted by the Complainant.

Settlement: R80 337

– Complaint: M v A

Issue: Failure to inform Complainant of the applicable waiting period.

The complainant had applied for a funeral cover policy with the Respondent. The policy was to have provided cover for her immediate family, and had also included cover for a number of extended family members that had been named on the policy. The complainant claims that the respondent's representative had disclosed to her that the applicable waiting period was 6 months, and that she had accepted the policy on this basis.

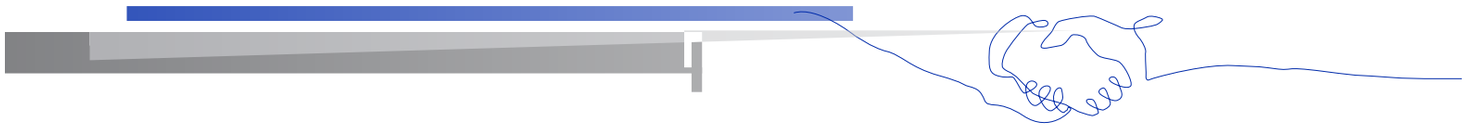
Funeral policies require no medical underwriting at application stage, and insurers typically include waiting periods where no benefit will be paid as a result of death due to natural causes for a specific period after the inception of the policy. A waiting period can range from anywhere between 3 to 12 months, and expressed as number of months that have passed, and not the number of premiums paid.

Eight months after the inception of the policy, one of the extended family members, noted on the policy, had passed away and the claim submitted had been rejected as the waiting period applicable to extended family members was nine months, as opposed to the six month waiting period applicable to the complainant and her immediate family. The complainant was adamant that this had not been disclosed to her and she submitted a complaint to this Office.

This Office requested that the respondent provide documentation showing that the material terms of the policy, specifically those dealing with the general waiting periods applicable to the policy, had been specifically disclosed to the complainant, as provided for in terms of the General Code of Conduct for Authorised Financial Services Providers and Representatives. This Office also wanted to see evidence that the complainant had been placed in a position to make an informed decision.

The respondent chose not to address this Office on the issues raised, and based on the correspondence received offered to resolve the matter with the complainant by honouring the claim in full. The offer was accepted by the complainant who was satisfied that the matter had been resolved to her satisfaction.

Settlement: R5 000



– **Complaint: T v M**

Issue: Failure to act in the interest of the Complainant.

The complainant, who had existing policies with a product provider, Insurer A, had been advised by the financial advisor to replace the policies for what the complainant was led to believe were better alternatives, with Insurer B. It would appear that the replacement was motivated by the fact that the advisor had left the employ of Insurer A and had subsequently joined Insurer B. After only a few months however the advisor left Insurer B and returned to Insurer A where he then informed the complainant that she would struggle to achieve the benefits provided by Insurer B, and once again recommended that the policies be moved back to Insurer A.

Churning is the action of an advisor who sells replacement policies to a client simply to earn commission, and is characterised by the rapid and repeated purchase and re-sale of a client's policies. These transactions are rarely if ever in the client's interest.

The complainant had been unaware at the time that every withdrawal had led to a recalculation of the guaranteed value together with severe penalties.

Upon receiving an annual review statement the complainant realised that the value of the investment had decreased from the original guarantee of R450 000 to a new guaranteed amount of R239 000. The respondent was asked to provide documentation in support of why the replacement policies were deemed to have been appropriate to the complainant. The respondent was also requested to indicate what policies and procedures it had in place to mitigate the churning of policies by intermediaries.

The respondent was unable to provide the requested documentary evidence and claimed that the replaced policy had not only been accepted by the complainant but was also appropriate to his needs, and that it had been the complainant's need to draw an income that had resulted in the loss. This Office disagreed with the respondent's view, in that a client such as the complainant could not have benefited from paying for a guarantee only to have the guarantee negated by the need to draw a regular income. This together with the fact that the amount invested had represented the complainant's entire savings and that a duty of care existed towards the preservation thereof was required, meant that the product recommended was inappropriate. The respondent subsequently approached this Office with a 'without prejudice offer' that looked to place the complainant in the position she would have been prior to the replacement of the original policies. The offer was accepted by the complainant in full and final settlement of the matter.

Settlement: R211 000

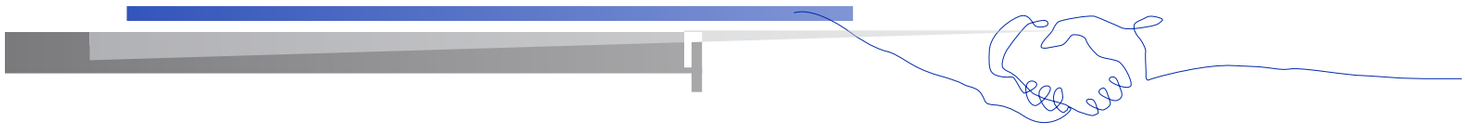
– **Complaint: C v M**

Issue: Failure to provide appropriate advice.

The complainant retired during 2009; and had approached a representative of the respondent for advice with regards to the investment of his pension benefits. The complainant had accumulated an amount of R2 516 297 and required a monthly income of R19 000. The funds were placed in a living annuity where the complainant was allowed to draw down an income of R23 956.

A living annuity is a compulsory purchase annuity offered by insurers and retirement funds, where the income is not guaranteed but is dependent on the performance of the underlying investments. Prospective clients can select an income between 2.5% and 17.5%, however an income that exceeds the performance of the portfolio will erode the original capital invested, which can have serious implications upon the retiree's standard of living.

The respondent's representative had not cautioned the complainant of the risks involved in drawing such a high income, which saw the portfolio lose R224 452. The respondent claimed that the complainant had requested the specific level of income, and that were one to consider the current value of the portfolio and the income payments received up to that point, then the complainant had not suffered any financial prejudice, as this amount had been in excess of the original amount invested. This Office argued that the respondent's representative had failed to provide the complainant



with a recommendation that was appropriate to the complainant's circumstances, and that the complainant laboured under the false impression that he could draw an income of his choosing, despite the fact that the underlying portfolio selected would not have been able to sustain such an income. The respondent subsequently reverted with an offer of which took into consideration the income that had been in excess of what would have been acceptable in the circumstances. This offer was accepted by the complainant.

Settlement: R168 045

– **Complaint: D v S**

Issue: Failure to adequately provide for the client's circumstances.

During November 2009 the complainant's (now deceased) husband had approached a representative of the respondent for advice with regards to his pension benefits. The deceased had been advised to utilise the funds to purchase a single life annuity that would guarantee him an income for life. Upon his passing the policy terminated and the complainant received no further income payments, despite the fact that she had no other source of income and had been entirely dependent on the deceased. The complainant approached this Office requesting to be placed in a position she would have been, had the deceased been correctly advised with regards to the products limited liquidity.

A guaranteed or traditional life annuity secures a pre-determined income for life. The one major concern with traditional life annuities is that the policy dies with the life assured, and so any dependents won't be able to inherit any residue on the death of the insured. This can be remedied by purchasing a guaranteed term or a joint life annuity that will cease on the death of the last surviving spouse.

The respondent's response was that the deceased had made insufficient provision for retirement and that the funds had to be utilized in a manner that maximized the income payable. The respondent claimed that a joint life annuity would have resulted in a lower level of income, which in itself would have been detrimental to the deceased. It was also argued that it was the deceased and not the complainant who had been a client of the respondent, and that it had no obligation towards the complainant. This Office was of the view that as the complainant had been entirely dependent on the deceased, any recommendation made to a client, especially during retirement, had to take into account the client's circumstances as a whole, which included the wellbeing of the spouse. The respondent ultimately made an offer in full and final settlement which was accepted by the complainant.

Settlement: R44 614

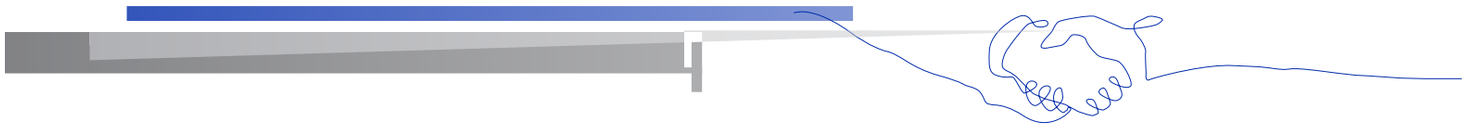
– **Complaint: B v A**

Issue: Failure to comprehensively insure the Complainant's residence.

The complainant claimed that the respondent had been providing him with financial advice since 2000 and that he was well acquainted with his personal circumstances. The complainant had applied for a short -term insurance policy and he insured his main residence for R500 000. During June 2012 the complainant's property was destroyed as a result of violent storms and he had submitted a claim of R921 200. The assessor appointed, had however, valued the building at R2 738 288, and as the building was under insured the principle of average was applied, the claim had been reduced by an amount of R719 210 and a settlement offer of R201 989 was rejected by the complainant.

