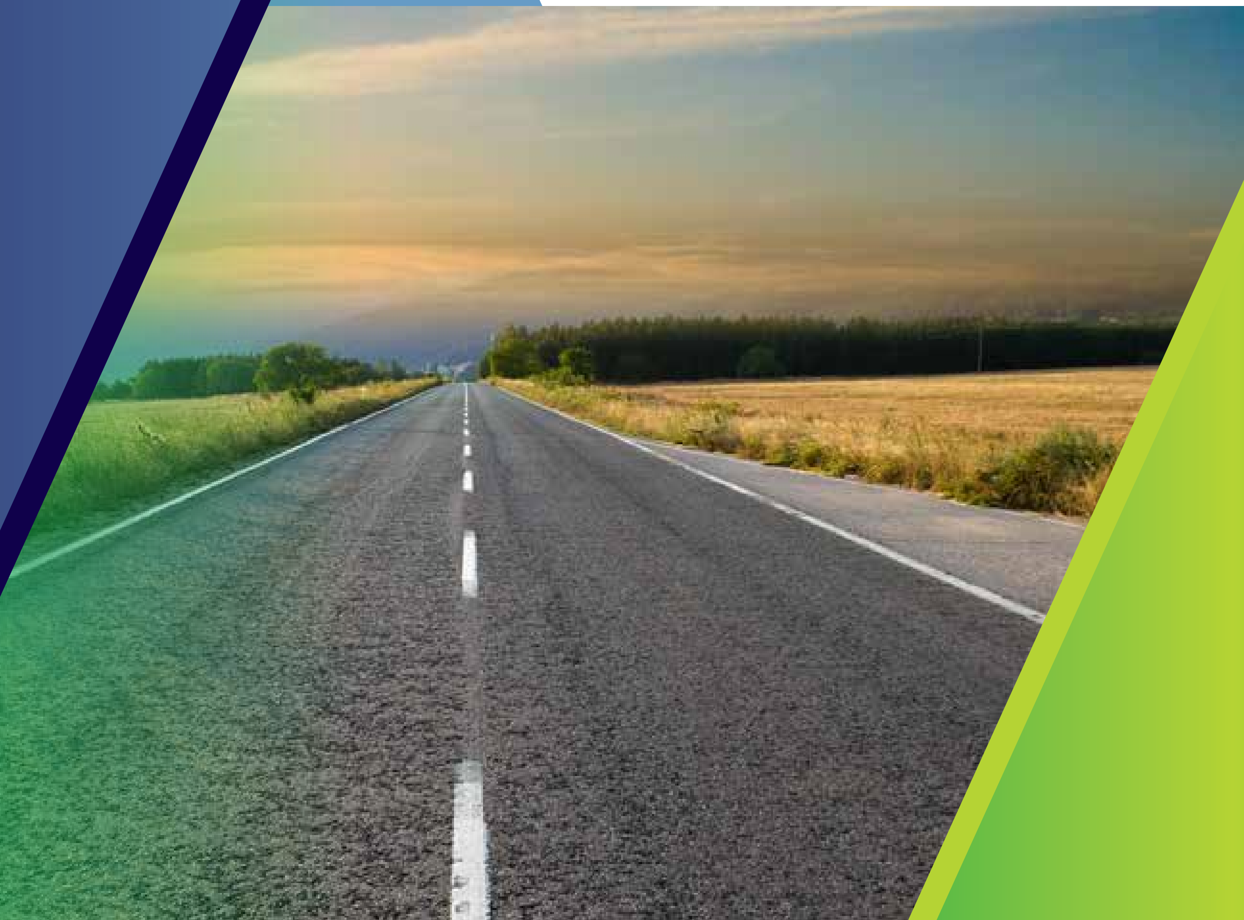
Road Accident Fund



# ANNUAL REPORT 2016/17

Road Accident Fund

# ANNUAL REPORT 2016/17

We Care

# TABLE OF CONTENTS



## PART A
## GENERAL INFORMATION



## PART B
## PERFORMANCE INFORMATION



## PART C
## GOVERNANCE

## PART D
## HUMAN RESOURCES MANAGEMENT



## PART E
## FINANCIAL INFORMATION

# THE YEAR AT A GLANCE

Number of **permanent employees increased** from 2,593 to 2,676.

**Total revenue** during the 2016/17 financial year **remained stable** at a level of R33.34 billion compared to R33.21 billion

mainly due to a zero % **increase** in the **RAF Fuel Levy.**

8%

The total **amount of claims paid** (incl. net effect of RNYP) **declined by 8%** to R29.8 billion from R32.3 billion during the previous financial year.

202,100 **new claims** were received

209,561 claims were **finalised.**

More than 54,000 **claimants were engaged through the award-winning 'RAF on the Road' community outreach programme** and other RAF promotions and activations.

376,215 **calls were responded to by the Call Centre** compared to 320,027 in the previous financial year.

18%

**Average value per claim decreased** by **18%** from R143,127 to R117,059 during the financial year.

22%

**Claims liabilities increased** by **22%** to R188 billion from R154 billion in the previous financial year.

14.53 %

The **number of direct claims originated increased** to 25,797 in the 2016/17 financial year versus 22,524 reported in the 2015/16 financial year, representing an increase of **14.53%** year-on-year.

34.41 %

33.44 %

**Direct claims settlements increased** to **34.41%** in relation to represented claims in the 2016/17 financial year. 15,507 direct personal claims were settled in 2016/17 versus 11,621 in the 2015/16 financial year, representing a 33.44% increase year-on-year.

The primary **target of reducing the number of open claims was exceeded**. The number reduced to 173,740 from 184,899 in 2015/16, on the back of increased registrations of new claims.

13%

**Average loss-of-earnings claims decreased** by **13%** from R739,214 to R645,832.

44%

**Average medical claims increased** by **44%** from R10,447 to R15,030.

11%

**Average funeral costs increased** by **11%** from R13,732 to R15,264.

3%

**Average loss-of-support claims decreased** by **3%** from R379,702 to R368,164.

1%

**Average general damages claims increased** by **1%** from R385,673 to R390,004.

**The Road Accident Fund Amendment Bill was approved** for introduction to Parliament by Cabinet on 2 November 2016.

**The Road Accident Benefit Scheme Bill (RABS) was approved** by Cabinet for introduction to Parliament on 29 March 2017.

29%

**Cost-to-income ratio for the financial year increased** to **29%** from 23% in 2015/16.

Cash expenditure on claims amounted to almost 96% of the net RAF Fuel Levy. This is due to the **high rate of claims settled**, and payments strictly managed via the RAF's Cash Management Strategy.

9%

**Average RAF legal and other costs per claim increased** by **9%** from R28,476 to R30,995.

11%

**Average claimant legal and other costs per claim increased** by **11%** from R120,385 to R133,313.

Awards:

- Centre for Public Service Innovation: **Winner in the Category: Innovative use of ICT for effective service delivery**. The Fund received the Special Minister's Award for overall achievement at the Third National **Transport Recognition of Service Excellence Awards** Ceremony.
- The CEO was the winner of the '**Best CEO in Transport**' category at the same ceremony.
- The Fund received the **First Runner-up Award** for the '**Best Transport Entity**' at the same ceremony.
- The CIO received the **First Runner-up Award for Outstanding Women in ICT** at the MTN Leadership in ICT Awards Ceremony.

(Statistics represented on this page are in line with numbers and amounts mentioned elsewhere in this report.)

# PART A
# 1. GENERAL INFORMATION

| | |
|---|---|
| Registered name | Road Accident Fund |
| Physical address | Eco Glades Office Park 2, 420 Witch-hazel Avenue Centurion, 0046 |
| Postal address | Private Bag X178, Centurion, 0046 |
| Telephone number | 0860 235 523 (Customer Care Share Call Number) |
| Website | www.raf.co.za |
| External auditors | Auditor-General of South Africa |
| Bankers | Standard Bank |
| Company Secretary | Ms JR Cornelius |

# 2. ABBREVIATIONS/ACRONYMS

| | |
|---|---|
| **AGSA** | Auditor-General of South Africa |
| **Amendment Act** | RAF Amendment Act, 2005 (Act No. 10 of 2005) |
| **APP** | Annual Performance Plan |
| **ASB** | Accounting Standards Board |
| **APs** | Assurance Providers |
| **AVE** | Advertising Value Equivalent |
| **BAC** | Bid Adjudication Committee |
| **B-BBEE** | Broad-based Black Economic Empowerment |
| **BCM** | Business Continuity Management |
| **BEE** | Black Economic Empowerment |
| **CAE** | Chief Audit Executive |
| **CBRTA** | Cross-Border Road Traffic Agency |
| **CEF** | Central Energy Fund |
| **CEO** | Chief Executive Officer |
| **CGICTPF** | Corporate Governance of ICT Policy Framework |
| **CIO** | Chief Information Officer |
| **COP** | Communities of Practice |
| **CPI** | Consumer Price Index |
| **CPSI** | Centre for Public Service Innovation |
| **CRMP** | Compliance Risk Management Plan |
| **CSC** | Customer Service Centre |
| **CSO** | Chief Strategy Officer |
| **CSR** | Corporate Social Responsibility |
| **DoH** | Department of Health |
| **DoJ** | Department of Justice |
| **DoT** | Department of Transport |
| **DPSA** | Department of Public Service and Administration |
| **EA** | Enterprise Architecture |
| **ECM** | Enterprise Content Management |
| **EE** | Employment Equity |
| **EQMS** | Electronic Queue Management System |
| **ESD** | Enterprise Supplier Development |
| **EWS** | Employee Wellness Services |
| **EXCO** | Executive Management Committee |
| **FID** | Forensic Investigation Department |
| **FAR** | Fixed Asset Register |
| **FID** | Forensic Investigation Department |
| **FSB** | Financial Services Board |
| **GDP** | Gross Domestic Product |
| **GIBS** | Gordon Institute of Business Science |
| **GM** | General Manager |
| **GRAP** | Generally Recognised Accounting Practice |
| **GRC** | Governance Risk and Compliance |
| **GRI** | Global Reporting Initiative |
| **HC** | Human Capital |
| **HCT** | HIV Counselling and Testing |
| **HPCSA** | Health Professions Council of South Africa |
| **HR** | Human Resources |
| **HRA** | Health Risk Assessment |
| **HRBP** | Human Resources Business Partners |
| **HRIS** | Human Resource Information System |
| **HRM** | Human Resource Management |
| **HSC** | Hospital Service Centre |
| **IaaS** | Infrastructure as a Service |
| **IBNR** | Incurred, But Not Yet Reported (claims) |
| **ICA** | Information Collection Agent |
| **ICAS** | Independent Counselling and Advisory Services |
| **ICMS** | Integrated Claims Management System |
| **ICT** | Information and Communications Technology |
| **IFRS** | International Financial Reporting Standards |
| **IoDSA** | Institute of Directors in Southern Africa |
| **IIASA** | Institute of Internal Auditors SA |
| **IT** | Information Technology |

| | |
|---|---|
| **King III** | King Code on Corporate Governance III |
| **King IV** | King Code on Corporate Governance IV |
| **LAN** | Local Area Network |
| **LMS** | Learning Management System |
| **LMS** | Litigation Management System |
| **MBA** | Master of Business Administration |
| **MoU** | Memorandum of Understanding |
| **MTEF** | Medium Term Expenditure Framework |
| **NARSSA** | National Archive and Records Service of South Africa |
| **MVA** | Motor Vehicle Accident |
| **NDOH** | National Department of Health |
| **NDP** | National Development Plan |
| **NEAP** | National Economic Active Population |
| **NEDLAC** | National Economic Development and Labour Council |
| **NPA** | National Prosecuting Authority |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OHS** | Occupational Health and Safety |
| **PAIA** | Promotion of Access to Information Act, 2000 (Act No. 2 of 2000) |
| **PCOT** | Portfolio Committee on Transport |
| **PEEC** | Provincial Efficiency Enhancement Committee |
| **PFMA** | Public Finance Management Act, 1999 (Act No. 1 of 1999) |
| **POC** | Proof of Concept |
| **POPI Act** | Protection of Personal Information Act, 2013 (Act No. 3 of 2013) |
| **QA** | Quality Assurance |
| **RABS** | Road Accident Benefit Scheme |
| **RABSA** | Road Accident Benefit Scheme Administrator |
| **RAF** | Road Accident Fund |
| **RAF Act** | Road Accident Fund Act, 1996 (Act No. 56 of 1996) |
| **REMCO** | Remuneration and Human Resources Committee |
| **RMEC** | Risk Management and Ethics Committee |
| **RNYP** | Requested but Not Yet Paid (claims) |
| **RTMC** | Road Traffic Management Corporation |
| **SABPP** | SA Board for People Practices |
| **SALGA** | South African Local Government Association |
| **SADC** | South African Development Community |
| **SANBS** | South African National Blood Service |
| **SANTACO** | South African National Taxi Association |
| **SANWIT** | South African Women in Transport |
| **SAP** | Enterprise Resource Planning System |
| **SAPIA** | South African Petroleum Industry Association |
| **SAPS** | South African Police Service |
| **SARS** | South African Revenue Service |
| **SASSA** | South African Social Security Agency |
| **SCM** | Supply Chain Management |
| **SCOPA** | Standing Committee on Public Accounts |
| **SMRs** | Statutory Medical Reports |
| **SOE** | State-Owned Entity |
| **SOP** | Standard Operating Procedure |
| **T.A.S.K.** | Tuned Assessment of Skills and Knowledge |
| **TEC** | Total Employment Cost |
| **Transitional Act** | RAF (Transitional Provisions) Act, 2012 (Act No. 15 of 2012) |
| **UIF** | Unemployment Insurance Fund |
| **UN** | United Nations |
| **Unisa** | University of South Africa |
| **UNPSA** | United Nations Public Service Awards |
| **UNRSC** | UN Road Safety Collaboration |
| **WAN** | Wide Area Network |
| **WHO** | World Health Organisation |

# 3. SCOPE OF THE REPORT

## 3.1 INTRODUCTION

The Road Accident Fund (RAF) welcomes the opportunity to present its Annual Report for the year ending 31 March 2017 in line with the National Treasury Annual Report Guide for Public Entities, the King Code on Corporate Governance for South Africa 2009 (King III), and the Protocol on Corporate Governance in the Public Sector (2002). In essence, corporate governance "embodies processes and systems by which corporate enterprises are directed, controlled and held to account".[1] Oversight entails "reviewing, monitoring and overseeing the affairs, practices, activities, behaviour and conduct"[2] of an administrative authority to ensure that it meets its objectives.

## 3.2 REPORTING CYCLE

The objective of this report is to provide stakeholders with an integrated view of the RAF's organisational, operational and financial performance for the financial year 1 April 2016 to 31 March 2017. The report is intended to demonstrate the RAF's commitment to integrity, transparency and accountability and provide a complete and balanced view of its performance, including the successes and challenges, for the 2016/17 financial year, as well as those likely to form part of its future.

The RAF remains committed to being accountable to its stakeholders. It defines stakeholders as "persons, groups or organisations that have a direct stake in our business, since they can affect or be affected by our activities, objectives and policies". The way in which the organisation engages with and responds to its stakeholders is described under the heading, 'Social Responsibility', in Part C of this report.

## 3.3 REPORTING BOUNDARY

This Annual Report covers organisational, operational and financial performance, including the audited financial results for the period 1 April 2016 to 31 March 2017 in terms of section 55(1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). The narrative of the report is structured around the National Treasury Annual Report Guide for Public Entities. In addition, the report covers the social, environmental and broader economic impacts of the organisation's activities in Part C: Social Responsibility. The RAF acknowledges that its sustainability platform represents the beginning of a journey towards the maturation of its sustainability management and is inextricably linked to its business objectives.

[1] *Department of Public Enterprises. 2002. Protocol on Corporate Governance in the Public Sector, p.3.*
[2] *National Treasury. 2005. Governance Oversight Role Over State-Owned Entities, pp. 5–6.*

## ▶ 3.4 REPORTING PRINCIPLES

The reporting principles applied are in line with the PFMA and South African Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board, National Treasury Guidelines, and King III (to the extent possible).

During the current financial year, no new GRAP Standards were applied in the Annual Financial Statements.

## ▶ 3.5 SUPPORTING DOCUMENTS

All documentation supporting the contents of this report is available for inspection at the RAF's offices.

## ▶ 3.6 AUDIENCE

The stakeholders addressed by this report include, among others, the Parliament of the Republic of South Africa, the Executive Authority, national, provincial and local government, industry-related organisations, trade unions, employees, suppliers, existing and prospective claimants (local and foreign), the media, and the public. Stakeholders are discussed in detail in the section 'Social Responsibility' in Part C of this report.


The report is intended to demonstrate the RAF's commitment to integrity, transparency and accountability

# 4. FOREWORD BY THE CHAIRPERSON

## ▶ INTRODUCTION

*On behalf of the Board of the Road Accident Fund (RAF), it is my privilege to present the organisation's Annual Report and the Annual Financial Statements for the financial year ending 31 March 2017.*

This report is prepared and presented in line with the Annual Report specimen and guidelines issued by the South African National Treasury (NT). The report has also been prepared in accordance with the King Report on Governance for South Africa 2009 (King III), which states that reporting should be focused on substance over form and should disclose information that is timely, relevant, accurate, honest and accessible, as well as comparable with past performance. It should also contain forward-looking information.

We trust that the RAF's Annual Report for 2016/17 provides a holistic and integrated review of the Fund's performance in terms of its finances, operations and sustainability, as well as its role as one of the country's vital public entities.

## ▶ BOARD PERFORMANCE

During the year under review, the term of the former Board of Directors came to an end and a number of new Board members were appointed by the Minister of Transport. As in the past, the Board now comprises of 11 members, including the Director-General of Transport's representative. This also resulted in the reshuffling of Board Committee members, elaborated on elsewhere in this report.

During the year under review, an external assurance provider performed a Board effectiveness evaluation which included an appraisal of the Board, Board Committees and individual Board members.

The Board believes that on-going director development should be encouraged in the same manner as continuing professional development is encouraged in other professions. Certain Board members have collectively attended director development events during the 2016/17 financial year. In addition, they have been tracking developments in respect of the King IV Report, which was released on 1 November 2016.

The Board considered and approved the first, second and final draft of the Annual Performance Plan (APP), which was subsequently approved by the Minister of

Transport and tabled in Parliament. The Board has also considered objectives and targets on the basis of performance outcomes, of which some of the targets have matured.

The Board considers ethics as the foundation of corporate governance. During the year under review, the ethics programme of the RAF was reviewed by an external assurance provider. The following rating was received: "The control design is adequate and partially effective for the achievement of organisational objectives. It is our view that the ethics maturity level is at a 'Defined' phase and leaning towards a 'Maturity' phase." Corporate governance is, in essence, an institution's practical expression of ethical standards. The RAF implemented Year Three of the Ethics Strategy during the 2016/17 financial year. As the Board of the RAF, we are responsible for the following four ethical values which underpin good corporate governance: responsibility, accountability, fairness and transparency.

## TRANSFORMATION

The transformation of the RAF, which commenced five years ago, continues and has seen the Fund becoming a key player in the country's social security system. The Fund has transformed into being the reliable, consoling arm of our government for victims of road crashes. The extensive changes taking place in the organisation cannot be solely attributed to the change of strategy introduced in the 2012/13 financial year, but also to the unflinching support from our government, and the general support and dedication of the RAF personnel.

It is encouraging to note that despite the obvious challenges affecting both the country and the RAF, in particular, there has been persistent performance

Diligence and improved service delivery have, once again, led to numerous awards being conferred on the RAF. During the year under review, the RAF received the following awards:

- Centre for Public Service Innovation: Winner in the Category: Innovative use of ICT for effective service delivery.
- The Special Minister's Award for overall achievement at the Third National Transport Recognition of Service Excellence Awards Ceremony.
- The Chief Executive Officer's Award for the 'Best CEO in Transport' category at the same ceremony.
- The First Runner-up Award for the 'Best Transport Entity' at the same ceremony.
- The First Runner-up Award for Outstanding Women in ICT at the MTN Leadership in ICT Awards Ceremony.

These have given further impetus to an organisation that has transformed from an institution perceived as incompetent, uncaring and wasteful, into one driven by a pursuit of excellence in service delivery and, as such, making a difference in the lives of those affected by road crashes – thus worthy of such prestigious awards.

## PERFORMANCE

During the year under review, both the RAF Amendment Bill and the Road Accident Benefit Scheme (RABS) Bill were approved by Cabinet for introduction to Parliament (November and March respectively). Once these Bills are signed into law, it will bring about major, positive amendments to the current unreasonable, inequitable, unaffordable and unsustainable dispensation.

It is encouraging to note that despite the obvious challenges affecting both the country and the RAF, in particular, there has been persistent performance, with the organisation fulfilling 90% of its APP targets for the second consecutive year. The improvement in performance could be attributed to many factors, not the least being readily available support from the Department of Transport (DoT). Other factors include: the relentless pursuit of excellence in the execution of duties; a sound strategy; strong and competent leadership; recognition of staff who went beyond the call of duty; as well as adherence to individual contracts and performance agreements linked to the mandate of the Fund. Last but not least, recruitment of competent Executives, such as the Chief Financial Officer (CFO), Chief Information Officer (CIO) and others, and staff who have been able to implement and execute the strategy.

## CHALLENGES

The financial challenges that have beset the Fund for decades continued to put a severe strain on the operations and, more importantly, on our ability to carry out our core mandate, being to cover, compensate and rehabilitate victims of road crashes and their dependants. The financial strain on the RAF was tough. The successes we realised during 2016/17 did not emanate from what some would call a conducive environment for achievement. In fact, to say the fiscal was eventful would be an understatement. The Fund's financial challenges worsened with its cash constraints, resulting in the attachment of the organisation's bank accounts by Sheriffs towards the end of the financial year. This effectively put a 10-day halt to the organisation's operations. Notwithstanding, the organisation persevered, overcame and conquered many of its challenges.

In fulfilling its governance oversight responsibility, the Board identified seven (7) strategic risks which could threaten the achievement of the RAF's strategic goals and performance targets for the 2016/17 financial year. These are: fraud and corruption; financial management; information communication technology (ICT); service delivery; regulatory framework; stakeholder pressure; and people management. The risk management culture is maturing; however, the strategic risk profile has not improved much over the past three years, mainly on strategic risks such as fraud and corruption, financial management, and ICT – and may further deteriorate mainly due to continued cash constraints, undercapitalisation of the Fund and stakeholder pressure as a result of delayed payments to claimants, possible resistance to the RABS Bill and funding of RABS, which subsequently impacts on other strategic risks such as service delivery, fraud and corruption, regulatory framework, and stakeholder pressure.

## FUEL LEVY

Financial challenges will continue to affect many of government's projects and interventions. During the 2016/17 Budget announcement, the Minister of Finance delivered his speech in a tough economic climate of fiscal consolidation and slowing growth with no additional fuel levy allocated to the RAF for the financial year under review. Based on a continued levy of 154 cents per litre during the year under review, the RAF had to cope with the existing cash flow pressures through consistent implementation of the Cash Flow Management Strategy, which aims to sustain payments to all creditors, while reducing the cost of claims and administrative expenditure lines. Creditors continued to wait for payments in accordance with payment schedules strictly adhered to.

Although the financial year was harsh, the Board remains convinced that the RAF will surmount the challenges faced, but will not solve the decades-old financial predicament the organisation finds itself in. Nevertheless, the institution has been successful in securing additional financial support from government and in the past two years such additional support added a further R11 billion to the fuel levies it received. With an additional 6c/l increase in the RAF Fuel Levy for the 2017/18 financial year, it is expected that net fuel levies will be amounting to an estimated R35 billion for the upcoming financial year.

Engagement with various stakeholders is on-going, not only to ensure the Fund's circumstances and the consequences are known, but also to ensure a transparent and frank sharing of information with those affected by the prevailing cash flow constraints, being our claimants and service providers.

The engagements include submissions to Cabinet, MTEF submissions to the DoT and NT, presentations at the Portfolio Committee on Transport (PCOT) in the course of the past three years, requests for support as part of the conclusion of the Annual Financial Statements to DoT and NT, and *ad hoc* communications, electronic or otherwise, by the Chief Executive Officer (CEO), the CFO, etc.

The Board and Management will continue motivating for additional funding and seeking support from stakeholders as RAF operates with insufficient cash, as well as to bringing an affordable dispensation into being.

The RAF's duty and responsibility is to fulfil its mandate, while deriving the maximum value out of every rand received, maintaining a maximum amount of expenditure on claims-related items and delivering our services to those left vulnerable by motor vehicle accidents.

## ▶ ROAD ACCIDENT BENEFIT SCHEME

The RAF in its current format is undoubtedly financially unsustainable, discriminatory, open to abuse and fraught with extensive and costly litigation, prolonged claims finalisation and high administrative costs. Furthermore, the establishment of fault, which the current system requires, is sometimes a highly contentious and protracted issue. Only a complete overhaul of the system, as proposed through the RABS, can address the fault-based, unfair and unsustainable system defined by the RAF Act.

We are proud to state that the RAF has played a major supportive role to the DoT in its endeavours, legislative development and creation of a sustainable, equitable and no-fault based system, RABS, as well as the subsequent administrator, the Road Accident Benefit Scheme Administrator (RABSA), which will replace the current RAF. This no-fault based social security system will address many of the challenges that exist within the current system administered by the RAF. We are confident that when RABS is promulgated in the near future, the long legacy of an unfair, inequitable, inefficient and unsustainable third party insurance system, vulnerable to widespread abuse, will be something of the past.

We are proud to state that the RAF has played a major supportive role to the Department of Transport

## ▶ STRATEGIC DIRECTION

As we move forward with interventions to promote and implement a social security system that will cater for core financial and medical needs of victims of road crashes, we are mindful of the country's National Development Plan (NDP) and the importance of aligning our strategy with what this plan seeks to achieve. The NDP 2030 remains the primary policy framework for government and provides the first layer of government policy for the RAF to carry out its responsibilities and align its plans. The NDP provides a clear account of the challenges the country is facing, as well as the strategic choices that must be made to create a better life for all South Africans.

In order to achieve the objectives of the NDP, the RAF will continue to efficiently pay for claims and effectively rehabilitate victims of road accidents to restore balance in the social system. In addition, the RAF will promote effective governance, strong leadership and active citizenship by:

- Continuing to improve services and maintaining compliance;
- Increasing levels of awareness on RAF offerings and benefits;
- Continuing to partner with other government departments to improve the State's overall effectiveness and efficiency;
- Engaging with other Motor Vehicle Accident (MVA) Funds, regionally and internationally to exchange best practice; and
- Ensuring that the RAF is free of fraud and corruption.

In his February 2016 State of the Nation Address (SONA), President Zuma mentioned that there are on-going deliberations within government, led by the Department of Social Development and NT, with regards to the finalisation of the comprehensive social security policy which will bring about interventions that should not only be aimed at elevating social security risks, but also focus on rehabilitation and integration of persons back into social and economic life. Furthermore, the social security policy will foster independence and ultimately reduce inequality, while increasing opportunities for development. The RAF, as one of the critical organs of the State, will continue to effectively and efficiently carry out its mandate to provide compulsory social insurance cover to all users of South African roads; rehabilitate and compensate people injured as a result of the negligent driving of motor vehicles in a timely and active manner; and actively promote the safe use of our nation's roads.

The Board seeks to ensure that the RAF sustains a high-performance level and will review targets on an on-going basis, with the goal of improving them, in order to increase service delivery. Despite the many challenges we faced, it is important to note that the RAF still continues to deliver.

Looking to the future, seven strategic objectives have been identified with outcome indicators linked to these. The objectives are:

- Efficient claims processing;
- Accessible services;
- Effective financial management/health;
- Optimal ICT services;
- Improved people management;
- Administrative dispensation aligned to the RABS Bill; and
- An assured control environment.

The outcome indicators are discussed at length elsewhere in this report.

## ACKNOWLEDGEMENTS

On behalf of the Board of the RAF, I wish to extend our sincere gratitude to the outgoing Minister of Transport, Ms Dipuo Peters, for her unstinted support and dedication to the RAF over the past few years. We wish the new Minister of Transport, Mr Joe Maswanganyi, well in his new endeavours.

A word of gratitude is also extended to the Deputy Minister, Ms Sindisiwe Chikunga and the key role players within the DoT for their leadership and guidance throughout the year. We would also like to thank the members of Parliament's PCOT, as well as other government departments, related state-owned entities, provincial leadership and municipalities for hosting many RAF activities, and in particular, former and existing Board members, Executives, Management and employees of the RAF who are tasked with fulfilling the mandate.

Last, but not least, we wish to acknowledge the Chief Executive Officer and thank him for successfully completing his five-year term under extremely challenging conditions. His tenure at the RAF is widely recognised as the most successful era in the history of the RAF, marked by clean audits, a reduction in the Fund's backlog, numerous awards over the years, improved people management, increased access to the RAF's services, etc. As the Board, we appreciate his total dedication to the Fund and we are determined to maintain this conducive environment for another successful phase of transformation for the Fund.

**DR NTUTHUKO BHENGU**
*Chairperson of the Board*
*31 July 2017*

The RAF will continue to effectively and efficiently carry out its mandate to provide compulsory social insurance cover to all users of South African roads

# 5. ACTING CHIEF EXECUTIVE OFFICER'S OVERVIEW

## ▶ INTRODUCTION

*The RAF's Annual Report: 2016/17 is centred on the principles and recommendations of King III and National Treasury's Regulations. The report provides context to the financial results and how the Fund has impacted on the socio-economic wellbeing of all users of South African roads.*

This overview of the 2016/17 financial year forms part of the Annual Financial Statements of the RAF for the year ended 31 March 2017 in accordance with section 55(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) (PFMA).

The RAF, as established by the Road Accident Fund Act, 1996 (Act No. 56 of 1996), (RAF Act), is listed as a National Public Entity in accordance with schedule 3A of the PFMA. The Board is the Accounting Authority in terms of the PFMA.

In simple terms, the RAF is called on to assist crash victims by receiving, processing and paying claims effectively. In 2016/17, the RAF received more claims, processed many, paid more claims in cash than ever and reduced turnaround times, while increasing its footprint.

It is, however, easy to forget in which context the RAF not only operated in, but in which it succeeded. The RAF is a business that has not been solvent since 1981, has been "cash strapped" for the past three years and has been the subject of nine commissions of inquiry dating back to the 1940's.

## ▶ TRANSFORMATION

The RAF concluded the 2016/17 financial year on a high note, having once again – for the second year in succession – achieved 90% of its APP targets, as set out by the Board and approved by Parliament in the previous financial year. Targets were either new or stretched and there were great expectations for the Fund to maintain the achievements of the 2015/16 financial year. Fulfilling this mandate and ensuring that strategic objectives were achieved, while continuing the RAF's transformation into a more sustainable, customer-centric entity, governed by the pursuit of excellence in performance, was never going to be an easy task.

> The RAF concluded the 2016/17 financial year on a high note, having once again – for the second year in succession – achieved 90% of its APP targets

We promised to work and to deliver; and our achievements, as indicated by our successes, coupled with numerous awards bestowed on us during the course of the year, are a clear indication that the RAF remains set on delivering. After a five-year cycle of transformation, employees are now well aware that the RAF exists to render support to victims of car crashes and their families, providing assistance financially, medically and by way of indemnification. Change management is no longer a programme, but is viewed as a way of life, setting the organisation apart and seeing performance improve despite changes to the Board, the structure and operating environment during the year under review.

Business processes have been laid down and now shape the team's daily work. Our physical and virtual presence has been expanded and access to the RAF is now greater than it ever has been. Our national footprint has been expanded with 100 Hospital Service Centres (HSCs) and five Customer Service Centres (CSCs) in place. Over 54,000 claimants were engaged at our highly revered 'RAF on the Road' community outreach campaigns and other road shows, and more than 376,000 telephone calls were responded to by our Call Centre. Over 162,000 people follow our social media footprint – eager to keep track of what the RAF is doing, when and where. The organisation is fast becoming a public entity that all road users have confidence in and are proud to be associated with.

At a corporate level, our governance framework complies with King III and is readied for King IV, our risk maturity level is higher than that of many public and private entities, and our credibility as a recognised authority on road safety and road accident insurance mechanisms is growing, especially since our assistance to the families of mass accidents during the year under review. Our tireless support at crash scenes sees us often leading government's support initiatives.

## ▶ OPERATIONAL STATISTICS

We registered 202,100 new claims and finalised a record 209,561 in 2016/17, with claims expenditure being R29.8 billion. The number of registered claims also showed an increase compared to the registrations in 2015/16. The increase in newly registered claims proves the promotion of access which the RAF has persistently implemented. The open balance of claims reduced in 2016/17. During the year under review, the RAF finalised an average of 794 claims[3] each working day of the year compared to 715 in the previous year. The average loss-of-earnings claims decreased in value by 13% from R739,214 to R645,832, while the average in general damages claims increased by 1% from R385,673 to R390,004. The mutual average value of legal and other cost payments was R164,308, with the RAF share accounting for 19%, and the plaintiff share for 81% respectively. However, the percentage of overall expenditure, due to legal fees, increased to 16.5% during the financial year. Obviously, as the RAF, we would prefer if this money was spent on taking care of victims and paying for rehabilitation and other post-crash care expenses.

The Fund settled and paid a total amount worth R29.8 billion of claims during the financial year compared to R32.3 billion in 2015/16. Although this amount is R2.5 billion less compared to the 2015/16 financial year, we managed to pay R31.9 billion worth of claims in cash compared to R28.6 billion during the 2015/16 financial year. An amount of R8.5 billion of claims was finalised for payment, but could not be paid due to cash restrictions. This is a positive reduction of R2.1 billion compared to R10.6 billion in 2015/16, which proves the merit of plans introduced by Management, but will only be honoured through the monthly RAF Fuel Levy in the next financial year as a result of the Fund's limited income.

*[3] 209,561 claims finalised based on 22 working days per month*

In the context of the current financial constraints, the RAF remains committed to:

- Finding new solutions and funding;
- Utilising all available money to honour payments which are due;
- Ensuring that all categories of payees receive regular payments;
- Ensuring that no category of payment is neglected; and
- Introducing a new, equitable, affordable and sustainable scheme.

## ENGAGEMENTS WITH CUSTOMERS

The hard work put in over recent years earned the RAF great support from government, communities and stakeholders, but has also boosted the image and reputation of the organisation. We continue to take our services to the doorsteps of previously marginalised communities with our community outreach programme, 'RAF on the Road', and other promotions and activations. As at the end of the financial year, the target for claimants engaged at road shows (33,100) was far exceeded with an audited figure of 54,148. These are not just statistics, but figures which represent real lives that have been touched by the RAF. The extensive community mobilisation that precedes such events, as well as our increased media presence, has empowered millions of road users with knowledge of the RAF and its services.

Whilst on the one hand we are meeting thousands of claimants through various RAF engagements and collaborations with other stakeholders, our Call Centre, or virtual contact centre, continues to make strides in attending to claimants' queries. During the year under review, the team achieved its main objective of increasing the Call Centre responsiveness to 376,215 calls attended to, a significant growth from 320,027 in the previous fiscal.

Furthermore, we effectively used social media platforms (such as Twitter, Facebook, Instagram, YouTube and LinkedIn) to update the public about our activities throughout the country and as channels where we can engage on numerous issues from claiming from the RAF to road safety. Currently, we have 162,263 followers over a range of social media platforms, eager to hear what the RAF is doing or has to say, with Facebook achieving the highest number of fans at 133,242 as at the end of March 2017.

## STAFF COMPLEMENT

Our team has grown in line with the budget approved by the DoT, NT and Parliament over the medium term. Experts in numerous fields were brought in to help improve delivery in both core and support business, resulting in a permanent staff complement of 2,676 at the end of March 2017, and reducing the vacancy rate to 5.4%. More importantly, work is underway to conclude the final appointments of 153 vacant positions, as we contend with the reality that the RAF is a fertile training ground for sought-after professionals. We ensure optimal capacity in terms of people and performance by recruiting, remunerating, managing and retaining skilled staff; identifying talent and managing succession; training and developing, while managing outliers; and recognising and rewarding performers within the organisation.

Over the medium term, we will maintain the current organisational structure and headcount.

## FRAUD AND CORRUPTION

We are still in the midst of plugging the many loopholes, which, over the years, have made the RAF vulnerable to abuse by many stakeholders and employees. Our Legal and Forensic teams have relentlessly pursued fraudsters and those stealing from the RAF. The result is that a large number of attorneys have been struck off the roll, doctors and SAPS officials arrested, and a number of touts languishing in jail or serving suspended sentences for RAF fraud-related matters.

Compared to R424 million during the previous year, R901 million worth of fraudulent claims were identified before payment was made and 88 people were arrested for fraud against the RAF.

Our ability to effectively protect money meant for victims of road accidents, deal with corruption against the Fund, implement measures to ensure adherence to good corporate governance and PFMA standards and improve delivery on the set mandate can be attributed to the continued support we have enjoyed from government and the public.

## FINANCIAL REVIEW

The financial strain on the RAF was tough during the reporting period. On average, the Fund was R9 billion in arrears per month with settled claims that could not be paid, due to insufficient cash to pay these claims. The Fund's financial challenges deteriorated under these circumstances with bank accounts being attached by the Sheriff. However, as we have done in recent years, we were transparent in regularly communicating to all stakeholders what the challenges were. Heightened communication in February 2017 also saw all RAF payees being appraised of the financial pressure, causes and mitigation measures. In addition, extensive engagements took place with affected claimants and their representatives, banks, the Board of Sheriffs, as well as the media. Internal measures were also introduced to optimise cash flow management and time periods, but the core challenge was and remains real – the RAF dispensation is not adequately funded and remains unreasonable, inequitable, unaffordable and unsustainable.

To counter the challenges experienced on the historic practice of direct claims, policies were put in place and performance continues to improve with increased direct claims being registered and increased settlements being made.

The financial challenges we experienced in prior financial years persisted, but the RAF continued to settle claims, although the amount of settled claims that could not be paid (RNYP) reduced in the year under review to R8.5 billion from R10.6 billion outstanding as at 31 March 2016.

The reality is that the institution has been insolvent since 1981 and continues to find itself in this space as a result of the fact that it's funding and expenditure is not linked. In the past five years a Turnaround Strategy has seen remarkable transformation in the institution, but the focus on performance resulted in severe cash flow constraints. Trends observed in the claims environment saw a substantial increase in the provision for claims liabilities. The Statement of Financial Position reflects the extent to which the Fund remains undercapitalised. A net deficit of R179.9 billion (2015/16: R145.3 billion) was recorded for 2016/17. Attachment/removal/threat of sale/auction of movable property is, has been and remains day-to-day operational challenges. Attachments of the RAF bank accounts increased during the year under review in prevalence and value, of which the latest instance resulted in the suspension of all payments for nearly 10 days.

The realities are that what is payable by the Fund exceeds what is available to pay, is expensive, benefits some, navigates serious resistance to change and operates in a business context where an ordinary business facing these challenges would not have traded beyond 1982. Despite these challenges and limitations, the RAF continues to receive, assess and finalise claims, to render services to claimants, to transform itself, to record successes and to drive the evolution of the business into a new dispensation which addresses the weaknesses of the present model and which will benefit considerably more South Africans for decades to come in an affordable way.

Despite these challenges and limitations, the RAF continues to receive, assess and finalise claims

Management interventions continue to be implemented to improve claim payments and efficient business processes

Total revenue for the year remained stable at R33.34 billion compared to R33.21 billion in the previous financial year – mostly as a result of a zero % increase in the RAF Fuel Levy, together with a reduction in diesel refunds recouped from this levy. This is in line with a decrease in the volume of fuel sold over the previous financial year. Net fuel levies accounted for 99.7% of total revenue. The Fund recorded a loss of R34.7 billion in the year under review compared to a loss of almost R35 billion in the previous year. The deficit is directly related to the provision for outstanding claims, which increased from R143.3 billion (2015/16) to R179.5 billion in the current year. This provision is an actuarial estimation of what it would cost to fund claims that are on hand and being attended to, as well as those which will still be registered in future for past periods.

Claims expenditure in cash, as well as settled (excluding the increase in the claims provision), decreased by 7.7% to R29.8 billion (2015/16: R32.3 billion). During the reporting period, 90% of RAF Fuel Levy income was utilised to pay claims expenditure, compared to 98% in the 2015/16 financial year. 276,008 (2015/16: 221,329) payments were made in the 2016/17 financial year.