When a claim is submitted in respect of the Homeowners Section of a policy, an insurer will when determining what the property should have insured for, calculate the replacement value, which is based on what it would cost to rebuild the property. If the property is insured for less than the replacement value then it will be underinsured. Under insurance is therefore the shortfall between the amount of cover selected and the actual replacement value of the property insured, and the insured will bear a ratable proportion of the loss.

The respondent initially failed to resolve the matter with the complainant, and had argued that it was the complainant who had provided the valuation for the building, and that it was not an expert with regards to the value of such items and could not have been expected to have corrected the value provided by the complainant. This Office was of the view that an FSP did have a duty to obtain all relevant and available information to ensure that any recommendation would have been appropriate, and that this went hand in hand with ensuring that the complainant was aware of any and all material terms of the policy that would had had a



bearing on the cover provided. This would have included the basis upon which an item was to have been insured. The respondent subsequently made an offer in addition to the settlement offer provided by the insurer, which was accepted by the complainant.

Settlement: R400 000

– Complaint: D v A

Issue: Failure to conduct the financial service in accordance with client's instructions.

The complainant claimed that on 5 July 2012 he had received a pension fund statement reflecting the current value of his pension benefit, which had also confirmed that his funds had been invested in a Bond Fund. The complainant was relatively close to retirement and after consultation with his financial advisor, decided to switch the portfolio to a defensive fund. The complainant was advised that he could send the switch instruction via email. On 5 July 2012 he sent the respondent an email requesting that his pension proceeds be moved to a defensive fund. During July 2013 the complainant discovered that his instruction had never been actioned by the respondent, and that he had sustained losses of R393 880.

The respondent initially offered him a settlement of R136 141, which was rejected by the complainant. The respondent was of the view that the complainant had had sufficient opportunity to ascertain that the switch had not been actioned, and claimed that he had ultimately used this error to his advantage. This Office confirmed that the respondent had by its own admission confirmed that it had erred in not advising the complainant of the correct procedure to request a switch, and that it was as a result of this omission that the switch had not been actioned. This Office was also of the view that the complainant was a lay person and not an expert in the field of financial planning, and that his conservative risk profile did not support the allegations made, that he had utilised this situation to commit what the respondent had termed arbitrage fraud. The respondent subsequently revised its offer in full and final settlement of the complaint, an offer that was accepted by the complainant.

Settlement: R250 000

– Complaint: M v J

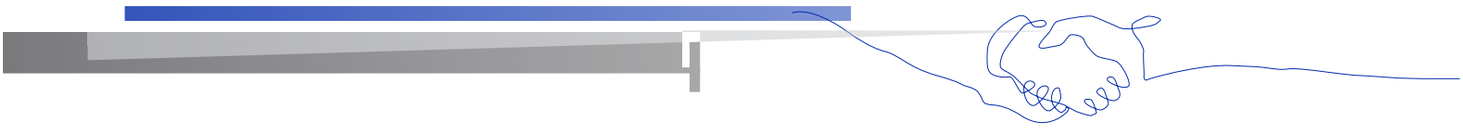
Issue: Failure to disclose the excesses applicable on the policy.

Subsequent to the purchase of a new motor vehicle during 2014 the complainant had approached the respondent to obtain cover. The complainant had an existing insurance policy, and the new vehicle was to have replaced the vehicle noted on the policy. The respondent had however recommended that the complainant apply for a new policy with another insurer. When the complainant's 25 year old son, a nominated driver on the policy, had an accident the complainant was shocked to be informed that she would be paying additional excesses, as a result of the driver of the vehicle being under the age of 30, and that the loss had occurred within 6 months of the policy having incepted. These excesses had neither been disclosed to the complainant nor been applicable on the original policy.

An excess is the first amount payable in the event of a claim, and is normally in the form of a basic excess expressed as a percentage of the claimed amount subject to certain minimums such as 5% of the claim with a minimum of R2 500. There are however also additional excesses applicable depending on the age of the driver, date of loss etc. Additional excesses differ between insurers in both number and complexity.

The respondent was requested to provide documentation in support of why the replacement policy was deemed to have been appropriate to the complainant's need, as her 25 year old son had been noted as the nominated driver. The respondent was also asked as to provide the rationale behind the new policy that would see an additional excess applied for any claim with a 6 month period, and whether this was disclosed to the complainant. The respondent subsequently approached the complainant and offered to compensate her for the additional excesses charged, which was accepted by the complainant.

Settlement: R4 500



– **Complaint: M v M**

Issue: Failure to timeously action a client's instructions.

The complainant had, on the recommendation of the respondent's representative, applied for an investment policy, with the intention of contributing a monthly premium. Upon receiving the policy documents the complainant was not satisfied that the product recommended was what he had wanted. Having been informed of the 30 day cooling-off period, the complainant contacted the respondent's representative to have the policy cancelled and for any premiums already paid to be refunded to him.

The Long Term Insurance Act provides for a cooling-off period of 30 days, during which you may cancel the policy after having signed the proposal, provided that no benefit has yet been paid or claimed or an event insured against has not yet occurred . It is important to note that whilst all premiums or moneys paid by the policyholder to the insurer, up to the date of receipt of the cancellation notice, must be refunded to the policyholder, the refund may be subject to the deduction of the cost of any risk cover actually enjoyed by the policy holder, and or any market loss experienced.

The representative had however failed to communicate the complainant's cancellation request to the product provider and the complainant, who was able to provide proof of his interaction with the respondent's representative, had approached this Office for the policy to be cancelled, and for a refund of any and all premiums deducted.

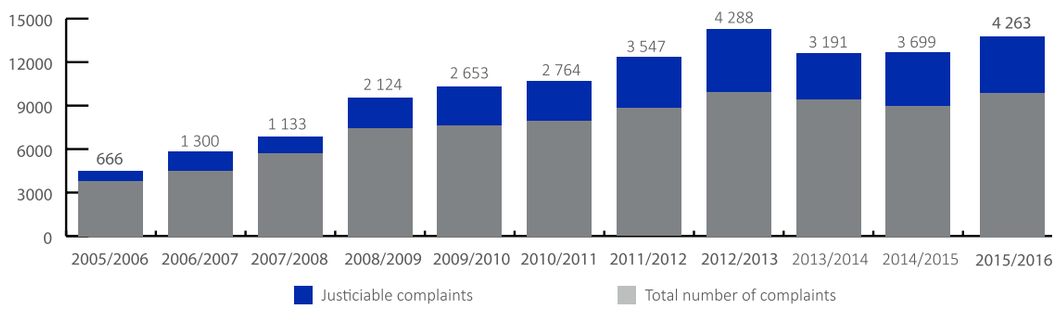
The respondent was requested to provide reasons as to why the policy now being cancelled had been deemed to have been appropriate to the needs of the complainant, and why the instructions received from the complainant had not been actioned timeously.

The respondent, was unable to adequately respond to the complaint raised by the complainant and confirmed that all premiums collected would be refunded to the complainant in full and final settlement of the matter. The complainant was satisfied with the offer presented by the respondent and confirmed that the file could be closed.