Total expenditure for the year, excluding the increase in the claims provision, decreased by R2.26 billion to R31.96 billion (2015/16: R34.22 billion) as a result of maintained productivity in claims settlements and reduced earnings and support claims average values. Claims expenditure (excluding the increase in the claims provision) of R29.8 billion accounted for 93.2% of total expenses, with the balance being made up of employee costs, i.e. R1.435 billion (4.5%) and administration and other costs, i.e. R694 million (2.3%).

It is noteworthy that the sustained cash flow constraints have resulted in a significant increase in the amount of interest paid during the course of the year.

The Fund recorded cash reserves of R1.65 billion in its Statement of Financial Position at year-end (2015/16: R2.04 billion), as all available resources were utilised to pay claims. The balance mainly reflected the RAF Fuel Levy for March that was received on 24 March 2017. This cash balance is earmarked to fund operations during the first month of the 2017/18 financial year.

Management interventions continue to be implemented to improve claim payments and efficient business processes. These interventions continued to result in improved claims processing during the year, which outstripped the RAF's cash reserves. Quite simply, by improving productivity, claims processing increased, making claim payments dependent on monthly fuel levy inflows.

At a broader level, the inequitable allocation of economic resources, as a result of the legislative framework, continues under the current compensation arrangement. Out of R31 billion for individual claims requested and paid per category in the 2016/17 financial year:

- R2.1 billion was towards payment for medical costs;
- R130 million towards 8,795 settlements/payments for funeral costs;
- R7.9 billion towards payment for legal and other expert costs;
- R7.6 billion towards payment for general damages – primarily to persons not seriously injured; and
- R13.5 billion towards payment for loss of earnings and support for those who qualified.

The zero % RAF Fuel Levy increase during the financial year impacted negatively on the budget, but in particular on the cash available for the payment of claims. Notwithstanding, it again reflects the unsustainability of the current compensation system which has accumulated to R179.9 billion (2015/16 R145.3 billion) unfunded liability, as at 31 March 2017. Although the 50 c/l received in the previous financial year was a significant increase, it was not sufficient to cover all claims the RAF currently has on hand and for those claims that are still expected. The Cash Flow Management Strategy continued during the financial year to ensure that creditors and claimants received regular and scheduled payments.

During the reporting period, the organisation managed to reduce the number of outstanding claims where no payments had yet been made to 173,740 from 184,899 in the previous financial year. This is despite an increase in new claims. The detailed review of the results of the RAF for the year ended 31 March 2017 is included under the 'Operating Environment' contained in Part B of this report.

## ▶ ENHANCING CONTROLS

The number of instances of irregular and fruitless and wasteful expenditure pertaining to administrative expenses decreased from 45 instances in 2014/15 to 20 instances in 2015/16. At 31 March 2017, 16 instances were identified throughout the financial year and another five instances were reported flowing from findings raised by the Auditor-General of South Africa (AGSA) during the audit of the 2015/16 financial year. 21,783 payments were made to vendors during 2016/17, of which the 16 instances amounted to 0.07% of the total payments made.

Fruitless and wasteful expenditure should be viewed in the context of total actual administrative expenditure of R2.1 billion and claims expenditure of R65.9 billion.

The driver of fruitless and wasteful expenditure stems from our Claims teams and relates to court processes, court payment time frames, writs administration, interest on late writs and the review and payment of legal cost bills. In incurring this expenditure, the RAF actually saved R1.58 billion (44% more than in 2015/16) by reviewing 21,997 legal cost bills – a saving which would not be realised had these reviews not taken place, even though it took longer than stipulated in the court rules and the PFMA.

Total financial misconduct decreased from R42.5 million or 0.12% of the total budgeted expenditure in 2016 to R22.3 million or 0.04% of the total budgeted expenditure in 2017. This, despite the fact that the budgeted expenditure increased by 55%. Similarly, the total number of instances of financial misconduct reduced from 20 to 16 instances (AGSA findings excluded) from the 2015/16 to the 2016/17 financial year.

While the trends show improvement, corrective action was taken, further controls were introduced and existing controls were strengthened. While causes may be similar to the prior financial year, results and actions taken were considerably better.

## ▶ RABS BILL

Government has long accepted that the RAF is an unsustainable scheme of arrangement where compensation paid far outstrips the income allocated to the Fund; where many who contribute to the RAF's income are excluded on the basis of poverty and the extent of negligence; where administration is not cost-efficient; and where the desired objective of supporting crash victims is not fully achieved.

In 2002, a Commission of Inquiry, chaired by Judge Kathleen M. Satchwell, determined that RABS should be implemented and the terminology 'no fault' should be clearly defined. Various Cabinet decisions followed, together with the principle of phasing out the RAF in exchange for a reasonable, equitable, affordable and sustainable system. A draft Bill was published twice for comment (and extended comment periods) in recent years. At an ordinary meeting of Cabinet on 29 March 2017, the RABS Bill was approved for introduction into Parliament, following a presentation by the DoT and the RAF to the Economic Committee of Cabinet, chaired by the Deputy President.

The RAF's approved APPs over the last few years provided for the organisation to support the process and so it has. Importantly though, legislation development remains a function of the DoT and the responsibility of Parliament.

RABS will see the open-ended liability the RAF dispensation imposes on the country wound down and a solvent arrangement introduced. It will benefit many people who have not had access to the RAF, but the payoff would be a rationalisation of what is paid out at the upper end. Poor people will benefit from a minimum benefit they do not currently enjoy. Some may argue that a minimum benefit is low, but it will be higher than the current minimum which is often nil for some. Socio-economic and health benefits of RABS far exceed the RAF dispensation, and long-term outcomes are likely to be much better.

With regard to administration, this will be an easier and more cost-efficient change and monies spent on intermediaries will now be channelled to claimants. While RABS will usher in change, the winding down of the RAF will take a number of years to ensure that all RAF claims are processed and honoured over time. Rationalising benefits to match available funding through limits and time frames is a necessary step for viability, but certainly not a popular one – but in all things there must be informed limits.

The Bill will be challenged by those opposed, the Legislature will deal with all the views in favour of and against, but our responsibility was to get it there. Two decades since required as a priority.

While criticism will flow, the RAF's focus, led by the DoT, will be to do the work the Fund is required to do. The institution will communicate facts, progress and benefits and will not lose sight of the support RABS has enjoyed on the ground. Thousands have been educated on the Bill and stakeholder consultations continue. The redistribution of socio-economic benefits will not be popular for those benefiting currently, but policy change, like RABS, will see many South African citizens benefit, road users will benefit and South Africa as a whole will benefit – socially, medically and economically.

The RAF's stakeholders are aware of the criticisms and have made it clear that RABS is an old policy decision that must be implemented on the basis of addressing historic socio-economic imbalances and, more pressingly, on the basis of affordability. Further, our principals know that the RAF is doing well in its transformation and that RABS is not a 'compromise' policy where middle-ground appeasing all stakeholders will be found.

## ▶ OTHER SUCCESSES

In addition to the RABS Bill being approved for introduction into Parliament, the Road Accident Fund Amendment Bill was also approved by Cabinet for introduction into Parliament during November 2016.

Furthermore, the Fund reviewed and approved numerous policies and procedures during the year under review. The Supply Chain Management Strategy and the Five-year Information Communication Technology (ICT) Strategy are both in their third year since implementation. The year also saw the branding of numerous HSCs and the launch of a new Walk-in Centre and a second mobile RAF truck, which will be servicing mainly coastal areas, in Durban.

## ACKNOWLEDGEMENTS

I wish to express a sincere word of thanks to the previous Minister of Transport, Ms Dipuo Peters, and the Deputy Minister of Transport, Ms Sindisiwe Chikunga, for their unstinting support over the past financial year. We wish to welcome the new Minister of Transport, Mr Joe Maswanganyi, in his new role.

As the Executive Management of the RAF, our gratitude is also extended to the Chairperson and Members of the PCOT for the unfettered guidance and support provided throughout the year.

A message of thanks is extended to the outgoing Board members for their distinctive guidance to the RAF. A warm word of welcome is also extended to the current Board that were appointed to the RAF as from 21 October 2016, especially the Chairperson and the Vice-Chairperson for their leadership, guidance, enthusiasm and dedication shown to the organisation during their tenure.

A word of appreciation also goes to the RAF leadership and staff for their continued support, loyalty and diligence. In impossible and unreal circumstances, I want to recognise a team who makes possibilities a reality on a daily basis. We have met 90% of the predetermined 2016/17 APP targets, which were more difficult than the previous year, showing that the RAF, as an organisation, will not shy away when faced with challenges, but will continue to transform its delivery record.

I also extend our appreciation to the thousands of claimants, lawyers, healthcare providers, caregivers, corporate suppliers and creditors who patiently joined hands with the Fund.

On behalf of the Executive Management and staff of the RAF, we wish to thank the outgoing Chief Executive Officer, Dr Eugene Watson, for his exemplary leadership and guidance over the past five years.

In conclusion, we recognise those who have lost their lives, been injured or who have lost a loved one in a motor vehicle accident in the period under review. As the RAF, our responsibility going forward remains firmly fixed on alleviating the suffering which arises from negligence on our roads.

**MS LINDELWA JABAVU**
*Acting Chief Executive Officer*
*26 July 2017*

The Fund reviewed and approved numerous policies and procedures during the year under review.

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

In our opinion, this Annual Report fairly reflects the Review of Operations, the Performance Information, the Human Resources Information and the financial affairs of the RAF

To the best of our knowledge and belief, we confirm the following:

All information and amounts disclosed in this Annual Report are consistent with the Annual Financial Statements of the RAF, audited by the Auditor-General.

The Annual Report is complete, accurate and is free of any omissions.

The Annual Report has been prepared in accordance with the Guidelines on the Annual Report as issued by National Treasury.

The Annual Financial Statements (Part E) have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) Standards applicable to the RAF.

The Accounting Authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The Accounting Authority is responsible for establishing and implementing a system of internal control that is designed to provide reasonable assurance as to the integrity and reliability of the Performance Information, the Human Resources Information and the Annual Financial Statements.

The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

In our opinion, this Annual Report fairly reflects the Review of Operations, the Performance Information, the Human Resources Information and the financial affairs of the RAF for the financial year ended 31 March 2017.

Yours faithfully

**MS LINDELWA JABAVU**
*Acting Chief Executive Officer*
*26 July 2017*

**DR NM BHENGU**
*Chairperson of the Board*
*26 July 2017*

# 7. STRATEGIC OVERVIEW

## ▶ MANDATE OF THE RAF

The Road Accident Fund (RAF) is a juristic person established by an Act of Parliament, namely the Road Accident Fund Act, 1996 (Act No. 56 of 1996), as amended (RAF Act). It commenced operations on 1 May 1997, assuming at the time, all the rights, obligations, assets and liabilities of the Multilateral Motor Vehicle Accidents Fund.

The RAF provides compulsory social insurance cover to all users of South African roads; rehabilitates and compensates people injured as a result of the negligent driving of motor vehicles in a timely and active manner; and actively promotes the safe use of our nation's roads. According to the Act, the object of the Fund is the payment of compensation in accordance with the Act for loss or damage wrongfully caused by the driving of a motor vehicle.

The customer base of the RAF comprises not only the South African public, but all foreigners within the borders of the country too.

The RAF provides two types of cover, namely personal insurance cover to accident victims or their families and indemnity cover to wrongdoers.

The RAF's vision is informed by its legislative mandate. As an institution of government, its mandate outlines its obligations towards the State and its people. This mandate supports and is directly informed by a higher purpose, namely to contribute directly to the health and socio-economic balance of the country in order for government to meet its priorities.

The NDP: 2030 is the primary policy framework for government and provides the first layer of government policy for the RAF to carry out its responsibilities and align its plans. The NDP provides a clear account of the challenges the country is facing, as well as the strategic choices that must be made to create a better life for all South Africans.

The nine primary challenges as outlined in the NDP are:

- Too few people work;
- The quality of school education for black people is poor;
- Infrastructure is poorly located, inadequate and under-maintained;
- Spatial divides hobble inclusive development;
- The economy is unsustainably resource intensive;
- The public health system cannot meet demand or sustain quality;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and
- South Africa remains a divided society.

The RAF actively promotes the safe use of our nation's roads

As a response to the above challenges, the NDP aims to improve health and broaden social protection by:

- Improving the quality of public health care;
- Lowering the costs of private health care;
- Long-term vision for implementation of a comprehensive social security system;
- Social security reforms aimed at providing balance and broadening coverage;
- Alignment and rationalisation of social security institutions;
- Short-term reforms focusing on broadening coverage of existing social security benefits; and
- Longer term priorities include mandatory savings, risk benefits and health insurance.

## THE ROLE OF THE RAF IN THE WIDER GOVERNMENT AND NATIONAL AGENDA

In order to achieve the objectives of the NDP, the RAF will continue to efficiently pay for claims and effectively rehabilitate victims of road accidents to restore balance in the social system. In addition, the RAF will promote effective governance, strong leadership and active citizenry by:

- Continuing to improve services and maintaining compliance;
- Increasing levels of awareness on RAF offerings and benefits;
- Continuing to partner with other government departments to improve the State's overall effectiveness and efficiency;
- Engaging with other MVA Funds, regionally and internationally to exchange best practice; and
- Ensuring that the RAF is free of fraud and corruption.

## SERVICE DELIVERY ENVIRONMENT

The ability of the RAF to operate efficiently and effectively is influenced by general economic conditions and environmental factors, and by the extent to which it manages its costs effectively. The major influencers are illustrated in the figure below:

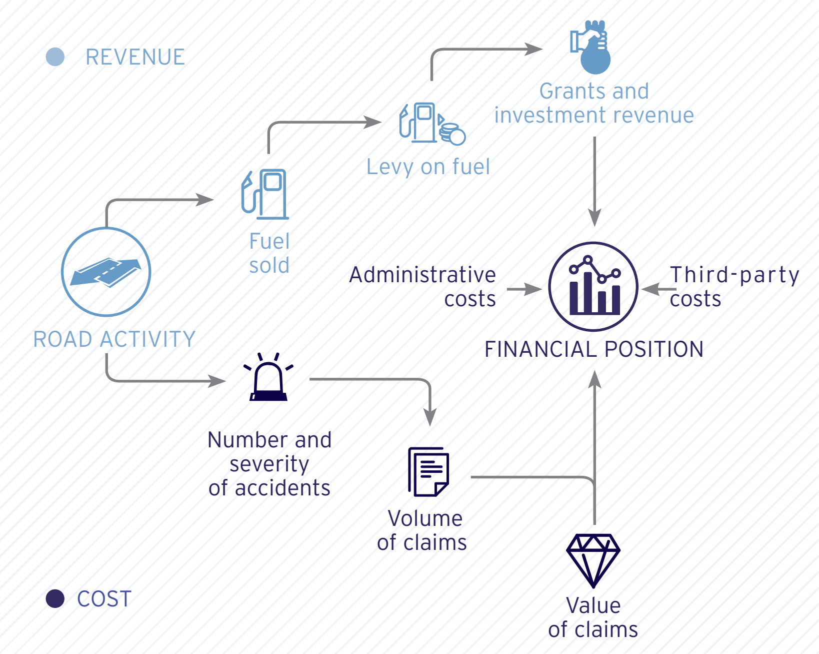



***Figure 1*** *– Factors influencing the RAF's financial position*

The primary source of income for the RAF compensation scheme is a levy raised on fuel. The levy is measured in terms of cents per litre on petrol and diesel fuel sold in South Africa and forms part of the general fuel tax regulated by government.

The fuel levy per litre is set by NT on a yearly basis, whereas total fuel sales are influenced by a number of macroeconomic factors. On an annual basis, the RAF requests NT for an increase in the RAF Fuel Levy, based on a financial model and a calculation of its costs during the coming year. The full extent of the RAF Fuel Levy requested is seldom granted, because NT has historically set the levy on the basis of a pay-as-you go principle, rather than with the purpose of establishing a fully-funded position for the RAF. During the 2015/16 financial year, the RAF Fuel Levy was set at 154 cents per litre and remained unchanged during the 2016/17 financial year.

The RAF is not involved in the collection of its fuel levy. The South African Revenue Service (SARS) administers the collection of the fuel levy and pays it to the RAF, in accordance with provisions of the Customs and Excise Act, 1964 (Act No. 91 of 1964) and the RAF Act.

The two main variables that determine the income of the RAF are the volume of petrol and diesel sold per annum and the rate of the levy. The RAF Fuel Levy can be viewed as a compulsory contribution to social security benefits, which is used only for the specific purposes provided for in legislation.

The costs that the RAF incurs are as a result of road accidents. The volume and severity of accidents influence the volume and average value of claims made against the RAF. In addition, the RAF's costs consist of:

- Third-party costs (e.g. attorney costs, medical and/or legal expert costs); and
- Administration costs.

Claims expenditure comprises the RAF's largest expense item. Liquidity is determined by the cash available after claims and other expenses have been paid out for a specific period. Liability is largely composed of outstanding claims that need to be settled, along with their associated costs. This can be simplistically represented as follows:

## RAF KEY VALUE DRIVERS

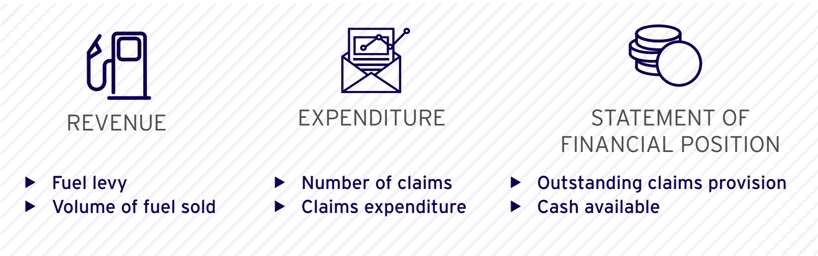



***Figure 2*** *– Key value drivers*

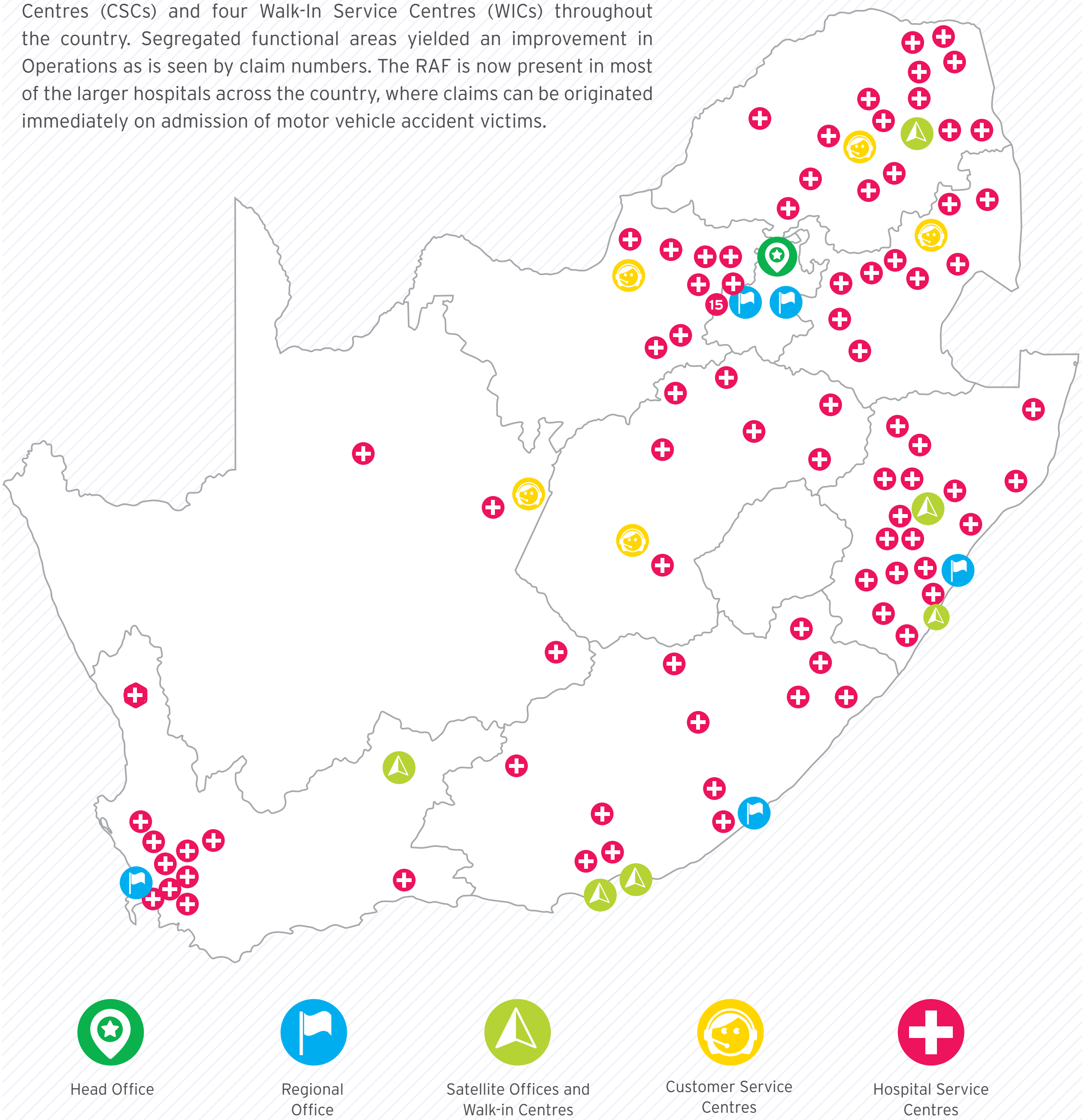
Whilst the value drivers presented may appear conceptually simple, they are driven by multiple other factors. Claims expenditure is influenced, for example, by whether a claimant chooses to claim directly or be represented by an attorney; the awards made by courts that determine precedent; the number of expert witnesses called; and the time taken from date of accident to date of finalisation of the claim. As a consequence of these revenue and cost drivers, the gap between the RAF's deficit and its income, which has grown over the last three decades, has increased exponentially in recent years.

Road crashes have adverse implications for economic growth as a whole, as they affect economically active members of our society as well as those who are not.

The primary source of income for the RAF compensation scheme is a levy raised on fuel

## ORGANISATIONAL ENVIRONMENT

During the year under review, the national service footprint was further expanded, with the number of Hospital Service Centres (HCSs) increasing from 98 in 2015/16 to 100 in 2016/17; and a total of six Customer Service Centres (CSCs) and four Walk-In Service Centres (WICs) throughout the country. Segregated functional areas yielded an improvement in Operations as is seen by claim numbers. The RAF is now present in most of the larger hospitals across the country, where claims can be originated immediately on admission of motor vehicle accident victims.



# VISION, MISSION AND VALUES

## THE VALUES OF THE RAF

The following values drive everything that we do and the manner in which we do it.

### UBUNTU

- We care for and support our customers.
- We care for and support each other.

### SOLUTION FOCUSED

- We offer solutions.
- We take responsibility for our actions.

### EXCELLENCE

- We execute our duties with dedication and fortitude while pursuing excellence across the business.
- We are driven by a desire to succeed which we realise through intelligent planning and commitment to delivery.

### EFFICIENCY

- Doing the right thing with the least amount of resources.
- In our endeavours we strive to optimal output from the time, cost and effort invested.

### WE TAKE PRIDE

- We commit to and demonstrate integrity, honesty, consistency and fairness in our actions and decisions.
- We model the highest standards of personal and professional behaviour.

## THE VISION OF THE RAF

To provide the highest standard of care to road accident victims and to restore balance in the social system.

## THE MISSION OF THE RAF

To provide appropriate cover to all road users within the borders of South Africa; to rehabilitate persons injured, compensate for injuries or death and indemnify wrongdoers as a result of motor vehicle accidents in a timely, caring and sustainable manner; and to support the safe use of our roads.

## STRATEGIC OUTCOMES - 2016 - 2020

| PILLARS | EFFICIENT CLAIMS PROCESSING | ACCESSIBLE SERVICES | EFFECTIVE FINANCIAL MANAGEMENT/HEALTH |
|---|---|---|---|
| **OUTCOME INDICATORS** | ▶ Effectively manage the number of open claims<br>▶ Reduce the average age of open claims<br>▶ Increase the percentage of claims verified by objecting to or accepting within 60 days<br>▶ Percentage increase in direct claims originated<br>▶ Increase number of direct claims settled<br>▶ Reduction in legal costs<br>▶ Implement Post-crash Care Strategy (Pillar 6) | ▶ Increase accessibility to RAF services<br>▶ Increase the number of claimants engaged at RAF events, e.g. 'RAF on the Road'<br>▶ Improve Call Centre responsiveness<br>▶ Improve customer satisfaction | ▶ Effective cash flow management<br>▶ Provision for claims incurred assessed quarterly and an annual assessment conducted by an independent actuary<br>▶ Improve Supply Chain Management (SCM) outcomes<br>▶ Increase number of Broad-based Black Economic Empowerment (B-BBEE) rated suppliers<br>▶ Implement Enterprise Supplier Development (ESD) initiatives |

## BUSINESS MODEL

The RAF's business model is fault-based; meaning drivers at fault are excluded from claiming for compensation. As a result, injured persons are unable to access medical care in a timely manner, and dependants of persons killed in road accidents are left to fend for themselves. In addition, claims are received and administered in a litigious and dispute-ridden environment, and many cases take years to be finalised and paid. This prolongs hardship and severely impacts on the poor and vulnerable.

This is challenging to the Fund as, from a health and economic perspective, it contradicts the Fund's socio-economic role of re-integrating victims of road accidents into society and protect at-fault drivers and their families from financial ruin. The crux of the Fund's underlying business model is determined by the legislative environment in which it operates. At present, claims against the Fund for bodily injury and personal loss arising from road accidents are based on common law rules of delict and liability insurance principles. Inherent in the fault-based system are numerous difficulties, including long delays in accessing compensation and high delivery costs.

| OPTIMAL ICT SERVICES | IMPROVE PEOPLE MANAGEMENT | ADMINISTRATIVE DISPENSATION ALIGNED TO THE RABS BILL | ASSURED CONTROL ENVIRONMENT |
|---|---|---|---|
| ▶ Ensure optimal Information and Communication Technology (ICT) availability<br>▶ Implement and assess benefits of the Five-year ICT Strategy and Plan | ▶ Optimise organisational performance management<br>▶ Improve workforce skills and placement for current and future requirements<br>▶ Maintain the RAF's contribution towards government's social and economic transformation agenda<br>▶ Manage absenteeism | ▶ Transitioning the RAF to RABS | ▶ Raise ethical standards<br>▶ Percentage of fraud detected before undue payments are made<br>▶ Contribute to road safety by creating a Crash Verification System (CVS) and a report that will inform preventative measures |

# 8. LEGISLATIVE AND OTHER MANDATES

## ▶ SCHEDULE IN TERMS OF THE PFMA

The RAF is a juristic person established by an Act of Parliament, namely, the Road Accident Fund Act, 1996 (Act No. 56 of 1996) (RAF Act). Section 3 of the RAF Act stipulates that "the object of the Fund shall be the payment of compensation in accordance with this Act for loss or damage wrongfully caused by the driving of motor vehicles".

The RAF is a national public entity listed in Schedule 3A of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

## ▶ POLICY FRAMEWORKS GOVERNING THE RAF

Applicable legislation to the RAF is, *inter alia*:

- Basic Conditions of Employment Act, 1977 (Act No. 75 of 1977);
- Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003);
- Constitution of the Republic of South Africa, 1996;
- Contingency Fees Act, 1977 (Act No. 66 of 1977);
- Customs and Excise Act, 1964 (Act No. 91 of 1964);
- Employment Equity Act, 1998 (Act No. 55 of 1998);
- Labour Relations Act, 1995 (Act No. 66 of 1995);
- Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
- Prescribed Rate of Interest Act, 1975 (Act No. 55 of 1975);
- Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004);
- Promotion of Access to Information Act, 2000 (Act No. 2 of 2000);
- Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000);
- Promotion of Equality and Prevention of Unfair Discrimination Act, 2000 (Act No. 4 of 2000);
- Protected Disclosures Act, 2000 (Act No. 26 of 2000);
- Protection of Personal Information Act, 2013 (Act No. 4 of 2013);
- Public Finance Management Act, 1999 (Act No. 1 of 1999);
- Road Accident Fund Act, 1996 (Act No. 56 of 1996);
- Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) (the Amendment Act);
- Road Accident Fund (Transitional Provisions) Act, 2012 (Act No. 15 of 2012); and
- Use of Official Languages Act, 2012 (Act No. 12 of 2012).

## ▶ EXPECTED FRAMEWORK CHANGES

### BACKGROUND

The central goals of the RAF, being those of service delivery and the optimisation of its business and ultimate sustainability, are significantly reliant on the legislative environment in which it operates.

The customer base of the RAF comprises not only the South African public, but all foreigners within the borders of the country. The RAF provides two types of cover, namely personal insurance cover to accident victims or their families, and indemnity cover to wrongdoers.

Given this broad mandate, it became clear that the RAF was unsustainable in its current form, and in 2005 the RAF Act was amended by the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) (the Amendment Act), which came into effect on 1 August 2008. Soon after promulgation, a number of claimants challenged the constitutionality of section 18 thereof (related to the R25,000 passenger claims limit). Parliament remedied the defect through the promulgation of the Road Accident Fund (Transitional Provisions) Act, 2012 (Act No. 15 of 2012) (the Transitional Act), which came into effect on 13 February 2013.

Claimants whose claims arose under the RAF Act, prior to it being amended by the Amendment Act, and whose claims were limited by the R25,000 passenger limitation section, and whose claims have further not prescribed or been finally determined by settlement or court order, have an election under the Transitional Act to have their claim determined under the RAF Act (prior to its amendment by the Amendment Act), or to have the claim determined in accordance with a transitional regime provided for in the Transitional Act.

This brought about three different frameworks which the RAF currently administers, namely the RAF Act, the Amendment Act and the Transitional Act.

## ROAD ACCIDENT FUND AMENDMENT BILL, NO. 3 OF 2017

On 3 November 2014, a draft Road Accident Fund Amendment Bill was published for comment. This Bill aims to amend the RAF Act to facilitate responsible financial management and enable cost-effective delivery of compensation. The proposed amendments provide for:

- A 'final judgment' definition;
- A 'medical practitioner' definition;
- Authority for the RAF to revise its claim forms;
- A procedure to manage payment in respect of final court orders;
- A prescribed list of injuries that will be deemed serious, without the need for a formal assessment in terms of the existing prescribed method;
- Authority for the RAF to offer a contribution to the claimant's costs;
- A 30 day 'no-fault' liability period in respect of claims for medical treatment;
- A single medical tariff;
- A capped 'no-fault' funeral claim limited to specified items; and
- Alignment of the 'hit-and-run' claim prescription periods with those of identified claims.

On 2 November 2016, Cabinet approved the Bill for introduction into Parliament.

## ROAD ACCIDENT BENEFIT SCHEME (RABS) BILL

The current scheme of arrangement, being based on fault, insurance principles and common law, remains inequitable, wasteful and open to abuse. The key change proposed by the draft legislation is a move away from the insurance-based system of compensation, which has been largely unchanged in South Africa since its inception in 1946, to a system of defined and structured benefits.

The transformation of the current scheme, as envisaged in the RABS Bill, will address many of the challenges facing the RAF that are constraining its ability to deliver on its mandate in an effective and efficient manner. In addition, a 'no-fault', fixed benefit scheme will ensure smooth alignment with the comprehensive social security system envisaged by government.

The transformation of the current scheme, as envisaged in the RABS Bill, will address many of the challenges facing the RAF

The benefits of the proposed RABS are:

- Provision for the benefits that are reasonable, equitable, affordable and sustainable;
- Expansion of access to benefits by removing the requirement to establish 'fault' as a determinant to qualify for benefits;
- Reducing disputes by removing the 'fault' requirement and by providing pre-determined benefits;
- The availability of timely and appropriate healthcare benefits based on a reasonable tariff;
- Simplification of claims procedures;
- Wider cover to persons injured in road accidents;
- Fewer exclusions from benefits;
- Defined benefits which promote affordability; and
- Alleviation of the burden on South Africa's courts through the establishment of an appeal procedure.

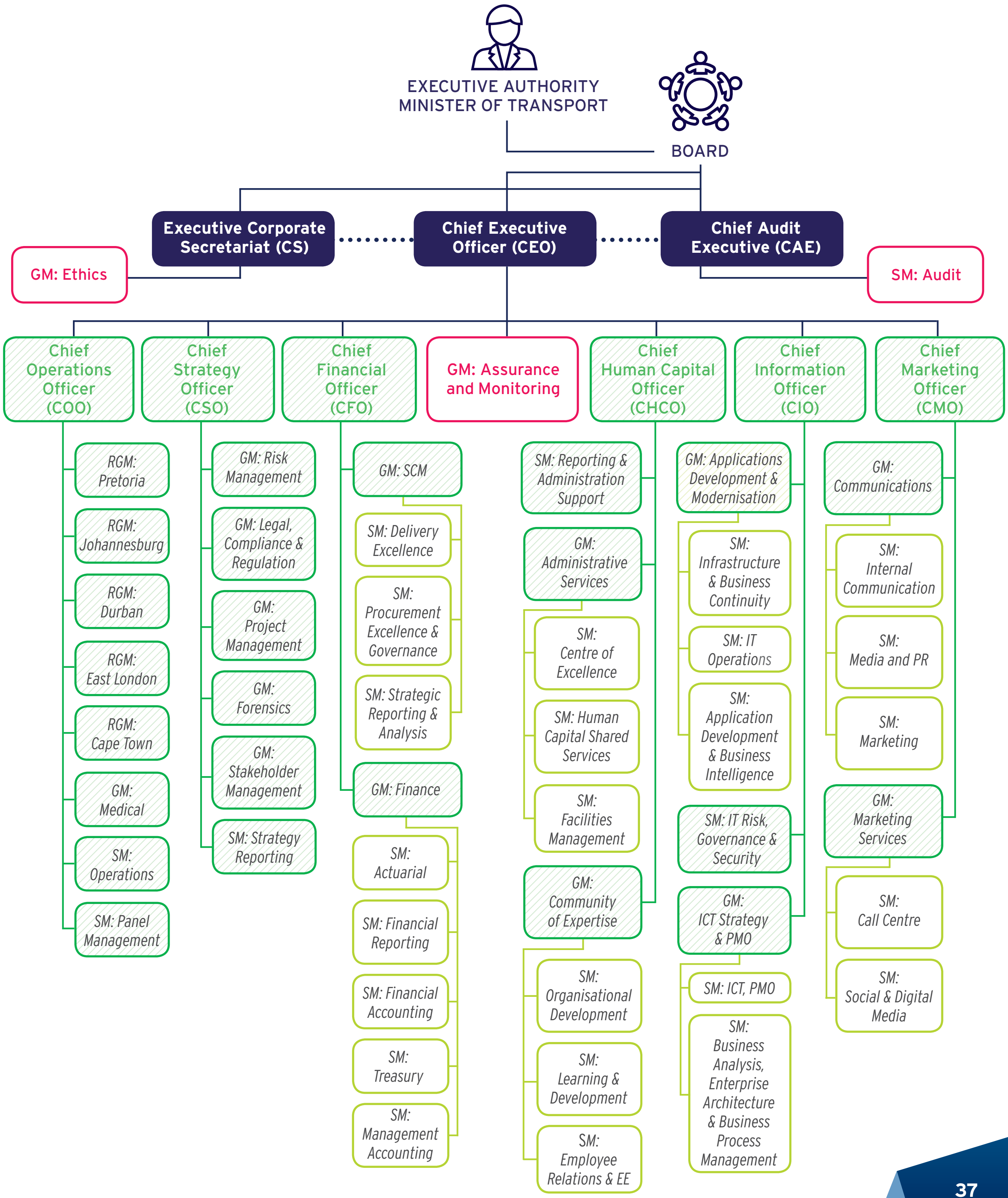
The Bill also provides for a new Administrator, to be called the Road Accident Benefit Scheme Administrator (RABSA), which will replace the current RAF and compensation system administered by it.

The Bill was first published for public comment on 8 February 2013 in *Government Gazette No. 36138*. Following receipt of public comments, the Bill was redrafted and new Regulations, Rules and Forms were included to enable a better understanding of how the proposed scheme would operate in practice.

The revised Bill was published for public comment on 9 May 2014 in *Government Gazette No. 37612*. The *Gazette* included the DoT's RABS Regulations and the draft RABS Rules and Forms of the Board. A national RABS workshop was held on 19 June 2014. Focused stakeholder consultations were also held with industry groupings from commuter groups; the insurance industry; the funeral industry; disability groups; the medical industry; and the legal fraternity. Following requests by the public, the initial 60-day comment period was extended by a further 90 days.

The DoT, supported by the RAF, consulted the Office of the State Law Advisor, the National Economic Development and Labour Council (NEDLAC) and the Department of Planning Monitoring and Evaluation. Following Cabinet's approval on 29 March 2017, the DoT, on 18 April 2017, published Notice 302 of 2017 in *Government Gazette No. 40788* advising of the Minister of Transport's intention to introduce the RABS Bill into Parliament during 2017.

# 9. ORGANISATIONAL STRUCTURE



# PART B
# PERFORMANCE INFORMATION

# 1. AUDITOR-GENERAL'S REPORT: PRE-DETERMINED OBJECTIVES

The Auditor-General of South Africa (AGSA) currently performs the necessary audit procedures on the Performance Information to provide reasonable assurance in the form of an audit conclusion. The audit conclusion on the Performance against Predetermined Objectives is included in the report to Management, with material findings being reported under the Report on the Audit of the Annual Performance Report Section of the Auditor-General's Report.

Refer to page 174 of the Annual Report for the Auditor-General's Report, published in Part E: Financial Information.

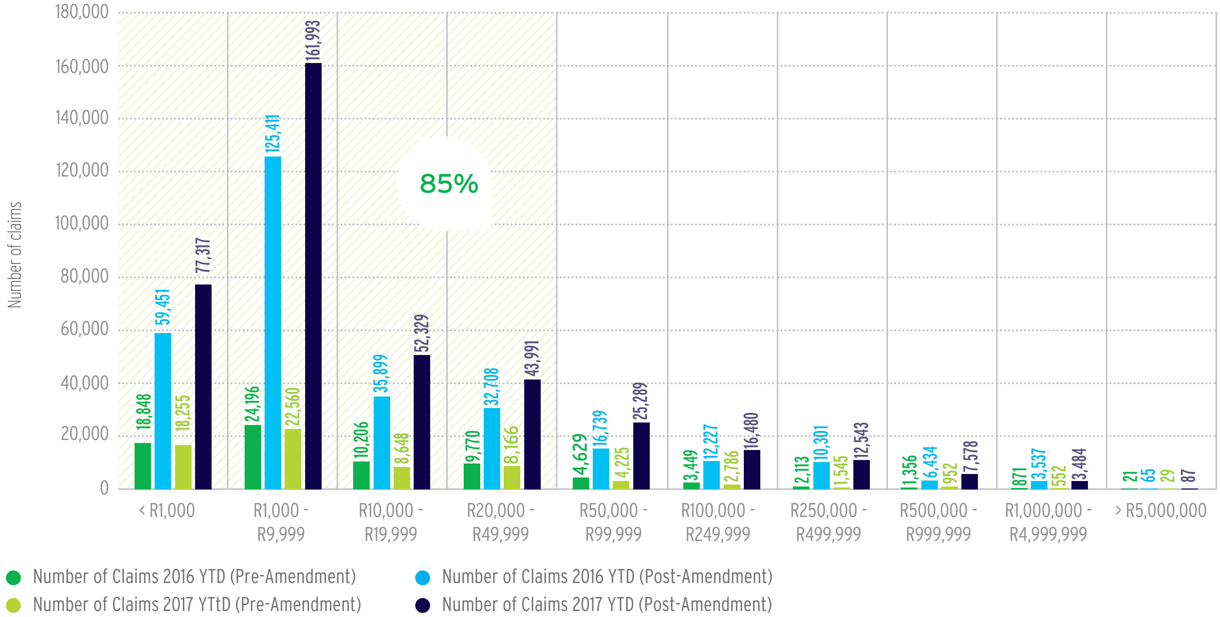
# 2. OPERATING ENVIRONMENT

Operations and Finance are the core business functions of the RAF. Below follows a comprehensive overview of both historical and current trends in these areas.

## ▶ CLAIMS ANALYSIS

Of the 209,561 total claims finalised in the financial year, a large number of claim payments were at values less than R1,000 and less than R10,000 (Graph 1). This is as a result of the accelerated approach to supplier claims, which allowed for hospitals and other service providers to be paid directly by the RAF. As a result, the RAF managed to reduce outstanding supplier claims more effectively than those of personal claims. (It is important to note that the graph below reflects payments per category and not finalised claims).

Average Size of Claims Paid



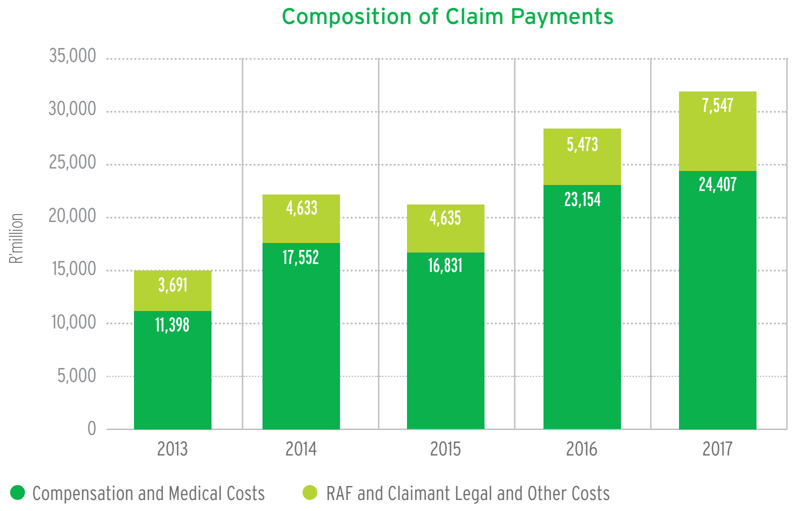

*Graph 1 – Average size of claims paid*

During the financial year, the RAF continued to receive and settle high volumes of small claims, with an average of 85% (pre- and post-Amendment Act claims) being for settlement values below R50,000.

## ▶ CLAIMS VALUES

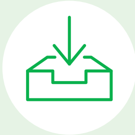
The composition of claim payments continues to reflect the insufficiency of the existing fault-based, common law system of compensation. The proposed introduction of RABS (a no-fault based system) will address these wastages over the longer term. In the short term, however, Management believes that interim legislative changes will address some of the wastages. Of the R31.9 billion (2015/16: R28.6 billion) cash paid out in respect of claims for the 2016/17 financial year, R24.4 billion (i.e. 76%) (2015/16: R23.2 billion (i.e. 81%) represented compensation pay-out.

The balance of 24% (2015/16: 19%) comprised legal and other expert fees. On the other hand, when claims requested that could not be paid (RNYP) due to cash constraints are added to the above scenario, the variance in the composition reflects compensation at 77% and legal and other expert fees at 23% respectively (Graph 2). The year under review therefore reflects a significant increase in legal and other expert fees when compared to total cash/accrued claims expenditure.




*Graph 2 – Composition of claim payments*

## DEFINITIONS:

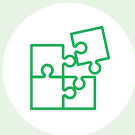


**NEW CLAIMS REGISTERED**

Claims received and registered during the financial year.

**CLAIMS FINALISED**

Claims processed in the supplier and personal claim categories with finalised status.



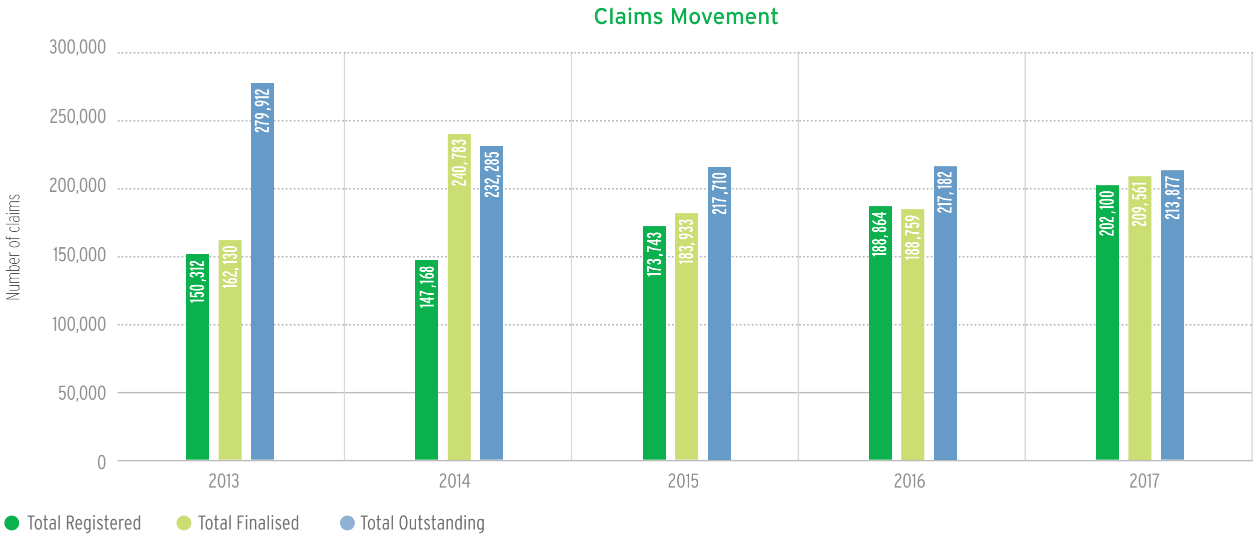
**CLAIMS OUTSTANDING**

Claims where compensation has not been paid, as well as claims where compensation has been paid, but legal cost payments are awaited (which are not solely under the control of the RAF).

## CLAIM STATISTICS

Statistics relating to claims for the current and previous financial years are reflected below.

| | Reference | Units | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|---|---|
| **New claims registered** | **1.** | **No.** | **202,100** | **188,864** | **173,743** | **147,168** | **150,312** |
| Personal claims | | No. | 73,860 | 71,664 | 62,436 | 53,230 | 47,159 |
| Suppliers | | No. | 128,240 | 117,200 | 111,307 | 93,938 | 103,153 |
| Total: Increase/(decrease) | | % | 7 | 9 | 18 | (2) | (13) |
| Personal claims: Increase/(decrease) | | % | 3 | 15 | 17 | 13 | (10) |
| Supplier claims: Increase/(decrease) | | % | 9 | 5 | 19 | (9) | (14) |
| **Claims finalised** | **2.** | **No.** | **209,561** | **188,759** | **183,933** | **240,783** | **162,130** |
| Personal claims | | No. | 73,538 | 72,484 | 65,243 | 115,736 | 53,537 |
| Suppliers | | No. | 136,023 | 116,275 | 118,690 | 125,047 | 108,593 |
| Total: Increase/(decrease) | | % | 11 | 3 | (24) | 49 | (5) |
| Personal claims: Increase/(decrease) | | % | 1 | 11 | (44) | 116 | (22) |
| Supplier claims: Increase/(decrease) | | % | 17 | (2) | (5) | 15 | 7 |




*Graph 3 – Claims registered / finalised / outstanding*

During the 2016/17 financial year, 202,100 claims (personal claims: 73,860 and supplier claims: 128,240) were registered. Despite registering 7% more claims during the financial year, it is noteworthy that the number of new personal claims registered increased by 3% (from 71,664 during the 2015/16 financial year). Supplier claims was considerably more by 9% (from 117,200 at the end of the 2015/16 financial year).

- 209,561 claims were finalised during the 2016/17 financial year (personal claims: 73,538 and supplier claims: 136,023); and
- 213,877 claims were still outstanding at 31 March 2017 (personal claims: 211,396 and supplier claims: 2,481) (Graph 3).

Outstanding claims decreased by almost 2% from 217,182 at the end of the previous financial year to 213,877 at the end of the reporting period, despite increased registrations.

This was mainly influenced by a decrease of 6% in the number of open and reopened claims totalling 173,740 where compensation had not been paid and legal cost claims totalling 40,137 which were still outstanding at the end of the 2016/17 financial year, compared to the number of open and reopened claims of 184,899 and legal cost claims of 32,283 at the end of the 2015/16 financial year. This again speaks to the increased number of compensation payments that were made.

Reopened claims at the end of the current financial year decreased by 52% to 4,616 from 9,586 at the end of the previous financial year. This validates that claims are not being classified as 'finalised' prematurely.

Outstanding claims are further broken down into supplier, non-supplier, direct and represented claims, as well as post- and pre-Amendment Act claims, as per the table below.

Outstanding claims decreased by almost 2%

Outstanding claims are further broken down into supplier, non-supplier, direct and represented claims, as well as post- and pre-Amendment Act claims, as per the table below.

| Outstanding Claims | No Compensation | | | Compensation Paid Legal Costs Awaited | Total Awaiting Compensation or Legal Cost Payment |
|---|---|---|---|---|---|
| | Open | Reopened | Sub-total | | |
| **Outstanding claims as at 31 March 2016** | | | | | |
| Personal claims | 172,102 | 9,526 | 181,628 | 31,817 | 213,445 |
| Direct claims | 36,120 | 335 | 36,455 | 1,980 | 38,435 |
| Represented claims | 135,982 | 9,191 | 145,173 | 29,837 | 175,010 |
| Post-Amendment Act | 154,019 | 2,152 | 156,171 | 15,703 | 171,874 |
| Pre-Amendment Act | 18,083 | 7,374 | 25,457 | 16,114 | 41,571 |
| Supplier claims | 3,211 | 60 | 3,271 | 466 | 3,737 |
| Direct claims | 2,517 | 13 | 2,530 | 92 | 2,622 |
| Represented claims | 694 | 47 | 741 | 374 | 1 115 |
| Post-Amendment Act | 3,182 | 5 | 3,187 | 270 | 3,457 |
| Pre-Amendment Act | 29 | 55 | 84 | 196 | 280 |
| Total | 175,313 | 9,586 | 184,899 | 32,283 | 217,182 |
| **Movement during the year** | | | | | |
| Personal claims | (4,334) | (4,955) | (9,289) | 7,240 | (2,049) |
| Direct claims | 4,215 | (64) | 4,151 | 2,093 | 6,244 |
| Represented claims | (8,549) | (4,891) | (13,440) | 5,147 | (8,293) |
| Post-Amendment Act | 3,931 | (1,014) | 2,917 | 9,592 | 12,509 |
| Pre-Amendment Act | (8,265) | (3,941) | (12,206) | (2,352) | (14,558) |
| Supplier claims | (1,855) | (15) | (1,870) | 614 | (1,256) |
| Direct claims | (1,320) | (7) | (1,327) | 756 | (571) |
| Represented claims | (535) | (8) | (543) | (142) | (685) |
| Post-Amendment Act | (1,842) | (3) | (1,845) | 697 | (1 148) |
| Pre-Amendment Act | (13) | (12) | (25) | (83) | (108) |
| Total | (6,189) | (4,970) | (11,159) | 7,854 | (3,305) |
| **Outstanding claims as at 31 March 2017** | | | | | |
| Personal claims | 167,768 | 4,571 | 172,339 | 39,057 | 211,396 |
| Direct claims | 40,335 | 271 | 40,606 | 4,073 | 44,679 |
| Represented claims | 127,433 | 4,300 | 131,733 | 34,984 | 166,717 |
| Post-Amendment Act | 157,950 | 1,138 | 159,088 | 25,295 | 184,383 |
| Pre-Amendment Act | 9,818 | 3,433 | 13,251 | 13,762 | 27,013 |
| Supplier claims | 1,356 | 45 | 1,401 | 1,080 | 2,481 |
| Direct claims | 1,197 | 6 | 1,203 | 848 | 2,051 |
| Represented claims | 159 | 39 | 198 | 232 | 430 |
| Post-Amendment Act | 1,340 | 2 | 1,342 | 967 | 2,309 |
| Pre-Amendment Act | 16 | 43 | 59 | 113 | 172 |
| Total | 169,124 | 4,616 | 173,740 | 40,137 | 213,877 |

## REPUDIATED CLAIMS

Repudiated claims increased from 46,486 in 2015/16 to 67,094 in the current financial year. The claims processing status of all claims was monitored throughout the year to determine the exact composition of the number of outstanding claims at any given time.

The increase in repudiated claims as at 31 March 2017 was mainly influenced by the following:

- **Substantial compliance** – lodgement of claims that do not comply with the requirements of the Act and/or Regulations
- **Prescription** – claims lodged outside of the regulated time period or where the attorney issues no summons to interrupt prescription within the regulated time period
- **Death** – claims where the claimant dies before finalisation of the claim
- **Fault** – the claimant was solely at fault for causing the road crash
- **Minor injuries** – if the injuries sustained are so minor that no claim for damages arises
- **Nexus** – the injuries were not sustained in the road crash
- **Fraud** – claims that were lodged fraudulently or identified as such by the internal FID
- **Duplicate claims** – the claim has already been lodged
- **Locus standi** – the person who lodged the claim is not lawfully authorised to represent the injured or claimant
- **Indigence** – the claimant could not prove that they were reliant on the deceased in terms of loss of support

After following thorough processes with regard to claims in these categories, these claims were repudiated.

OPENING BALANCE
1 APRIL 2016

46,486

35,160
PERSONAL CLAIMS

11,326
SUPPLIER CLAIMS

MOVEMENT DURING THE YEAR

20,608

20,602
PERSONAL CLAIMS

6
SUPPLIER CLAIMS

CLOSING BALANCE
31 MARCH 2017

67,094

55,762
PERSONAL CLAIMS

11,332
SUPPLIER CLAIMS

## ▶ CLAIMS CATEGORIES AND AVERAGES

Individual claims requested for payments/settlements per claims category:

| Claim pay-/settlements | Ref | Units (Rounded) | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|---|---|
| All claims | 1 | R'million | 31,000 | 33,000 | 28,000 | 22,000 | 15,000 |
| Average value per claim | | Rand | 117,059 | 143,127 | 114,969 | 104,091 | 65,844 |
| Total individual claim pay-/settlements | | Number | 261,843 | 230,936 | 242,869 | 211,099 | 227,855 |
| Personal claims | 2 | R'million | 30,000 | 32,300 | 27,300 | 21,500 | 14,400 |
| Average value per claim | | Rand | 219,047 | 271,793 | 211,090 | 194,696 | 138,345 |
| Total individual claim pay-/settlements | | Number | 135,331 | 119,068 | 129,256 | 110,168 | 104,016 |
| Supplier claims | 3 | R'million | 1,000 | 700 | 700 | 500 | 600 |
| Average value per claim | | Rand | 7,962 | 6,179 | 5,613 | 5,215 | 4,950 |
| Total individual claim pay-/settlements | | Number | 126,512 | 111,868 | 113,613 | 100,931 | 123,839 |
| Claim pay-/settlements per heads of damage | | | | | | | |
| General damages | 4 | R'million | 7,600 | 8,700 | 8,000 | 5,900 | 4,000 |
| Average value per claim | | Rand | 390,005 | 385,673 | 334,799 | 221,003 | 152,329 |
| Total individual claim pay-/settlements | | Number | 19,541 | 22,494 | 23,828 | 26,511 | 26,363 |
| Loss of earnings | 5 | R'million | 10,800 | 13,300 | 10,300 | 7,700 | 4,600 |
| Average value per claim | | Rand | 645,832 | 739,214 | 732,371 | 649,912 | 535,050 |
| Total individual claim pay-/settlements | | Number | 16,663 | 17,926 | 14,072 | 11,865 | 8,636 |
| Loss of support | 6 | R'million | 2,700 | 3,100 | 2,900 | 2,700 | 1,600 |
| Average value per claim | | Rand | 368,165 | 379,702 | 368,883 | 392,744 | 347,861 |
| Total individual claim pay-/settlements | | Number | 7,367 | 8,077 | 7,923 | 6,760 | 4,684 |
| Medical compensation | 7 | R'million | 2,100 | 1,200 | 1,200 | 1,100 | 1,100 |
| Average value per claim | | Rand | 15,030 | 10,447 | 9,799 | 9,740 | 7,761 |
| Total individual claim pay-/settlements | | Number | 137,740 | 116,380 | 117,822 | 103,620 | 127,305 |
| Funeral costs | 8 | R'million | 130 | 120 | 100 | 90 | 70 |
| Average value per claim | | Rand | 15,264 | 13,732 | 12,367 | 11,245 | 10,425 |
| Total individual claim pay-/settlements | | Number | 8,795 | 8,626 | 9,769 | 7,630 | 6,303 |
| RAF's legal and other costs | 9 | R'million | 3,500 | 2,700 | 2,100 | 1,700 | 1,400 |
| Average value per claim | | Rand | 30,995 | 28,476 | 21,564 | 20,645 | 16,015 |
| Total individual claim pay-/settlements | | Number | 113,688 | 96,294 | 96,475 | 84,739 | 85,846 |
| Claimants' legal and other costs | 10 | R'million | 4,400 | 3,900 | 3,400 | 2,900 | 2,300 |
| Average value per claim | | Rand | 133,313 | 120,385 | 90,563 | 63,734 | 52,656 |
| Total individual claim pay-/settlements | | Number | 32,647 | 33,084 | 37,106 | 45,561 | 43,841 |

Claims settled by the RAF differ materially when the composition of the claims is considered.

## DEFINITIONS:

1. **All Claim Payments**
All claims settled, requested and paid by the RAF.

2. **Personal Claims**
A personal claim is a claim submitted by any person, 'the third party', for any loss or damage which that person has suffered as a result of any bodily injury to him/her, or the death of, or any bodily injury to any other person.

3. **Supplier Claims**
A supplier claim is a claim submitted directly to the RAF by a person/institution that provided medical treatment and accommodation to the victim of an accident.

4. **General Damages**
General damages represent compensation paid by the RAF for loss of amenities of life, pain and suffering, disability and disfigurement.

5. **Loss of Earnings**
Loss of earnings represents past and future loss of earnings incurred by the accident victim as a result of a motor vehicle accident.

6. **Loss of Support**
Loss of support represents past and future loss of support incurred by the accident victim's family as a result of a motor vehicle accident.

7. **Medical Compensation**
Medical compensation represents past and future medical costs incurred by the accident victim as a result of a motor vehicle accident.

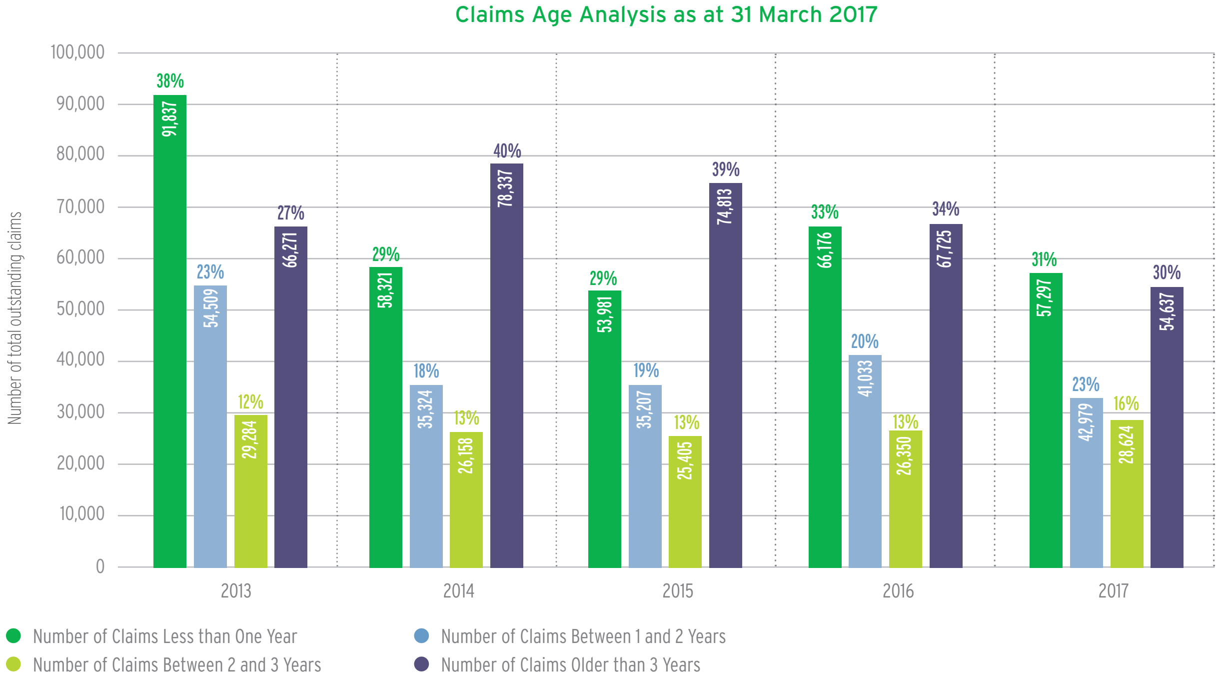
8. **Funeral Costs**
Funeral costs represent the cost of interment or cremation of the accident victim arising from a motor vehicle accident.

9. **RAF's Legal and Other Costs**
The RAF's legal and other costs are expenses paid to experts and the RAF's panel attorneys to represent the RAF in legal cases against the organisation.

10. **Claimants' Legal and Other Costs**
Claimants' legal and other costs are expenses paid to accident victims' attorneys and experts for their assistance provided to the accident victim in lodging a claim with the RAF.

## ▶ AGE ANALYSIS OF CLAIMS

Claims younger than one year decreased from 33% in 2016 to 31% in 2017. This is as a result of the RAF maintaining a high finalisation rate despite increased registrations. The slight increase in the overall age analysis of older claims can also be ascribed to cash constraints, despite the difficulties faced when claims are litigated and require extensive expert opinion and time in court (Graph 4).




*Graph 4 – Age analysis of claims in number and percentage*

# STATEMENT OF FINANCIAL POSITION

## FINANCIAL ANALYSIS

The RAF's summarised financial and operational results for the current and past financial years are reflected below:

| | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|
| | R'million | R'million | R'million | R'million | R'million |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 1,652 | 2,044 | 1,048 | 2,505 | 6,144 |
| Receivables from non-exchange transactions | 7,156 | 7,362 | 5,887 | 4,769 | 4,153 |
| Receivables from exchange transactions | 7 | 10 | 4 | 16 | 33 |
| Other financial assets | 161 | 147 | 141 | 133 | 132 |
| Consumable stock | 6 | 6 | 5 | 3 | 3 |
| | **8,982** | **9,569** | **7,085** | **7,426** | **10,465** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 178 | 201 | 252 | 247 | 243 |
| Intangible assets | 38 | 26 | 30 | 21 | 9 |
| | **216** | **227** | **282** | **268** | **252** |
| **TOTAL ASSETS** | **9,198** | **9,796** | **7,367** | **7,694** | **10,717** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Payables from exchange transactions | 229 | 194 | 178 | 139 | 140 |
| Other financial liabilities | 41 | 47 | 78 | 83 | 334 |
| Claims liabilities | 34,180 | 46,506 | 34,395 | 24,460 | 20,361 |
| Other provisions | 849 | 739 | 935 | 849 | 860 |
| | **35,299** | **47,486** | **35,586** | **25,531** | **21,695** |
| **Non-current liabilities** | | | | | |
| Claims liabilities | 58 | 54 | 51 | 43 | 46 |
| Employee benefit obligation | 153,826 | 107,501 | 81,973 | 72,917 | 62,477 |
| Operating lease liability | 8 | 7 | 4 | 1 | 1 |
| | **153,892** | **107,562** | **82,028** | **72,961** | **62,524** |
| **TOTAL LIABILITIES** | **189,191** | **155,048** | **117,614** | **98,492** | **84,219** |
| **NET ASSETS** | **(179,993)** | (145,252) | (110,247) | (90,798) | (73,502) |
| **Reserves** | | | | | |
| Revaluation reserve | 84 | 83 | 130 | 128 | 124 |
| Accumulated deficit | (180,077) | (145,335) | (110,377) | (90,926) | (73,626) |
| **TOTAL NET ASSETS** | **(179,993)** | (145,252) | (110,247) | (90,798) | (73,502) |

# STATEMENT OF FINANCIAL PERFORMANCE

| | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|
| | R'million | R'million | R'million | R'million | R'million |
| **REVENUE** | | | | | |
| **Revenue from exchange transactions** | | | | | |
| - Investment revenue and other income | 112 | 93 | 66 | 238 | 260 |
| **Revenue from non-exchange transactions** | | | | | |
| - Net fuel levies | 33,230 | 33,113 | 22,614 | 20,278 | 17,883 |
| **TOTAL REVENUE** | **33,342** | **33,206** | **22,680** | **20,516** | **18,143** |
| **EXPENDITURE:** | | | | | |
| - Claims expenditure (excluding increase in claims provision) | (29,836) | (32,324) | (28,027) | (22,280) | (15,202) |
| - Depreciation and amortisation | (43) | (47) | (45) | (38) | (61) |
| - Employee costs | (1,435) | (1,280) | (1,164) | (907) | (763) |
| - Finance costs | (209) | (151) | (67) | (29) | (27) |
| - Loss on disposal of assets | - | - | (2) | (1) | (30) |
| - General expenses | (420) | (398) | (375) | (376) | (270) |
| - Reinsurance premiums | (22) | (22) | (23) | (23) | (25) |
| **TOTAL EXPENDITURE** | **(31,965)** | **(34,222)** | **(29,703)** | **(23,654)** | **(16,378)** |
| Surplus/(Deficit) before provision for outstanding claims | 1,377 | (1,016) | (7,023) | (3,138) | 1,765 |
| Net increase in claims provision | **(36,119)** | **(33,942)** | **(12,429)** | **(14,162)** | **(10,230)** |
| **DEFICIT FOR THE YEAR** | **(34,742)** | **(34,958)** | **(19,452)** | **(17,300)** | **(8,465)** |

# CASH FLOW STATEMENT

| | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|
| | R'million | R'million | R'million | R'million | R'million |
| Net cash flows from operating activities | (362) | 1,034 | (1,399) | (3,589) | 1,914 |
| Cash flows from investing activities | (30) | (38) | (58) | (50) | (15) |
| (Decrease)/Increase in cash and cash equivalents | **(392)** | 996 | (1,457) | (3,639) | 1,899 |
| Cash and cash equivalents at the beginning of the year | 2,044 | **1,048** | **2,505** | **6,144** | **4,245** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **1,652** | **2,044** | **1,048** | **2,505** | **6,144** |

## ▶ FINANCIAL RATIOS

| | Ref. | Units | 31 March 2017 | 31 March 2016 | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---|---|---|---|---|---|---|
| **PROFITABILITY** | | | | | | | |
| Deficit to revenue | 1 | % | (104%) | (105%) | (86%) | (84%) | (47%) |
| Operating (deficit)/surplus to revenue | 2 | % | (4%) | (3%) | (31%) | (15%) | 10% |
| Return on average equity | 3 | % | (21%) | (27%) | (19%) | (21%) | (12%) |
| Return on average total assets | 4 | % | (366%) | (407%) | (258%) | (188%) | (88%) |
| Cost-to-income ratio | 5 | % | 29% | 23% | 27% | 29% | 27% |
| **LIQUIDITY** | | | | | | | |
| Cash-to-claims-cover ratio | 6 | Months | 0.66 | 0.76 | 0.45 | 1.35 | 4.85 |
| Current ratio | 7 | Ratio | 0.25 | 0.20 | 0.20 | 0.29 | 0.48 |
| Net working capital | 8 | R'm | (26,316) | (37,917) | (28,501) | (18,105) | (11,230) |
| Net working capital, excluding claims provision | 9 | R'm | 7,864 | 8,589 | 5,894 | 6,356 | 9,131 |
| **SOLVENCY** | | | | | | | |
| Total assets to total liabilities | 10 | % | 5% | 6% | 6% | 8% | 13% |

## DEFINITIONS

1. **(Deficit)/Surplus to revenue**
   Total deficit or surplus as a percentage of revenue.

2. **Operating (deficit)/surplus to revenue**
   Total deficit or surplus before provision for outstanding claims as a percentage of revenue.

3. **Return on average equity**
   Total deficit or surplus for the financial year as a percentage of average net deficits at year-end.

4. **Return on average total assets**
   Total deficit or surplus for the financial year as a percentage of average total assets during the financial year.

5. **Cost-to-income ratio**
   Total administration and human resources costs, including RAF and claimant legal and expert costs as a percentage of total income during the financial year.

6. **Cash-to-claims-cover ratio**
   Cash and cash equivalents at the end of the financial year divided by average monthly claims expenditure for the financial year (compensation and legal costs).

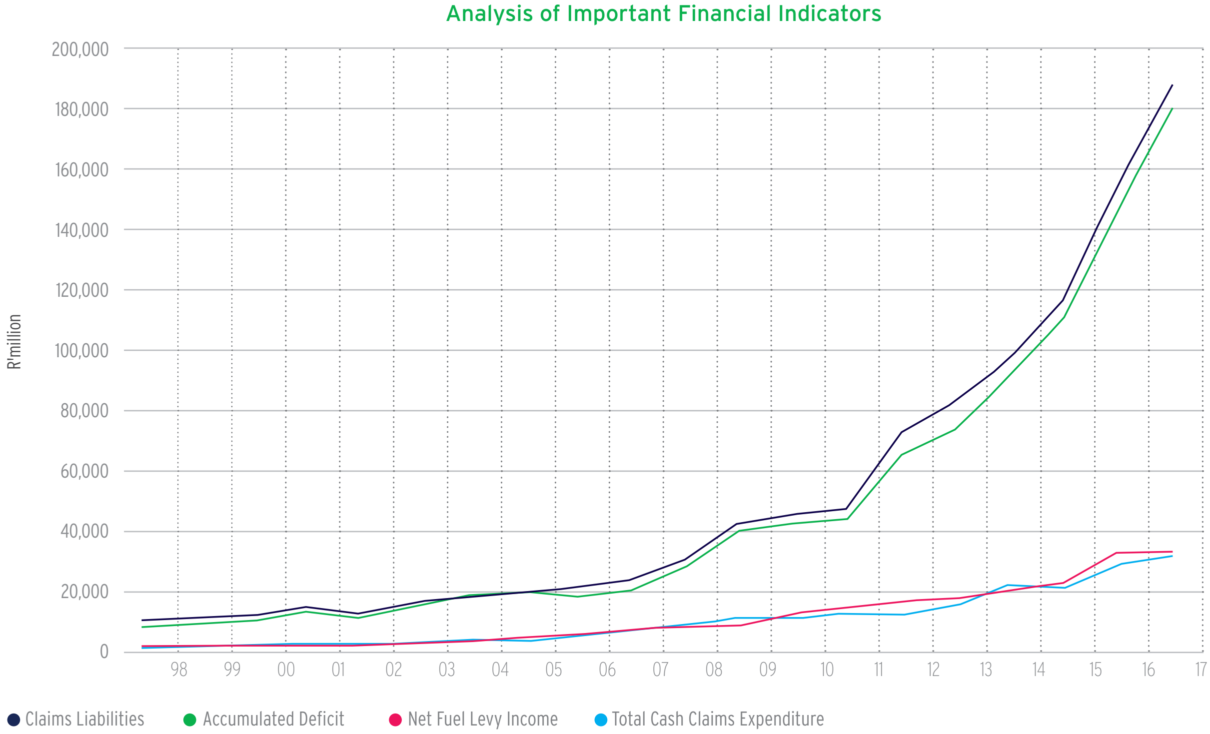
7. **Current ratio**
   Total current assets divided by total current liabilities.

8. **Net working capital**
   Current assets minus current liabilities.

9. **Net working capital, excluding claims provision**
   Current assets minus current liabilities, excluding provision for outstanding claims.

10. **Total assets to total liabilities**
    Total assets as a percentage of total liabilities.

## FINANCIAL POSITION




*Graph 5 – The widening gap between income and deficit*

Continued efforts to secure additional funding including high-level discussions have taken place and are on-going between the RAF and all relevant stakeholders

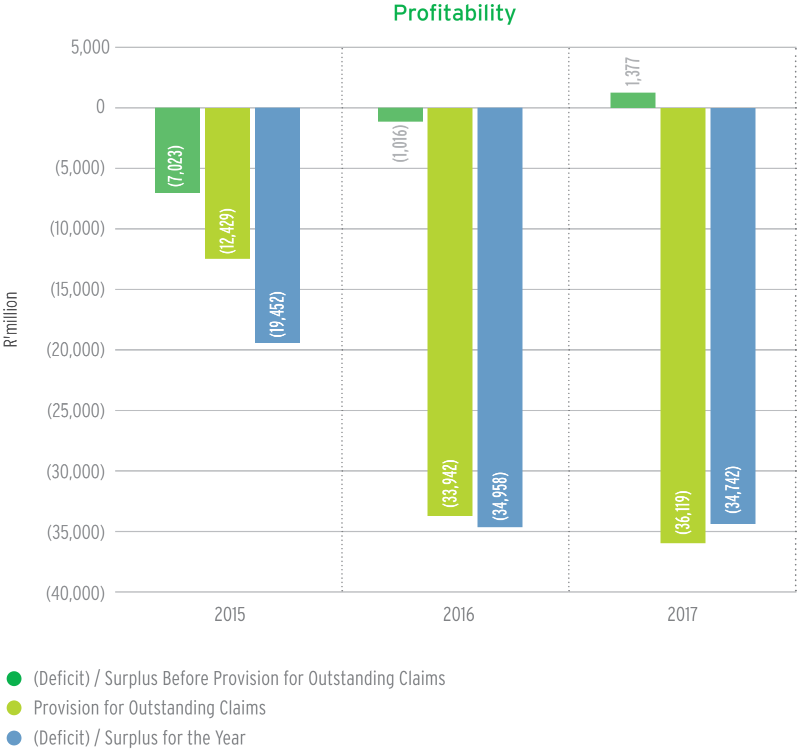
## FINANCIAL HEALTH

### PROFITABILITY

The RAF recorded a net deficit for the 2016/17 financial year of R34.74 billion (2015/16: R34.96 billion) (Graph 6). This was largely due to an increase in the claims provision of R36.1 billion (2015/16: R33.9 billion).

Efforts to reduce the number of outstanding claims resulted in higher claims expenditure (cash portion), as well as a decrease in the accrual for claims requested but not yet paid at the time of reporting as a result of cash constraints, together with an increase in the claims provision. These totalled R65.95 billion (2015/16: R66.27 billion) and far exceeded the revenue received from fuel levies of R33.23 billion (2015/16: R33.11 billion).

Cash and cash equivalents decreased from R2.04 billion at the end of the previous financial year, to R1.65 billion, mainly due to a high level of claims pay-outs towards financial year-end, bearing in mind that the actual levy receipt for a month takes place approximately one week before the end of a month.




*Graph 6 – Profitability of the RAF*

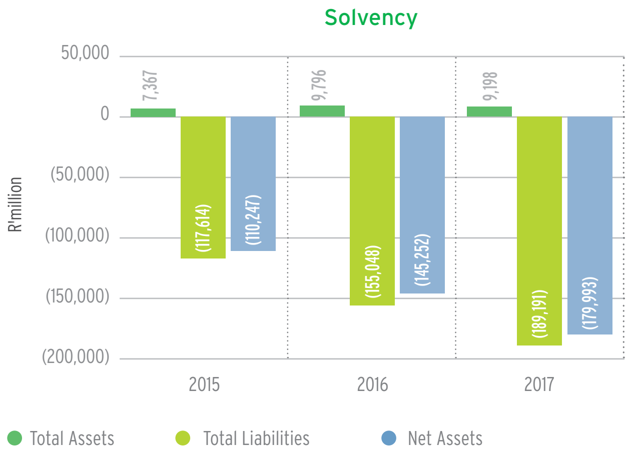
## SOLVENCY AND CAPITALISATION

The RAF remains severely under-capitalised with liabilities exceeding assets by R179.9 billion (2015/16: R145.3 billion) (Graph 7). The only assets of substance, other than cash, are land and buildings worth R95 million. Organisations similar to the RAF elsewhere in the world have, as part of their major assets, investments that cover in excess of 100% of the full outstanding liability. The liquidity ratio of the RAF is 0.05:1 (current ratio: 0.25:1). It entails that the RAF has only 5 cents (current ratio: 25 cents) worth of assets for every R1 of its liabilities, which puts into sharp perspective just how unsustainable the current compensation system is. The RAF does therefore not have sufficient cash or near cash assets to cover its short-term liabilities.

The RAF Fuel Levy remained at 154 cents per litre throughout the 2015/16 and 2016/17 financial years. In view of an unchanged fuel levy over two financial years, the RAF implemented effective cash management measures to address existing cash demands through firm implementation of the Cash Management Strategy that aims to sustain payments to all creditors, while reducing the cost of claims and administrative expenditure lines. Claims creditors continued to wait for payments during the year in accordance with payment schedules strictly enforced and adhered to by the RAF.

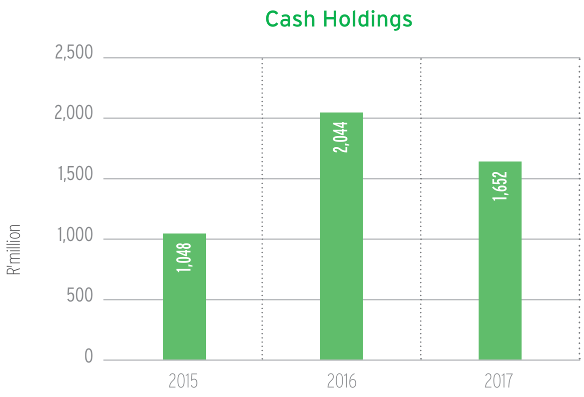
Continued efforts to secure additional funding including high-level discussions have taken place and are on-going between the RAF and all relevant stakeholders, i.e. the DoT, the PCOT, the Department of Health (DoH), the Department of Justice (DoJ), NT, the Financial Services Board (FSB) and the AGSA to discuss the RAF's liquidity challenges. Other stakeholders were kept informed of the RAF's financial position through communiques, the Call Centre, as well as media releases. The current compensation system, which has accumulated a R179.9 billion unfunded liability, is completely unsustainable. The establishment of the new RABS will be tabled in the foreseeable future. Legislation towards providing affordable and equitable support for those injured in road accidents is in process. Once in place, the levy will be assigned to the new scheme.

From Graph 7 it is evident that the net deficit of the RAF has continued to spiral during the financial year. Regardless of a zero % increase in the RAF Fuel Levy during the year under review, the increase required by the RAF for sustained settlement of claims and the annual adjustments in the RAF Fuel Levy determined by the NT, are clearly not aligned.




*Graph 7 – Solvency of the RAF*


***Graph 8** – Liquidity of the RAF*




***Graph 9** – Cash holdings of the RAF*

Total assets are lower, mainly due to cash balances and receivables from non-exchange transactions (RAF Fuel Levy). The total liabilities were higher, attributable to a combination of an increase in the claims provision and a reduction in claims requested but not yet paid (RNYP). Overall, the net deficit has increased substantially compared to the previous reporting period, although the RAF achieved an operational surplus of R1.4 billion for 2016/17 (2015/16: R1 billion deficit) prior to the increase in the claims provision being taken into account. This is due to a combination of a minor increase in the RAF's net revenue from fuel levies resulting from a decrease in fuel volumes consumed and lower diesel refund recoupments from gross fuel levies, as well as decreased claims expenditure (excluding the net increase in claims provision), mainly as a result of a reduction in the RNYP component of the claims expenditure for the year. This also is aligned to consistent productivity in the claims operational environment during the year under review.