Settlement: R1 471

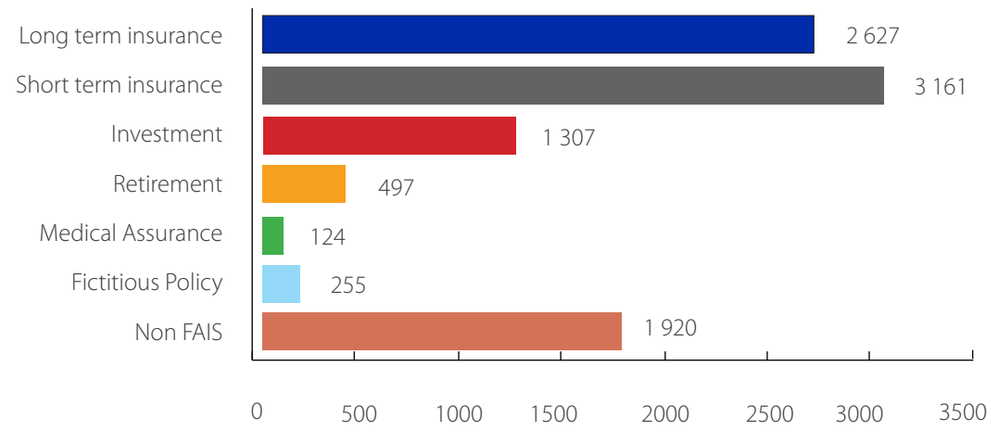
STATISTICS 31 MARCH 2016

Growth in new complaints



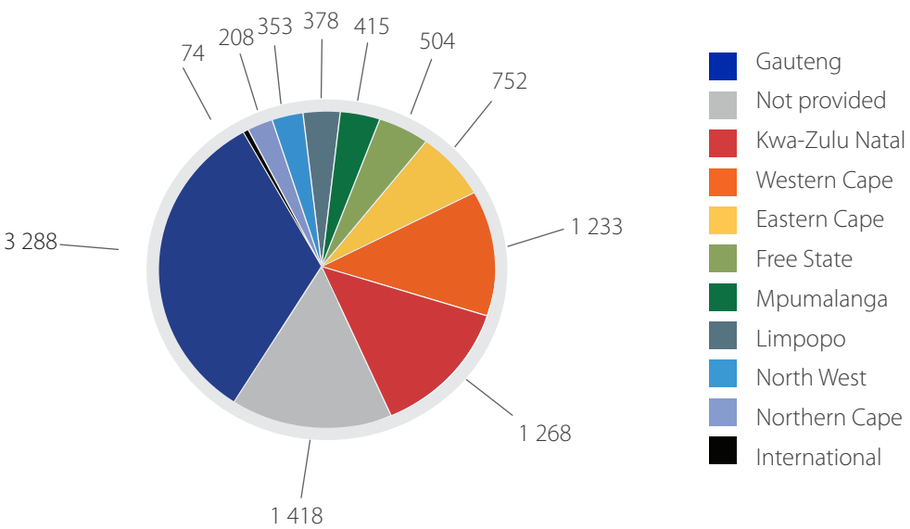
FINANCIAL YEAR	TOTAL NO OF NEW COMPLAINTS	JUSTICIABLE COMPLAINTS
2005/2006	3 808	666
2006/2007	4 484	1 320
2007/2008	5 720	1 133
2008/2009	7 416	2 124
2009/2010	7 647	2 653
2010/2011	7 944	2 764
2011/2012	8 821	3 547
2012/2013	9 949	4 288
2013/2014	9 439	3 191
2014/2015	9 003	3 699
2015/2016	**9 891**	**4 263**