## ▶ LIQUIDITY AND CASH HOLDINGS

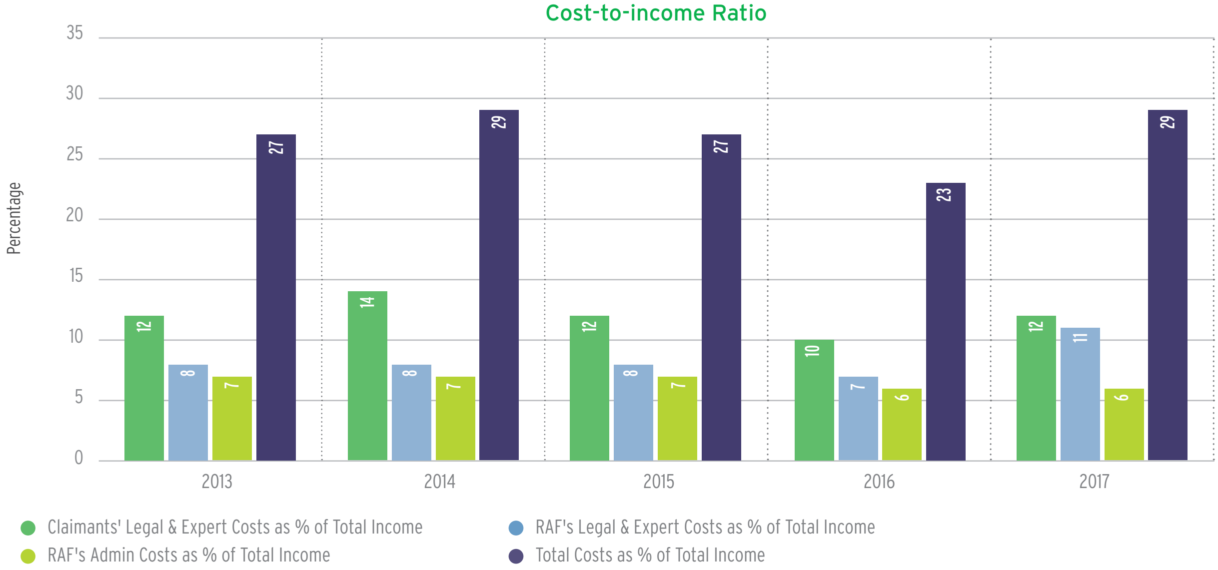
As at 31 March 2017, current liabilities of the RAF exceeded current assets by R26 billion (2015/16: R38 billion) (Graph 8).

Liquidity is closely managed on a daily basis in line with available cash reserves in accordance to an approved Cash Management Strategy that is strictly complied with (89% compliance rate) and communicated to stakeholders. The RAF submitted a request to NT at the beginning of the financial year for the retention and roll-over of R2.04 billion, held in cash and cash equivalents at the end of the 2015/16 financial year for the purpose of settlement and payment of claims.

From the graphs above it can be seen that the RAF's liquidity position is unsustainable. For the period ended 31 March 2017, the cash balance stood at R1.65 billion as all available resources were utilised to pay claims. (The ideal scenario would be to keep cash holdings sufficient to pay claims for at least two months in advance at any given point in time). The balance partially reflects the RAF Fuel Levy that was received on 24 March 2017. The cash balance reflected is short-term in nature and would therefore be applied in funding RAF operations during the first month of the following financial year, i.e. April 2017 (Graph 9).

## ▶ COST OF SERVICE DELIVERY

The cost-to-income ratio for the financial year increased to 29% (2015/16: 23%). Administration costs stood at 6% (2015/16: 6%); RAF legal and expert costs increased to 11% (2015/16: 7%), and claimants' legal and expert costs increased to 12% from 10% in the 2015/16 financial year (Graph 10). Costs of administering the RAF are well contained in line with the RAF's focus on cost-reduction




***Graph 10** – Cost-to-income ratio*

measures in order to improve efficiencies. However, the current liquidity constraints have seen legal costs spiralling, thus limiting the availability of more cash for the payment of compensation.

Cost savings in addition to that considered advisable by NT remained a daily imperative. As such, for 2016/17, the headcount growth was frozen and R100 million shaved off by the CEO in the course of the finalisation of the General Expenditure Budget. Delayed spending, underspending and delays in the SCM processes further yielded real savings in the course of the year as well. Any funding not utilised for general expenditure was further channelled to the settlement of claims. Initiatives were explored on an on-going basis in the Operations Department to reduce costs or ensure a more efficient approach to the processing of claims.

A zero tolerance to fraud both in and outside the institution was further designed to expose, curtail and deter activities that would result in waste and mismanagement of resources.

The necessity of implementing the RAF Amendment Act of 2015 and RABS cannot be overemphasised though, as these are anticipated to ultimately reduce the burden of the kind of social security scheme as envisaged, and today administered by the RAF, on the fiscus.

Internal measures, such as enhancements to operational claims systems and processes, as well as the successful ‘RAF on the Road’ campaigns to deal with claimants directly rather than through third parties, have already yielded cost reductions.

## ▶ REVENUE COLLECTION

The RAF obtains its funding from several sources, namely:

- The RAF Fuel Levy (determined by NT on an annual basis);
- Government grants paid by NT when there is a pressing need (not utilised during the year under review);
- Borrowings/loans, which are an allowed source of funding according to the RAF Act (but which option has not been applied to date);
- Investment revenue, acquired from invested funds that occasionally result when the RAF’s operational capacity prevents it from paying out all its funds; and
- Reinsurance income.

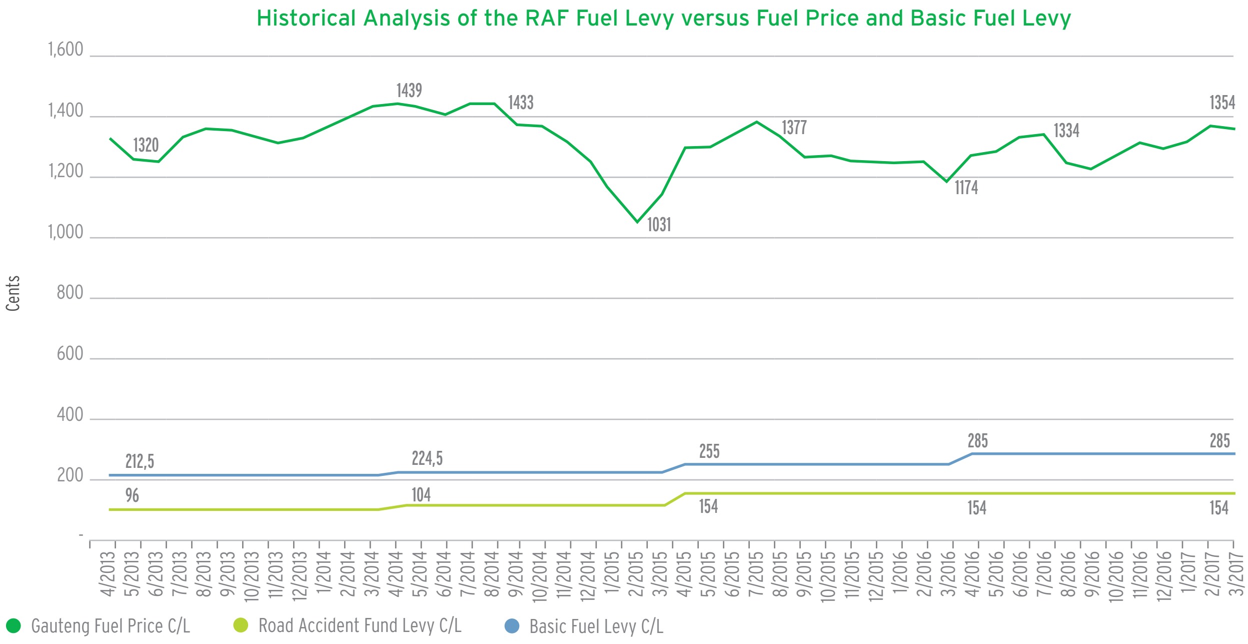
| | 2016/17 | | | 2015/16 | | |
|---|---|---|---|---|---|---|
| Sources of revenue | Estimate | Actual Amount Collected | (Over)/ Under Collection | Estimate | Actual Amount Collected | (Over)/ Under Collection |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Net RAF Fuel Levy | 34,194,791 | 33,229,532 | 965,259 | 32,630,007 | 33,113,056 | (483,049) |
| Investment revenue | 90,173 | 109,330 | (19,157) | 11,690 | 88,557 | (76,867) |
| Other income | - | 1,974 | (1,974) | - | 3,160 | (3,160) |
| Gains / (Loss) on disposal of assets | - | 1,023 | (1,023) | (22) | 1,388 | (1,410) |
| Total | 34,284,964 | 33,341,859 | 943,105 | 32,641,675 | 33,206,161 | (564,486) |

The total revenue of the RAF has increased over the years. However, for the period ending 31 March 2017, only a slight increase of R136 million (0.4%) in total revenue was recorded, compared to the corresponding period in the previous year.

## ▶ FUEL LEVY

Due to a zero % increase in the RAF Fuel Levy (currently at 154 c/l) during the current financial year, the positive variance in the fuel levy income for 2016/17 arose primarily as a result of a reduction in the diesel refund recoupment from gross fuel levies. Fuel volumes reduced by 4.8% to 21.6 mega litres for the period April 2016 to March 2017 (2015/16: 22.7 mega litres).

At recent fuel price levels, the RAF Fuel Levy represents 11.4% of the total pump price, which averaged more than 1 296 cents per litre in Gauteng alone for the year under review (Graph 11).

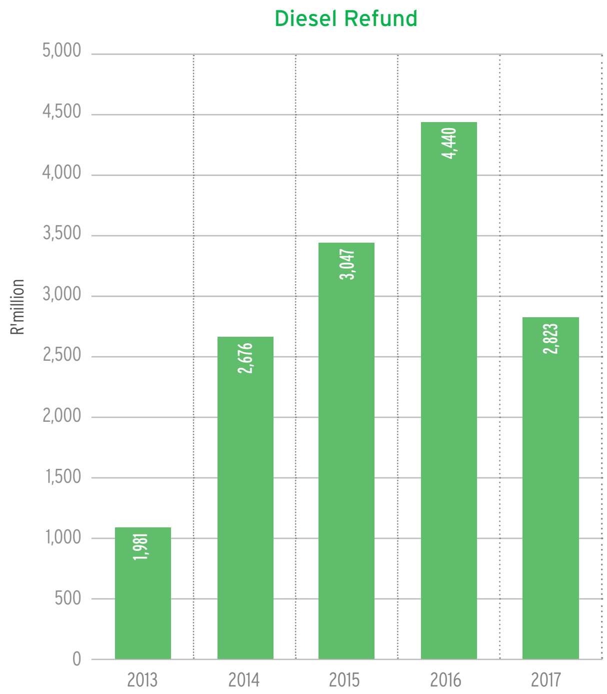



***Graph 11*** *– Historical analysis of the RAF fuel levy versus fuel price and basic fuel levy*

## ▶ DIESEL REFUND

The refund on diesel provided to certain industrial sectors of the economy, i.e. agriculture and forestry, electricity generation, offshore and rail and harbour services, reduced by 36% to R2.82 billion (2015/16: R4.44 billion). The refund, which represents 7.8% (2015/16: 11.8%) of the RAF Fuel Levy income, is a major concession on income due to the RAF. The refund has grown steadily over past years in line with increases in the RAF Fuel Levy, but has shown an observable increase over the 2015/16 financial year due to a higher RAF Fuel Levy rate of 154 c/l, as well as increased claims for volumes of diesel consumed, particularly in the electricity generating sector. Although the RAF Fuel Levy remained constant at 154 c/l in 2016/17, the consumption of diesel fuel in specific industrial sectors (mainly electricity generation) has reduced, therefore a reduction in the diesel refund during the financial year (Graph 12).

At recent fuel price levels, the RAF Fuel Levy represents 11.4% of the total pump price




*Graph 12 – Refund of diesel*

## INVESTMENT REVENUE

Investment revenue increased by R19 million to R109 million (2015/16: R89 million). This could mainly be ascribed to a steady revenue from fuel levies and upward adjustments in the repo rate during the year under review. The average yield on cash investments increased to 6.69% (2015/16: 5.80%). Monthly cash holdings continued to remain at relatively low levels during the financial year. Claims and operational expenditure were strictly managed to align expenditure with net fuel levies received in accordance with the Cash Management Strategy. Cash holdings at 31 March 2017 was R1.65 billion compared to R2.04 billion at the end of the previous financial year.

## REINSURANCE INCOME

To cover catastrophic accidents, the RAF enters into reinsurance treaties with major international reinsurance companies. There were no reinsurance claims recovered from these companies (2015/16: R nil) during the year under review. The RAF's reinsurance recoveries derive from a portion of the total claims per incident that is in excess of the retention limit. In view of the latter, reinsurance recoveries are expected to continue to reflect a general decrease.

## TOTAL EXPENDITURE

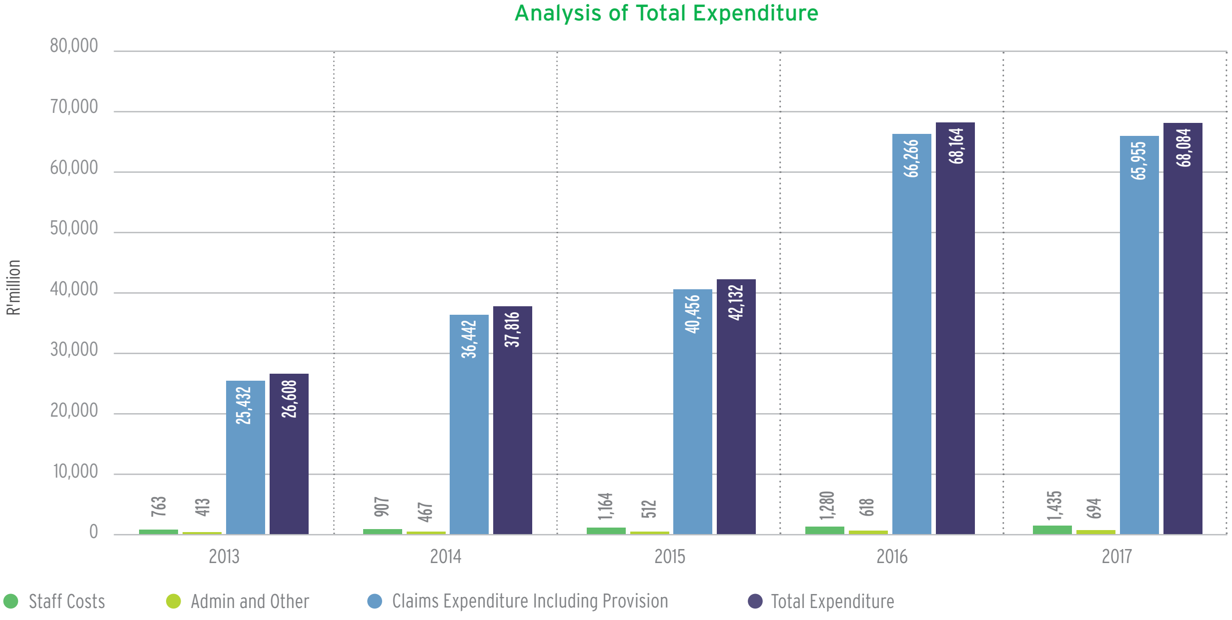
Total RAF expenditure (including the increase in claims provision) decreased by 0.1% to R68.08 billion (2015/16: R68.16 billion) (Graph 13).

## EMPLOYEE COSTS

Employee costs at 31 March 2017 were 12.5% higher at R1.44 billion compared to the previous reporting period (2015/16: R1.28 billion). The increase was informed by annual salary increases for employees at various T.A.S.K. levels, as well as inflationary increases in other employee-related costs. The permanent staff complement also increased by a number of 83 or 3.2% to 2,676 from 2,593 in the previous financial year.

## ADMINISTRATION AND OTHER COSTS

Total administration and other costs (including finance costs) at R694 million increased by 12% compared to the corresponding period in the 2015/16 financial year. The variance was mainly due to the sharp increase in claims-related finance costs, as well as an increase in administration costs related to staff numbers. When finance costs are excluded, the picture appears different. Claims-related




*Graph 13 – Expenditure*

finance costs increased significantly over the 12 months due to interest charged by service providers on delayed payment of claims resulting from RAF liquidity constraints during the financial year. Therefore, administration costs (exclusive of finance costs) were R485 million and 4% more compared to the R467 million in the 2015/16 financial year.

## ▶ CLAIMS EXPENDITURE AND GROWTH IN THE CLAIMS PROVISION

At R65.95 billion, total claims expenditure (inclusive of the increase in claims provision) for the reporting period, was 0.5% less compared to the corresponding period in the previous year (2015/16: R66.27 billion).

Though there was an increase in (cash) claims expenditure of R31.9 billion over the R28.6 billion of the previous financial year, the increase was supported by a net fuel levy of R33.23 billion received during the financial year. Notwithstanding, the liability (accrual for claims requested and not yet paid (RNYP) due to cash constraints) decreased by R2.1 billion at financial year-end. This, together with the increase of R36.1 billion in the claims provision, is elaborated on below.

## ▶ HIGHER CLAIMS PROCESSING AND PAYMENT AMOUNTS

Claims expenditure (inclusive of claims RNYP due to cash constraints, but excluding the increase in the claims provision) for the year was 8% less than in the 2015/16 financial year. This was due to an increase in claims paid in cash and increased settlement volumes, as well as costs together with a net reduction of R2.1 billion in claims RNYP at financial year-end. At 31 March 2017, R8.5 billion worth of claims were processed, but were awaiting payment compared to R10.6 billion in the 2015/16 financial year.

## ▶ CHANGE IN THE COMPOSITION OF THE CLAIMS EXPENDITURE

The increase in the claims provision during the 2016/17 financial year was mainly driven by a 21% increase in the outstanding claims liability for personal claims and a 35% increase in the provision for incurred but not reported (IBNR) claims liability when compared to the provisions made for outstanding claims in the 2015/16 financial year. The increase in the outstanding claims liability was as a result of a shift in the mix of claims, with a higher proportion of claims settled in respect of compensation for loss of earnings and general damages. The increase in claims IBNR was driven by the increasing trend in the number of claims reported each quarter. The total value of the provision for outstanding claims arising from the statutory actuarial valuation performed for the 2016/17 financial year increased to R179.5 billion from R143.4 billion at the end of the previous financial year. (The provision for outstanding claims is further elaborated on in Note 12 – Claims Liabilities in the Annual Financial Statements.)

The increase in the outstanding claims liability was as a result of a shift in the mix of claims, with a higher proportion of claims settled in respect of compensation for loss of earnings and general damages

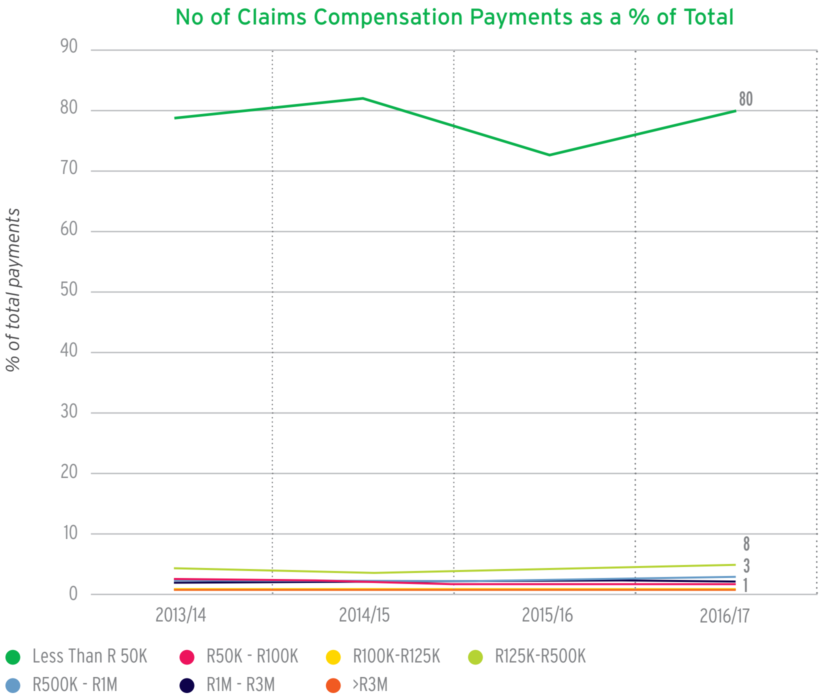
At an individual claim level, over 80% of the total number of capital payments was for claims of less than R50,000 in value, but this represented less than 3% of the overall spend (Graphs 14 and 15).

The total claims expenditure, comprising claims paid in cash and year-end accruals for claims RNYP, decreased by 8% to R29.8 billion (2015/16: R32.3 billion). Higher, as well as lower, average claims values were experienced in some categories of claims as a result of the increased movement towards higher cost claims, as well as higher-than-inflation increases in tariffs, costs and compensation. These factors also influenced the R36.1 billion increase in the claims provision at financial year-end, this being 6% higher than the increase in the previous financial year (2015/16: R33.9 billion) (Graph 16).

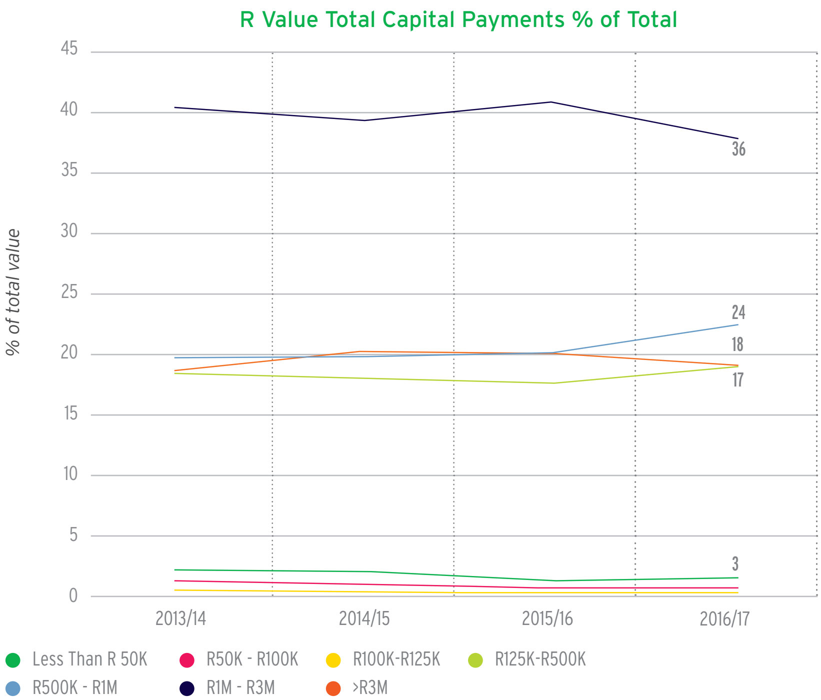
## ▶ CONTINGENCY FEES

It is estimated that as much as 26% (28% incl. VAT) of all claims disbursements (excluding direct claims) processed by the RAF are paid to attorneys as opposed to claimants; that, while contingency fees should not exceed 25%.

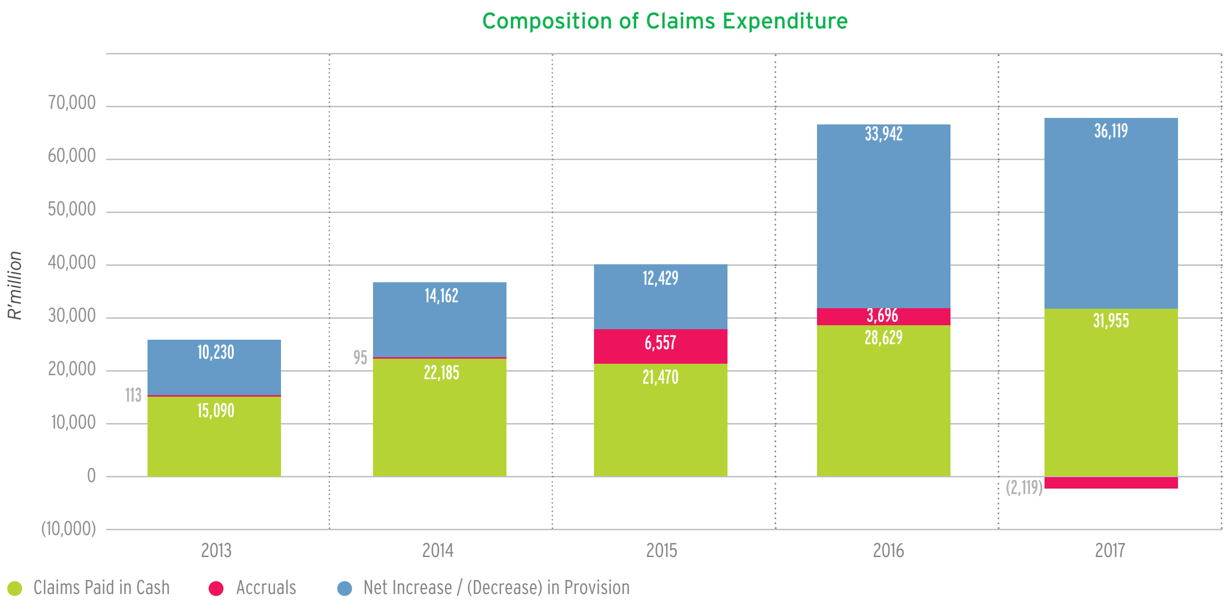
The RAF remains convinced that the current legislative model is wasteful, with the cost of service delivery being disproportionately high in relation to the compensation paid and the RAF Fuel Levy received (Graph 17).




*Graph 14 – Number of capital claims as a % of compensation payments*




*Graph 15 – Rand value of capital claims payments as a % of total*



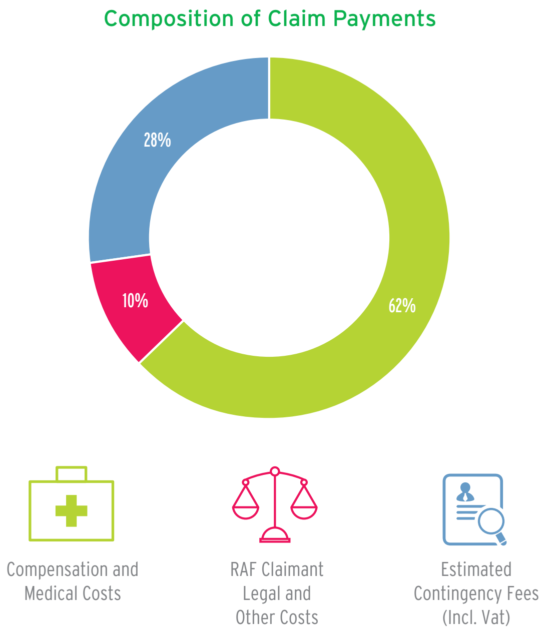

*Graph 16* – *Composition of claims expenditure*

## COMPOSITION OF CLAIM PAYMENTS PAID IN CASH

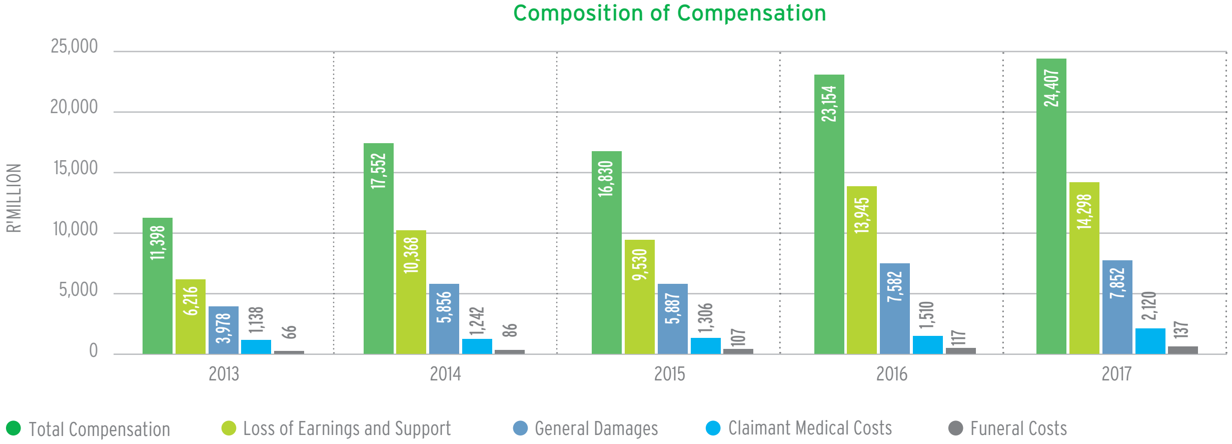
For accidents that occurred after 1 August 2008, general damages are only paid if a serious injury has been sustained, which is in line with the RAF Amendment Act. The composition of the compensation portion of claims (Graph 18), however, indicates that a major component of claims that the RAF pays out (in cash) is in respect of general damages and loss of amenities of life, as opposed to medical and funeral costs.

During the 2016/17 financial year, R7.9 billion (2015/16: R7.6 billion) was paid out towards general damages. This represents 32% (2015/16: 33%) of total compensation paid in cash. In proportion to total pay-outs, general damages claims have started stabilising.

Medical payments paid (incl. undertaking payments) at a total of R2.1 billion (2015/16: R1.5 billion) represented 9% (2015/16: 7%) of total compensation paid. Loss of earnings and support payments of R14.3 billion (2015/16: R13.9 billion) represented 59% (2015/16: 60%) of total compensation paid, and funeral costs, at R0.14 billion (2015/16: R0.12 billion) represented 0.6% (2015/16: 0.5%) of total compensation paid in cash by the RAF.




*Graph 17* – *Composition of claim payments including estimated contingency fees*




***Graph 18*** *– Composition of compensation*

## UNDERTAKINGS

The RAF administers undertakings as per the RAF Act 1996, (Act No. 56 of 1996) (as amended). Section 17 (4) (a) states that:

(4) Where a claim for compensation under subsection (I) –

(a) includes a claim for the costs of the future accommodation of any person in a hospital or nursing home or treatment of or rendering of a service or supplying of goods to him or her, the RAF or an agent shall be entitled, after furnishing the third party concerned with an undertaking to that effect or a competent court has directed the RAF or the agent to furnish such undertaking, to compensate the third party in respect of the said costs after the costs have been incurred and on proof thereof.

Included in medical cost payments is the cost pertaining to certificates issued to claimants by the RAF to cover future medical treatments, known as 'undertakings'. As such, the RAF compensates claimants for caregiving services rendered by caregivers on a monthly basis. An undertaking is regarded as active if a claim is made against it during the year. The total number of undertaking certificates issued is reflected in the table below.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Total number of undertaking certificates issued | 182,563 | 167,582 | 144,509 | 137,925 | 120,986 |
| Number of active undertakings | 7,192 | 5,476 | 5,028 | 4,467 | 4,122 |
| % active undertakings of total undertakings | 3.9% | 3.3% | 3.5% | 3.2% | 3.4% |
| Amount Paid (R'000) | R528,507 | R375,830 | R283,178 | R234,035 | R167,941 |

The number of active undertakings in respect of which payments were made averaged at 3.5% of all undertakings issued over a period of five financial years. This is in line with the nature of the instrument issued, since most injuries arising from motor vehicle accidents heal and do not represent chronic illnesses. In keeping with the need to provide support to road crash victims, the number of total active undertakings is seen in a positive light.

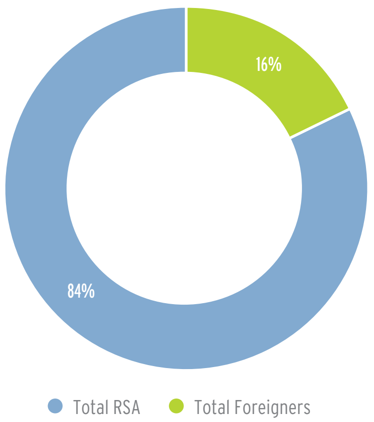
Payments in respect of all undertakings issued for the 2016/17 financial year amounted to R529 million.

## FOREIGN CLAIMS

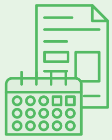
Claims by foreign visitors to South Africa continued to form a large proportion of high-value claims due to an increasing influx of foreign visitors to the country. Since the bulk of payments to foreign nationals are made in their currency of origin and they are accustomed to unlimited benefits with regard to loss of earnings in their own countries, foreigners' claims have dominated high-value claims in the pre-Amendment Act dispensation.

With the promulgation of the RAF Amendment Act, loss-of-earnings and loss-of-support payments to foreigners have been capped at R160,000 per annum, adjusted for inflation on a quarterly basis since August 2008. As a result, the cap at financial year-end was R254,450 as of 31 January 2017.

As at 31 March 2017, 16% (2015/16: 18%) of the value of the estimated liability of claims in excess of R5 million comprised claims by foreign nationals (Graph 19). It is important to note, however, that the actual claimed amounts can exceed the estimated value of the claim.




*Graph 19 – Estimated outstanding liability for claims >R5 million*

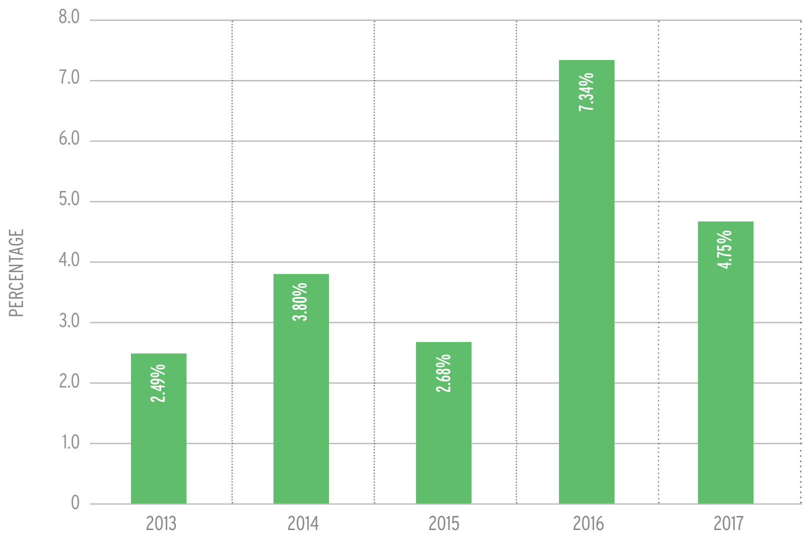


The number of active undertakings in respect of which payments were made averaged at 3.5% of all undertakings issued over a period of five financial years

## HIGH-VALUE CLAIMS

Although the number of high-value claims (claims where compensation paid is greater than R500,000) as a percentage of the total claims finalised, increased during the year, these claims represent a relatively small proportion of total claims finalised, i.e. 4.75% of the total number finalised (2015/16: 7.34%) (Graph 20).

**Finalised Number of Claims where Compensation is Greater than R500,000 (in real terms) as Percentage of Total Finalised Claims**




***Graph 20*** *– Number of claims compensated >R500,000 as a % of total claims finalised*

## KEY POLICY DEVELOPMENTS AND LEGISLATIVE CHANGES

- The enactment of the Protection of Personal Information Act, 2013 (Act No. 4 of 2013) (POPI) has resulted in major changes to many RAF policies and will greatly affect the manner in which the RAF processes personal information.
- The Use of Official Languages Act, 2012 (Act No. 12 of 2012) continues to affect operations in terms of rendering service to stakeholders in their preferred official languages. This has resulted in the RAF developing a Language Policy and establishing a fully functional Language Unit to achieve the legislative requirements of the Act.
- The RAF does a periodic review of its compliance in respect of any Act, standard or best practice. To keep abreast of all developments, the organisation has insight into all relevant legislation pertaining to its operations. It tracks legislative developments and monitors any regulatory changes in order to note, comply and/or effect the necessary changes to its day-to-day operations on an on-going basis.

## STRATEGIC OUTCOME-ORIENTED GOALS

The approved 2015-2020 Strategic Plan is anchored on seven strategic outcomes aimed at addressing the numerous challenges faced by the RAF due to the nature of its business.

| STRATEGIC GOALS | OUTCOME INDICATORS |
|---|---|
| **GOAL 1: Efficient Claims Processing** | |
| Effectively and efficiently deliver on the RAF's mandate and improve service delivery by channelling the organisation's resources with the aim of reducing the claims backlog, improving direct claims management and successfully delivering the Post-crash Care Strategy | • Effectively manage the number of open claims<br>• Reduce the average age of open claims<br>• Increase percentage of claims verified by objecting to or accepting within 60 days<br>• Percentage increase of direct claims originated<br>• Increase number of direct claims settled<br>• Reduction in legal costs<br>• Implement Post-crash Care Strategy (Pillar 6) |
| **GOAL 2: Accessible Services** | |
| Increase accessibility to RAF's services through various channels to improve service delivery by increasing the reach of the Fund's service offerings to all motor vehicle accident victims | • Increase accessibility to RAF's services<br>• Increase the number of claimants engaged at RAF's events (e.g. 'RAF on the Road')<br>• Improve Call Centre responsiveness<br>• Improve customer satisfaction |
| **GOAL 3: Effective Financial Management/Health** | |
| Manage cash flow (claims-related payments) in accordance with approved cash management procedures, monitor claims liability and enhance overall effectiveness of the SCM systems | • Effective cash flow management<br>• Provision for claims incurred assessed quarterly and an annual assessment conducted by an independent actuary<br>• Improve SCM outcomes<br>• Increase number of B-BBEE-rated suppliers<br>• Implement Enterprise Supplier Development (ESD) initiatives |
| **GOAL 4: Optimal ICT Services** | |
| To create a solid foundation through developing and deploying ICT solutions to increase the efficiency and effectiveness of our systems and processes, as well as Enterprise Risk Management capabilities | • Ensure optimal ICT availability<br>• Implement and assess benefits of the Five-year ICT Strategy and Plan |

| STRATEGIC GOALS | OUTCOME INDICATORS |
|---|---|
| **GOAL 5: Improve People Management** | |
| Build an institution that is performance-driven and that has full entrenchment of RAF values | • Optimise organisational performance<br>• Improve workforce skills and placement for current and future requirements<br>• RAF's contribution towards government's social and economic agenda<br>• Manage absenteeism |
| **GOAL 6: Administrative Dispensation Aligned to the RABS Bill** | |
| RAF's readiness to transition to RABS upon promulgation of the RABS Bill | • Transitioning RAF to RABS |
| **GOAL 7: Assured Control Environment** | |
| Ensure compliance to standards and improve governance and accountability | • Raise ethical standards and awareness<br>• Percentage of fraud detected before undue payments are made<br>• Contribute to road safety by creating a Crash Verification System and Report that will inform preventative measures |

# 3. PERFORMANCE BY OBJECTIVE

## GOAL 1:

Efficient Claims Processing

## ▶ EFFICIENT CLAIMS PROCESSING

Effectively and efficiently deliver on RAF's mandate and improve service delivery by channelling the organisation's resources with the aim of reducing the claims backlog, improving direct claims management and successfully delivering the Post-crash Care Strategy.

### ▶ CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

This strategic objective is aimed at optimising the processing of claims in the early stage of a claim and minimise unnecessary further complications with a claim.

### ▶ COMMENT ON ALL DEVIATIONS

**Target 6: Reduction in legal costs by 2% annually**

The planned target of 11.51% was not achieved in the 2016/17 financial year. There was an increase of 16.46% in 2016/17 compared to the 13.51% in 2015/16.

### ▶ STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

The promotion of direct claims has an impact on the drive to reduce legal costs. It should be noted that with all represented matters the RAF incurs advocate, attorney, summons and interest costs and, in some instances, sheriff and writs costs both for the plaintiff and the RAF panel, amounting to R5,286,694,696 in the 2016/17 financial year. With the 25,797 new claims registered in 2016/17, this translates to a R5,003,560,323 saving in potential future legal costs, based on the average legal cost fee of R193,959.