What products do people complain about



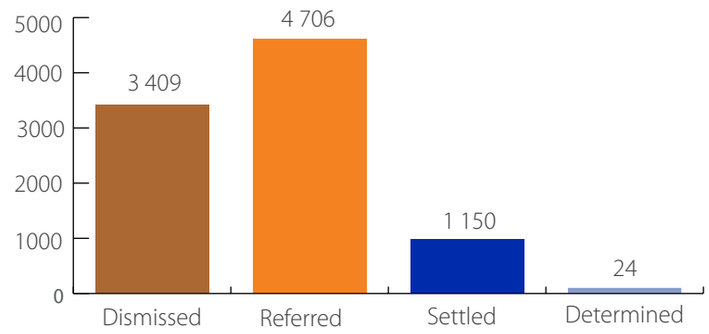
Total: 9 891

Where do our complaints come from



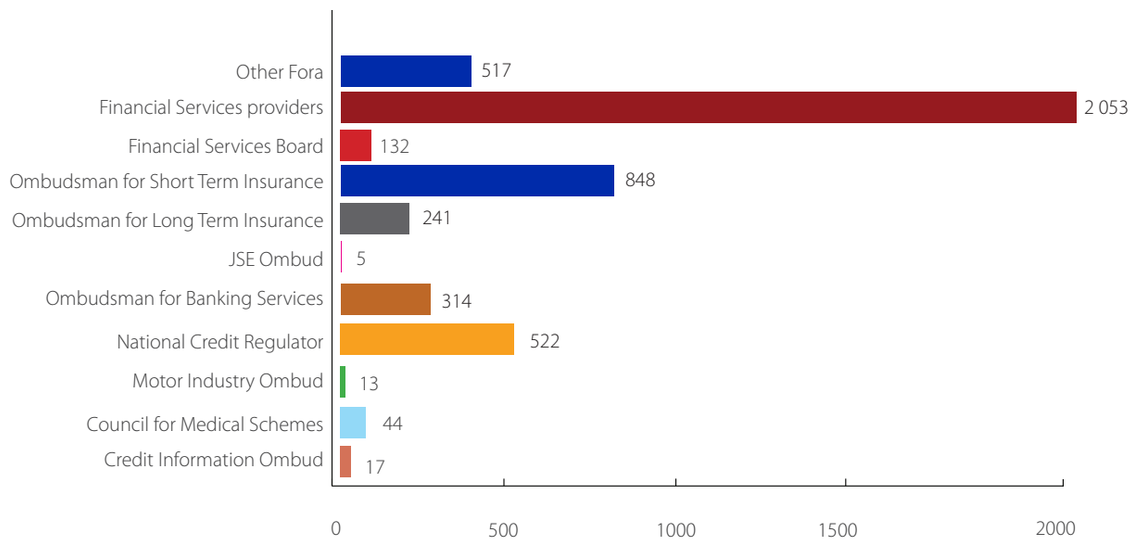
Total: 9 891

All resolutions in 2015/2016 for cases from all years



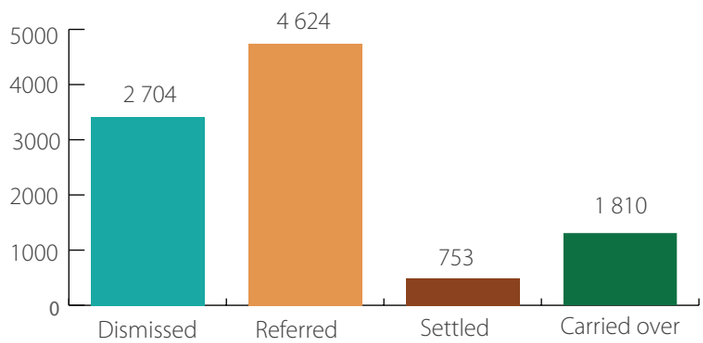
Total: 9 289

Referrals to other Fora



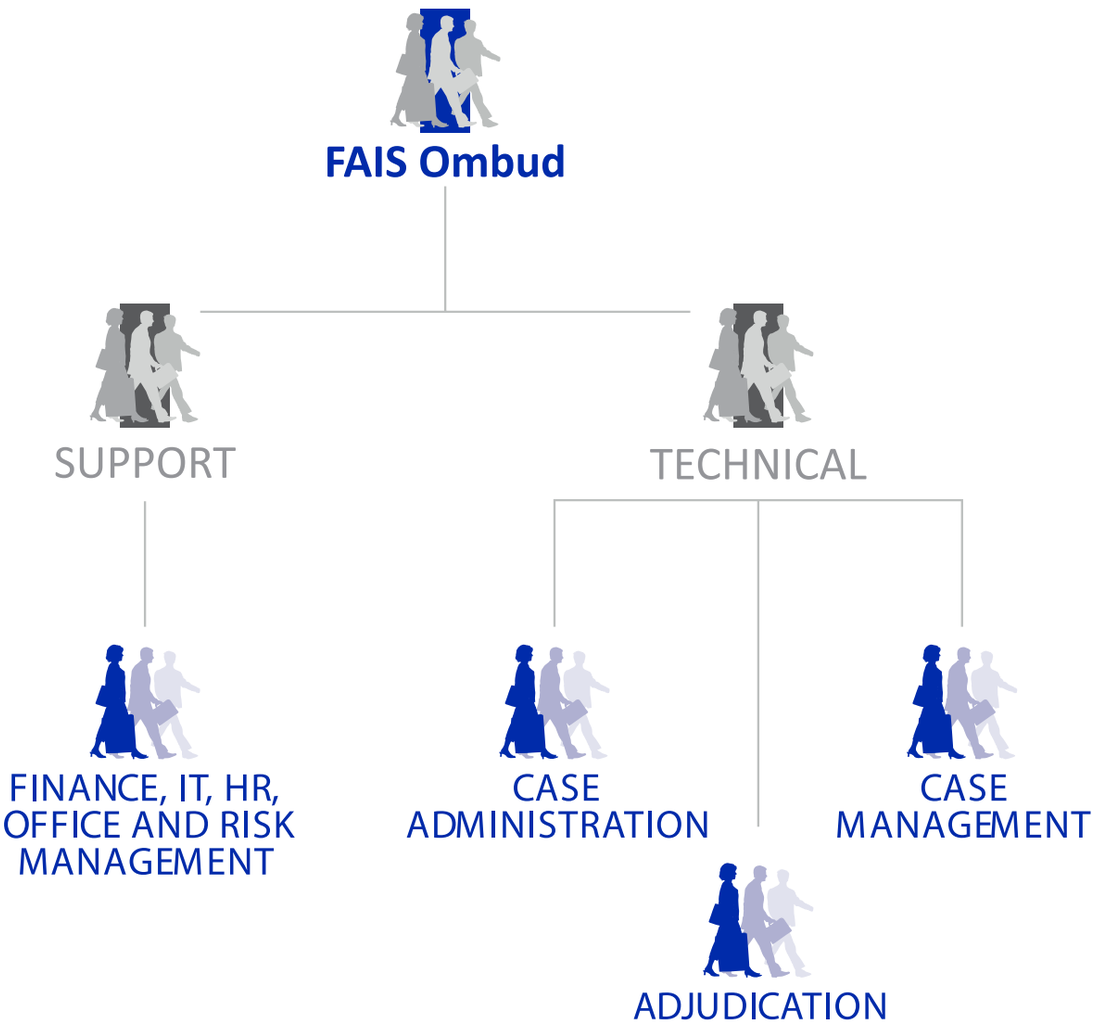
Total: 4 706

How new complaints were dealt with



Total: 9 891

ORGANISATIONAL STRUCTURE



STAFFING

STAFF COMPLEMENT

Phumza Mtshemla, Marc Alves, Sithabile Sabela, Jean Goodey, Noluntu Bam, Bridgette Sehlapelo , Melani Winkler, Zetu Kulu, Nomfundo Dhlomo,Nomvula Mtolo Boitumelo Rantao, Lusanda Chili, Alicia Fynn, Tokozile Memela, Chantel Van Wyk, Winnie Mugeri, Petronnell Sehlola, TJ Riekert, Elton Ndlovu, Refilwe Mahloele Mpho Rametsi, Ayanda Mntonintshi, Yvonne Shili, Johanna Mgidi, Thandi Jali, Julie Malan, Florence Mokgonyana, Charmaine Mosalo, Ilne Potgieter Kelebogile Sesoko, Mpho Koloko, Nhlanhla Mngomezulu, Rebotile Manakana, Tshepiso Mabaso, Tumelo Malete, Brian Nyide, Hector Gumede, Ashwin Singh Cebisa Mkiwane, Mashite Makgoo, Ncebakazi Giqwa, Portia Makhanya, Zine Mahlaka, Thobekile Ngcobo, Sinovuyo Puzi, Boitumelo Motholo, Hendrina Williams Rita Mari van der Westhuizen, Adelaide Nyatsumba, Sesethu Memese,Thandekile Chiliza, Thobile Masina, Ayanda Myeni, Oyama Mayedwa, Sifundo Tiki Lehlohonolo Makhutle, Londiwe Ntobongwana, Nikita Gumede, Lungelwa Mpapela, Uyanda Phiri

EXCO

Jean Goodey, Noluntu Bam, Bridgette Sehlapelo, Sithabile Sabela.

TECHNICAL TEAMS

Phumza Mtshemla, Marc Alves, Sithabile Sabela, Noluntu Bam, Bridgette Sehlapelo, Melani Winkler, Zetu Kulu, Nomfundo Dhlomo, Uanda Phiri, Ayanda Mntonintshi Julie Malan, Florence Mokgonyana, Charmaine Mosalo, Ilne Potgieter, Kelebogile Sesoko, Mpho Koloko, Nhlanhla Mngomezulu, Rebotile Manakana Tshepiso Mabaso, Tumelo Malete, Brian Nyide, Hector Gumede, Ashwin Singh, Cebisa Mkiwane, Mashite Makgoo, Ncebakazi Giqwa, Portia Makhanya, Zine Mahlaka Thobekile Ngcobo, Sinovuyo Puzi, Boitumelo Motholo. Hendrina Williams, Rita Mari van der Westhuizen, Adelaide Nyatsumba, Sesethu Memese, Thandekile Chiliza Thobile Masina, Ayanda Myeni, Oyama Mayedwa,Sifundo Tiki, Lehlohonolo Makhutle, Londiwe Ntobongwana Nikita Gumede,Lungelwa Mpapela

RISK, IT, FINANCE AND SUPPORT

Sithabile Sabela, Jean Goodey, Petronnell Sehlola, Mpho Rametsi, Boitumelo Rantao, Nomvula Mtolo, Alicia Fynn, Hestie Teessen, Lusanda Chili, Tokozile Memela Chantel Van Wyk, Winnie Mugeri, Johanna Mgidi, Refilwe Mahloele, Ayanda Mntonintshi, Elton Ndlovu, TJ Riekert, Yvonne Shili, Thandi Jali, Julia Montoedi Tshebeletso Hlapane

FINANCIALS

FINANCIAL STATEMENTS

Index

01
Accounting Authority's Responsibilities and Approval, pg 42

02
Audit Committee Report, pg 43

03
Risk Management Committee Report, pg 44

04
Report of the Auditor-General, pg 45

05
Financial Statements, pg 47
Statement of Financial Position
Statement of Financial Performance
Statement of Changes in Net Assets
Cash Flow Statement
Statement of Comparison of Budget and Actual Amounts
Summary of Significant Accounting Policies
Notes to the Financial Statements

Abbreviations

AGSA	Auditor General South Africa
ASB	Accounting Standards Board
FSB	Financial Services Board
GRAP	Generally Recognised Accounting Practice
PFMA	Public Finance Management Act, 1999 (Act No 1 of 1999)

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

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

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

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board acknowledges that it is ultimately responsible for the system of internal financial controls established by the entity and places considerable importance on maintaining a strong control environment.

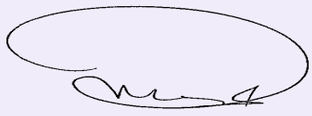
To enable the Board to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of error in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The Board has reviewed the entity's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, they are satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 47 to 77, which have been prepared on the going concern basis, were approved by the Board on 27 July 2016 and were signed on its behalf by:

Abel Sithole
Chairperson



Noluntu Bam
FAIS Ombud

AUDIT COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2016.

Audit Committee members and attendance

The Audit Committee is a sub-committee of the Board and consists of only non-executive Board members. During the current year 6 meetings were held. The Audit Committee consists of the members listed hereunder.

Name of member	Number of meetings attended
J Mogadime (Chairperson)	6
D Msomi	6
PJ Sutherland	5
H Wilton	2

Audit Committee's responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Treasury Regulation 27.1. The Audit Committee reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged its responsibilities as contained therein.

The Board has established a Risk Committee to oversee the risks associated with the entity. The chairperson of the Audit Committee is a member of the Risk Committee and vice versa to ensure that relevant information is transferred effectively. The Risk Committee fulfils an oversight role on financial reporting risks, internal financial controls, compliance risks, fraud risk as it relates to financial reporting, and information technology risks as these relate to financial reporting.

The effectiveness of internal financial controls

The system of internal financial controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective.

This is achieved by means of a risk based internal audit plan, internal audit assessing the adequacy of controls mitigating the risks, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal financial controls or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

Evaluation of financial statements

The Audit Committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General South Africa and the Board;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed the entity's compliance with legal and regulatory provisions;

The Audit Committee concurs and accepts the Auditor-General South Africa's report on the financial statements, and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General South Africa.

Internal audit

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity and its audits.

Auditor-General South Africa

The Audit Committee has met with the Auditor-General South Africa to ensure that there are no unresolved issues. The Audit Committee recommended, at its meeting held on 21 July 2016, the approval of the annual financial statements to the Board.

J Mogadime

RISK MANAGEMENT COMMITTEE REPORT

Effective risk management is imperative to the FAIS Ombud to fulfil its mandate. Risk management efforts are focused on supporting the FAIS Ombud's strategic objectives.

Governance of Risk

The Board has committed the FAIS Ombud to a process of risk management that is aligned to the principles of good corporate governance, as supported by the PFMA, and supported by King III principles.

The Board has delegated certain aspects of its authority as it pertains to risk management to the Risk Management Committee.

The committee consists only of non-executive Board members. The committee's overall objective is to assist the Board in fulfilling its responsibility of risk management by ensuring that management identifies significant risks associated with the environment within which the FAIS Ombud operates and develops a framework for managing these risks. The Risk Management Strategy, incorporating a Fraud Prevention Plan, has been developed accordingly.

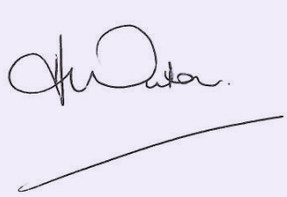
The committee meets at least four times a year. The Ombud and Finance Manager are permanent invitees of the Committee. Members of the FAIS Ombud Executive Committee or other members of senior management of the FAIS Ombud, assurance providers and other Board members may be required to attend committee meetings by invitation only.

The committee is an advisory committee and not an executive committee and as such it does not perform any management functions or assume any management responsibilities. Its role is that of an independent and objective adviser and it operates as an overseer, making recommendations to the Board for final approval.

The committee has complied with its responsibilities as stipulated in Section 51 of the PFMA. Furthermore, the Risk Management Committee has regulated its affairs and discharged its responsibilities in accordance with its formal terms of reference and provided objective oversight and advice.