### ▶ CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes to the performance indicators or targets under this strategic programme.

| EFFICIENT CLAIMS PROCESSING | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 1. Effectively manage number of open claims | Open claims (O,R) were at 201,281, with net open claims (excl. RNYP) at 184,899.<br><br>S status claims: 32,283. | Number of open claims reduced to 174,867 net balance of open claims at financial year-end. | 173,740 net balance of open claims as at 31 March 2017. | Target achieved by 1,127. | No deviations reported. |
| 2. Reduce the average age of open claims | The average age of open claims was 1,036 days. | Average age of open claims reduced to 1,350 days. | Average age of open claims was 972 days. | Target exceeded by 378 days. | No deviations reported. |
| 3. Increase % of claims verified by objecting to or accepting originated claims within 60 days | 92.73% of open claims verified. | Increase to 80% of claims verified that are objected to or accepted within 60 days. | 89.99% of claims verified. | Target exceeded by 9.99%. | No deviations reported. |
| 4. % increase in direct claims originated | 34.95% ratio of direct claims originated as a % of total personal claims settled. | Increase direct claims originated to 37.45%. | 38.60% ratio of direct claims originated as a % of total personal claims settled. | Target exceeded by 1.15%. | No deviations reported. |
| 5. Increase number of direct claims settled | Capital payment – direct claims: 11,621. Total capital payment personal claims: 39,036. 29.77% direct claims settled as a % of total personal claims. (RNYP not taken into account.) | 32.27% target for the 2016/17 financial year. | Capital payment – direct claims: 15,507 Total capital payment personal claims: 45,059. Therefore, there was an increase of 34.41%. | Target exceeded by 2.14% | No deviations reported. |

| EFFICIENT CLAIMS PROCESSING | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 6. Reduction in legal costs by 2% annually | Total legal cost payments per claims system: R5,210,059,882. Total claims-related expenditure per claims system: R38,897,905,792.<br><br>Legal costs as a percentage of the total claims-related payment: 13.39%. | Reduce by 2%; therefore target is 13.51% - 2% = 11.51%. | Total legal costs paid: R5,286,694,696. Total claims expenditure (capital & fees): R32,122,272,492.<br><br>Legal costs, as a percentage of the total claims-related payment, therefore represent 16.46%. | Target not met by 4.95%. | The target was not achieved in the 2016/17 financial year. The year-on-year increase from 13.51% to 16.46% was due to the rate at which legal costs increased, i.e. 18% in legal costs per matter from the previous financial year. |
| 7. Implement Post-crash Care Strategy (Pillar 6) | Payment of caregivers was done within 29.52 days. | Treatment plans introduced for all serious injuries undertakings. | There was a total of 3,517 undertakings. 2,605 were for serious injuries and all 2,605 had treatment plans.<br><br>100% undertakings for serious injuries had treatment plans. | Target of 100% achieved. | No deviations reported. |

## GOAL 2:

Provide Accessible Services

## ▶ PROVIDE ACCESSIBLE SERVICES

Increase accessibility to RAF's services through various channels to improve service delivery by increasing the reach of the Fund's service offerings to all motor vehicle accident victims.

## ▶ CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

Increase accessibility to RAF services for claims origination and to provide timely responses to questions, queries and information requests.

## ▶ COMMENT ON ALL DEVIATIONS

Not applicable – There have been no deviations in respect of this target.

**Strategy to overcome areas of under-performance**

Target 11: The average score of 70% was not improved to 77% in the 2016/17 financial year as desired. It reduced to an overall score of 64%. The decline was attributed to the following:

- Timing of the research;
- Caregivers, in particular, who were largely affected by the bank account attachments;
- The different research methodologies used from previous years;
- Empathy, Assurance, Reliability, and Communication have seen a consistent decline since 2014.
- Communication which scored the lowest this year at 64% (compared to 69% in 205/16) should be the main focus to increase overall satisfaction.
- Call Centre has been delivering good service with a satisfaction score of
- 67% for direct claimants, 0.1 points higher than the previous year.

Despite the decrease of the overall score, there are areas that have improved, which are:

- Direct claimants, the RAF's core customers, provided the highest satisfaction score at 68%. Direct claimants are generally happy with the organisation. There is also a growing trend that direct claimants are also more likely to go directly to the RAF this year (30% are very likely), rather than use a lawyer, as compared to 2015 results (where only 19% were very likely).
- Awareness of the RAF amongst the general public has increased, i.e. on average unprompted awareness has grown by 1.5% since 2013. 50% of direct claimants learned about the RAF through word of mouth, making it the most important means for growing awareness. More stakeholders are aware of the Fund's mandate. This has shown a growth from 60% in 2015/16 to 66% this year.

The following internal recommendations will be implemented in order to improve the overall score:

- Improve communication to claimants to ensure they are kept abreast of the stages of their claims.
- Improve on communicating with claimants by providing quality feedback.
- Continue driving awareness through word of mouth.
- Make the claims process easier and less complicated (introduction of RABS).
- Communicate RAF as an expert. Only two things should be improved – communication and empathy – and this will yield much higher scores going forward.

## CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes to the performance indicators or targets under this strategic programme.

| PROVIDE ACCESSIBLE SERVICES | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 8. Increase accessibility to RAF services | The Channel Review Report was completed and approved by the Board on 25 November 2015. | Open two additional access points. | One RAF Mobi truck was delivered and is operating along the coastal areas. RAF also launched an access point in a Thusong Centre. | Target achieved. | No deviations reported. |
| 9. Increase the number of claimants engaged at RAF events, e.g. 'RAF on the Road' | 36,146 claimants engaged at RAF events. | 33,100 claimants to be engaged at RAF events. | 54,148 claimants engaged at RAF events. | Target exceeded by 21,048 claimants. | No deviations reported. |
| 10. Improve Call Centre responsiveness | 1.84% abandoned calls. | 3.5% abandoned calls. | Received calls: 385,073. Abandoned calls: 8,858.<br><br>2.3% abandoned calls. | Target exceeded by 1.4%. | No deviations reported. |
| 11. Improve customer satisfaction | Customer Satisfaction Survey completed within the set time frames.<br><br>Customer satisfaction baseline set at 70%. | 10% improvement to 77%. | The results of the Customer Satisfaction Survey showed a decline in overall satisfaction from 7.0 (70%) in 2015/16 to 6.4 (64%) in 2016/17. | Under-achievement of 13%. | The RAF was unable to improve on the average score of 7.0 during the 2016/17 financial year and it reduced to an overall score of 6.4. The decline was attributed to the timing of the research, specifically in respect of caregivers who were largely affected by the RAF bank account attachments, as well as different research methodologies applied from previous years. |

## EFFECTIVE FINANCIAL MANAGEMENT

The RAF will focus on financial sustainability and may seek and explore various options to capitalise the organisation. The Fund will actively engage NT and the DoT to determine fuel levy allocation increases annually. The Fund will also commence with the process of developing strategies for reducing legal and operating costs through internal cost management initiatives.

## CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

Manage cash flow (claims-related payments) in accordance with approved cash management procedures, monitor claims liability and enhance overall effectiveness of the SCM systems.

## COMMENT ON ALL DEVIATIONS

There has been no deviations with respect to the targets under Objective 3.

## STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

Not applicable – During the 2016/17 financial year, all the targets for this strategic objective were met.

## CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes to the performance indicators or targets under this strategic programme.


## GOAL 3:

Effective Financial Management

| EFFECTIVE FINANCIAL MANAGEMENT | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 12. Effective cash flow management | Final funding model was submitted to the DoT in November 2015.<br>Target achieved. | Develop and use actuarial forecast model to motivate for adequate funding (funding model). | Finalised the funding model for the 2017/18 financial year MTEF submission. Report submitted to DoT and NT on 5 July 2016.<br>The final ENE Report submitted on 4 November 2016. | Target achieved. | No deviations reported. |
| 13. Effective cash flow management | 84% overall annual average compliance to cash management, i.e. supplier claims (30 days turnaround times = 74%).<br>RNYP (all other claims expenditure awaiting payment below 180 days turnaround times = 94%).<br>Target exceeded by 14%. | 70% compliance to the approved Cash Management Strategy. | 89% as at 31 March 2017. | Target achieved. | No deviations reported. |

| EFFECTIVE FINANCIAL MANAGEMENT | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 14. Effective cash flow management | Internal model for claims assessment for Q4 developed.<br>An annual independent assessment was done in Q2. An annual statutory assessment was also completed. The claims liability, as assessed by the statutory actuary, was R143.3 billion as at 31 March 2016. The revised claims liability was approved by the Board at a meeting held on 26 May 2016.<br>Annual assessments for claims liability were completed and provision for claims adjusted in the Statement of Financial Position. | Internal model for claims incurred assessment established and an annual assessment conducted by an independent actuary. | Provision for claims incurred was assessed quarterly by an internal actuary and an annual assessment conducted by an independent actuary. Provision for claims liability was R179.463 billion. | Target achieved. | No deviations reported. |
| 15. Improve SCM outcomes | Current average: 64 days. | Procurement turnaround times reduced to 110 days. | Current average: 82 days. | Target exceeded by 28 days. | No deviations reported. |
| 16. Increase number of B-BBEE rated suppliers | B-BBEE rated suppliers: 115%. | Increase to 115% B-BBEE-rated suppliers. | B-BBEE rated supplier rating was 118%. | Target exceeded by 3%. | No deviations reported. |
| 17. Implement Enterprise Supplier Development (ESD) initiatives | The ESD Plan was approved by the Board. | 0.2% revenue/ funding spent on enterprise and supplier development (ESD) as per approved ESD Plan. | 100% spend against allocated budget on all identified beneficiaries. | Target achieved. | No deviations reported. |

## GOAL 4:

Optimising ICT Functionality

## OPTIMISING ICT FUNCTIONALITY

The RAF is wholly dependent on ICT functions to enable the automation of business processes, ensuring data integrity and protection, and ensuring maturity of IT governance in the organisation. ICT aims to evolve from simply being a business enabler to being an essential component in implementing the RAF business strategy and executing its mandate.

ICT thus plays an integral role in ensuring the achievement of the RAF strategy. A number of initiatives that the RAF is planning to undertake in the next five years are dependent on the transformation of the ICT environment to function optimally and gain competitive advantage.

### CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

To create a solid foundation through developing and deploying IT solutions to increase the efficiency and effectiveness of our systems and processes, as well as Enterprise Risk Management capabilities.

### COMMENT ON ALL DEVIATIONS

There were 17 planned initiatives for Year Two of the Five-year ICT Plan. 16 out of the 17 were successfully completed. The main deliverable, i.e. functional e-form and repositories, was successfully completed. The outstanding deliverable under the Information Security Initiative was not completed in the 2016/17 financial year. Out of 30 Information Security Strategy initiatives, 24 (80%) are complete and 6 (20%) are underway. This was impacted by the delays in the procurement process to acquire the information security tool, which is prioritised for the 2017/18 financial year.

### STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

The initiative that was not completed in Year Two will be carried over to Year Three and the implementation thereof will be closely monitored.

### CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes in the performance indicators or targets under this strategic programme.

| OPTIMISING ICT FUNCTIONALITY | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 18. Ensure optimal ICT availability | ICT availability on critical systems was 98.57%. Target exceeded. | 98% availability on critical services. | Annual average was 99.56%. | Target exceeded by 1.56%. | No deviations reported. |
| 19. Implement Five-year ICT Strategy | Year One initiatives met. 86.66% (13 out of 15) of initiatives for Year One implemented. Target not met by 13.33%. Two out of 15 of Year One initiatives not implemented by March 2016.<br><br>25% back-scanning of claims file content. 31% of files were back-scanned. Scanning File Count Report indicated that 31% of personal claim files were scanned, which was 6% above the target.<br><br>The overall target was not met as only one of the measures was met. The outstanding initiatives not completed in 2015/16 would have been implemented in 2016/17. | Year Two initiatives met. Functional e-forms and repositories in place. | 88% of Year Two initiatives were achieved:<br><br>15 initiatives were achieved and two not achieved. | Target not achieved. | The ICT RAF e-Enablement Plan has five main objectives, with a total of 17 initiatives to have been delivered in the 2016/17 financial year. Four of the five objectives were successfully completed, with one initiative not achieved, relating to 100% implementation of the Information Security Strategy. |
| 20. Implement Five-year ICT Strategy | New target | Conduct Benefit and Value Realisation Assessment on deliverables completed. | The report was completed and approved. | Target achieved. | No deviations reported. |

## GOAL 5:

Improving People Management

## IMPROVING PEOPLE MANAGEMENT

Build an institution that is performance-driven and values the customer, and improve the awareness of the RAF brand.

### CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

The Fund will capacitate the organisation and promote accountability and a performance-driven ethos. The intention is to improve the efficiency and transparency of its internal processes, particularly Human Capital and Procurement processes. This will be done by improving internal workflows, and with the appropriate allocation of resources the Fund can improve its productivity by eliminating internal delays due to inefficiencies in processes, or mismatches in capacity.

### COMMENT ON ALL DEVIATIONS

Not applicable – There have been no deviations in respect of this target.

### STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

Performance Management System has been optimised and automated. The system will be fully functional and utilised from Quarter One of the 2016/17 financial year.

### CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes to the performance indicators or targets under this strategic programme.

| IMPROVING PEOPLE MANAGEMENT | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 21. Optimise organisational performance | Performance Management System was optimised and automated, however the system did not go live before the end of the 2015/16 financial year. | Implement 360 degree assessment at Executive level. | The first round of assessments by all Executive members and all participants was conducted during Q4 of the 2016/17 financial year. | Target achieved. | No deviations reported. |

| IMPROVING PEOPLE MANAGEMENT | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 22. Improved workforce skills and placement for current and future requirements | Skills Assessment Report completed within set timelines. | RABS Skills Requirement Report and Transformation Strategy. | RABS Skills Requirement and Transformation Report was approved. | Target achieved. | No deviations reported. |
| 23. Improved workforce skills and placement for current and future requirements | | Approved RABS Change Management Plan. | The RABS Change Management Plan was approved. | Target achieved. | No deviations reported. |
| 24. RAF's contribution towards government's social and economic agenda | Maintain gender equity within 10% variance.<br>The RAF is within the set ±10% variance of all the main EE categories.<br>No variance. | Maintain gender equity within 10% variance. | Female representatives in Management: 203.<br>Total employees at Management level: 420.<br>Target is 50% and ratio 48%. | Target achieved. | No deviations reported. |
| 25. Manage absenteeism | Average man-days lost - 1.96 days. | Lost man-days reduced by 10% to 2.48 days per 100 employees. | Number of sick leave days taken at year-end: 2,442.85.<br>Number of employees at year-end: 2,862. (2,801 + 61 movement)<br>Number of working days at year-end: 1.43.<br>Therefore, lost man-days at 31 March 2017 were 1.74 days per 100 employees. | Target achieved. | No deviations reported. |
| 26. Manage absenteeism | | Operationalise Absenteeism Management Tool. | The Absenteeism Management Tool became operational. | Target achieved. | No deviations reported. |

## GOAL 6:

Administrative Dispensation Aligned to the RABS Bill

### ADMINISTRATIVE DISPENSATION ALIGNED TO THE RABS BILL

RAF's readiness to transition to RABS upon promulgation of the RABS Bill.

### CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

Transition the RAF to the RABS by developing the RABS business architecture of the future organisation, as well as the RAF funding model.

### COMMENT ON ALL DEVIATIONS

Not applicable – There have been no deviations in respect of this target.

### STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

Not applicable – All the targets under this strategic objective were met.

### CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes in the performance indicators or targets under this strategic programme.

**ADMINISTRATIVE DISPENSATION ALIGNED TO THE RABS BILL**

| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 27. Transitioning RAF to RABS | Develop and approve RABS business architecture. RABS business architecture was approved. No variance. | Develop and approve RABS Transition Plan. | RABS Transition Plan was approved. | Target achieved. | No deviations reported. |

## ▶ ASSURED CONTROL ENVIRONMENT

Raise ethical standards, improve fraud detection and contribute to road safety.

### ▶ CONTRIBUTION TO THE ORGANISATION'S KEY STRATEGIC OUTCOMES

Ensure compliance to standards and improve governance and accountability.

### ▶ COMMENT ON ALL DEVIATIONS

Not applicable – There have been no deviations in respect of this target.

### ▶ STRATEGY TO OVERCOME AREAS OF UNDER-PERFORMANCE

Not applicable – All the targets under this strategic objective were met.

### ▶ CHANGES TO PLANNED TARGETS

Not applicable – There were no in-year changes in the performance indicators or targets under this strategic programme.

## GOAL 7:

Assured Control Environment

| ASSURED CONTROLLED ENVIRONMENT | | | | | |
|---|---|---|---|---|---|
| Performance Indicator | Actual Achievement | Planned Target | Actual Achievement | Deviation from Planned Target to Actual Achievement | Comment on Deviations |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | |
| 28. Raise ethical standards | Task completed. An external review was conducted to determine the adequacy and effectiveness of the Ethics Programme. Below is the report's overall opinion: "The control design is adequate and partially effective for the achievement of the organisation's objectives. The ethics maturity level is at a 'defined' phase and leaning towards a 'maturity' phase." | Report on adequacy and effectiveness of the Ethics Programme. | Statement of the adequacy and effectiveness of the Ethics Programme appeared in the 2015/16 Annual Report. To date:<br>• 80% attendance of the Ethics and Value Awareness sessions.<br>• 99% annual Declarations submitted.<br>• 100% RAF Code of Ethics signed by new employees. | Target achieved. | No deviations reported. |
| 29. % of fraud detected before undue payments are made | 612 repudiations before undue payments were made as at 31 March 2016. | 15% increase in the level of fraud detected before undue payments are made; therefore target is R487,287,021. | R901,557,475 claims repudiated at year-end. | Target exceeded by R414,270,454 (85%). | No deviations reported. |
| 30. Contribute to road safety by creating a database and a report that will inform preventative measures | Internal Road Crash Database System went live on 15 February 2016. The database is now in production, as crash information is received from numerous Information Collection Agents (ICAs). | Internal Crash Verification System functional by 31 March 2017. | Internal Crash Verification System was functional by year-end. | Target achieved. | No deviations reported. |

# 4. REVENUE COLLECTION

Revenue collection is discussed in detail under 'Operating Environment' on page 57 of this report.

# 5. CAPITAL INVESTMENT

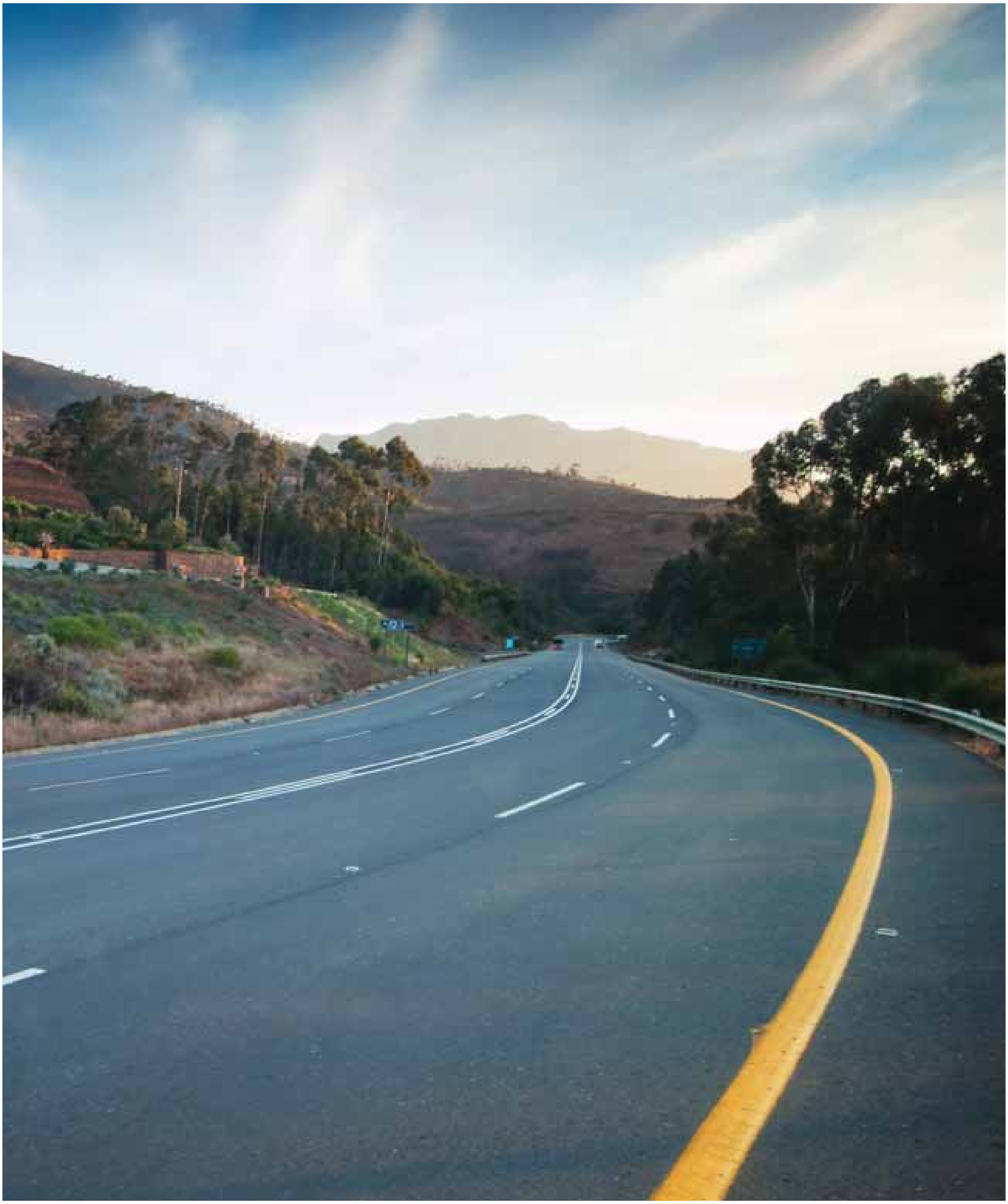
The table below outlines progress made on Capital Investment and Asset Management Plans.

| Progress made on implementing the Asset Management Plan | The implementation of the plan is complete and the Fixed Asset Register has been updated with the results of the asset verification procedures | | |
|---|---|---|---|
| Infrastructure projects completed in the current year and progress in comparison with what was planned at the beginning of the year | Menlyn Regional Office: | Refurbishing new Tzaneen CSC | R344,727 |
| | | Improved new Walk-in Centre (WIC) at Menlyn office | R167,600 |
| | | Various construction projects (upgrade of facilities) in Menlyn office | R630,000 |
| | | Finalised air-conditioning Phase 2 | R1,700,000 |
| | Durban Region: | Refurbishing of all kitchens, HR office and Verification Department in Durban regional office | R492,365 |
| | | Ngwelezane Hospital - New prefab office – HSC office | R261,174 |
| | | RK Khan (HSC renovations) | R26,105 |
| | East London Region: | Sound-proofing and dividing of training and video-conferencing (VC) rooms | R123,567 |
| | | Refurbishment of all kitchens in East London regional office | R234,017 |
| | | Butterworth HSC revamping | R51,399 |
| Infrastructure projects in progress and expected completion date | Upgrade of CCTV system in Menlyn – May 2017 | | |
| Plans to close down or downgrade any current facilities | None | | |
| Progress made on infrastructure maintenance | All improvement or refurbishment projects are on schedule or finished on time | | |
| Developments relating to the above expected to impact on the RAF's current expenditure | N/A | | |

| | |
|---|---|
| **Details as to how asset holdings have changed over the period under review, including disposals, scrapping and loss due to theft** | During the 2016/17 financial year, assets with a carrying value of R2,185,000 were disposed of and written off.<br>Total acquisition for the year (2017): Fixed Assets - R8,407,000, Intangible Assets - R24,547,000<br>Prior year acquisition (2016): Fixed Assets - R33,600,000, Intangible Assets - R7,295,000<br>Current year disposal (2017): Fixed Assets - R20,437,000, Intangible Assets - R Nil<br>Prior year disposal (2016): Fixed Assets - R15,498,000, Intangible Assets - R48,000 |
| **Measures taken to ensure that the RAF's Fixed Asset Registers remain up-to-date during the year under review** | The following procedures, processes and mechanisms existed to ensure the integrity of the RAF Fixed Asset Register (FAR):<br>• The RAF's Fixed Asset Management Policy;<br>• The RAF's Fixed Asset Management SOP;<br>• Management Directives have been issued where necessary;<br>• Audits were performed by the Internal Audit Department;<br>• Annual audits are performed by the Auditor-General;<br>• Bi-annual verification exercises were performed during the months of September and March of the financial year;<br>• The RAF has implemented segregated asset management functions for recording and maintaining the FAR;<br>• Clearly defined asset management roles are in place for the Facilities Management and ICT Departments;<br>• Dedicated resources were employed to ensure fixed assets are recorded accurately and completely; and<br>• A reconciliation of the FAR to Financial Records was performed on a monthly basis. |
| **Major maintenance projects undertaken during the year under review** | Phase 2 upgrading of the Menlyn air-conditioning plant. |
| **Progress made in addressing the maintenance backlog during the year under review** | Finalised the Menlyn air-conditioning project. |

| | Budget | Actual Expenditure | (Over)/Under Expenditure | Budget | Actual Expenditure | (Over)/Under Expenditure |
|---|---|---|---|---|---|---|
| | 2016/17 | | | 2015/16 | | |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Property, plant and equipment | 82,818 | 8,407 | 74,411 | 78,650 | 33,600 | 45,050 |
| Intangibles | 12,742 | 24,547 | (11,805) | 12,100 | 7,295 | 4,805 |
| **Total** | **95,560** | **32,954** | **62,606** | **90,750** | **40,895** | **49,855** |

** The RAF has no infrastructure projects*




Road
Accident
Fund

# PART C
# GOVERNANCE

# 1. INTRODUCTION

Corporate governance embodies processes and systems by which public entities are directed, controlled and held to account. In addition to legislative requirements based on a public entity's enabling legislation, corporate governance with regard to public entities is applied through the precepts of the Public Finance Management Act (PFMA) and run in tandem with the principles contained in the King Code of Governance Principles and King Report on Corporate Governance (King III).

Parliament, the Executive Authority and the Accounting Authority of the public entity are responsible for corporate governance.

# 2. PORTFOLIO COMMITTEE

Parliament exercises its oversight role of the RAF by interrogating its Annual Financial Statements and other relevant documents which have to be tabled, as well as any other documents tabled from time to time, and evaluating its performance accordingly. This oversight role is fulfilled by the Portfolio Committee on Transport (PCOT) and the Standing Committee on Public Accounts (SCOPA).

PCOT oversees service delivery and performance in accordance with the mandate and corporate strategy of the RAF. It reviews financial and non-financial information, such as efficiency and effectiveness measures, and therefore reviews the non-financial information contained in the Annual Report of the RAF. PCOT is also concerned with service delivery and enhancing economic growth.

SCOPA oversees the financial performance and accountability of the RAF in terms of the PFMA. It therefore reviews the Annual Financial Statements and audit reports of the RAF's external auditor.

# 3. EXECUTIVE AUTHORITY

As illustrated in Figure 1, the National Assembly has legislative power and maintains oversight of the National Executive Authority and the RAF as an organ of State. In addition, Parliament oversees the Executive Authority, which is required to provide it with full and regular reports concerning matters under its control.

The Minister of Transport is the Executive Authority of the RAF and is concerned with the financial viability and risks of the RAF, as well as policymaking and monitoring of policy implementation to ensure that the RAF effectively delivers on its mandate.


***Figure 1*** *– Executive Authority reporting structure*

The Financial Services Board (FSB), in terms of the Financial Supervision of the Road Accident Fund Act, 1993 (Act No. 8 of 1993), performs a supervisory role over the financial position of the RAF.

Oversight by the Executive Authority rests by and large on the prescripts of the PFMA, which governs/gives authority to the Executive Authority for oversight powers.

The RAF Act provides that the Executive Authority can appoint or dismiss members of the Board, including the Chairperson, Vice-Chairperson and Non-executive Board members. The Minister also appoints the CEO on such terms and conditions as may be determined by the Board.

Whenever it is necessary to appoint a member to the Board, the Minister, by notice in the *Government Gazette* and national news media, invites persons or bodies who have an interest in the operations of the RAF to nominate candidates who comply with the criteria mentioned in subsection 1(b) of the RAF Act, as amended. The Minister then publishes a list of nominees received in response to the invitation, which includes the names of the relevant nominators. The name and expertise of the newly appointed (or reappointed) Board member is published in the *Government Gazette*.

If a position on the Board becomes vacant before the expiry of the term of office, the Minister may appoint any other competent person to serve for the unexpired portion of the term of office of the previous member, irrespective of when the vacancy occurs.

The RAF Board submits quarterly reports, including management accounts, a report on actual performance against predetermined objectives, PFMA compliance checklist, a Broad-Based Black Economic Empowerment (B-BBEE) report and an Audit Committee report, to the Executive Authority in accordance with National Treasury Regulations 26.1.1 and 30.2.1 within 30 days of the end of a quarter.

# 4. ACCOUNTING AUTHORITY/THE BOARD

## INTRODUCTION

The Board acts as the Accounting Authority of the RAF, exercising overall authority and control over the financial position, operation and management of the RAF and is accountable to the Executive Authority for the performance of the RAF. It constitutes a fundamental base for the application of corporate governance principles in the RAF.

The processes and practices of the Board are underpinned by the principles of transparency, integrity and accountability. An inclusive approach is followed that recognises the importance of all stakeholders and the managing of stakeholder relationships, as well as perceptions to ensure the viability and sustainability of the RAF.

## THE ROLE OF THE BOARD

In line with King III, the Board is tasked with providing ethical leadership, managing the organisation's ethics effectively and ensuring that the entity is not only a responsible citizen, but is manifestly so. Corporate governance principles are adhered to, while fully appreciating that strategy, risk, performance and sustainability are integrated. Broadly speaking, the Board is expected to act in the best interests of the entity.

With the prescripts of King III and NT in mind, the role of the RAF Board comprises the following:

- It holds absolute responsibility for the performance of the RAF;
- It retains full and effective control over the RAF;
- It ensures that the RAF complies with applicable laws, regulations and government policy;
- It is responsible for formulating and implementing policies that are necessary to achieve the RAF's strategic goals and maintain good governance;
- It has unrestricted access to information of the RAF;
- It formulates, monitors and reviews corporate strategy, major plans of action, risk policy, annual budgets and business plans;
- It is responsible for the integrity of the sustainability report, based on the principles of transparency and accountability;
- It ensures that the Executive Authority's performance objectives are achieved;
- It monitors the efficiency and effectiveness of Management and supports Management in implementing Board strategies and policies;
- It manages potential conflicts of interest;
- It develops a clear definition of levels of materiality;
- It attends annual meetings;
- It ensures that the Annual Financial Statements are prepared;
- It appraises the performance of the Chairperson;
- It ensures effective Board induction; and
- It maintains integrity, responsibility and accountability.

This means that the Board is responsible for determining the overall direction of the RAF. The RAF is guided by a Five-year Strategic Plan and APP, both of which were submitted to the Executive Authority, the Minister of Transport, by the end of January 2017, as prescribed in terms of NT Instruction Note No. 33.

The Board annually revises the Delegation of Authority Framework, which defines the delegation of powers, duties and functions of Management.

The RAF Board reviews its processes and practices on an on-going basis to:

- Ensure compliance with legal obligations;
- Ensure the maintenance of appropriate internal controls, as well as risk management policies and practices;
- Ensure the use of RAF funds in an economical, efficient and effective manner;

- Ensure that IT governance is aligned with the RAF's performance and sustainability objectives;
- Ensure adherence to good corporate governance practices that are continuously benchmarked; and
- Assess the impact of the RAF's operations on society, the economy and the environment.

## BOARD CHARTER

As recommended by King III, the Board is governed by the RAF Corporate Charter, which details the roles, structures and functions of the Board, its various Sub-committees, Chairpersons and the CEO.

An external Board Effectiveness Evaluation of the Board and Board Committees' and Board members' performance took place during the year under review and action plans were put in place to address areas requiring improvement. A report in this regard was submitted to the Shareholder.

## COMPOSITION OF THE BOARD

The RAF is headed and controlled by an effective and efficient Board, comprising independent Non-executive Board members representing the necessary skills to strategically guide the RAF. The Board consists of 11 Non-executive Board members, including the DG's representative. The RAF Board is diverse in respect of origin, gender, race and education. Together, the members bring a wealth of experience and expertise to the RAF and reflect the nature of its business. 45% of the Board members are women, while 90% are from historically disadvantaged communities.

The standard term of appointment for Board members is three years. Board members are eligible for re-appointment for a further two terms. The Board is required to meet as often as the business of the RAF requires, but at least four times a year.

The Executive Management team is appointed by the CEO after consultation with the Board. Executive Management is employed on the basis of a fixed-term contract. The maximum duration of fixed-term contracts is five years.

The RAF is headed and controlled by an effective and efficient Board, comprising independent Non-executive Board members representing the necessary skills to strategically guide the RAF

## BOARD MEMBERS

### DR NM BHENGU

Non-executive Board member
(Chairperson of the Board)

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Medical and Corporate Governance

**QUALIFICATIONS:**
MBChB (University of Natal), Diploma in Anaesthetics (College of Medicine of South Africa), MBA (Wales University, Cardiff), Master of Public Health, Healthcare Management (Harvard University), Chartered Director (SA)

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Chairpersons' Committee (Chairperson)

***NO. OF MEETINGS ATTENDED:**
7 of 8

### MR D COOVADIA

Non-executive Board member
(Vice-Chairperson of the Board)

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Finance

**QUALIFICATIONS:**
BCompt, BCompt (Hons) (Unisa), CA (SA), RA, FIMC, CMC, FIAC, FCIS, FSAIM, BA (SA), FIIASA, PIA (SA), FInstD, JP

**BOARD DIRECTORSHIPS:**
Rand Water
ERWAT

**BOARD COMMITTEES:**
Audit and Actuarial Committee (Acting Chairperson), Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
6 of 8

### MR LED HLATSHWAYO

Non-executive Board member

**DATE APPOINTED:**
01/10/2013
Term expired 30/09/2016

**AREA OF EXPERTISE:**
Finance

**QUALIFICATIONS:**
BCom (University of Zululand), BCompt (Unisa), BCompt (Hons)/ CTA (Unisa), CA (SA) and MBA (University of North West, Potchefstroom) Chartered Director (SA)

**BOARD DIRECTORSHIPS:**
Unemployment Insurance Fund
Department of Labour (Audit Committee Member)
Old Mutual Alternative Risk Transfer (Director)

**BOARD COMMITTEES:**
Audit and Actuarial Committee (Chairperson)
Risk Management and Ethics Committee
Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
3 of 4

## DR KLN LINDA

Non-executive Board member

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Medical

**QUALIFICATIONS:**
MBChB (University of Natal), Healthcare Service Management Certificate, Advanced Management Programme (Manchester Business School, UK), Post-graduate Diploma in Healthcare Information (Winchester University)

**BOARD DIRECTORSHIPS:**
Medical and Dental Professions Board (HPCSA)
South African Dental Association (SADA)
HOPE Africa (NGO)

**BOARD COMMITTEES:**
Remuneration and Human Resources Committee (Acting Chairperson)
Operations and Information Technology Committee
Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
7 of 8

## MR TP MASOBE

Non-executive Board member

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Health Insurance, Finance, Business Law

**QUALIFICATIONS:**
LLM, International Business Law (candidate), (University of Cumbria, UK), MSc (University of London), BA (Grinnell College, USA), International Executive Development (Wits Business School and London Business School), Advanced Health Leadership (University of California at Berkeley)

**BOARD DIRECTORSHIPS:**
Agility Health
Health Edge Group|
Raamgoolam (Pty) Ltd

**BOARD COMMITTEES:**
Audit and Actuarial Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
5 of 8

## MS R MOKOENA

Non-executive Board member

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Law

**QUALIFICATIONS:**
B Iuris (University of Zululand), LLB (University of KwaZulu-Natal), Various certificates

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Risk Management and Ethics Committee (Acting Chairperson)
Remuneration and Human Resources Committee
Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
7of 8

## BOARD MEMBERS

### MR AM PANDOR

Non-executive Board member

**DATE APPOINTED:**
01/10/2013
Re-appointed 21/10/2016

**AREA OF EXPERTISE:**
Governance

**QUALIFICATIONS:**
CA (SA), MBA (Henley Management College, UK), CISA, GGEIT, Chartered Director (SA)

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Operations and Information Technology Committee (Acting Chairperson)
Audit and Actuarial Committee
Risk Management and Ethics Committee
Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
7 of 8

### DR TO KOMMAL

Non-executive Board member

**DATE APPOINTED:**
21/10/2016

**AREA OF EXPERTISE:**
Medical, Health Law, Corporate Governance, Operations

**QUALIFICATIONS:**
MBChB (University of Pretoria), Master of Surgery in Orthopaedics and Trauma (candidate) (Univ. Edinburgh and Royal College of Surgeons of Edinburgh), Diploma in Anaesthetics (College of Medicine of South Africa), Certified Independent Medical Examiner (ABIME-USA), PG. Cert. Medicine and Law (Unisa and University of Pretoria), PG. Diploma Health Systems Management (Executive Leadership) (Pret.), Advanced Health Management Programme (Yale/FPD), Diploma Management Sciences (Man. Dev), SAC Dip.H (UK), CES (Wits), Cert. Social Entrepreneurship (Wharton School, USA), Cert. Forensic Accounting and Fraud Examination (Univ. West Virginia), Cert. Intellectual Property (WIPO, Geneva), International Executive Development: YPO (London Business School), Master of Science (Medicine) (Bioethics and Health Law) (candidate) (Wits University), Albertina Sisulu Executive Leadership Fellow (ASELPH) (Harvard School of Public Health/UP), M.Inst.D, MRSSAf

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Risk Management and Ethics Committee
Remuneration and Human Resources Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

### DR MC PEENZE

Non-executive Board member

**DATE APPOINTED:**
21/10/2016

**AREA OF EXPERTISE:**
Legal and Corporate Governance

**QUALIFICATIONS:**
B.Iuris, LLB, LLM (University of Free State), D.Tech (Central University of Technology: Free State)

**BOARD DIRECTORSHIPS:**
Member of the Council of the Central Johannesburg College
Managing Director of Aviva Business Consulting (Pty) Ltd.

**BOARD COMMITTEES:**
Audit and Actuarial Committee
Risk Management and Ethics Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

### MR MK MOTHOBI

Non-executive Board member

**DATE APPOINTED:**
21/10/2016

**AREA OF EXPERTISE:**
Life/Health Insurance and Retirement Funds

**QUALIFICATIONS:**
BSc.H, BSc (Med), MBA, PDM-BA (Wits)

**BOARD DIRECTORSHIPS:**
Former CEO of Union Life;
Independent Board Member of Momentum Retail Funds
Independent Board Member of Contract Cleaning National Provident Fund

**BOARD COMMITTEES:**
Risk Management and Ethics Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

### MS LUZ RATAEMANE

Non-executive Board member

**DATE APPOINTED:**
21/10/2016

**AREA OF EXPERTISE:**
Medical (Mental Health)

**QUALIFICATIONS:**
BA, BA (Hons) (Fort Hare), MSc, M Phil (University of Surrey)

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Remuneration and Human Resources Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

## BOARD MEMBERS

### MS M SOMARU

Director-General (DG) representative

**DATE APPOINTED:**
21/10/2016

**AREA OF EXPERTISE:**
Legal, Transport

**QUALIFICATIONS:**
B Proc (Unisa), MBA (Mancosa)

**BOARD DIRECTORSHIPS:**
Railway Safety Regulator

**BOARD COMMITTEES:**
Audit and Actuarial Committee
Risk Management and Ethics Committee
Remuneration and Human Resources Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
3 of 4

### ADV. DS QOCHA

Non-executive Board member

**DATE APPOINTED:**
01/10/2013 Term expired 30/09/2016

**AREA OF EXPERTISE:**
Law

**QUALIFICATIONS:**
BA (Law) (National University of Lesotho), LLB (National University of Lesotho), Strategic Leadership Programme (GIBS), Broadcasting Policy and Regulation (LINK Centre, Wits), Telecoms Policy Regulation and Management (LINK Centre, Wits), General Intellectual Property Course (WIPO)

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Remuneration and Human Resources Committee (Chairperson)
Risk Management and Ethics Committee
Chairperson's Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

### MR DK SMITH

Non-executive Board member

**DATE APPOINTED:**
01/10/2013 Term expired 30/9/2016

**AREA OF EXPERTISE:**
Actuarial
Corporate Governance

**QUALIFICATIONS:**
BSc (University of Stellenbosch), FASSA, International Senior Management Programme (Harvard Business School)

**BOARD DIRECTORSHIPS:**
Sanlam Ltd, Mediclinic International Ltd, Reinsurance Group of America (SA)

**BOARD COMMITTEES:**
Audit and Actuarial Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
3 of 4

### MS A STEYN

**Non-executive Board member**

**DATE APPOINTED:**
01/01/2013
Term expired 30/9/2016

**AREA OF EXPERTISE:**
Medical

**QUALIFICATIONS:**
BSc in Physiotherapy (University of Stellenbosch), Various other related courses

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Human Resources Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

### MR TB TENZA

**Director-General (DG) representative**

**DATE APPOINTED:**
01/01/2010
Term expired 30/9/2016

**AREA OF EXPERTISE:**
Economics

**QUALIFICATIONS:**
Secondary Teachers Diploma (Indumiso College), BCom (Unisa), BCom (Hons) (Unisa), Master of Arts in Applied Economics (University of Michigan, USA), Executive Development Programme (Vaal University of Technology)

**BOARD DIRECTORSHIPS:**
None

**BOARD COMMITTEES:**
Audit and Actuarial Committee|
Risk Management and Ethics Committee
Remuneration and Human Resources Committee
Operations and Information Technology Committee

***NO. OF MEETINGS ATTENDED:**
4 of 4

**A total of 8 Board meetings took place during the financial year. The Annual General Meeting between the Shareholder and the Accounting Authority took place on 19 August 2016.*

## BOARD COMMITTEES

The RAF Board is fully constituted and supported by various committees, which perform oversight over Management's tactical operations.

Each committee has an approved annual work plan based on the roles and responsibilities as contained in the respective terms of reference, King III, applicable provisions of the PFMA, and various Institute of Directors in Southern Africa (IoDSA) position papers. Quarterly progress reports pertaining to the annual work plans are considered by the respective committees and reported on to the Board. Assurance on compliance with annual work plans is performed by Internal Audit.

### COMMITTEES: 1 APRIL 2016 TO 30 SEPTEMBER 2016

| Committee | No. of Meetings Held | No. of Members | Name of Members |
|---|---|---|---|
| Audit and Actuarial Committee | 3 | 4 | Mr LED Hlatshwayo (Chairperson)<br>Mr D Coovadia<br>Mr TP Masobe<br>Mr DK Smith<br>Mr TB Tenza (DG representative)<br>CEO *(Ex officio)* |
| Risk Management and Ethics Committee | 2 | 4 | Ms R Mokoena (Chairperson)<br>Mr LED Hlatshwayo<br>Mr AM Pandor<br>Adv. DS Qocha<br>Mr TB Tenza (DG representative)<br>CEO *(Ex officio)* |
| Remuneration and Human Resources Committee | 3 | 4 | Adv. DS Qocha (Chairperson)<br>Dr KLN Linda<br>Ms R Mokoena<br>Ms A Steyn<br>Mr TB Tenza (DG representative)<br>CEO *(Ex officio)* |
| Operations and Information Technology Committee | 2 | 5 | Mr AM Pandor (Chairperson)<br>Dr KLN Linda<br>Mr TP Masobe<br>Mr DK Smith<br>Ms A Steyn<br>Mr TB Tenza (DG representative)<br>CEO *(Ex officio)* |
| Chairperson's Committee | 1 | 6 | Dr NM Bhengu<br>Mr D Coovadia<br>Mr LED Hlatshwayo<br>Ms R Mokoena<br>Mr AM Pandor<br>Adv. DS Qocha |

## COMMITTEES: 21 OCTOBER 2016 TO 31 MARCH 2017

| Committee | No. of Meetings Held | No. of Members | Name of Members |
|---|---|---|---|
| Audit and Actuarial Committee | 1 | 5 | Mr D Coovadia (Interim Chairperson)<br>Mr TP Masobe<br>Mr A Pandor (Chairperson as from 26 January 2017)<br>Dr MC Peenze<br>Ms M Somaru (DG representative)<br>CEO *(Ex officio)* |
| Risk Management and Ethics Committee | 1 | 5 | Ms R Mokoena (Interim Chairperson)<br>Dr MC Peenze (Chairperson as from 26 January 2017)<br>Dr TO Kommal<br>Mr K Mothobi<br>Ms M Somaru (DG representative)<br>CEO *(Ex officio)* |
| Remuneration and Human Resources Committee | 1 | 4 | Dr KLN Linda (Interim Chairperson)<br>Dr TO Kommal<br>Ms R Mokoena<br>Ms LUZ Rataemane (Chairperson as from 26 January 2017)<br>CEO *(Ex officio)* |
| Operations and Information Technology Committee | 1 | 6 | Mr AM Pandor (Interim Chairperson)<br>Dr TO Kommal<br>Dr KLN Linda<br>Mr TP Masobe (Chairperson as from 26 January 2017)<br>Mr K Mothobi<br>Ms LUZ Rataemane<br>CEO *(Ex officio)* |
| Chairperson's Committee | 1 | 6 | Dr NM Bhengu (Chairperson of the Board)<br>Mr D Coovadia (Deputy Chairperson of the Board)<br>Mr AM Pandor<br>Dr MC Peenze<br>Ms LUZ Rataemane<br>Mr TP Masobe<br>Dr KLN Linda (Interim Chairperson REMCO)<br>Ms R Mokoena (Interim Chairperson RMEC) |

## BOARD MEMBER REMUNERATION

The Minister of Transport determines the remuneration of the RAF Board members, taking cognisance of NT guidelines, as well as the RAF's ability to attract and retain the leadership necessary for the turnaround of the organisation. NT annually determines a cost of living increment. Remuneration is fixed at a monthly stipend and not based on a per meeting fee structure.

Board members are remunerated for private kilometres travelled in the course and scope of their duties.

| Name | Remuneration | Other Allowance | Other Re-imbursements | Total |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| Dr NM Bhengu (Chairperson) | 825 | 16 | 5 | 846 |
| Mr D Coovadia (Vice-Chairperson) | 632 | - | 11 | 643 |
| Dr KLN Linda (Term expired 30 September 2016) | 565 | - | 2 | 567 |
| Mr TP Masobe | 560 | - | 2 | 562 |
| Ms R Mokoena | 594 | - | 8 | 602 |
| Mr AM Pandor | 605 | - | 9 | 614 |
| Dr TO Kommal (Appointed 21 October 2016) | 259 | - | 1 | 260 |
| Dr MC Peenze (Appointed 21 October 2016) | 269 | - | 1 | 270 |
| Mr KM Mothobi (Appointed 21 October 2016) | 259 | - | 2 | 261 |
| Ms LUZ Rataemane (Appointed 21 October 2016) | 269 | - | - | 269 |
| Ms M Somaru (DG representative) (Appointed 21 October 2016) | - | - | - | - |
| Mr LED Hlatshwayo (Term expired 30 September 2016) | 320 | - | 3 | 323 |
| Adv. DS Qocha (Term expired 30 September 2016) | 320 | - | 3 | 323 |
| Mr DK Smith (Term expired 30 September 2016) | 291 | - | 1 | 292 |
| Ms A Steyn (Term expired 30 September 2016) | 291 | - | 1 | 292 |
| Mr TB Tenza (DG representative) (Term expired 30 September 2016) | - | - | - | - |
| Total | 6,059 | 16 | 49 | 6,124 |

# 5. RISK MANAGEMENT

Risk management is an essential part of the business strategy and operations that impacts on business performance, socio-economic status, service delivery and the financial results of the organisation. Risks are viewed and assessed holistically and not in isolation, since a single transaction or event may have a number of risks, and one category of risk can trigger other risks.

## ▶ RISK GOVERNANCE

The RAF Board has promoted a 'risk-matured or risk-intelligent' culture and set the risk management tone through the approval of the Risk Management Policy and Framework. Maturity has been confirmed in consecutive years on an independent basis. Independent review of the Risk Management function and processes is performed by Internal Audit regularly. The Board, in discharging its risk management responsibilities, is supported by the RMEC, whose main responsibilities are to ensure that the RAF has implemented an effective Risk Management Policy and Risk Management Plan that will enhance the RAF's ability to achieve its strategic objectives.

Below is a High-level View of Risk Management Governance at the RAF:

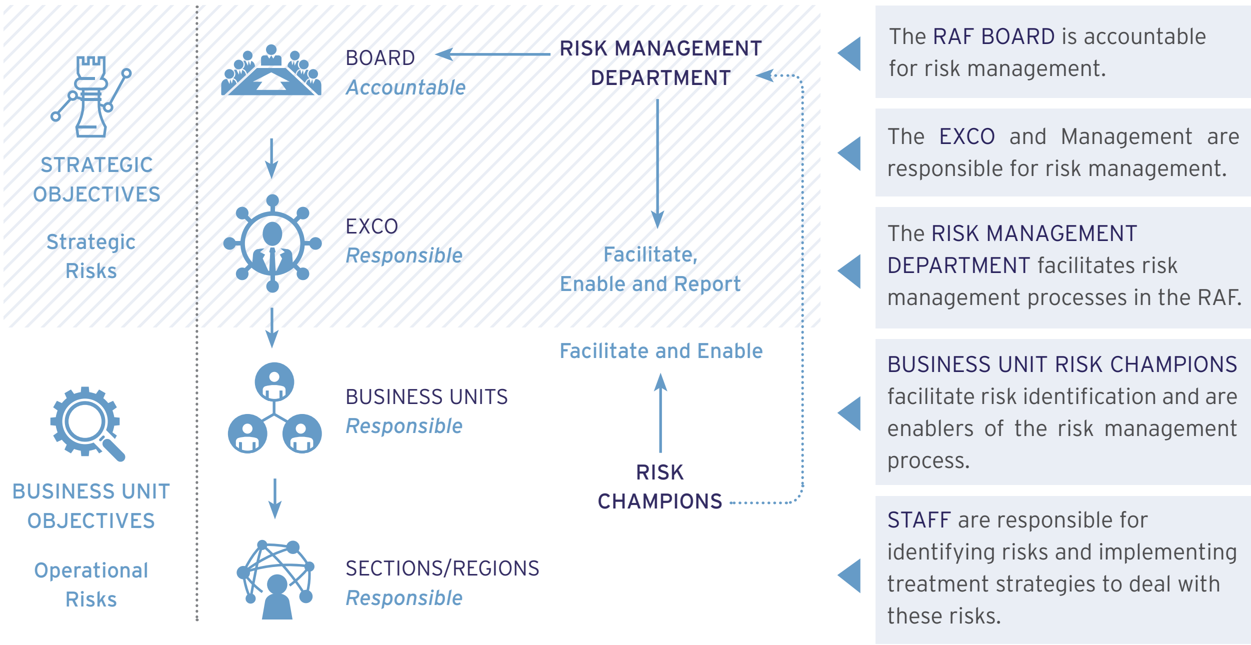



***Figure 2*** *– Risk management at the RAF*


Road
Accident
Fund

In fulfilling its governance oversight responsibility, the Board identified seven (7) strategic risks which could threaten the achievement of the RAF's strategic goals and performance targets for the 2016/17 financial year. These are depicted below according to their risk ratings:

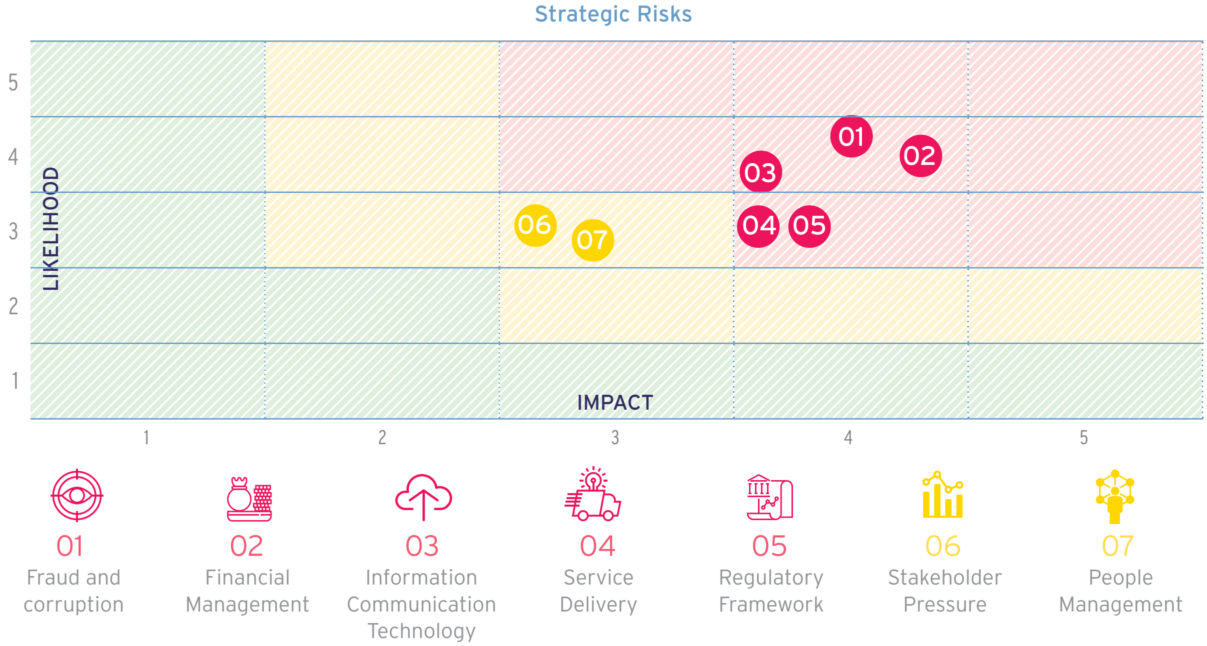



***Figure 3*** *- RAF Strategic risks - impact and likelihood*

The risk management culture is maturing; however, the strategic risk profile has not improved much over the past three years, mainly on strategic risks such as fraud and corruption, financial management, and ICT – and may further deteriorate mainly due to continued cash constraints, undercapitalisation of the Fund and stakeholder pressure as a result of delayed payments to claimants, possible resistance to the RABS Bill and funding of RABS, which subsequently impacts on other strategic risks such as service delivery, fraud and corruption, regulatory framework, and stakeholder pressure.

An annual risk assessment is conducted in respect of the strategic, tactical, operational and projects risks and is aligned to the strategic planning process of the RAF. The risks are documented utilising risk management software and monitored on an on-going basis in relation to risk mitigation strategies or plans, relevance and adequacy of existing controls, and the identification of emerging key and significant risks.

The table below provides an overview of mitigation measures implemented during the current financial year in respect of the RAF's strategic risks:

| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 1. Fraud and Corruption** | **2016/17** |
| Effective Financial Management; Optimal ICT Services; and Assured Control Environment. | The RAF operates in an environment that is targeted by internal and external fraudsters. It therefore continuously has to deal with professional syndicates and individual fraudsters. Considering the state of the organisation and claims values or claims pay-outs, there is a higher propensity for fraud and corruption. | • Implemented ethics and values awareness initiatives in order to entrench acceptable ethical standards.<br>• Revised and implemented a comprehensive Fraud Management Strategy, which incorporates fraud prevention and detection.<br>• Reported fraudulent third parties to relevant professional bodies, including NT.<br>• Introduced fraud risk assessments for various business units.<br>• Collaborations with other assurance providers through the Combined Assurance Forum.<br>• Proactive and continuous engagement with key stakeholders to prevent and detect fraud and corruption, including on-going value and ethics entrenchment. |

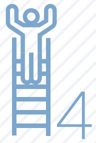
| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 2. Financial Management** | **2016/17** |
| **Efficient Claims Processing; Accessible Services; Effective Financial Management; Optimal ICT; Improved People Management; Administrative Dispensation aligned to the RABS Bill; Optimal ICT Services; and Assured Control Environment.** | The RAF Fuel Levy is determined with little regard for the main drivers of the RAF's claims expenditure.<br><br>The prevailing disconnect between the fuel levy awarded by government and the RAF's operational cash requirements and improved organisational productivity are the primary causes of the poor liquidity position experienced by the RAF.<br><br>Due to its unsustainable financial model, the RAF runs at a substantial deficit each year. Consequently, a number of outstanding (open and unpaid) claims have accumulated over time, representing a liability to the RAF. Furthermore, the provision for outstanding claims grows annually due to the expected growth in the cost of settling these claims and the increase in the lodgement of claims. Since the provision for future claims exceeds the RAF's asset base, the RAF is 'technically insolvent'. | • Execution of cash management processes and continuous review of the strategy to respond to the latest circumstances.<br>• Developed the RABS funding model based on the Actuarial Forecast Model.<br>• Communication to stakeholders about the Fund's liquidity.<br>• Continuous engagement with the Auditor-General and other critical stakeholders on the assessment of the 'going concern assumptions and mechanisms' and relevant financial disclosures of information to be prioritised on an annual basis.<br>• Implemented the Supply Chain Management (SCM) Turnaround Strategy.<br>• Cash flow constraints - Reasons determined and adjustments made to the extent possible with available resources/cash. |

| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 3. ICT** | **2016/17** |
| **Efficient Claims Processing; Accessible Services; Effective Financial Management; Optimal ICT; Assured Control Environment.** | ICT evolved from simply being a business enabler to being an essential component in implementing the RAF strategy and ensuring an easy, automated and engaging client experience. RAF business relies heavily on IT systems to deliver on its mandate effectively and efficiently. ICT systems are also utilised to process, store and protect the massive amount of claims transactions and data. Other key functions and initiatives, such as the Direct Claims Strategy, Hospital Service Centres, expansion of RAF Regional Offices, and integration with other government departments depend on ICT to function optimally and to gain competitive advantage. The successful implementation of the RAF Strategy also depends on other ICT outcomes, i.e. improvement of claims processing and efficiency, optimisation of content and information management, strengthening of ICT governance and risk management, as well as the stabilisation and adequacy of ICT infrastructure. Automation of processes and ever-evolving nature of ICT pose new risks to the RAF that require pro-active identification and management. | • Implemented 94% of Year Two initiatives of the Five-year ICT Strategy (RAF e-Enablement Strategy), which is aimed at introducing a new client experience to external and internal stakeholders.<br>• Drafted and implemented a Vulnerability Management Process, including services and solutions, and ICT governance maturity.<br>• Implementation of Phase 2 and a continuous implementation of Phase 3 of the Corporate Governance of ICT Policy Framework.<br>• Development and prioritisation of the implementation of the ICT procurement plans in line with the RAF e-Enablement Strategy.<br>• Aligned the ICT Risk Management Policy with the Enterprise Risk Management Framework.<br>• Development and implementation of Records Management Strategy and policies.<br>• Established Enterprise Architecture (EA) for the RAF. |

| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 4. Service Delivery** | **2016/17** |
| Efficient Claims Processing; Accessible Services; Effective Financial Management; Optimal ICT; Improved People Management; Administrative Dispensation aligned to the RABS Bill; and Assured Control Environment. | The RAF has a large number of outstanding claims for processing. It is therefore unable to pay claims at the rate it receives them as a result of the legislative requirements necessary to finalise a claim, as well as the cash resources required to effect payment. The organisation is focusing on processing claims effectively and efficiently in order to reduce the backlog, average cost-of-claim settlements, and improving turnaround times. | • Optimised, standardised, and re-engineered claims value chain/pillars. (Modernisation of claims value chain and system).<br>• Develop and implement the Litigation Management Plan.<br>• Prioritisation of key stakeholder agreements (e.g. DoT, Home Affairs, SAPS) that will improve turnaround times for claim settlements.<br>• Approval and implementation of a strategy on direct claims management with a critical focus on improving service delivery and reduction of legal costs.<br>• Review Direct Claims structure with a view of capacitating the HSCs.<br>• Review the document management processes at HSCs and CSCs to minimise litigation risks.<br>• Proactive agreement and engagement with the plaintiff attorneys on appointing joint medical experts.<br>• Improved adherence to the Litigation Management Strategy, and developed the Legal Cost Contribution Guidelines to proactively settle costs.<br>• On-going improvement of settlement turnaround times for all claim categories in order to reduce or maintain the average cost of a claim.<br>• Monitoring and reporting on lodgement of claims against registered claims at least three months before financial year-end. |

| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 5. Regulatory Framework** | **2016/17** |
| Efficient Claims Processing; Effective Financial Management; Administrative Dispensation aligned to the RABS Bill. | The current scheme is complex and subjective in that it often requires time-consuming and expensive legal procedures to establish fault and the quantum of damages suffered. The Amendment Bill was approved by Cabinet for introduction into Parliament in November 2016, closely followed by the RABS Bill in March 2017. Both are awaiting promulgation by the State President. There is a potential risk of simultaneous promulgation of both Bills, which may result in the organisation having to implement both Bills at the same time. In addition, once signed into law, the potential risk of Constitutional Court challenges on both Bills remains a risk coupled with the financial implication of implementing both Bills. This risk also concerns itself with compliance with laws and regulations governing the business of the RAF. | • On-going monitoring, scanning, advising and reporting on changes in the legislative landscape.<br>• Develop, implement and monitor the Compliance Risk Management Plans for core and high-risk legislation.<br>• Roll out the compliance awareness sessions to improve compliance.<br>• On-going policy review and development in order to expedite the processing of policies and procedures.<br>• RABS Bill and the proposed funding model finalised.<br>• Rolled out the RABS Communication Plan for the 2016/17 financial year.<br>• Continuous support to DoT in amending the current legislation. |

| Impacted Strategic Objectives | Risk | Key Mitigations |
|---|---|---|
| | **Risk 6. Stakeholder Pressure** | **2016/17** |
| Efficient Claims Processing; Accessible Services; Effective Financial Management; Optimal ICT; Improved People Management; Administrative Dispensation aligned to the RABS Bill; Assured Control Environment. | The current scheme is complex and subjective in that it often requires time-consuming and expensive legal procedures to establish fault and the quantum of damages suffered. The persistent cash constraints and resistance to accept the RABS Bill resulted in pressure for the organisation from various angles. | • Proactively engaged and prioritised key stakeholders such as NT, DoT, DOH, and Home Affairs on many matters affecting the RAF, including liquidity and RABS, and finalised outstanding MOUs.<br>• Implemented the issue-based Stakeholder Plan.<br>• Improved Call Centre processes and efficiency.<br>• Positive media coverage on RAF's improved accessibility and increased activity via its outreach programmes.<br>• Rigorous engagements with media owners across all platforms through social, digital and traditional platforms. This includes the development and implementation of a Social and Digital Media Policy and Strategy.<br>• On-going monitoring of media alerts about RAF - and responding accordingly. |
| | **Risk 7. People Management** | |
| Efficient Claims Processing; Improved People Management. | The RAF is a labour-intensive service organisation that relies heavily on people to effectively deliver on its mandate. Therefore, the attraction and retention of leadership and a workforce that is appropriately skilled, motivated, performance-driven, customer-centric and committed to providing excellent service is crucial. The RAF, therefore, invests in growing and developing employees and ensuring optimal staff capacity. | • Automation of the Performance Management process.<br>• Introduced 360 degree assessment for Executives.<br>• Monitored the implementation of succession interventions.<br>• Rolled out the Knowledge Management Strategy.<br>• Implemented the Absenteeism Management Framework, including revision of the Leave Policy and Procedures.<br>• Evaluated the current skills set and planned for the future skills set requirements.<br>• RABS skills set assessed.<br>• Implemented the e-Recruitment Systems to create efficiencies in the recruitment processes.<br>• On-going awareness in respect of current and future changes. |




The organisation currently has a maturity level of 4 (managed), which is the second highest maturity level, as independently assessed by an external audit firm

## RISK MATURITY

The RAF strives to have a risk-matured and risk-intelligent culture by 31 March 2018. The organisation currently has a maturity level of 4 (managed), which is the second highest maturity level, as independently assessed by an external audit firm. The RAF has elevated Risk Management as a strategic enabler and has implemented the following:

- Fully operational risk governance structures, namely a Risk Management and Ethics Committee (RMEC), Executive Management Committee (EXCO) where risk management is a standing agenda item, Risk Management Department, and a Risk Champion Forum (where Risk Champions from all business units throughout the RAF discuss cross-functional risks).
- Risk Advisors for all business units, as well as Regional Risk and Compliance Specialists at Regional Offices to monitor and report on key and significant risks to the business. Emerging risks are also discussed with the CEO and the EXCO on a monthly basis.
- A Three-year Plan to assist the RAF to achieve the desired maturity level. Maturity is also being monitored quarterly. In addition, the Risk Management Policy/Framework has been revised to incorporate improvements recommended in the Risk Maturity Assessment and other developments in the risk management industry. Combined Assurance and Business Continuity Management (BCM) are also incorporated in the policy.
- Risk assessments at a strategic, tactical and operational level as part of inculcating a risk culture in all RAF employees. In addition, a Risk Appetite Framework (which includes a risk-bearing capacity) has been established and forms part of the risk-reporting and monitoring philosophy. This includes the escalation process of risks to relevant governance structures and is monitored and reported on a monthly basis to EXCO and quarterly to RMEC.
- Data analytics and cost of risk to gauge risks/business decisions against the risk appetite limits, including quantification of loss events.
- Scenario analyses to manage the organisation's future uncertainties and risks. Scenarios are also used to identify emerging risks.
- Year One of the planned activities in the BCM Maturity Strategy.

## COMBINED ASSURANCE

### AT A GOVERNANCE LEVEL:

- Establishment of the Combined Assurance governance structures at Head Office and all Regional Offices (Combined Assurance Forum and Combined Assurance Task Teams).
- Alignment and collaboration amongst the Assurance Providers (APs)/lines of defence namely, Management, Quality Assurance, Risk Management, Compliance, Ethics, BCM, Forensics, Internal and External Audit. The collaboration is done to avoid duplications and assurance fatigue and enable the business to achieve its strategic objectives.
- Integration of assurance processes, such as risk workshops and training/ awareness. These assurance processes have been streamlined and integrated to derive value and ensure efficiency. There is now an adopted methodology that is used by all APs when conducting risk workshops and training/awareness.
- Development and adoption of Common Risk Language (Taxonomy) in line with relevant professional standards. The frameworks of the different APs were aligned to attain one language and one view of the risks and issues facing the RAF, so that APs don't confuse business.
- Identification of risks and business processes that have limited assurance/no assurance/ extensive assurance, to identify the gaps and give an indication on the status of risk profiles. This process enabled Risk Management to identify the reasons why some risk profiles do not improve/change.
- Development of the Combined Assurance database/assurance map of findings to provide a consolidated view of all issues to be addressed by Management.

### AT AN OPERATIONAL LEVEL:

- All APs, including Internal Audit, form part of the risk profiling workshops/ assessments.
- Risk-based development of the AP Plans, which form part of the Integrated Combined Assurance Plan, approved by the Audit Committee.
- Pre- and post-audits/review communications between the APs, through monthly Task Team meetings.
- Consolidated reporting on risks and where overall Combined Assurance opinion on each risk is determined and planned assurance work for the following months are planned and communicated.
- Review of governance documents by all APs, e.g. the Risk Management Policy that is currently being reviewed, has also been reviewed by all other APs.
- Appointment of the APs by the Combined Assurance Forum, that should perform assurance on identified emerging risks.

Assurance processes have been streamlined and integrated to derive value and ensure efficiency

# 6. INTERNAL AUDIT AND AUDIT COMMITTEE

The Internal Audit Plan was developed and implemented after taking into account the major risks identified by the Board, Management and Internal Audit. A risk-based approach was followed in developing this plan

## KEY ACTIVITIES AND OBJECTIVES OF INTERNAL AUDIT

The RAF's Internal Audit function is an integral part of its corporate governance system. Its purpose is to evaluate whether the RAF's systems of control are effective and to adequately mitigate business risks. Ultimately, the assurance provided by Internal Audit serves to assist the Board in fulfilling its disclosure obligations under its corporate governance codes and to report annually to the Minister of Transport and the Portfolio Committee on Transport (PCOT) on the effectiveness of the RAF's systems of control.

Internal Audit assists Management in identifying, evaluating and assessing significant organisational risks and provides reasonable assurance as to the adequacy and effectiveness of related internal controls, i.e. whether controls are appropriate and functioning as intended. Where controls are found to be deficient or not operating as intended, recommendations for enhancement or improvement are provided.

The Internal Audit Plan was developed and implemented after taking into account the major risks identified by the Board, Management and Internal Audit. A risk-based approach was followed in developing this plan. The plan provides coverage across all major processes of the RAF.

The Internal Audit function underwent an external Quality Assurance Review as required by the Institute of Internal Auditors standards. The review, conducted by an external audit service provider, resulted in a favourable rating of "Generally Conforms".

## KEY ACTIVITIES AND OBJECTIVES OF THE AUDIT COMMITTEE

Among other matters, the Audit Committee is responsible for monitoring and reviewing the effectiveness of the RAF's Internal Audit function. Each year it considers and approves the Internal Audit Plan, receives and reviews Internal Audit progress reports and approves any changes or shortfalls in the Internal Audit Plan.

## AUDIT COMMITTEE MEETING ATTENDANCE

The table below discloses relevant information on the Audit Committee members:

During the year under review four meetings were held.

| Name | Qualifications | Internal or External | Date Appointed | No. of Meetings Attended |
|---|---|---|---|---|
| Mr LED Hlatshwayo (Chairperson) | BCom (University of Zululand), BCompt (Unisa), BCompt/CTA (Hons) (Unisa), CA (SA) and MBA (North West University, Potchefstroom), Chartered Director (SA) | External | 01/10/2013 until 30/9/2016 | 3 of 4 |
| Mr D Coovadia (Acting Chairperson) | BCompt, BCompt (Hons) (Unisa), CA (SA), RA, FIMC, CMC, FIAC, FCIS, FSAIM, BA (SA), FIIASA, PIA (SA), FInstD, JP | External | 01/10/2013 Re-appointed 21/10/2016 | 4 of 4 |
| Mr TP Masobe | LLM International Business Law (candidate) (University of Cumbria, UK), MSc (University of London), BA (Grinnell College, USA), International Executive Development (Wits Business School and London Business School), Advanced Health Leadership (University of California at Berkeley) | External | 01/10/2013 Re-appointed 21/10/2016 | 4 of 4 |
| Mr DK Smith | BSc (University of Stellenbosch), FASSA, International Senior Management Programme (Harvard Business School) | External | 01/10/2013 until 30/9/2016 | 1 of 4 |
| Mr AM Pandor | CA (SA), MBA (Henley Management College, UK), CISA, GGEIT, Chartered Director (SA) | External | 21/10/2016 | 1 of 4 |
| Dr MC Peenze | B.Iuris, LLB, LLM (University of Free State), D.Tech (Central University of Technology: Free State) | External | 21/10/2016 | 1 of 4 |

| Name | Qualifications | Internal or External | Date Appointed | No. of Meetings Attended |
|---|---|---|---|---|
| Mr TB Tenza (DG representative) | Secondary Teachers Diploma (Indumiso College), BCom (Unisa), BCom (Hons) (Unisa), Master of Arts in Applied Economics (University of Michigan, USA), Executive Development Programme (Vaal University of Technology) | External | 01/01/2010 until 30/9/2016 | 1 of 4 |
| Ms M Somaru (DG representative) | B Proc (Unisa), MBA (Mancosa) | External | 21/10/2016 | 1 of 4 |

# 7. COMPLIANCE WITH LAWS AND REGULATIONS

The RAF has established an effective Compliance function with approved Compliance Frameworks. The Compliance function exists for a purpose, as it has a set of objectives with activities to be achieved on behalf of the Fund. It further exists to assist the RAF in discharging its responsibility to comply with all applicable regulatory requirements through the provision of compliance risk management services. The management of compliance risks and the conduct of compliance-driven activities are in line with legislative requirements and best practice guiding frameworks.

The Compliance function assists and supports top Management and the organisation in discharging their responsibility to comply with regulatory requirements, by, *inter alia:*

- Assessing compliance risks;
- Evaluating compliance risks;
- Monitoring compliance risks;
- Reporting compliance risks;
- Assisting in remedying compliance risks;
- Embedding a compliance culture within the organisation; and
- Facilitating the management of compliance risks.

Furthermore, the RAF has developed and maintains an Integrated Compliance Management Programme. This programme is aimed at high- and medium-risk legislation, regulations and supervisory requirements, as assessed in the regulatory universe and implemented via the Compliance Risk Management Framework. Compliance Risk Management Plans have been developed for the RAF's core high- and some medium-risk applicable legislation, with which the RAF must comply.

Compliance with internal policies and procedures is also crucial to the improvement of the governance and control environment within the organisation. A policy universe is maintained and compliance therewith is monitored on an on-going basis.

Policies are also reviewed on a regular basis to ensure harmony with the legislative and regulatory prescripts. Compliance with applicable laws and regulations is undertaken in line with Principle 13 of the King IV Report (Compliance Governance).

## ▶ COMPLIANCE FUNCTION

Compliance with internal policies and procedures and any other relevant regulatory requirements is ensured by the Compliance function.

Key functions of Compliance are to:

- Identify the compliance risks that the Fund faces and advise on them (identification);
- Design and implement controls to protect the Fund from those compliance risks (prevention);
- Monitor and report on the effectiveness of those controls in the management of the Fund's exposure to compliance risks (monitoring and detection);
- Resolve compliance difficulties as they occur (resolution);
- Advise the business on rules and controls (advisory);
- Provide compliance assurance to the Board and the Fund's Management;
- Embed a culture of compliance through effective training programmes and compliance awareness campaigns; and
- Ensure compliance with all regulatory requirements.

# 8. FRAUD AND CORRUPTION

The RAF is committed to combat fraud and corruption

## FRAUD PREVENTION POLICY

The Fraud Prevention Policy has been approved by the Board and will assist with the detection and prevention of fraud. The approved (revised) strategy has been developed to include detection, prevention, investigation and resolution of fraudulent matters.

## MECHANISMS IN PLACE TO REPORT FRAUD AND CORRUPTION

The RAF has a Whistle Blowing Policy in place, which resides in the Ethics Office. The Forensic Investigation Department (FID) is in charge of the Fraud Tip-off Line, through which fraud and corruption can be confidentially reported. A duty is placed on employees, in several policies, to report suspicious activities to the FID, or anonymously through the Fraud Tip-off Line.

FID statistics for the period 1 April 2016 to 31 March 2017 bear witness to the extent that fraud is experienced and managed by the organisation, as well as the RAF's commitment to combat fraud and corruption (refer to the table below).

## FRAUD TIP-OFF LINE

The Fraud Tip-off line is the RAF's confidential and independent reporting hotline, which enables employees, customers, suppliers, Managers and other stakeholders to raise concerns about conduct that is considered to be contrary to the RAF's values on a confidential basis.

When a tip-off is received through the hotline, it is sent to the FID General Manager who then allocates it to the relevant FID Manager for investigation. Where investigations are finalised and fraud is detected, a criminal docket is registered with the South African Police Service (SAPS) for further investigation.

The RMEC holds the oversight responsibility for ensuring the adequacy of the hotline procedures.

## POLITICAL DONATIONS, GIFTS AND BRIBES

The RAF is opposed to corruption and illegal practices in all forms. It does not tolerate the giving and receipt of bribes, nor does it condone anti-competitive practices in dealings with government and in the marketplace. The RAF does not permit contributions or donations for political purposes, and requires any lobbying undertaken to be in line with the RAF's ethics and internal policies.

RAF employees shall not solicit or accept a gift, hospitality, benefit or money from any service provider, attorney or claimant.

## FRAUD CASES REPORTED AND ACTIONS TAKEN

The table below outlines activities within the RAF's FID for the 12 months under review.

| External Investigations | |
|---|---|
| Files carried over | 2,156 |
| Files received | 3,746 |
| Files closed | 3,728 |
| No. of arrests (people) | 88 |
| No. of arrests (charges) | 93 |
| No. of convictions (people) | 68 |
| No. of convictions (charges) | 964 |
| Repudiations | 643 |
| Repudiations: Claimed amount | R387,685,221 |
| Repudiations: Estimated amount | R10,170,905 |
| Total claims no: Estimated amount | R503,701,349 |
| Cases referred to SAPS* | 418 |
| Cases registered by the SAPS* | 284 |

| Internal Investigations | |
|---|---|
| Investigations carried over | 170 |
| Investigations received | 157 |
| Investigations finalised | 163 |
| Claim files carried over | 118 |
| Claim files on investigations received | 264 |
| Claim files on investigations finalised | 276 |
| Claim files at year-end | 90 |
| Investigations where misconduct/fraud was identified | 37 |
| Cases where disciplinary action was recommended | 16 |
| Investigations where disciplinary action was instituted | 11 |
| Resignations due to or during investigations | 4 |
| Suspensions | 5 |
| Convictions (people) | 14 |
| Convictions (charges) | 16 |
| Cases referred to SAPS* | 5 |

** Total cases referred to SAPS = 707*

# 9. ETHICS

The RAF is committed to discharge its legislative mandate in an ethical organisational climate that ensures that its business is run fairly and justly. To this end, the Ethics Office has been established to raise ethical standards in the RAF through the implementation of an Ethics Management Programme. At the core of the RAF Ethics Management Framework is the Ethics Policy and Standard Operating Procedures (SOPs), which are informed by principles set out in the Constitution, the PFMA, King III, King IV and international best practices.

The overall aim of the Ethics Policy and SOPs is threefold: (i) to provide standards of conduct expected of all officials in the course of the RAF business; (ii) to manage conflicts of interest, particularly in selection, recruitment and supply chain management processes, in the conduct of everyday RAF business; and (iii) to provide a framework for governance of ethics and for reporting of unethical conduct in the course of the RAF business. Acceptance of any gifts, hospitality or benefits is prohibited to further manage conflicts of interest in the RAF. Non-compliance with the Ethics Policy and SOPs is a disciplinary offence, which is dealt with in line with the RAF's disciplinary procedures.

## ▶ TRAINING AND AWARENESS

Continuous training and awareness on organisational ethics and values is the core activity of the Ethics Office in the RAF. Ethics and Values training are compulsory for all RAF employees, and conducted countrywide for Management and staff on annual basis. For the 2016/17 financial year, a total of 2,575 out of 2,801 (92%) RAF employees attended Values training countrywide, and 333 out of 415 (80%) Executives, Senior Managers and Managers attended Ethics training. New and promoted employees are also inducted on the RAF organisational ethics and values, as well as the Ethics Policy and SOPs. A total of 279 out of 326 (86%) new and promoted employees attended Ethics induction countrywide.

## ▶ REPORTING WRONGDOING

An anonymous and confidential Ethics Hotline provides an avenue for RAF employees to report ethics violations (unethical, illegal and unlawful activities), breach of the Ethics Policy and SOPs and other organisational policies or procedures they may witness or personally experience. Matters reported are investigated and action is taken as appropriate.

## ▶ ETHICS PERFORMANCE REVIEW

A review of the Ethics Programme was conducted as part of the RAF Internal Audit Risk based on the Audit Plan for the 2016/17 financial year. The review was outsourced to an external service provider who determined that (i) the controls designed for the RAF Ethics Programme is adequate and partially effective for the achievement of organisational objectives, and (ii) the RAF organisational ethics maturity level is at a "defined" phase and leaning towards a "maturity" phase. The Board and Management are committed to improving the organisational ethics management performance of the RAF.

# 10. HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

Overall, the level of compliance achieved was well above the norm of 85%

In the 2016/17 financial year, the RAF sourced a service provider to conduct an annual Occupational Health and Safety (OHS) compliance audit at its Head Office, Regional Offices and CSCs in order to measure the level of compliance to the Occupational Health and Safety Act, Act 85 of 1993, as amended. The results indicated general improvements across the board, as outlined in the table below:

| Region | 2015/16 | 2016/17 | Change in % |
|---|---|---|---|
| Eco Glades | 97% | 99% | 2% |
| Menlyn | 98% | 98% | 0% |
| Johannesburg | 99% | 99% | 0% |
| Durban | 97% | 97% | 0% |
| East London | 96% | 91% | -5% |
| Cape Town | 99% | 100% | 1% |

| Customer Service Centres | 2015/16 | 2016/17 | Change in % |
|---|---|---|---|
| Bloemfontein | 97% | 99% | 2% |
| Kimberley | 98% | 99% | 1% |
| Nelspruit | 94% | 99% | 5% |
| Polokwane | 94% | 99% | 5% |
| PE Forensic | 69% | 69% | 0% |
| Mahikeng | 98% | 98% | 0% |

Overall, the level of compliance achieved was well above the norm of 85%; an indication that the RAF provides and maintains, as far as reasonably possible, a working environment that is safe and without risk to the health of its employees and stakeholders.

# 11. COMPANY SECRETARY

The Company Secretary's role and responsibilities include, but are not limited to the following:

- Providing a central source of guidance and support to the Board on matters of good governance;
- Assisting with the Board induction and training programmes;
- Ensuring that Board and Committee Charters are kept up to date;
- Preparing and circulating Board documents;
- Eliciting responses for Board and Board Committee meetings;
- Drafting annual work plans;
- Ensuring preparation and circulation of minutes of Board and Board Committee meetings; and
- Assisting with the evaluation of the Board, Committees and individual Board members.