Roles and Responsibilities

- The Risk Management Committee has fulfilled its oversight responsibility for risk management by ensuring that:
- The risk management strategy, risk management policy and risk management plans were considered;
- The continual monitoring of risks was undertaken;
- The risk management plan is integrated into the daily activities of the FAIS Ombud;
- Management has identified significant risks associated with the environment within which the FAIS Ombud operates and has developed a framework for managing these risks;
- The risk management strategy covering strategic, operational and financial risks was reviewed and approved;
- The risk management strategy incorporates a Fraud Prevention Strategy, which in turn incorporates the Fraud Prevention Policy, the Fraud Prevention Plan, the Fraud Response Plan and the Whistle Blowing Policy; and
- The systems for risk management processes are effective.



Ms Hilary Wilton

Chairperson: Risk Management Committee

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE OFFICE OF THE OMBUD FOR FINANCIAL SERVICES PROVIDERS

Report on the financial statements

Introduction

1. I have audited financial statements of the Office of the Ombud for Financial Services Providers set out on pages 47 to 77 which comprise statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA) and the Financial Advisory and Intermediary Services Act of South Africa, 2002 (Act No. 37 of 2002) (FAIS Act), 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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Ombud for Financial Services Providers as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the PFMA and FAIS Act.

Report on other legal and regulatory requirements

7. 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 findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the entity for the year ended 31 March 2016:
   - Objective 1: To increase the number of satisfied customers on pages 78 to 79

9. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

10. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

11. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

12. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
   - Objective 1: To increase the number of satisfied customers

Additional matter

13. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Achievement of planned targets

14. Refer to the annual performance report on pages 78 to 82 for information on the achievement of the planned targets for the year.

Unaudited supplementary schedules

15. The supplementary information set out on pages 1 to 39 does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion on them.

Compliance with legislation

16. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

17. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor - General

Pretoria

31 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

	Notes	2016 R	2015 R
Assets			
Current Assets			
Cash and cash equivalents	2	249 870	211 292
Receivables from exchange transactions	3	731 818	687 520
Receivables from non-exchange transactions	4	8 186 100	1 929 303
		9 167 788	**2 828 115**
Non-Current Assets			
Property, plant and equipment	5	1 738 330	1 908 998
Intangible assets	6	215 238	280 057
		1 953 568	**2 189 055**
Total assets		**11 121 356**	**5 017 170**
Liabilities			
Current Liabilities			
Finance lease obligation	7	89 245	76 161
Trade and other payables from exchange transactions	8	1 829 885	1 891 216
		1 919 130	**1 967 377**
Non-Current Liabilities			
Finance lease obligation		67 870	157 116
Total Liabilities	7	**1 987 000**	**2 124 493**
Net Assets		**9 134 356**	**2 892 677**
Net Assets			
Accumulated surplus		9 134 356	2 892 677

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 R	2015 R
Revenue	9	43 438 733	35 822 198
Operating expenses		(11 730 952)	(10 683 251)
Personnel costs	10	(24 536 205)	(22 631 782)
Depreciation and amortisation	5&6	(895 371)	(880 365)
Operating surplus	11	**6 276 205**	**1 626 800**
Finance costs	12	(34 526)	(45 208)
Surplus for the year		**6 241 679**	**1 581 592**

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2016

	Accumulated Surplus	Total Net Assets
	R	R
Balance at 01 April 2014	**1 311 085**	**1 311 085**
Surplus for the year	1 581 592	1 581 592
Total changes	1 581 592	1 581 592
Balance at 01 April 2015	**2 892 677**	**2 892 677**
Surplus for the year	6 241 679	6 241 679
Total changes	6 241 679	6 241 679
Balance at 31 March 2016	**9 134 356**	**9 134 356**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 R	2015 R
Cash flows from operating actvities			
Cash received from entities		37 137 638	33 806 497
Cash paid to suppliers and employees		(36 312 865)	(32 968 244)
Net cash flows from operating activities	15	**824 773**	**838 253**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(498 224)	(639 119)
Purchase of intangible assets	6	(177 283)	(155 791)
Net cash flows from investing activities		**(675 507)**	**(794 910)**
Cash flows from financing activities			
Finance lease payments		(110 688)	(110 214)
Net increase/(decrease) in cash and cash equivalents		**38 578**	**(66 871)**
Cash and cash equivalents at the beginning of the year		211 292	278 163
Cash and cash equivalents at the end of the year	2	**249 870**	**211 292**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

BUDGET ON ACCRUAL BASIS

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Notes
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Levies	37 922 676	5 500 000	**43 422 676**	43 422 676	-	
Recoveries	-	-	-	16 057	**16 057**	
Total revenue from non-exchange transactions	**37 922 676**	**5 500 000**	**43 422 676**	**43 438 733**	**16 057**	
Expenditure						
Personnel cost	(26 018 770)	-	**(26 018 770)**	(24 536 205)	**1 482 565**	22
Depreciation and amortisaton	(1 013 884)	-	**(1 013 884)**	(895 371)	**118 513**	22
Finance costs	(34 698)	-	**(34 698)**	(34 526)	**172**	
Lease rentals on operating lease	(3 342 788)	-	**(3 342 788)**	(3 335 575)	**7 213**	
General expenses	(8 319 765)	(5 500 000)	**(13 819 765)**	(8 379 754)	**5 440 011**	22
Total expenditure	**(38 729 905)**	**(5 500 000)**	**(44 229 905)**	**(37 181 431)**	**7 048 474**	
Operating (deficit)/surplus	**(807 229)**	-	**(807 229)**	**6 257 302**	**7 064 531**	
Loss on disposal of assets	-	-	**-**	(15 623)	**(15 623)**	
(Deficit)/ surplus for the year	**(807 229)**	-	**(807 229)**	**6 241 679**	**7 048 908**	
Actual amount on comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts	**(807 229)**	-	**(807 229)**	**6 241 679**	**7 048 908**	

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Statement of Compliance

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice ("GRAP"), issued by the Accounting Standards Board ("ASB") in accordance with Section 91(1) of the Public Finance Management Act, 1999 (Act No 1 of 1999) ("PFMA").

These financial statements have been prepared on the going concern basis and on the accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Standards and amendments to standards issued but not effective:

GRAP 20	Related party disclosures	Issued June 2011
GRAP 32	Service concession arrangement: grantor	Issued August 2013
GRAP 108	Statutory receivables	Issued September 2013
GRAP 109	Accounting by principals and agents	Issued July 2015

The entity has not early adopted any of these standards or amendments thereto. The implementation of these standards will not have a material impact on the reporting requirements of the entity. A summary of the significant accounting policies, which have been consistently applied to all the years presented in the preparation of these financial statements, are disclosed below:

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Management is also required to exercise judgement in the process of applying the entity's accounting policies. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Significant judgements include:

Impairment of accounts receivable

The entity assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Useful lives and residual values

The entity reasesses the useful lives and residual values of property, plant and equipment and intangible assets on an annual basis. In reassessing the useful lives of property, plant and equipment and intangible assets, management considers the condition and the use of the individual assets to determine the remaining period over which the asset can and will be used.

The residual values of these assets have been estimated as the amount that the entity would currently obtain from disposal of each significant asset, in its current location, if the asset were already of the age and in the condition expected at the end of its useful life.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the supply of services and for administrative purposes, and are expected to be used during more than one period.

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 entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Leased assets are depreciated in a consistent manner over the shorter of their expected useful life or the lease term.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Furniture and fixtures	4 - 15 years
Motor vehicles	13 years
Office equipment	3 - 15 years
Computer equipment	3 - 13 years
Leasehold improvements	4 - 5 years
Office equipment under finance lease	5 years
Paintings	14 years

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates. The change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.3 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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 entity; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date. The entity does not have any intangible assets acquired through a non-exchange transaction.

Intangible assets are carried at cost less any accumulated amortisation and any accumulated 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 entity does not have any intangible assets with an indefinite useful life.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Data management system	3 years
Website	6 years
Computer software	3 - 9 years
Licences	1 year

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 arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4 Financial instruments

Definitions:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the statement of financial position or in the notes thereto:

Class	Category
Trade and other payables from exchange transactions	Financial liabilities measured at amortised cost
Finance lease obligation	Financial liabilities measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial instruments are recognised on the trade date. The trade date is the date on which the entity commits to purchase or sell the instrument.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.4 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method less provision for credit losses. A provision for credit losses is established when there is objective evidence that not all amounts due will be collected in accordance with the original terms, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cashflow, discounted at the effective interest rate. The carrying amount of the asset is reduced by the amount of the credit loss, which is recognised in the statement of financial performance. When the receivable is uncollectable, it is written off and subsequent recoveries of amounts previously written off are credited in operating expenses in the statement of financial performance.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at banks. Cash and cash equivalents are recognised at cost, which equates to their fair value.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability due to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets. The entity's non-financial assets only consists of non-cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the entity; or

(b) the number of production or similar units expected to be obtained from the asset by the entity.

1.7 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

The expected cost of compensated absences (excluding sick leave) is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments and termination benefits when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

1.8 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.8 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Contingent assets and contingent liabilities are not recognised.