# 12. SUPPORT FUNCTIONS

## STAKEHOLDER RELATIONS MANAGEMENT

The Board of the RAF effectively retains oversight of stakeholder management.

During the year under review, Stakeholder Relations Management enhanced participation and involvement by core business as the benefactor of key partnerships. These engagements were aligned to items as per the Risk Register and, among other, included reputation management, adversarial relationships, and RAF's solvency and liquidity challenges, as well as support to the DoT on the RABS Bill process.

In addition, the relationships were geared to benefit the RAF in addressing existing challenges, as well as positioning the RABS Bill as the scheme of the future. This saw a number of workshops with stakeholders across the country, among others, the Department of Education, the Department of Home Affairs, the Department of Health (DoH), the Compensation Fund, the South African Revenue Service (SARS), the South African Social Security Agency (SASSA), the Unemployment Insurance Fund (UIF), South African Local Government Association (SALGA), SAPS, Judge Presidents, Society of Advocates, provincial departments, municipalities, taxi associations, bus associations, freight associations, civic movements, community-based organisations (CBOs), funeral parlours, disability associations, etc. During the year under review, a total of 119 RABS engagement workshops were held in all provinces and across all sectors.

Some relationships were formalised through the signing of MoUs, which resulted in the RAF benefiting from partnerships and collaboration with stakeholders to find solutions to identified challenges and concerns, and working together to address issues of common interest. To date, the RAF has signed a total of 43 Information Collection Agents (ICAs) and general MoUs to the benefit of the business.

The table below outlines some of the stakeholder engagements that took place during the year under review:

| Stakeholder | APP Targets | Nature of Engagement |
|---|---|---|
| Health and Social Services Cluster | Efficient Claims Processing | Stakeholder Relations Management (SRM) facilitated a total of 200 engagements with Health (Hospitals & EMS), government departments, SAPS, traffic officers, municipalities, Transport (bus operators and taxi operators/SANTACO/NATO), traditional authorities and youth in all provinces and reached a total of 8,022 people to promote accessibility to RAF services. |
| Justice and Security Cluster | Litigation Management | As part of improved case management and litigation, SRM facilitated the following interventions in conjunction with the respective Regional Managers: Meeting with the Eastern Cape Judge President and his two Deputy Judge Presidents, Limpopo's Judge President and his Deputy, North Gauteng Judge President, Northern Cape Judge President, Free State Judge President, as well as the SAPS Provincial Commissioner of the Eastern Cape (Acting Provincial Commissioner) and Free State respectively. Issues raised by the Judge Presidents included continued last minute settlements or using trial dates to trigger settlements, postponing of cases, not giving instruction to Senior Counsel, defending cases without presenting evidence or calling own witnesses, and that the RAF needs to monitor court orders, and adverse comments. One of the outcomes of the meeting with the Acting Eastern Cape SAPS Commissioner was that the RAF has now been added to the Eastern Cape Road Incident Response Management Committee coordinated by the South African National Roads Agency (SANRAL).<br><br>Interventions were facilitated in respect of a number of stakeholder challenges through meetings with Gauteng Sheriffs and the Judiciary Provincial Efficiency Enhancement Committee (PEEC). The interventions were intended for the following: (1) to improve case-flow management and to create partnerships to fight fraud and corruption; (2) to address issues relating to the clogging of the court rolls and reduction of legal costs; (3) to address challenges regarding the attachment of RAF furniture and computers by the Sheriffs which are a hindrance to efficient claims processing and access to RAF services. |
| Provinces and Transport Cluster | Providing Accessible Services | As part of improved case management and litigation, SRM facilitated the following interventions in conjunction with the respective Regional Managers:<br><br>Originations – SRM engaged with various stakeholders at local government level in support of 'RAF on the Road' campaigns, which resulted in coordination and mobilisation of stakeholders for these community outreach campaigns. |

| Stakeholder | APP Targets | Nature of Engagement |
|---|---|---|
| Provinces and Transport Cluster (continued) | Providing Accessible Services (continued) | Health – SRM intervened in a number of stakeholder challenges within different hospitals around the country. In the main, challenges included access to hospital wards by RAF Hospital Service Consultants, fraud and corruption, records management, as well as poor completion of statutory medical reports (SMRs). Engagements were held with 13 private hospitals and 60 public hospitals.<br><br>The engagement through workshops and meetings took place in the Eastern Cape, Western Cape, Northern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga and North West. Two meetings were held with the National Department of Health (NDoH) as part of the operationalisation of the Non-Disclosure Agreement with the Department. This was meant to enhance access to RAF services and sharing of information with the NDoH.<br><br>Three meetings were held with the Provincial Heads of Department (HODs) of Health of KwaZulu-Natal and Gauteng, and the MEC for Health in Gauteng. All the meetings were facilitated by SRM with the involvement of the General Manager: Medical, Regional General Managers (RGMs), Forensic Investigation Department (FID) and the broader Operations in enhancing service delivery. As a highlight of the outcomes of the meeting with the MEC for Health in Gauteng, a workshop was held at Helen Joseph Hospital with a total of 36 hospitals represented. The focus was on RAF services, SMRs, revenue management, fraud prevention and RABS and RAF Amendment Bill awareness. |
| Regulation and Policy Cluster | Transitioning from RAF to RABS | In support of the DoT in mobilising support for the RAF Amendment Bill and the RABS Bill, SRM was instrumental in facilitating 119 RABS Bill and RAF Amendment Bill engagements with the following fraternities: Health (Hospitals and EMS), SAPS, traffic officers, municipalities, Transport (bus operators and SANTACO), traditional authorities and youth in: Eastern Cape, Limpopo, Free State, Gauteng; Mpumalanga; North West; Northern Cape, Western Cape and KwaZulu-Natal. SRM also made a presentation on the RABS Bill to the Limpopo Provincial Legislature Portfolio Committee on Transport supported by the DoT. |
| Protocol and International Relations | None | SRM facilitated a number of international engagements as follows:<br><br>International visits - A total of 10 international visits and activities were coordinated as follows:<br><br>• UN Road Safety Collaboration – The Chief Strategy Officer (CSO) attended the UN Road Safety Collaboration (UNRSC) meeting in Switzerland over the period 15 - 20 November 2016. The RAF applied to be a member of the UNRSC and is still waiting for a response. |

| Stakeholder | APP Targets | Nature of Engagement |
|---|---|---|
| Protocol and International Relations (continued) | None | • Road Safety Management Leadership Programme – In capacitating RAF Officials, two Road Safety Officials visited Australia to attend a Road Safety Management Leadership Course at Monash University in Melbourne, Australia over the period 11 – 20 November 2016.<br>• Sincepethelo MVA Fund of Swaziland Delegation – The RAF hosted delegates from Sincepethelo MVA Fund of Swaziland Call Centre Agents for experiential learning and job shadowing at the Call Centre over the period 28 November to 2 December 2016.<br>• Three Road Safety Joint Operations – The RAF co-ordinated and hosted Road Safety Joint Operations with Swaziland on 29 September – 3 October 2016, Namibia and Botswana on 17 – 21 October 2016, and Zimbabwe on 16 – 17 December 2016, and again from 6 – 7 January 2017. Road Safety Joint Operations are a resolution of the Southern Africa Development Community (SADC).<br>• Two SADC MVA Funds Workshops – The RAF hosted the first SADC MVA Funds Workshop, from 21 – 22 June 2016, in South Africa and attended the second Workshop hosted by the Traffic Safety Council of Zimbabwe from 21 – 23 February 2017 in Zimbabwe.<br>• CFO Visit to the United Kingdom – The Chief Financial Officer (CFO) accompanied by the Chief Actuary visited the United Kingdom on RAF matters relating to re-insurance.<br>• Namibia MVA Fund Visit – SRM facilitated a visit from Namibian MVA Fund delegates over the period 15 – 18 March 2017 for an educational and learning excursion.<br>• Protocol Training – 11 workshops were coordinated and conducted for RAF Officials, in partnership with the Department of International Relations and Cooperation (DIRCO). |

## ROAD SAFETY

The RAF endeavours to gain insight into factors that contribute to increased road crash and injury risk on South African roads and collaborates with road safety entities to implement mitigation strategies with the aim of reducing the RAF's liability. The RAF's role in the road safety management arena is guided by the Board-approved Road Safety Policy and Standard Operating Procedures (SOPs). The policy provides a framework within which the RAF manages its participation and contributions to road safety.

Giving impetus to the Road Safety Policy is an Integrated Road Safety Strategy, which was also approved by the RAF Board during the 2014/15 financial year. The five pillars of the Decade of Action for Road Safety, the National Road Safety Strategy, the RAF Act, and the RAF's Strategic Plan 2015-2020 form the basis of the RAF's Road Safety Strategy 2014-2017. Pillar Five of the United Nations' Decade of Action for Road Safety, as well as South Africa's commitment to contributing to a reduction in road crashes of at least 50% by 2020, also guides the RAF's strategic focus on road safety.

Furthermore, annually, in December, the RAF develops a Road Crash Forecasting Report, using data from various ICAs, such as the Road Traffic Management Corporation (RTMC), SAPS, public and private emergency services, provincial and local government traffic authorities, as well as from Statistics South Africa and the Automobile Association. Among other matters, this provides for scientifically-based road safety interventions and strategies and allows road safety enforcement agents to align their strategies and campaigns in response to the identified road crash causes and anticipated trends.

Thus, the road safety focus for 2016/17 was both reactive and proactive and focused on the following programmes:

## Implementation of Crash Verification System (APP 2016/17 Target)

The RAF operationalised the Crash Verification System (CVS). In the year under review, the RAF received road crash-related data from 41 Information Collection Agents (ICAs). A total of 2,237 crashes were recorded and 3,560 referrals were sent to Operations for claims originations and verification. This comprised of 2,042 fatalities and 1,518 serious injuries.

To date, more than 10% of the applicable historical data received from the ICAs has been captured on the CVS. Learning and Development provided training on the functioning of the CVS to all Regional Offices.

## Defensive Driver Training

To promote road safety, the RAF conducted defensive driving workshops and trained 1,405 truck, bus and taxi drivers from a variety of organisations and associations such as Eskom, Putco, Autopax and SANTACO, and practical safety training was also provided for 602 lifestyle and delivery motorcyclists.

## Promotion of Child Restraints

In support of the amendment to the National Road Traffic Act, the RAF raised awareness of the importance of child restraints and the prevention of fatalities and serious injuries involving minor children by promoting the use of child restraint car seats, and providing same. A total of 416 child restraint car seats were distributed to parents of new born babies in hospitals where RAF has offices and those at road safety road blocks in all nine provinces. Car seats were also distributed through radio competitions held on Ukhozi FM and Ikwekwezi FM where RAF reached over 8 million listeners.

## Youth Driver Development Programme

The RAF implemented a Youth Driver Development Programme that seeks to promote road safety while contributing to the reduction of youth unemployment. A total of 150 youth were selected from 5,471 applications from youth based in Gauteng, Eastern Cape, Northern Cape, Free State and Mpumalanga.

## Road Safety Joint Operations

As part of the implementation of the resolutions of the SADC MVA Summit held at the RAF from 21–22 June 2016, the RAF facilitated Road Safety Joint Operations with Swaziland, Botswana, Namibia and Zimbabwe. The first Joint Operation took place between South Africa and Swaziland from 29 September 2016 to 2 October 2016. The second Joint Operation between South Africa, Botswana, and Namibia took place from 17–21 October 2016. The third Joint Operation between South Africa and Zimbabwe took place from 16–17 December 2016 (South African side) and from 6–7 January 2017 on the Zimbabwe side. The events were supported by Traffic Law Enforcement Agencies, Cross-Border Road Transport Agency (CBRTA), SARS, SAPS, Home Affairs and DoT. During these Joint Operations, the Police and Traffic Departments controlled the movement of cars, while other stakeholders conducted responsibilities related to their mandates. The RAF promoted road safety and provided information about its service offering.

## Road Safety Partnerships

The RAF supported the following organisations financially to conduct road safety awareness drives:

**Quad Para Association of South Africa:** This association runs road safety campaigns to promote the use of safety belts and awareness regarding the prevention of spinal cord injuries, as well as educating the public about the dangers of distracted driving.

**Ama-Wheelies:** Encourages society to always buckle up and adhere to road safety rules to alleviate road accidents and prevent spinal cord injuries.

**Kamohau Community Services:** This programme focuses on driver education, as well as workshops on road safety and RAF services in schools and communities.

**Pedal Power Association:** This association distributed 5,000 reflective bibs to cyclists who use bicycles to travel to and from work.

## National Road Safety Programmes

The RAF hosted and/or participated in the following events in support of the DoT nationally and provincially:

**October Transport Month:** Participated in the 2016 October Transport Month (OTM) activities, including financial contributions for the opening and closing events of OTM.

**UN World Day of Remembrance:** The RAF was the lead entity hosting the 2016 UN World Day of Remembrance in Pinetown on 20 November 2016.

**National Road Safety Summit:** The RAF participated in the Annual National Road Safety Summit held from 21–22 November in Durban, KwaZulu-Natal and facilitated Commission Five on Post-Crash Care.

**2016 Festive Season Road Safety Campaign:** The RAF participated in the national and provincial launches, as well as road safety activations as follows:

- National Launch, N12 in Eldorado Park, 3 December 2016;
- Limpopo Provincial Launch, Montsole Traffic Control Centre, 6 December 2016;
- Mpumalanga Provincial Launch, KwaMhlanga, 10 December 2016;
- Gauteng Road Safety Activation in Tembisa, 10 December 2016;
- Western Cape Provincial Launch, Huguenot Tunnel Toll Plaza, Paarl, 13 December 2016;
- Gauteng Premier Road Safety Activation, Corner N12 and Impala Road, Soweto, 14 December 2016;
- Eastern Cape Provincial Launch, Graaff Reinet, 15 December 2016;
- North West Provincial Launch, Potchefstroom, 15 December 2016;
- Limpopo Road Safety Cultural Hubs: Kranskop Toll Plaza, Botlokwe Shopping Centre and Ayob Garage in Makhado, 15 December 2016;
- Deputy Minister of Transport Road Safety Activation, Estcourt, 15 December 2016;
- Road Safety Activation, Ladysmith, 16 December 2016;
- Road Safety Joint Operation with Zimbabwe, Beit Bridge, Musina, 16–17 December 2016; and
- Deputy Minister of Transport Road Safety Activation, Nelspruit, 23 December 2016.

## CORPORATE SOCIAL RESPONSIBILITY

The RAF's Corporate Social Responsibility (CSR) programmes are an integration of social, environmental and economic contributions towards our society. The Fund's CSR Strategy is aligned to the organisation's core business objectives and the South African government's socio-economic and development priorities. Our CSR subscribes to the broader solution, i.e. the triple bottom-line of profit, people and planet. CSR has an added dimension as it is measured by the Broad-Based Black Economic Empowerment Act, Act No. 53 of 2003. It falls under socio-economic development in the Codes of Good Practice, which are derived from the B-BBEE Act.

The Fund's CSR focus areas are:

- Health (post-crash care);
- Skills development;
- Poverty alleviation; and
- Strategic interventions.

During the reporting period, the RAF supported 19 projects in rural and underdeveloped areas, excluding employee volunteerism and *ad hoc* projects. CSR's new approach going forward is to focus on fewer projects that will yield a high impact, whilst strengthening its partnerships with strategic government departments.

The table below reflects the 2016/17 CSR budget per focus area:

| Focus Area | Percentage Split | Approved |
|---|---:|---:|
| Health (post-crash care) | 30% | R 1,500,000 |
| Skills development | 20% | R 1,000,000 |
| Poverty alleviation | 25% | R 1,250,000 |
| Strategic interventions | 20% | R 1,000,000 |
| Employee volunteerism | 5% | R 250,000 |
| **Total** | **100%** | **R 5,000,000** |

During the reporting period, the RAF supported 19 projects in rural and underdeveloped areas, excluding employee volunteerism and *ad hoc* projects

List of projects implemented during the 2016/17 financial year:

| Project Name | Project Description | Type |
|---|---|---|
| 1. National Education Collaboration Trust – Curriculum project | Contribution towards the Transport curriculum | Skills development |
| 2. New Africa Education Foundation – Tosca Intermediate School | Contribution towards mobile hostel facilities and a mobile library | Poverty alleviation |
| 3. Study Trust (Student support) – DoT project | Contribution towards study fees for Transport students | Special intervention |
| 4. Zamimpilo Special School – Partnership with Ukhozi FM | Contribution towards technology special devices for disabled learners | Skills development |
| 5. Port Shepstone Hospital | Contribution towards automation of patient records and files | Health/Post-crash care |
| 6. Stop Hunger – Partnership with RAF Women's Forum | Packing of meals by RAF employees as a Mandela Day initiative | Employee volunteerism |
| 7. Balfour Crèche | Painting and handing over of the crèche by the Deputy Minister of Transport | Strategic intervention |
| 8. QASA/THUTO – Caregivers Training | Contribution towards the basic training of caregivers | Health/Post-crash care |
| 9. Thuso Ke Botho | Contribution towards the basic training of caregivers | Health/Post-crash care |
| 10. Imbumba Foundation – Hlelimfundo High School | Contribution towards the renovations of bathrooms and staff room | Strategic intervention |
| 11. Ba'one Intellectual | Contribution towards the purchasing of solar lights for a centre for the disabled | Strategic intervention |
| 12. Zwelebango Intermediary School | Contribution towards the building of a Grade R classroom | Employee volunteerism |
| 13. Pelonomi Hospital | Contribution towards rehabilitation equipment for the spinal cord unit | Health/Post-crash care |
| 14. National Senior Certificate results announcements – 2016 | Contribution towards the top three matric learners from the Special Needs category | Skills development |
| 15. Bophelong Centre | Contribution towards the food security garden projects | Employee volunteerism |
| 16. Leaving Something Behind (Legacy Project) | Mbizana Community Hall<br>Tzaneen Community Hall | RAF flagship projects |
| 17. Headway Gauteng | Sustainability project | Employee volunteerism |
| 18. Bakgone Day Care Centre | Educational toys, mattresses and blankets | Employee volunteerism |
| 19. Bophelong Day Care Centre | Greenhouse food tunnel | Poverty alleviation |
| 20. Ratanang Disability Centre | Children's playing equipment | Employee volunteerism |

## PROGRAMME MANAGEMENT OFFICE

The RAF's Programme Management Office (PMO) is responsible for strategy enablement through the identification, management and delivery of transversal projects. At the core of executing the PMO mandate, is project governance which is underpinned by RAF project management and business analysis frameworks. This allows for a controlled and auditable environment in which resources, budgets and deliverables are managed in a systematic manner. The results of project execution are then measured and documented against the founding business case in order to ensure value realisation for the business. All projects are formally closed through project close-out reports, and lessons learned are documented and shared accordingly in order to avoid repeat failures.

PMO's value propositions are:

- Quantifying the impact of legislative and/or strategic change and enabling business to resource, upskill, train and implement change programmes;
- Minimising delays and wastage by optimising business processes to promote operational efficiencies;
- Continuous business improvement through provision of analysis and advisory services; and
- Assisting the business to visualise the change, understand the impact, prepare a response and to act decisively.

During the 2016/17 financial year, the PMO managed two key strategic projects for the organisation, namely the RABS Programme, and Integrated Claims Management System (ICMS) Project.

Under the ICMS Project, PMO delivered the ICMS Process Blueprints that laid the foundation from which optimisation opportunities could be identified and from which specifications for the acquisition of the intended solution could be derived.

The RABS Business and Process Architecture was developed internally by the PMO Business Analysis team and laid the foundational work required for other deliverables to commence. Typical deliverables that were started as a result of the Architecture work were: the RABSA Skills Requirement Report, Client Experience Model, Medical Model and Internal Dispute Resolution Model.

PMO's role was critical in the following short-term impactful projects and initiatives:

### Expert Management Unit (EMU)

- Assisted Durban Region with documenting EMU pilot work and analyse areas of improvement.

### Direct Claims Strategy

- Reviewed existing Direct Claims Strategy in an effort to analyse and address gaps that were raised; provide guidance to the COO in the subsequent development of the Strategy.

### RAF and KZN DoH Rehabilitation Initiative

- Facilitation of engagements between RAF Durban Region and KZN DoH on RAF claimant rehabilitation partnership exploration.

### Pillar 6

- Development of measuring metrics and system for implementing Post-crash Care Strategy (Number of treatment plans) (2016/17 APP).
- Development of Caregiver Management Processes and System to enable RAF to pay Caregivers within 30 days, as well as implementation of a standardised fee structure.

# 13. INFORMATION AND COMMUNICATION TECHNOLOGY

During the year under review, the Information and Communication Technology (ICT) Department continued to effectively enable the organisation through the implementation of technology, using internal ICT resources to pursue its strategic objectives. The department continued to focus on providing effective ICT service availability and stability to internal and external stakeholders. Furthermore, the department ensured that all core ICT services maintained 98% availability over the course of the year.

ICT implemented Year Two initiatives of the RAF Five-year ICT Strategy (also known as the RAF e-Enablement Plan), which is aimed at introducing a new client experience that is simple, empowering, engaging and easily accessible, for both internal and external clients.

In the process of implementing the RAF e-Enablement Plan, ICT ensured continuous engagement with business to maintain alignment and awareness.

There were 16 initiatives planned for the second year implementation of the RAF e-Enablement Plan. Out of the 16 initiatives, 14 (88%) were completed, whilst the 2 (12%) outstanding initiatives were partially achieved. The following achievements against the RAF e-Enablement Plan were recorded:

### ▶ Integrated Claims Management System (ICMS):

- System modelling specifications:
  - Approved ICMS Meta and Conceptual Architectures.

- The following initiatives were approved:
  - ICMS Training Plan;
  - Change Request to include the impact on the project schedule due to the unsuccessful ICMS tender; and
  - ICMS Change Impact Assessment Report.

### ▶ Electronic Queue Management System (EQMS):

EQMS is an internally developed application used by Corporate Communications and Operations at 'RAF on the Road' community outreach campaigns to manage queues and register attendees. It is hosted on handheld scanners and is linked to the RAF Claims System and the Department of Home Affairs System. EQMS was entered for the Centre of Public Service Innovation Awards (CPSI) 2016 and won an award in the category 'Improved ICT Service Delivery'. Subsequent to the CPSI award, the CPSI nominated EQMS for the United Nations Public Service Awards (UNPSA) 2017. The UNPSA award applications are currently under review.

### ▶ Enterprise Architecture (EA):

The following achievements were recorded:

- Implemented new architecture;
- Approved EA Framework (including roadmap);
- Completed the first iteration of RAF/RABS Business Architecture;
- Completed all EA work packages; and
  - Approved the following architectures:
  - Enterprise Content Management;
  - ICMS;
  - Infrastructure as a Service (IaaS);
  - Office 365/Exchange; and
  - Portable scanners for fixed assets.

### ▶ Enterprise Content Management (ECM):

The following achievements were recorded:

- Approved the following:
  - ECM Work Package;
  - ECM Conceptual and Meta Architecture; and
  - Functional Requirements Specification for the RAF 1 Form, Complaints Form and Consultation Questionnaire.

- Completed the design, development and implementation of e-Forms (i.e. RAF 1 Form, Claimants Complaint Form, and Consultation Form) and repositories.

### Infrastructure and Network Optimisation:

The following infrastructure initiatives were completed:

- Infrastructure as a Service (IaaS): The Board approved IaaS. The SCM process is underway.
- Servers: Secured new servers for the following:
  - ICMS (development environment);
  - SAP (test and development environment);
  - Claims databases and Litigation Management System (LMS);
  - Governance Risk and Compliance (GRC); and
  - Business Intelligence (BI).
- Tested and deployed the following applications:
  - Web-based LMS;
  - SAP initiatives;
  - SAP GRC; and
  - SAP BI.
- Printers: Delivered and installed 407 printers.
- Citrix Netscalers: Upgraded the primary and secondary Citrix NetScalers from 10MB to 1GB.
- Desktop Optimisation: The BAC approved the pricing scheduled for leasing of end-user equipment through a SITA transversal contract.

### Network Bandwidth and Expansion:

The following network initiatives were completed:

- HSC Optimisation: The Proof of Concept (PoC) for the Telkom VPN solution was extended to include one site per Region. The PoC was conducted in the following centre and HSCs:
  - Midrand Vodacom Datacentre;
  - JS Tabane HSC;
  - Polokwane HSC;
  - Standerton HSC;
  - Tshwane District HSC; and
  - Frontier HSC.
- Deployment of Infrastructure: New infrastructure was deployed in line with the business and technology strategy.
- Network Redundancy: Network redundancy was implemented for Polokwane, Nelspruit and Kimberley CSCs.
- Internet Bandwidth Expansion: Quality of Service (QoS) was implemented on the Wide Area Network (WAN) to improve network performance nationally and on the Local Area Network (LAN) to improve voice quality and resolve intermittent breaking of calls at the Call Centre.
- APN Upgrade: Vodacom APN was upgraded from 50GB to 750GB.

### Information Security:

The following achievements were recorded:

- Out of 30 Information Security Strategy initiatives, 24 (70%) were completed;
- Approved ISMS Roadmap;
- Approved Secure Coding Standards;
- Approved Information Security Framework;
- Approved Standard Operating Procedures (SOPs);
- Completed asset identification and classification in ICT, Finance, Operations, Internal Audit, Corporate Communications, FID and Regulation;
- Reviewed and consolidated ICT Security Framework policies to also include POPI requirements;
- Implemented a mandatory process of asset tag checks for all ICT assets that are removed from the buildings;
- Implemented endpoint and perimeter security review;
- Reviewed periodic user access and access-level;
- Defined and implemented a Security Incident Management process; and
- Conducted Information Security Risk Assessment (Control Self-Assessment).

### ICT Security and Risk Management:

An End-to-End Vulnerability gap analysis was done and initiatives were identified to address the vulnerabilities. Remediation is on-going.

### ICT Governance Maturity:

The ICT Governance Maturity Assessment was completed and the action plans defined. These are currently being implemented.

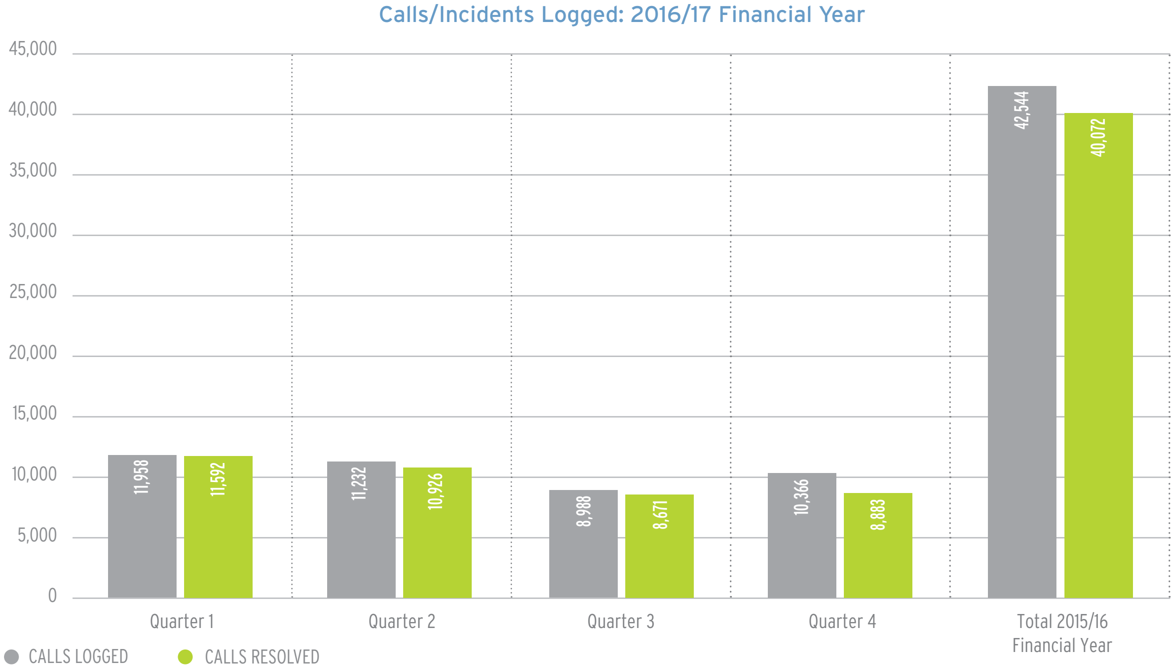
- ### Green ICT Strategy:
  The implementation of 31 (94%) out of 33 Green ICT initiatives for the 2016/17 financial year were completed.

- ### Electronic Document and Records Management:
  EXCO approved the National Archive and Records Service of South Africa (NARSSA) and legal requirements aligned Records Management Policy and SOP. The File Plan was implemented across the organisation.

- ### ERP Enhancements:
  ERP enhancements were implemented and SAP Enhancement Package 6 was upgraded to enable new SAP modules.

- ### Benefits Realisation for the 2015/16 Financial Year RAF e-Enablement Initiatives:
  The CEO approved the Benefits Realisation Report for RAF e-Enablement initiatives implemented in the 2015/16 financial year.

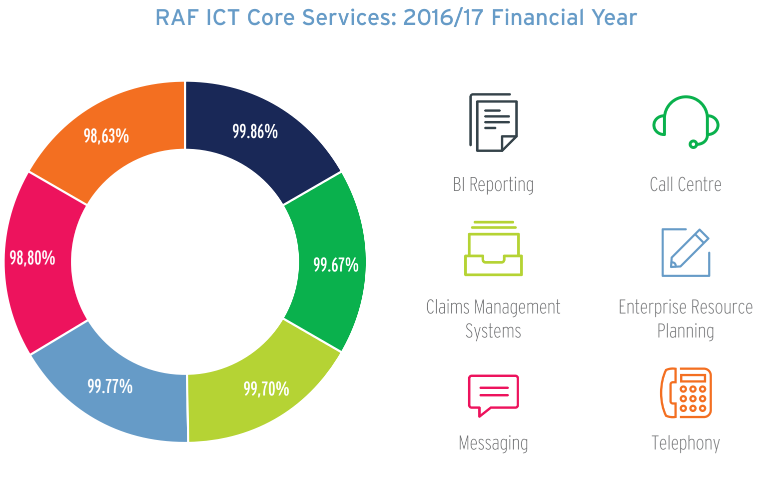
The ICT Service Desk received 42,544 requests and incident reports, of which 40,072 (94%) were resolved. The graph below outlines the performance of the ICT Service Desk during the 2016/17 financial year.



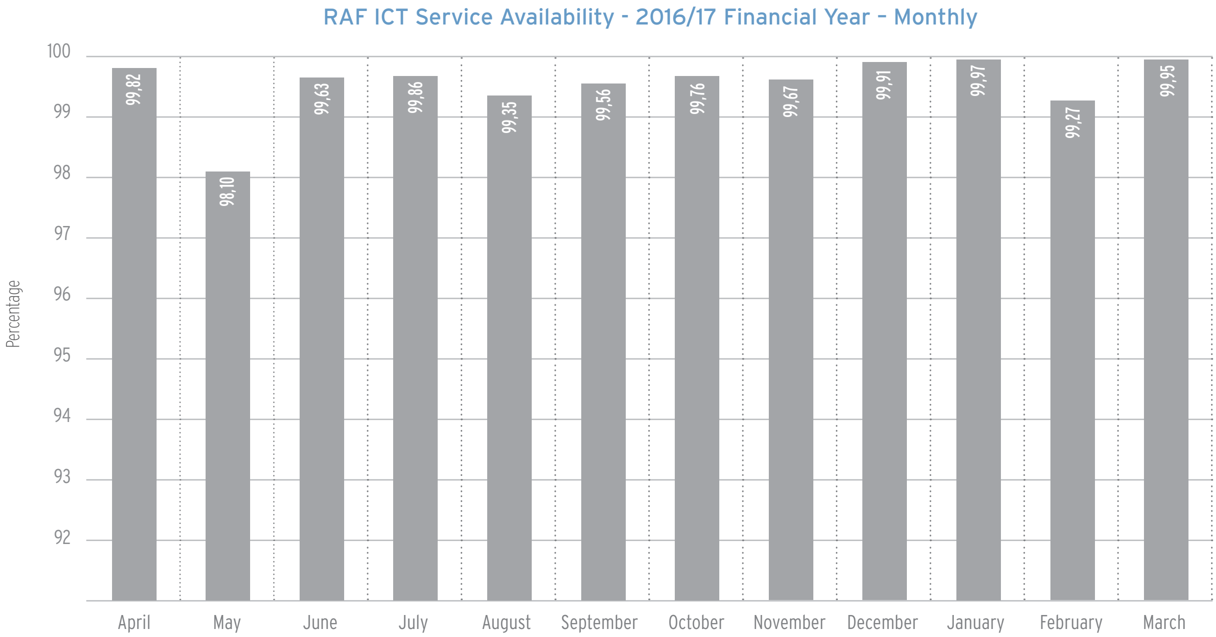

*Graph 1 – ICT Service Desk calls / incidents log*

During the reporting period, ICT services were impacted by a domain controller issue in Durban, degraded messaging service across all the Regions, connectivity issues in Cape Town, power failure, as well as a failed transformer in Johannesburg. Furthermore, user experience in the Call Centre was impacted by inaccessible mailboxes, a degraded telephony service and a Web Voice Recorder server hardware failure.

The graphs below indicate that the overall availability attained was 99.57% for all ICT core services:




***Graph 3** – ICT call service availability 2016/17 financial year*




***Graph 2** – Monthly average ICT core service availability*

The ICT Department continued to enable the organisation to achieve its strategic and operational objectives

The department successfully developed and implemented an ICT Governance Framework (Corporate Governance of ICT Policy Framework), which is mandatory for all public entities.

During the reporting period, ICT leadership continued to implement the ICT training programme for staff to ensure that they are fully capacitated and equipped to deliver an effective and efficient service to the business. The training programme included, among others, the following:

- ITIL;
- COBIT;
- Archives and Records Management;
- TOGAF;
- Agile Project Management;
- Informix;
- Prince 2;
- SAP;
- SAP Business Warehouse;
- SharePoint Development; and
- Report Writing.

To ensure alignment of ICT with business, the department continues to implement the following:

- An Information Security and Risk Management Strategy; and
- An RAF Records Management Strategy (including the approved File Plan and scanning of files).

The ICT Department continued to enable the organisation to achieve its strategic and operational objectives by providing system connectivity to the Corporate Communications and Operations Departments. This enabled the RAF to take its services to the doorsteps of South African communities and promote direct claims through the RAF's flagship customer engagement programme, 'RAF on the Road'.

Through the department's System Connectivity Strategy, 100 HSCs, five CSCs and satellite offices were connected in support of the RAF's strategic objective to expand its footprint.

# 14. CORPORATE COMMUNICATIONS

## INTRODUCTION

The term 'Corporate Communications' is used across the world to describe the dissemination of information to key stakeholders, the execution of corporate strategy, and the development of messages for a variety of purposes for inside and outside the organisation. It is also a set of activities involved in managing and orchestrating all internal and external communications aimed at creating favourable point of view amongst stakeholders on which the organisation depends.

## MARKETING

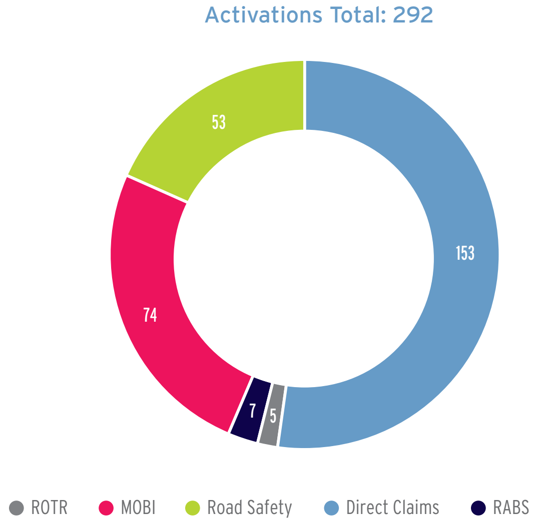
### Marketing Campaigns

The Marketing Department is, *inter alia*, responsible for positioning the RAF positively in the minds of the general public, and subsequently also road users. During the year under review, various campaigns, covering a wide spectrum of topics, were launched. The public was educated on the organisation's service offering via Mindset television channels with flightings in 780 public clinics, as well as on DStv's Open View HD and StaSat television channels respectively. This was supported by print advertisements. Print media was also utilised to commemorate the Fund's 19th anniversary (May 2016); Workers' Day (May 2016); Caregivers' Day (October 2016); and Customer Service Week (November 2016).

'Direct Claims' promotions geared up with a national 'Get into the Driver's Seat' campaign, with branded bus shelter advertising and taxi interior decals. Wall murals were strategically positioned within the vicinity of the RAF's HSCs with the purpose of directing the public to the nearest RAF offices and heightening awareness of HSCs. The RAF's very first 'Direct Claims' audio-visual (AV) was created and utilised during various promotions and activations. It was also flighted in various waiting areas of RAF offices. In August, the organisation ran a Women's Month campaign that encouraged women to have sound road safety habits and to #TakeCharge and claim directly. A 'Direct Claims' television commercial (TVC) was broadcast during the AFCON games in January 2017. In addition, the organisation took advantage of the Olympics by advertising on sports channels on SABC and by sponsoring strong females. This was augmented by radio advertising.

The RABS campaign kick-started with infographics that were published across national and community print publications, supported by online advertising. During the Comrades Marathon, RABS messaging was publicised via various television broadcast elements. The culmination of all RABS educational drives was the launch of the #EverybodyHurtsTheSame tagline during October Transport Month on television, radio and in print media. In addition, tactical campaigns, such as wall mural RABS educational interventions, were implemented.

RAF continued to take its services to the doorsteps of communities through various activations. Overall, six national 'RAF on the Road' events were held, with other promotions and activations held across all provinces during the course of the year. These translated into an overall audited figure of 54,148 engagements as at the end of March 2017. Our MobiRAF (mobile truck) reached more than 18,000 people in the far-flung areas of our country. The year also

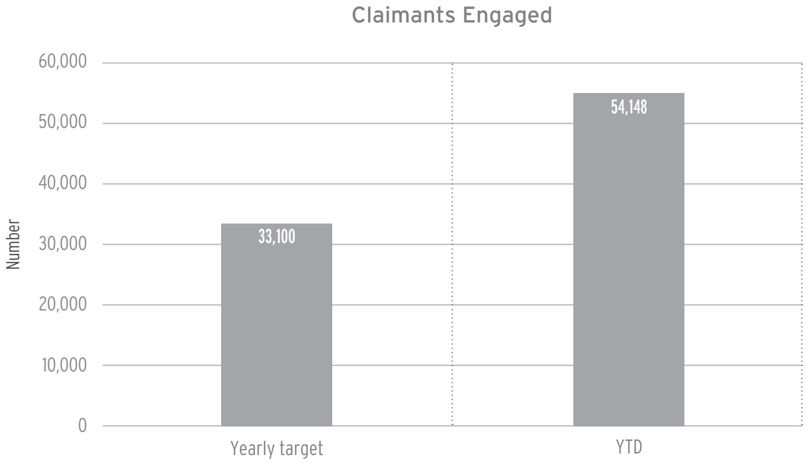



*Graph 4 – RAF activations - 2016/17*

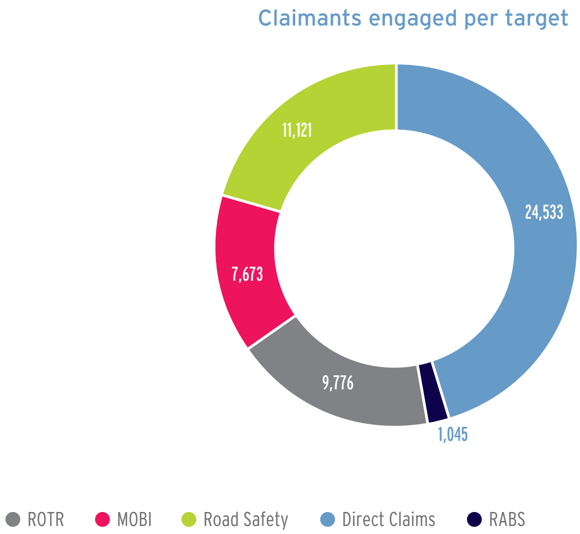
The year also saw the acquisition of a second MobiRAF meant solely for the coastal regions

saw the acquisition of a second MobiRAF meant solely for the coastal regions in our pursuit to improve access to the RAF's services. Both trucks are enhanced with state-of-the-art fixtures and support platform structures, which are user-friendly to the elderly and people who cannot stand for a long time without assistance.