1.9 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity, which is based on the annual budget.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.10 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, using the effective interest rate method.

1.11 Unauthorised expenditure

Unauthorised expenditure means expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the PFMA.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.11 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is accounted for as revenue in the statement of financial performance.

1.12 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) the PFMA
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) the FAIS Ombud 's supply chain management policy

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements is also recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the financial statements.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial perfomance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial perfomance.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements is updated accordingly.

1.14 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.15 Budget information

The FAIS Ombud is subject to budgetary limits in the form of budget authorisations, which is given effect through authorising legislation, appropriation or similar.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-04-01 to 2016-03-31.

The Statement of comparison of budget and actual amounts has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.16 Related parties

The FAIS Ombud operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are 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 FAIS Ombud, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The FAIS Ombud regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Related party disclosure for transactions between government entities that took place on terms and conditions that is considered arm's length are not required in accordance with IPSA20, Related Party Disclosures.

1.17 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R	R

2. Cash and cash equivalents

Cash and cash equivalents consist of:		
Cash on hand	5 000	5 000
Bank balances	244 870	206 292
	249 870	**211 292**

The carrying amount of cash and cash equivalents approximates their fair value.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank, excluding cash on hand, that are neither past due nor impaired can be assessed by reference to external credit ratings:

Credit rating

AA (Fitch)	244 870	206 292

3. Receivables from exchange transactions

Prepayments	442 774	558 524
Sundry debtors	6 180	1 204
Study advances	289 044	127 792
Provision for impairment	(6 180)	-
	731 818	**687 520**

All receivables are due within twelve months from the statement of financial position date.

Fair value of receivables from exchange transactions

The carrying amount of receivables from exchange transactions approximates their fair value.

Receivables from exchange transactions impaired

As of 31 March 2016, receivables of R6 180 were impaired (2015: Rnil). The amount of the provision for impairment was R6 180 as of 31 March 2016 (2015: Rnil).

Reconciliation of provision for impairment of receivables from exchange transactions

Opening balance	-	-
Provision for impairment	6 180	-
	6 180	-

NOTES TO THE FINANCIAL STATEMENTS

4. Receivables from non-exchange transactions

	2016	2015
	R	R
Receivable: Financial Services Board	8 186 100	1 929 303

Fair value of receivables from non-exchange transactions

The carrying amount of receivables from non-exchange transactions approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The entity does not hold any collateral as security.

5. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
	R	R	R	R	R	R
Furniture and fixtures	1 227 600	(842 766)	384 834	1 154 105	(716 729)	437 376
Motor vehicles	137 285	(131 538)	5 747	137 285	(125 790)	11 495
Office equipment	866 877	(453 360)	413 517	665 314	(362 032)	303 282
Computer equipment	1 407 848	(854 367)	553 481	1 552 221	(949 589)	602 632
Leasehold improvements	482 747	(230 655)	252 092	482 746	(132 980)	349 766
Office equipment under finance lease	375 333	(247 397)	127 936	375 333	(172 331)	203 002
Paintings	26 376	(25 653)	723	26 376	(24 931)	1 445
Total	**4 524 066**	**(2 785 736)**	**1 738 330**	**4 393 380**	**(2 484 382)**	**1 908 998**

NOTES TO THE FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Total
	R	R	R	R	R
Furniture and fixtures	437 376	79 887	(114)	(132 315)	384 834
Motor vehicles	11 495	-	-	(5 748)	5 747
Office equipment	303 282	229 836	(383)	(119 218)	413 517
Computer equipment	602 632	188 501	(15 126)	(222 526)	553 481
Leasehold improvements	349 766	-	-	(97 674)	252 092
Office equipment under finance lease	203 002	-	-	(75 066)	127 936
Paintings	1 445	-	-	(722)	723
	1 908 998	**498 224**	**(15 623)**	**(653 269)**	**1 738 330**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
	R	R	R	R	R
Furniture and fixtures	375 198	186 755	(2 302)	(122 275)	437 376
Motor vehicles	17 242	-	-	(5 747)	11 495
Office equipment	261 312	139 547	(2 834)	(94 743)	303 282
Computer equipment	572 452	294 555	(18 734)	(245 641)	602 632
Leasehold improvements	427 178	18 262	-	(95 674)	349 766
Office equipment under finance lease	278 069	-	-	(75 067)	203 002
Paintings	2 168	-	-	(723)	1 445
	1 933 619	**639 119**	**(23 870)**	**(639 870)**	**1 908 998**

NOTES TO THE FINANCIAL STATEMENTS

6. Intangible assets

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
	R	R	R	R	R	R
Licenses	96 130	(64 031)	32 099	82 304	(57 560)	24 744
Computer software	677 147	(499 466)	177 681	657 358	(412 961)	244 397
Data Management system	485 843	(485 843)	-	485 843	(485 843)	-
Website	49 540	(44 082)	5 458	49 540	(38 624)	10 916
Total	**1 308 660**	**(1 093 422)**	**215 238**	**1 275 045**	**(994 988)**	**280 057**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
	R	R	R	R	R
Licenses	24 744	146 800	-	(139 445)	32 099
Computer software	244 397	30 483	-	(97 199)	177 681
Data Management system	-	-	-	-	-
Website	10 916	-	-	(5 458)	5 458
	280 057	**177 283**	-	**(242 102)**	**215 238**

NOTES TO THE FINANCIAL STATEMENTS

6. Intangible assets (continued)

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
	R	R	R	R	R
Licenses	23 454	128 484	-	(127 194)	24 744
Computer software	324 933	27 307	-	(107 843)	244 397
Data Management system	-	-	-	-	-
Website	16 374	-	-	(5 458)	10 916
	364 761	**155 791**	-	**(240 495)**	**280 057**

Other information

Fully amortised intangible assets still in use - at cost	485 843	485 843

The data management system was budgeted to be replaced in previous financial years, resulting in the assets being fully amortised. The intention changed and it was no longer a priority to replace the system on the short term. The book value therefore remains at zero. It is budgeted to be replaced in the 2017 financial year.

7. Finance lease obligation

	2016	2015
	R	R
Non-current liabilities	67 870	157 116
Current liabilities	89 245	76 161
	157 115	**233 277**

Some office equipment is leased under non-cancellable lease agreements. The lease terms are five years and are renewable on a month to month basis at the end of the lease period at market related rates. As the lease terms transfers substantially all the risks and rewards of ownership to the entity, these are classfied as finance leases. Lease agreements have a fixed 60 month term, interest is fixed at an average of 15.7% with equal lease payments over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

7. Finance lease obligation (continued)

The entity's obligations under finance leases are secured by the lessor's charge over the leased assets (refer to note 5)

Reconciliation of minimum lease payments

	Minimum Payments	Finance Costs	Present Value
2016			
Less than one year	111 968	22 723	89 245
Two to five years	74 645	6 775	67 870
	186 613	**29 498**	**157 115**
2015			
Less than one year	110 859	34 698	76 161
Two to five years	184 765	27 649	157 116
	295 624	**62 347**	**233 277**

	2016	2015
	R	R

8. Trade and other payables from exchange transactions

Accounts payable	213 321	346 320
Operating lease liability	900 901	775 410
Accrued leave pay	620 619	741 355
Other accrued expenses	95 044	28 131
	1 829 885	**1 891 216**

Fair value of trade and other payables

The carrying amount of trade and other payables approximates their fair value.

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R	R

9. Revenue

Levies	43 422 676	35 798 004
Recoveries	16 057	24 194
	43 438 733	**35 822 198**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue

Levies	43 422 676	35 798 004
Recoveries	16 057	24 194
	43 438 733	**35 822 198**

10. Personnel costs

Salaries	22 431 183	20 609 371
Bonus	1 124 248	1 017 008
Unemployment Insurance Fund	100 888	91 051
Compensation Fund	24 244	14 092
Skills development levies	220 417	204 730
Accrued leave pay charge	611 225	665 530
Long-service awards	24 000	30 000
	24 536 205	**22 631 782**

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R	R

11. Operating surplus

The operating surplus is stated after accounting for the following:

Auditors' remuneration	1 237 456	1 382 570
Bank charges	19 865	16 907
Cleaning	61 680	65 626
Conferences and seminars	98 061	41 888
Consulting and professional fees	3 180 553	2 379 026
Debts impaired	6 184	-
Electricity	387 238	416 630
Entertainment	39 968	22 296
Flowers and gifts	52 320	41 778
IT expenses	239 870	233 456
Insurance	104 225	109 243
Lease rentals on operating lease	3 335 575	3 258 494
Motor vehicle expenses	14 827	7 861
Recruitment and advertising	62 782	18 191
Postage and courier	21 447	28 665
Printing and stationery	549 578	498 208
Promotions	224 533	175 117
Repairs and maintenance	569 256	524 473
Security	7 537	6 473
Staff welfare	101 977	108 071
Strategic planning and workshops	185 892	126 071
Subscriptions and membership fees	50 831	56 249
Telephone and fax	332 715	349 449
Text books or library books	207 841	233 011
Training	234 084	238 590
Travel - local	300 292	170 658
Travel - overseas	88 742	150 380
	11 715 329	**10 659 381**

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R	R

12. Finance costs

Finance leases	34 526	45 208

13. Taxation

No provision has been made for taxation as the entity is exempt from taxation in terms of section 10(1)(cA)(i)(bb) of the IncomeTax Act,1962 (Act No. 58 of 1962 as amended).

14. Auditors' remuneration

External audit: prior year audit fees	873 980	843 694
External audit: current year interim fee	-	197 421
Internal audit: current year fees	363 476	341 455
	1 237 456	**1 382 570**

15. Cash generated from operations

Surplus for the year	6 241 679	1 581 592
Adjustments for non-cash movements:		
Depreciation and amortisation	895 371	880 365
Loss on derecognition of assets	15 623	23 870
Finance costs - Finance leases	34 526	45 208
Changes in working capital:		
Receivables from exchange transactions	(44 298)	(85 155)
Receivables from non-exchange transactions	(6 256 797)	(1 929 303)
Trade and other payables from exchange transactions	(61 331)	352 363
Trade and other payables from non-exchange transactions	-	(30 687)
	824 773	**838 253**

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R	R

16. Operating lease commitments

Operating leases - as lessee

Minimum lease payments due

- within one year	3 197 254	2 936 533
- in second to fifth year inclusive	5 577 548	8 774 802
	8 774 802	**11 711 335**

Office accomodation is leased in terms of an operating lease. The entity is required to give six months notice for the renewal of the lease. The operating lease rentals include charges for rental, parking, operational costs, electricity, rates and levies. Escalations of 9% annually have been included in the lease agreement.

Office accommodation leases are negotiated for an average term of five years. No contingent rent is payable.

Office plants are leased in terms of an operating lease.

The operating lease is for a term of three years and rentals include the installation, servicing and maintenance of the equipment. No contingent rent is payable.

17. Contingent liabilities

The are no contigent liabilities or pending litigation that required disclosure that are known to management as at 31 March 2016 (2015: Rnil).

18. Related parties

Related party balances

Amounts included in Receivables from non-exchange transactions regarding related parties

Financial Services Board	8 186 100	1 929 303

Related party transactions

Funding of the Office received in terms of section 22 (1) (a) of the Financial Advisory and Intermediary Services Act, 2002 (Act No 37 of 2002)

Financial Services Board	43 422 676	35 798 004

The entity and the Financial Services Board both report to the Board of the Financial Services Board and the entity receives its funding from levies via the Financial Services Board.

NOTES TO THE FINANCIAL STATEMENTS

19. Key management remuneration

Personnel costs include the cost to the Office for the following key staff members:

	2016					
	Emoluments	**Other benefits**	**Pension contribution**	**Performance bonus**	**Leave commutation paid**	**Total**
NN Bam, FAIS Ombud	2 034 094	24 000	300 753	616 919	198 424	3 174 190
J Goodey, Finance Manager	881 006	-	95 178	120 000	-	1 096 184
AA Percival, Assistant Ombud (Ceased to be an employee 30 June 2015)	173 801	-	24 185	-	49 930	247 916
DE Davidson, Assistant Ombud (Ceased to be member of EXCO 31 July 2015)	340 638	-	36 800	-	-	377 438
SS Sabela, Assistant Ombud	606 904	-	65 566	65 000	13 683	751 153
	4 036 443	**24 000**	**522 482**	**801 919**	**262 037**	**5 646 881**

	2015					
	Emoluments	**Other benefits**	**Pension contribution**	**Performance bonus**	**Leave commutation paid**	**Total**
NN Bam, FAIS Ombud	1 859 172	24 000	275 191	556 154	191 649	2 906 166
S Shangisa, Deputy Ombud (Resigned 30 June 2014)	243 971	-	26 357	-	43 341	313 669
J Goodey, Finance Manager	815 147	-	88 063	84 123	-	987 333
AA Percival, Assistant Ombud	845 706	-	91 364	87 276	19 028	1 043 374
DE Davidson, Assistant Ombud	965 140	-	104 267	99 602	-	1 169 009
SS Sabela, Assistant Ombud (Appointed to EXCO 1 Feb 2015)	99 095	-	10 705	-	-	109 800
	4 828 231	**24 000**	**595 947**	**827 155**	**254 018**	**6 529 351**

NOTES TO THE FINANCIAL STATEMENTS

20. Changes in estimates

Property, plant and equipment

The useful life of certain property, plant and equipment was reassessed and management have revised their estimates. The effect of this revision has decreased the depreciation charges for the current period by R43 867 (2015: R29 101). In future periods the depreciation charges will increase by R43 867 (2015: R29 101).

Intangible assets

The useful life of certain intangible assets was reassessed and management have revised their estimates. The effect of this revision has decreased the amortisation charges for the current period by R9 174 (2015: R10 532). In future periods, the amortisation charges will increase by R9 174 (2015: R10 532).

21. Risk management

Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide services to the public. The entity has developed systems and internal controls that are sufficient and effective in maintaining efficient levels of working capital which ensure that the entity has sufficient cash flow to fund its operations. As a Public Entity, the Office has no desire to maintain a highly geared capital structure.

Financial risk management

In the course of the entity's operations, it is exposed to credit, liquidity, currency, price, interest rate and market risk. The entity is not exposed to significant currency risk. The entity has developed a strategy in terms of Treasury Regulation 28.1 in order to monitor and control these risks. Internal audit reports are submitted quarterly to the Audit and Risk Management Committees, independent committees that monitor risks and policies implemented to mitigate risk exposures. The risk management process relating to each of these risks are discussed under the headings below.

Interest rate risk

The entity's interest rate risk arises from finance leases.

The entity's exposure to interest rate risk is reflected under the respective notes. As part of managing the entity's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

21. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the entity if the counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the entity's accounts receivable and cash and cash equivalents. Strict credit control is exercised and when necessary, provision is made for doubtful debts.

The entity is exposed to certain concentrations of credit risk relating to its cash balances. The entity only deposits cash with major banks with high quality credit standings. The counterparties that are used by the entity are evaluated on a continuous basis.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016 R	2015 R
Bank balances	244 870	206 292
Receivables	8 475 144	2 058 299

Liquidity risk

Prudent liquidity risk managament implies maintaining sufficient liquid resources and the ability to settle debts as they become due. In the case of the entity, liquid resources consist mainly of cash and cash equivalents. The entity maintains adequate resources by monitoring rolling cashflow forecast of the cash and cash equivalents on the basis of expected cashflow.

The table below reflects the entity's financial liabilities at year end. The amounts disclosed in the tables are the contractual undiscounted cash flows.

At 31 March 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	1 829 885	-	-	-
Finance lease obligation	111 968	74 645	-	-
	1 941 853	**74 645**	**-**	**-**

At 31 March 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	1 891 216	-	-	-
Finance lease obligation	110 859	110 859	73 906	-
	2 002 075	**110 859**	**73 906**	**-**

Price risk

The entity is not exposed to significant price risk as it does not own any investments that are classified as either available-for-sale or at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

22. Actual operating expenditure versus budgeted operating expenditure

The budget is also prepared on the accrual basis. The reasons for material differences between the budget and actual amounts are provided below:

Personnel cost

The savings in personnel costs against budget (R1 482 565) is mainly due to vacancies during the year.

Depreciation and amortisation

The savings (R118 513) is due to the timing of the actual capital expenditure, as well as lower than budgeted capital spending for the year. This was mainly as a result of the postponement of the replacement of the complaints handling system to the next financial year.

General expenses

The savings in general expenses (R5 455 635) are mainly due to decreased use of consultants, as well as savings in computer maintenance and support and travellings costs.

An additional amount of R3 million was approved for consulting costs relating to the processing of the property syndication related complaints, following the Appeals Board ruling in April 2015. As at 31 March 2016, an amount of R244 083 had been spent. The balance of R2.7 million will only be spent in the next financial year.

Computer maintenance and support expenses were lower than budget mainly due to the fact that the replacement of the complaints handling system was postponed to the next financial year.

The saving in travelling costs was due to lower than budgeted travelling requirements during the financial year.

23. Employee benefits - Defined contribution plan

The entity pays contributions towards the pension fund established for its employees. Other than these monthly contributions, the entity has no other obligation to provide retirement benefits to its employees. The amounts recognised in the statement of financial performance are as follows:

	2016	2015
	R	R
Pension fund contributions	2 156 675	1 989 284

24. Events after the reporting date

The Board is not aware of any matter or circumstance arising since the end of the financial period and up to the date of signing these financial statements that warrants adjustment or disclosure.

NOTES TO THE FINANCIAL STATEMENTS

25. Irregular expenditure

	2016	2015
	R	R
Opening balance	-	1 309 455
Add: Irregular Expenditure - current year	3 029 002	2 748 473
Less: Amounts condoned	(3 029 002)	(4 057 928)
	-	-

Details of irregular expenditure condoned	Condoned by (condoning authority)	
Copiers were procured in the 2013 financial year by way of a finance lease agreement. Three quotations were obtained for the transaction. Due to the total value of the agreement being in excess of R500 000, a competitive bidding process should have been followed. The entity did not follow the competitive bidding process as the capital amount of the transaction was evaluated instead of the full rental payable. The capital amount was lower than R500 000.	The irregular expenditure was condoned by the Accounting Authority	111 158
The entity entered into a lease agreement for new office space in the 2014 financial year. The Office did not invite competitive bids as it was of the opinion that it was impractical to do so due to the Office being bound to an existing lease agreement, which only expired in September 2014. A deviation from supply chain policy was approved and a lease agreement signed with the existing landlord. It was, however, concluded that the competitive bidding process should have been followed.	The irregular expenditure was condoned by the Accounting Authority	2 917 844
		3 029 002

26. Segment information

General information

Identification of segments

The entity is organised and reports to management on the basis of only one functional area: the resolution of complaints. The existing operations does not warrant segmental reporting.

PERFORMANCE INFORMATION

STRATEGIC GOAL 1:
To resolve complaints in a fair, expeditious and informal manner to the satisfaction of customers.

STRATEGIC OBJECTIVE		To increase the number of satisfied customers		
OUTPUTS		Customer satisfaction survey forms. Closed complaints files. Implemented Quality Control Plan.		
OUTCOMES		Satisfied customers		
PROGRAMME PERFORMANCE INDICATOR		Performance Targets		
		Performance Targets 2015/2016	Progress as at 31 March 2016	Explanation/ Variance
1.1	% satisfied customers as measured on returned CSF's	77%	On average, 98.1% of the customer satisfaction forms received rated our services positively. **This goal has been achieved.**	The FAIS Ombud attributes the variance to this goal to its on-going commitment to delivering work of a high quality, within workable and reasonable turnaround times. This is effective because this goal is cascaded into individual performance contracts.
1.2	% closed complaints within 9 months of date of receipt of complaint	85%	**Quarter 1:** Cases received in **July 2014**: 95.43% closed by 30 April 2015 Cases received in **August 2014:** 92.39% closed by 31 May 2015 Cases received in **September 2014**: 93.02% closed by 30 June 2015 *On average 93.73% of cases received were closed within 9 months of receipt* **Quarter 2:** Cases received in **October 2014:** 90.29% closed by 31 July 2015 Cases received in **November 2014:** 91.24% closed by 31 August 2015 Cases received in **December 2014:** 88.97% closed by 30 September 2015 *On average 90.35% of cases received were closed within 9 months of receipt*	The FAIS Ombud puts in great effort in monitoring output on a regular basis against this goal. To be effective, this goal is cascaded into individual performance contracts

PERFORMANCE INFORMATION

STRATEGIC GOAL 1: To resolve complaints in a fair, expeditious and informal manner to the satisfaction of customers.				
STRATEGIC OBJECTIVE		To increase the number of satisfied customers		
OUTPUTS		Customer satisfaction survey forms. Closed complaints files. Implemented Quality Control Plan.		
OUTCOMES		Satisfied customers		
PROGRAMME PERFORMANCE INDICATOR		Performance Targets		
		Performance Targets 2015/2016	Progress as at 31 March 2016	Explanation/ Variance
1.2	% closed complaints within 9 months of date of receipt of complaint	85%	**Quarter 3:** Cases received in **January 2015**: 91.42% closed by 31 October 2015 Cases received in **February 2015:** 91.17% closed by 30 November 2015 Cases received in **March 2015:** 87.60% closed by 31 December 2015 *On average 90.00% of cases received were closed within 9 months of receipt* **Quarter 4:** Cases received in **April 2015**:89.04% closed by 31 January 2016 Cases received in **May 2015:** 89.16 % closed by 29 February 2016 Cases received in **June 2015**: 90.07% closed by 31 March 2016 *On average 89.42% of cases received were closed within 9 months of receipt* **This goal has been achieved.**	
1.3	% achievement of activities in quality control implementation plan	100%	100% of the quality control implementation plan has been achieved. **This goal has been achieved.**	

PERFORMANCE INFORMATION

STRATEGIC GOAL 2:
Achieve operational excellence

STRATEGIC OBJECTIVE		To optimise internal capacity, business processes and systems to achieve operational excellence.		
OUTPUTS		Unqualified audit report. Approved Budget. Management accounts. Internship contracts. Revised Training plan. Executed training plan. Reviewed policies. Implemented performance management system. Approved succession plan. Updated Compliance and Risk Management Framework. Implemented IT plan.		
OUTCOMES		Operational excellence. Enhanced internal effectiveness and service delivery. Sufficient funds to deliver on mandate. Motivated staff to achieve FAIS Ombud's objectives. The FAIS Ombud is seen as a compliant entity.		
PROGRAMME PERFORMANCE INDICATOR		Performance Targets		
		Performance Targets 2015/2016	Progress as at 31 March 2016	Explanation/ Variance
2.1	Type of audit opinion issued by AG in respect of Financial Statements	Unqualified Opinion	The FAIS Ombud achieved an unqualified audit opinion of its 2014/2015 Annual Financial Statements. **This goal has been achieved.**	
2.2	Type of audit opinion issued by AG in respect of Performance Information	Unqualified Opinion	The FAIS Ombud achieved an unqualified audit opinion of its 2014/2015 Performance Information **This goal has been achieved.**	
2.3	Approved budget	Approved budget before 31 March	The current budget was approved in March 2015. The budget for 2016/2017 financial year was approved in March 2016. **This goal has been achieved.**	
2.4	Management accounts - % unexplained deviation from budget vs actual	Less than 10% unexplained deviation	Less than 10% unexplained deviations in the management accounts. **This goal has been achieved.**	
2.5	No. of internship contracts concluded	9 internship contracts concluded by March 2016	A total of 11 contracts were concluded in the financial year. **This goal has been achieved.**	9 contracts were concluded for law graduates and 2 contracts were concluded for IT graduates
2.6	Date of approval of Revised training plan	Updated training plan by March 2016	The updated training plan for the 2016/2017 financial year was approved by the FAIS Ombud EXCO. **This goal has been achieved.**	

PERFORMANCE INFORMATION

STRATEGIC GOAL 2:
Achieve operational excellence

PROGRAMME PERFORMANCE INDICATOR		Performance Targets		
		Performance Targets 2015/2016	Progress as at 31 March 2016	Explanation/ Variance
2.7	% execution of training plan	100% of training plan executed	100% of the training plan was executed by 31 March 2016. **This goal has been achieved.**	
2.8	No of policies reviewed	6 policies reviewed	10 policies were reviewed before 31 March 2016. **This goal has been achieved.**	More than six policies were reviewed so as to ensure that there is alignment between the evolving environment and the policies governing the environment.
2.9	% adherence to performance management system	98% of adherence to performance management system processes and deadlines	There was a 99% adherence to the performance management system. **This goal has been achieved.**	
2.10	Date of Recommendation to Board by FAIS Exco of updated Succession guideline	Recommendation to Board of updated Succession guideline by 31 March 2016	The succession guideline was updated and recommended for approval by the Board of the FSB. **This goal has been achieved.**	
2.11	Date of Approval of Updated Compliance and Risk Management Framework and the % achievement of steps mentioned in Compliance and Risk Management/ Implementation plan	Approved updated Compliance and Risk Management Framework by 31 March 2016 and 100% achievement of steps mentioned in Compliance and Risk Management/ Implementation plan	The Compliance and Risk Management framework was approved before 31 March 2016 and 100% of the steps mentioned in the Compliance and Risk Management plans were achieved. **This goal has been achieved.**	
2.12	% achievement of activities in Approved IT implementation plan	98% achievement of milestones for the financial year within the IT plan	98.3% of the milestones in the IT plan were achieved. **This goal has been achieved.**	

PERFORMANCE INFORMATION

STRATEGIC GOAL 3:
Enhanced stakeholder management

STRATEGIC OBJECTIVE		To manage stakeholder relationships		
OUTPUTS		Implemented Marketing and communication plan.		
OUTCOMES		Enhanced relationships (improved co-operation with stakeholders)		
PROGRAMME PERFORMANCE INDICATOR		Performance Targets		
		Performance Targets 2015/2016	Progress as at 31 March 2016	Explanation/ Variance
3.1	% of marketing and communication plan implemented	100%	100% of the activities in the marketing and communication plan were implemented by 31 March 2016. This goal has been achieved.	

General Information

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FAISOmbud

Office of the Ombud for Financial Services Providers

Constantly striving to educate both ourselves and those we serve