Claimants engaged at road shows:



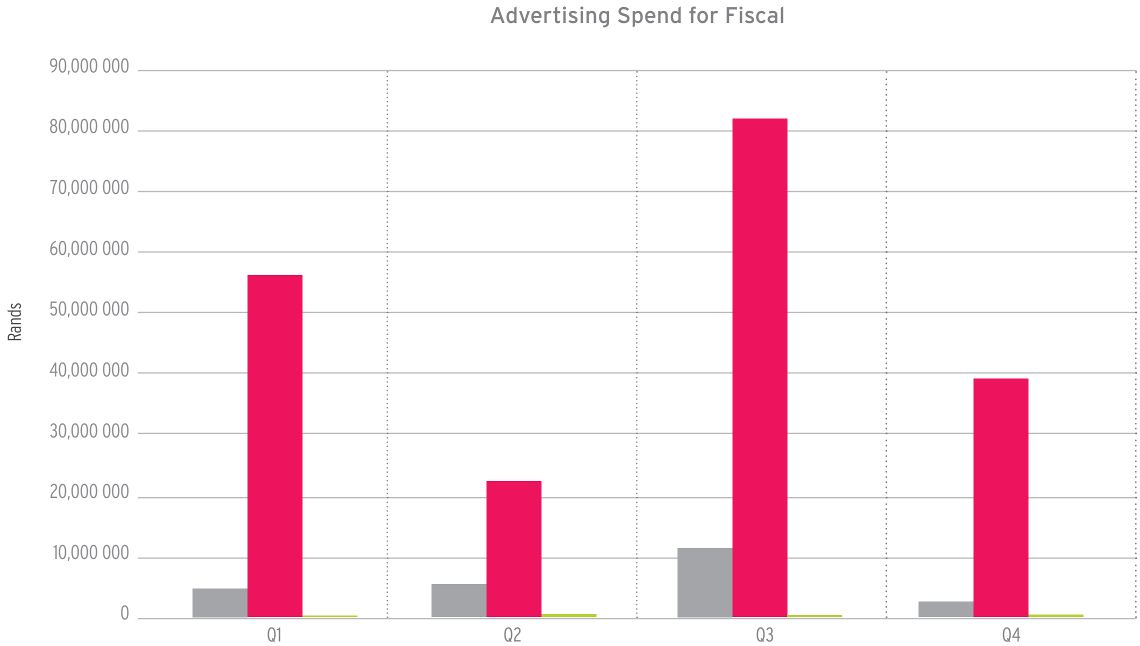

*Graph 5 - Claimants engagements - 2016/17*




*Graph 6 - Claimants engaged per target - 2016/17*

'Road Safety' promotional drives continued with the #MyRoadYourRoad campaign, which was launched during Easter and continued over the Festive Season period. In addition, tactical campaigns were also launched. Together with the Road Safety Department, the Marketing Department ran a Child Restraint radio campaign on uKhozi FM for two weeks. It took the form of a competition where listeners could win a car seat provided they answered a road safety question correctly. The campaign was one of the Transport Minister's initiatives, and, as such, she conducted a radio interview on the station during the launch of the campaign.

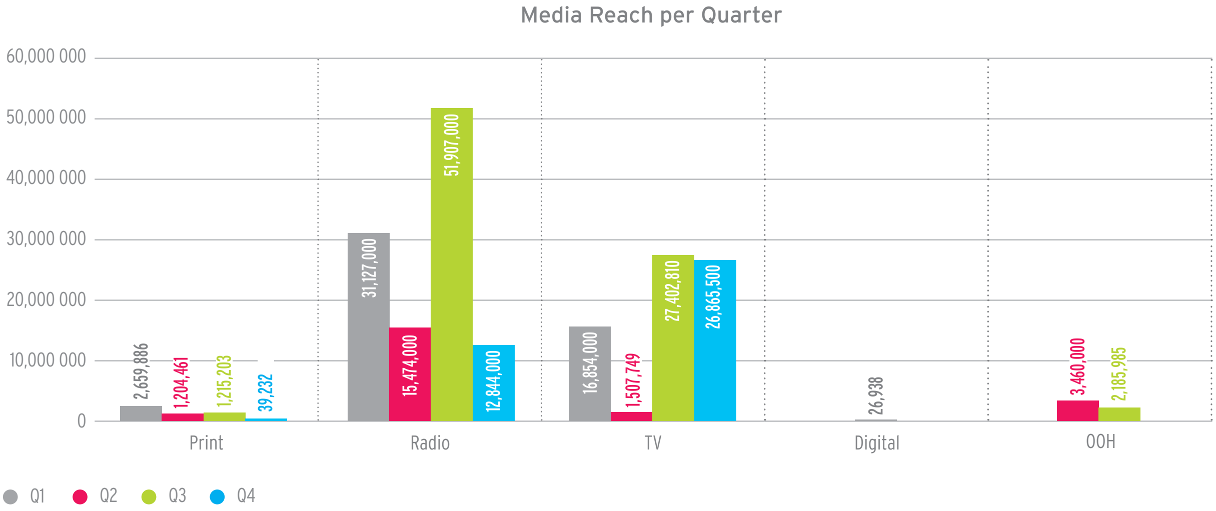
## Advertising Spend




| | | | | |
|---|---|---|---|---|
| Total Spend | R4,483,459 | R5,573,145 | R10,164,110 | R2,711,351 |
| Total Reached | 50,692,324 | 21,697,610 | 82,729,298 | 39,758,307 |
| Cost per Contact | 0.08 | 0.26 | 0.12 | 0.06 |

***Graph 7*** *– Advertising spend per quarter – 2016/17*

An Advertising Value Equivalency (AVE) of over R5 million was realised during the 2016/17 financial year.




*Graph 8 – Advertising spend per quarter – 2016/17*

## Research Initiatives

The Customer Satisfaction Study was finalised, indicating that awareness of the RAF has increased amongst the general public since 2013. In 2017, awareness was being driven predominantly by word of mouth; however, there was a steady decline in perceptions of service over the tracked period.

## Internal Communication

The Internal Communication Unit is responsible for managing internal reputation, improving employee morale and supporting all business functions with their respective communication requirements. This varies from publishing Human Capital advertisements, Management Directives, Delegations of Authority and New Appointments. Other key notifications in the form of Internal Communiques and News Updates are also issued to internal stakeholders. In addition, the unit provides copyediting, proofreading, design and translation services to all business units within the RAF on a daily basis.

During the year under review, speeches for government and organisational leadership, and various messages of support were prepared for employees across the RAF. The Fund's main publications, namely the Annual Report and the Annual Performance Plan, were compiled and/or edited and finally produced by the unit. Furthermore, the unit was responsible for the production and circulation of the RABS Frequently Asked Questions and the RAF Customer Service Charter booklets to all RAF offices. Electronic versions of these reference booklets were uploaded on the intranet for convenient access to all staff.

Internal Communication is the custodian of content development for a number of communication platforms such as Upcoming Events, Weekly Highlights, Quarterly Bulletins, commemorational articles and corporate promotional materials. The unit also provided photography and videography services for the Fund's main events and special occasions.

In entrenching the RAF's brand values, most campaigns run by the Marketing Unit have an internal element. As such, the Communication Unit organised and executed a number of internal events. Aspects of the annual events calendar included the fun 'Freedom to Walk Free' in celebration of Freedom Day; the Youth Month campaign; Mandela Month initiatives and the Canned Food Donation

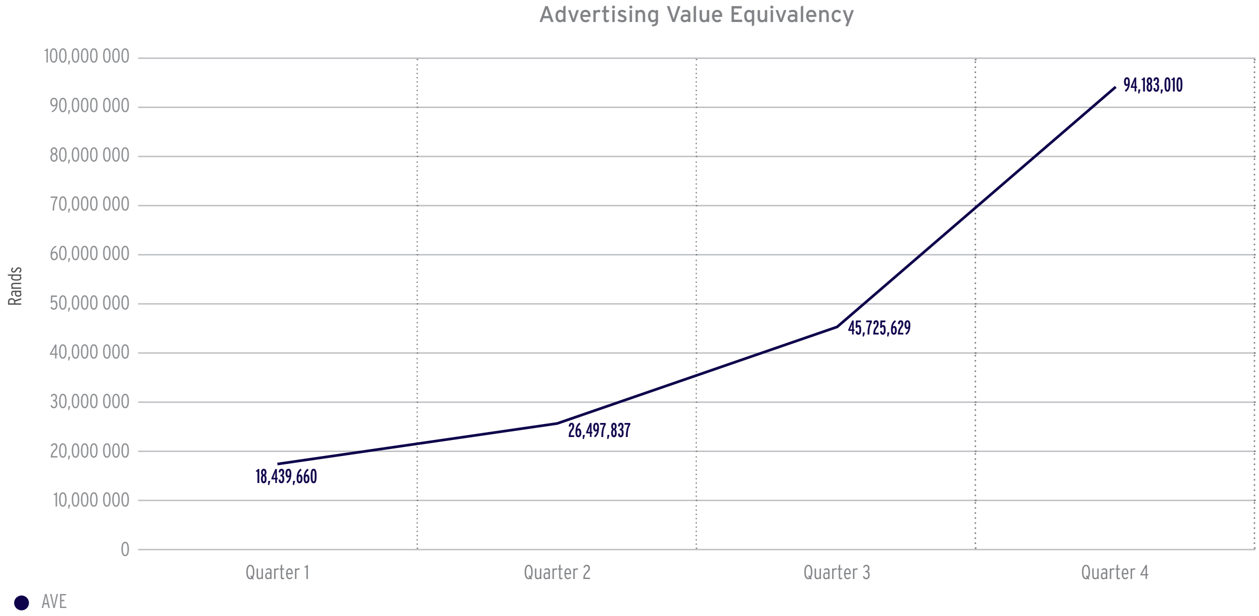
Drive; as well as Heritage Month celebrations. Coinciding with Women's Month, the unit hosted a special caregivers' event. The occasion was held to recognise and honour the selfless women who have the important and often heart-rending task of caring for motor vehicle accident victims. The RABS internal launch in October, which was followed by the Customer Service Week in November, was held at all Regional Offices and Head Office.

The Communication team worked tirelessly to promote and support the Fund's commitment to encourage ethical conduct and curb fraudulent activity within the business. This was notable during this year's Ethics Awareness Week and International Fraud Awareness Week. Another highlight was the #MyRoadYourRoad Festive Season campaign. Through story-telling, the campaign adopted an emotive angle which all employees could easily relate to. Collaborating with Employee Wellness Services (EWS), the campaign was launched internally at the annual RAF Sports Day in December under the theme, 'The reason you're on the road – is your story'. In doing so, employees were entrusted with being the primary ambassadors of the brand and participated by sharing their personal photos, bearing the RAF's road safety message, on various social media platforms. Exciting elements were incorporated into the Communications Strategy in the form of competitions, quizzes and game shows, with prizes attached to them. This was, in particular, achieved at the engaging RAF Appreciation Day held in February.

The Communication Unit will continue its focus on implementing an integrated approach to communication that ensures maximum penetration, awareness as well as an understanding of the RAF's business imperatives.

## Media and Public Relations

The RAF continued to entrench its media presence across all media platforms, achieving a total Advertising Value Equivalency (AVE) of R184,846,136, an increase of 46% from the 2015/16 financial year according to Newsclip and Ornico monitoring agencies' combined review.




*Graph 9 – Advertising Value Equivalency – 2016/17*

## Advertising Value Equivalency 2016/17

Online and print coverage surpassed radio's dominance, prompting realignment in the Media and PR Strategy in order to leverage and facilitate stronger media ties with journalists in the digital and social sphere. While challenges remain with regard to monitoring certain community stations due to their low internet connectivity and budget limitations for live streaming, usage of this platform remains the bedrock of the unit's publicity efforts.

| | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Online | 215 | 171 | 280 | 706 |
| Print | 235 | 259 | 345 | 745 |
| Radio | 252 | 161 | 208 | 354 |
| TV | 18 | 33 | 44 | 97 |

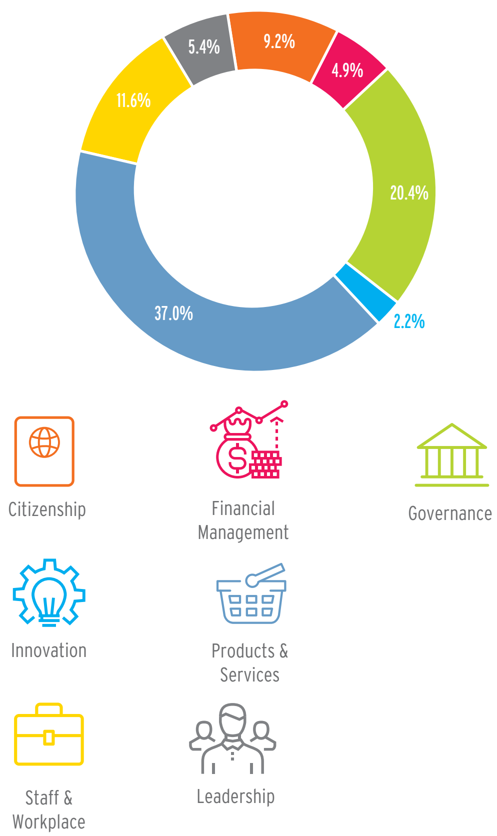
## Media Spread

Media engagement continued being paramount as the unit sought to formalise relationships in order to ensure longevity and long-term impactfulness. Successful round table sessions were held with Johannesburg, Durban and Cape Town based media during which presentations were made and discussions held about the RAF's operations, the scourge of fraud and corruption, financial challenges, and necessity for RABS to guarantee the organisation's sustainability. Other accomplishments included the cultivation of relationships with consumer writers in top daily newspapers which has resulted in more informative and balanced articles.

A steady stream of RABS messaging in statements, alerts, advertorials and interviews continued and will move into overdrive following the submission of the RABS Bill to Cabinet and Parliament. Any overt criticism of RABS by the legal fraternity has been all but fizzled out - for the time being. Instead, unscrupulous lawyers who are fleecing claimants of their rightful compensation are the ones now grabbing headlines.

Negative or inaccurate reporting about the organisation was swiftly dealt with through letters to editors or facilitation of interviews with radio producers. These measures formed part of the unit's bigger Reputation Management Strategy, which saw any event or issue with potentially harmful repercussions being managed by drafting preapproved holding statements while meticulously monitoring all media platforms. Proactive pitching of stories around the RAF's services, solid management and committed workforce resulted in positive coverage.

### Media Coverage – 2016/17




***Graph 10:*** *Media coverage – 2016/17*

## Reputational Breakdown

Another highlight was the showcasing of female Executives and Regional General Managers during Women's Month as part of a campaign to profile the RAF's female workforce – the organisation's engine room – and position the organisation as an employer of choice. Top female Managers were involved in a number of initiatives to show off their skills and expertise. These included: engaging journalists during a round table; presentations to university students; inspiring young schoolchildren at their alma maters; and profiling their career success during interviews on radio. The campaign not only generated widespread media coverage, but also left an indelible, emotional impact on all participants. The initiative successfully touched on all elements of the unit's reputational drivers.

The promotion of road safety messages using the #MyRoadYourRoad catch phrase continued throughout the year during Easter, October Transport Month and 'RAF on the Road' roadshows, including when condolences were expressed on behalf of the CEO through a media alert after horrific car crashes throughout the country. Activations in which the unit partnered with the Limpopo and Eastern Cape provincial governments extended the road safety awareness theme. All road safety messaging was underpinned by information about direct claims and the accessibility of services through CSCs, HSCs, WICs and the Call Centre.

A fresh intake of media trainees is being facilitated for Senior Management, operational staff and newly appointed Board members in order to bolster the existing crop of RAF spokespeople trained in the last financial year. This will provide them with confidence in front of television cameras, behind radio microphones, or during one-on-one interviews, and will be supported by a comprehensive list of spokespersons' do's and don'ts as outlined in the Corporate Communications Policy.

## Call Centre

The RAF Call Centre is an inbound facility that deals with all claims-related queries from general information, latest claim status, claim payments, undertakings and supplier-related queries.

## Performance

For the financial year ending 31 March 2017, the Call Centre made significant progress towards the achievement of strategic objectives as set out in the APP. The table below reflects the progress made:

| Details | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|
| No. of Calls Received | 294,933 | 326,031 | 385,073 |
| No. of Calls Answered | 286,944 | 320,027 | 376,215 |
| No. of Abandoned Calls | 7,989 | 6,004 | 8,858 |
| Abandoned Calls % | 2.71% | 1.84% | 2.30% |
| Service Level | 90.71% | 94.78% | 92.44% |

For the financial year ending 31 March 2017, the Call Centre made significant progress towards the achievement of strategic objectives as set out in the APP

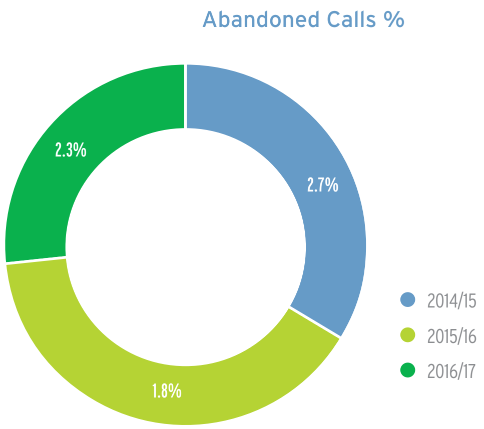
A record of 385,073 calls were received during the year under review, which represents an 18% increase on call volumes compared to the preceding financial year. This can partially be attributed to publicity linked to Corporate Communications' outreach campaigns, such as 'RAF on the Road', activations and promotions, as well as other initiatives, which provided additional exposure for the Call Centre, as its telephone number appeared on all publicity materials.

## Call Answer Rate


*Graph 11 – Call answer rate over three financial periods*

The current financial year's Call Answer Rate was 97.69%, which is consistent when compared to the 98.15% of the 2015/16 financial year.

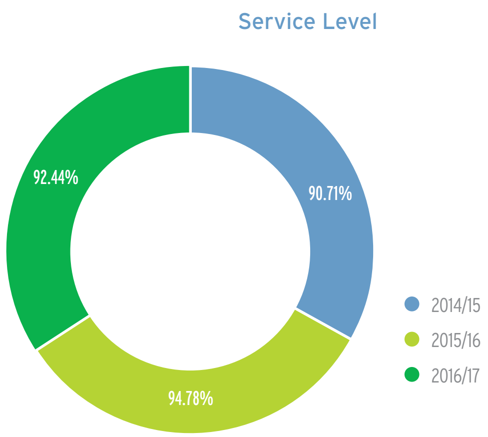
## Abandoned Call Rate




***Graph 12:*** *Abandoned call rate over three financial periods*

The abandoned call percentage for the year was 2.3%, representing a 0.5% increase when compared to the 2015/16 financial year. One must, however, take into consideration that call volumes increased by 18% in the 2016/17 financial year.

## Service Level




***Graph 13:*** *Call Centre service level rate over three financial periods*

The current Service Level Agreement is 92.44%. The Call Centre answered 92% of all calls within 20 seconds. (The actual target is 80% of calls within 20 seconds.)

## Quality Assurance

The team also managed to achieve an average of 95% of the Quality Assurance (QA) process, which means that the information that was provided to callers and claimants was correct and accurate. This is the second consecutive year that the team has managed to achieve a rating of above 90% in QA.

The focus for the team going forward is to maintain these achievements and take the service experience to the next level. The priorities for the coming year will be to ensure that additional functions, e.g. capturing of claims is done telephonically and that there is an alignment of the Post-call Survey to the annual Customer Satisfaction Survey. This will assist the unit in ensuring that the correct details are captured and that effective communication transpires on a regular basis. Automation of the QA process will ensure that high QA standards are met, which in turn will lead to an improved client experience for claimants and other stakeholders.

## Social and Digital Media

The RAF's Social and Digital Media Strategy was implemented in 2016 with the objective of driving higher awareness of the RAF and its service offering. The strategy also introduced new online communication platforms, which ensured that the organisation reached a broader audience. The RAF is now active on five key platforms (Facebook, Twitter, Instagram, YouTube and LinkedIn) with over 162,000 fans and followers across all platforms.

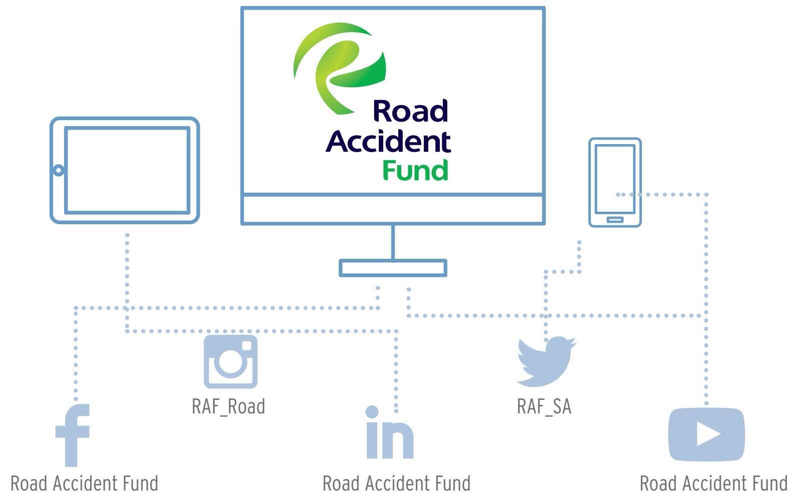



*Figure 3: RAF social and digital media platforms*

The RAF is now active on five key social and digital media platforms with over 162,000 fans and followers

## What is the main role of each platform for the RAF?

- **Real time** documentation of **RAF events** and employees' main activities across all regions.

- LinkedIn is used to drive the RAF as the best company to work for and it is also used as a strategic tool to **recruit new employees.**

- Ensuring that the RAF services awareness drive is visible at all times through **video illustration.**

- Drive **real-time conversation** about the RAF's services.
- Driving road safety awareness.

- Main platform for **social conversation.**
- Created to engage claimants. This is the second biggest consumer enquiries platform after our Call Centre that helps claimants with their **claims queries** on a daily basis.

***Figure 4:*** *RAF social and digital platforms – main roles*

The introduction of Search Engine Optimisation (SEO) also ensured that avenues such as Google Search were utilised to drive distinct RAF messages. To ensure that the RAF also reached more South Africans, an SMS messaging initiative was implemented.

The #MyRoadYourRoad Festive Season campaign yielded excellent results on our social and digital media platforms with over 6.2 million people reached over that period. This campaign also introduced video communication on YouTube with a road safety video achieving over 87,000 views.

| | Campaign Overview |
|---|---|
| Impressions | 6,271,771 |
| Engagements (Likes, Comments, Shares, Link Clicks and Video Views) | 535,608 |
| Campaign Engagement Rate (Industry Benchmark = 1%) | 8.54% |
| Campaign TV Ad Views | 374,629 |
| *Advertising Value Equivalent of Earned Media | R4,400,000 |
| *Opportunities to see the Campaign Created | 19,300,000 |

***Advertising Value Equivalent (AVE)** is the earned media value of a mention's potential online exposure. It offers an estimate of the amount the brand would have paid to reach the same number of individuals online. This figure is based on average online advertising rates, as well as the credibility of a mention's author.*

***Opportunities-to-See (OTS)** is an estimate of the potential views a piece of content could receive. It does not represent actual reach, as this isn't available for the majority of public data. However, a high OTS can indicate that many press sources or other highly credible authors are participating in your conversation, while a low OTS may indicate that conversation mostly originated from less influential consumers.*

The Festive Season campaign yielded excellent results on our social and digital media platforms with over 6.2 million people reached over that period

### Social and Digital Media 2016/17 Performance

| Platform | 2015/16 Results | 2016/17 Results | Total number of new Fans/ Followers | % Changes |
|---|---|---|---|---|
| Facebook | 55,665 | 133,242 | 77,577 | 139.36% |
| Twitter | 10,400 | 22,217 | 11,817 | 113.63% |
| Instagram | 1,168 | 3,393 | 2,225 | 190.5% |
| LinkedIn | 2,000 | 3,353 | 1,353 | 67.65% |
| YouTube Subscribers | 5 | 58 | 53 | 1060% |

### Regional Marketing

During the year under review, Regional Marketing Managers embarked on a number of initiatives aimed at achieving the organisation's strategic objectives of increasing accessibility to RAF services, increasing brand awareness, educating the public on RAF's products and services, and promoting road safety.

In addition to extending national campaigns, promotions, activations and events in their regions, they were also at liberty to launch their own brand awareness initiatives in their respective regions. One of their top priorities was to establish relationships with key stakeholders in the regions and to strengthen existing ones. 'Mini RAF on the Road' community outreach events remained popular, and were augmented by weekly activations in malls, bus and train stations, as well as taxi ranks and at government service delivery events.

Partnerships with local community radio stations were also maintained and some regions had standing weekly interviews with these radio stations.

## 15. SUPPLY CHAIN MANAGEMENT

Supply Chain Management (SCM) is obliged to adhere to the Constitution of the Republic of South Africa, the PFMA, NT Regulations, Instruction Notes, the PPPFA, the B-BBEE Act as amended, as well as the SCM Policy Framework, among other Acts and Regulations.

The past year saw the completion of the implementation of the SCM Turnaround Strategy by entrenching SCM principles and best practice within the SCM Department, by assessing and re-organising processes, measuring and monitoring tools, and also by optimising the use of skills and capability to assist the organisation in achieving its goals. This has resulted in a reduction in the value of irregular expenditure by 71% from R11,428,300 (13 instances), as recorded in the 2015/16 financial year, to R3,268,620 (10 instances) in the 2016/17 financial year. An additional value of R2,767,918 (5 instances) has been reported in the current financial year in respect of instances identified during an external audit of the 2015/16 financial year. This was achieved through the provision of appropriate, proactive advice and best practice processes, as well as by being responsive to the organisation's requirements as an enabler to strategically assist the Fund in optimally achieving its objectives.

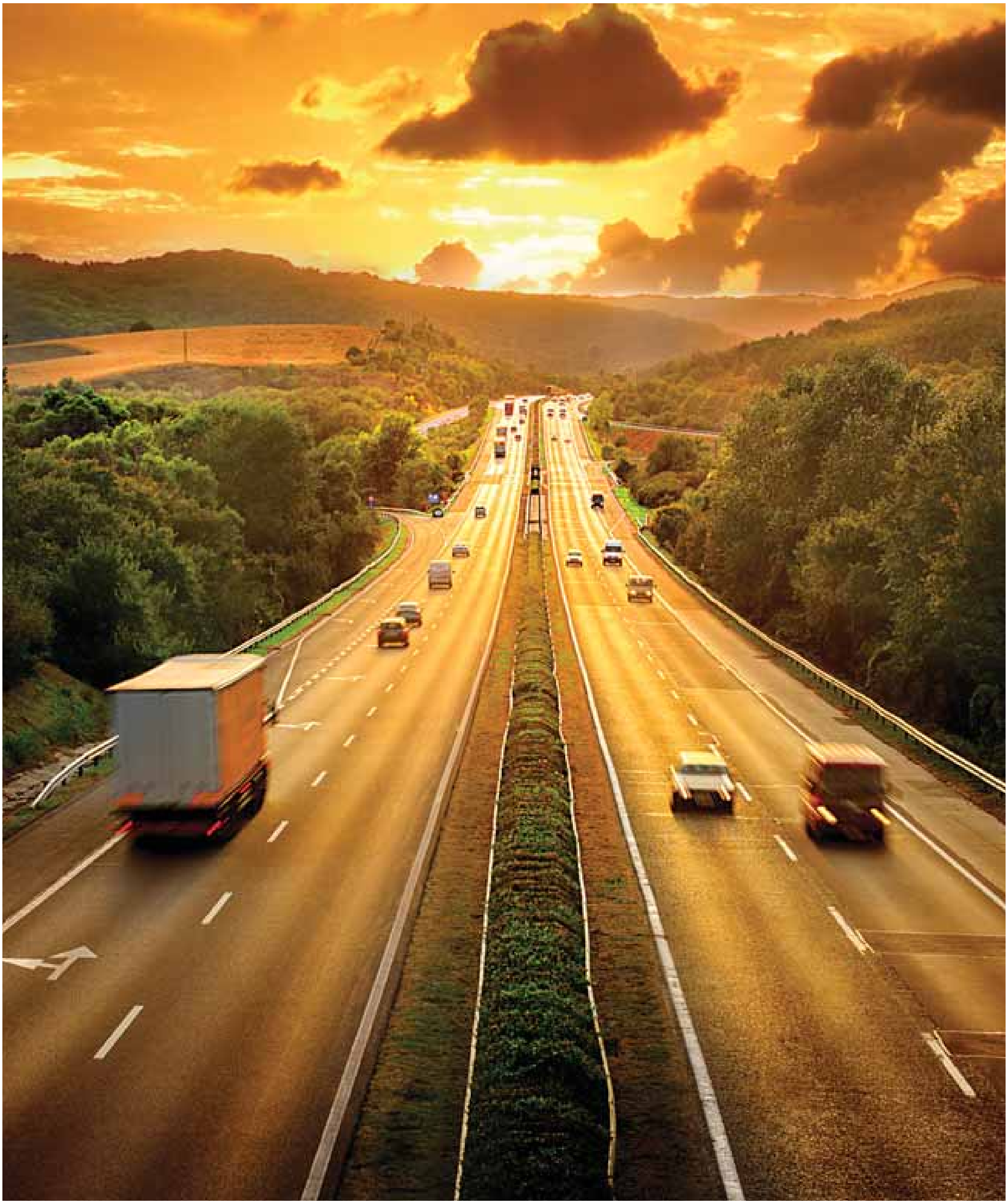
There have been improvements in the efficiency of handling and concluding tenders, and turnaround times were consistently below the 110 days target with the annual average being 72 days. The total saving from negotiated contracts increased by 6% from R1,271,568 in the 2015/16 financial year to R1,349,806 in the 2016/17 financial year. It is expected that this figure will increase year-on-year as new processes mature and further unlock value through the Fund's stakeholders, strategic partners and service providers.

Another achievement was the improvement of the RAF's BEE rating status (by an accredited rating agency) by moving from Level Five (5) for the 2015/16 financial year to Level Three (3) for the 2016/17 financial year.

The organisational target of 115% for procurement spend with SMMEs was exceeded by 3% with 118% achieved for the financial year. The budgeted spend for Enterprise Supplier Development (ESD) interventions for the year was R5,000,000 and R5,036,916 was awarded to six approved enterprises and suppliers.

## 16. REPORT OF THE AUDIT COMMITTEE

The Report of the Audit Committee is included on page 178 under Part E: Financial Information.




Fund

# PART D
# HUMAN RESOURCES MANAGEMENT

# 1. INTRODUCTION

During the year under review, the Human Capital (HC) Division achieved significant progress against its strategic objectives, as contained in the 2015/16 APP. The division evolved and adapted its service offerings and structure to meet on-going business demands. The following is a summary of the most notable achievements against the HC APP targets:

## ▶ VACANCY RATE

A key objective has been to keep the vacancy rate below 6.5%, which has also been a challenge during the 2016/17 financial year. The vacancy rate was 5.41% for the period ending 31 March 2017 – 1.09% lower than the planned target of 6.5%. This is a critical area that HC plans to focus on to ensure that the organisation is fully capacitated. Finding the balance between external and internal appointments becomes more important in the quest to achieve the desired target, whilst not compromising other HC processes aimed at retaining key talent.

## ▶ EMPLOYEE PERFORMANCE ASSESSMENTS

The RAF achieved 100% in respect of employee performance contracting and quarterly reviews.

## ▶ EMPLOYEE RECOGNITION

As part of the approved Remuneration and Employee Recognition Programme, a total of 586 of 2,676 (22%) employees were recognised for living the RAF values.

## ▶ RAF EMPLOYMENT EQUITY

The RAF's contribution towards government's social and economic transformation agenda remains on course.

As an organisation, the RAF has always endeavoured to excel and contribute positively to the achievement of Employment Equity (EE) targets. During the year under review, the Fund achieved and even exceeded the set percentage of 1% as per the Department of Labour's target. The organisation achieved 1.2%, which was also the target set by the Board of the RAF.

As at 31 March 2017, the RAF was within the ±10% variance of the main EE categories as per the APP. Representation was made up of 97.36% designated groups and 2.64% non-designated groups. There were 32 (1.2%) employees living with disabilities.

# 2. HC PRIORITIES AND OUTCOMES.

<table>
<tr><th>Priority</th><th colspan="2">Outcomes for the 2016/17 Financial Year</th></tr>
<tr><td>Absenteeism Management</td><td colspan="2">One of the key priorities and objectives of the division was to implement strategies to reduce the prevalence of absenteeism in the RAF. Strategies included the revision and approval of the Leave Policy by the RAF Board. This was supported by training all employees on the Leave Management Policy.<br><br>The annual man-days lost at the end of the 2016/17 financial year were 1.74 and the target was met by 0.12 days.</td></tr>
<tr><td>Talent Acquisition</td><td colspan="2">A total of 333 internal and external appointments were made year-to-date.<br><br>Key strategic appointments in vacant positions included:<br>General Managers:<br>Stakeholder Relations;<br>Medical Management;<br>HC Administrative Services Centre; and<br>Community of Expertise.</td></tr>
<tr><td rowspan="9">Policy Development and Review</td><td colspan="2">HC developed and reviewed policies and key guidelines to promote diversity and transformation in the organisation. Policies are reviewed for alignment with the latest legislation and the RAF Policy Review Standards on an on-going basis. During the financial year, seven policies were implemented.<br><br>The following Human Capital Policies and SOPs were developed during the reporting period:</td></tr>
<tr><td>Approved Policies</td><td>Approved SOPs</td></tr>
<tr><td>Incapacity Policy</td><td>Incapacity SOP</td></tr>
<tr><td>Internship, Learnership and Voluntary Work Exposure Policy</td><td>Internship, Learnership and Voluntary Work Exposure SOP</td></tr>
<tr><td>Learning and Development Policy</td><td>Learning and Development SOP</td></tr>
<tr><td>Pay Progression Policy</td><td>Pay Progression SOP</td></tr>
<tr><td>Regulation of Working Hours Policy</td><td>Regulation of Working Hours SOP</td></tr>
<tr><td>Transfer, Relocation and Secondment Policy</td><td>Transfer, Relocation and Secondment SOP</td></tr>
<tr><td>Uniform Policy</td><td>Uniform SOP</td></tr>
</table>

| Priority | Outcomes for the 2016/17 financial year |
|---|---|
| Knowledge Management | The Knowledge Management team continued to support business units by ensuring that intellectual property is preserved by capturing, evaluating, retrieving and sharing of information. |
| Employee Wellness | A total of 1,666 employees were screened, translating to 62% of the total permanent headcount of 2,676. An average of 916 walk-in employees were assisted at the respective regional EWS offices per quarter, which represents 34% of the headcount. |
| Facilities Management | The following infrastructure upgrades were conducted during the 2016/17 financial year:<br>• Office layout alterations at Head Office;<br>• Construction of a training venue in the Bloemfontein CSC;<br>• Upgrade of the WIC in Durban; and<br>• Office space optimisation in East London. |

# 3. OTHER NOTABLE ACHIEVEMENTS

Main highlights for the 2016/17 financial year included the following:

Both the Talent Management and Change Framework were formalised to provide a structured approach to talent and change management.

The RAF successfully completed its bi-annual succession review(s) to ensure the identification, development and career management of talented high-performing individuals with the potential to take up strategic and critical roles.

The year also saw the repositioning of the Change Management function with additional capacity to ensure the success of transversal and divisional projects, as well as capability building interventions for Line Management. Emphasis has been placed on developing Managers and leaders to lead and manage change within the RAF on its journey to the new RABS, supported by e-Enablement projects.

The RAF's achievement of its contribution towards government's social and economic transformation agenda remains a key highlight, exceeding the National Employment Active Population (NEAP) targets as set by Statistics South Africa. We are particularly proud of the achievement in gender with 58% female representation in the organisation and 33 females represented at Senior and Executive Management level.

# 4. ORGANISATIONAL DEVELOPMENT

Key for the HC Division is sound employee engagement with on-going development and effectiveness strategies being implemented. This is supported by on-going change management, which in turn supports the organisational business strategy on its transformation trajectory. A pivotal area is ensuring effective teams and employees through planned and structured interventions, also making use of HR tools such as an effective and standardised organisational structure supported by a job evaluation process that ensures that employees know what is expected of them to deliver on the RAF mandate.

This is bolstered by a robust and entrenched Performance System ensuring alignment (line of sight) between individual and organisational performance goals and objectives. The overarching objective remains building capability for an effective management core and retaining people with scarce and critical skills.

## ▶ PERFORMANCE MANAGEMENT

2016/17 saw the introduction of the automated Performance Management System for the capturing of performance contracts and quarterly appraisals for all employees at the RAF. The system has also seen the introduction of live, automated system reporting which will assist the organisation in the prompt drafting of reports going forward. Unforeseen challenges relating to the changing of employee scorecard status to enable corrections to the scorecards or to ratings captured and the impact that this has on the reports have provided valuable learnings for enhancements to the system in preparation for 2017/18.

The introduction and completion of 360 degree assessments for Executive Managers was one of the organisational APP targets for the 2016/17 financial year. The organisation was tasked to introduce a 360 degree Assessment Tool in the third quarter. This target was exceeded, as a suitable tool was procured and introduced to the organisation in the second quarter. The Executives, as assessment subjects, were given individual letters and engaged individually about the process and what they could expect as an outcome. An information session was also held for the respondents to provide them with a review of the system and process, and to assure them of the confidentiality of the process.

The second target was for the administration of the assessments in the fourth quarter. The assessments were launched in the beginning of February and successfully completed with individual and group feedback sessions.

2016/17 saw the introduction of the automated Performance Management System for the capturing of performance contracts and quarterly appraisals for all employees

# 5. MAINTAINING A SKILLED AND CAPABLE WORKFORCE

## TALENT AND SUCCESSION MANAGEMENT

The RAF is continuously engaged in developing and building talent pools, moving from reactive to proactive talent management, ensuring operational continuity and the sustainability of the organisation, and having the right people with the right skills in the right roles.

The RAF has embarked on a rigorous process to identify critical positions and proactively identify and develop a pool of potential, high-performing successors at each Management level. Its Learning and Development interventions are directly linked to the RAF Competence Framework and Learning and Development training solutions.

The RAF continues to utilise the Leadership Forum as a platform for leaders to engage formally, build trust and create shared understanding on technical, tactical, operational, cultural, strategic and people issues. During the financial year, four Leadership Forums were held for different categories of Management at Executive, General and Senior Management, as well as Managerial levels. The Forums are chaired by the CEO and is utilised as a platform to informally develop individual business competence and skills.

## LEADERSHIP DEVELOPMENT

The RAF continues to develop its leadership capability through the formal development of skills and competencies. Talent Pool successors also continued to attend formal Leadership Development Programmes. During the 2016/17 financial year, 27 staff members attended Leadership Development Programmes, as outlined in the next column:

| Management Development Programme | | Talent Pool Nominees |
|---|---|---|
| DP: | Directorship Programme | 1 |
| MBA: | Masters in Business Administration | 6 |
| EMDP: | Executive Management Development Programme | 1 |
| SMDP: | Senior Management Development Programme | 0 |
| MDP: | Management Development Programme | 9 |
| MAP: | Management Advanced Programme | 1 |
| NMDP: | New Management Development Programme | 9 |
| Total | | 27 |

## TALENT POOL APPOINTMENTS

During the year under review, the RAF appointed 14 Talent Pool successors into higher level positions. 11 appointments were made at Managerial level, whilst three appointments were made within the Bargaining Unit. This bears testimony to the RAF's commitment to provide opportunities for its employees to grow and advance within its own ranks, thereby retaining talented and top performing employees.

## CAREER PATHING

An electronic RAF Career Path Catalogue has been published. Career pathing underpins the pillars of Talent and Succession Management, namely:

- Attraction of talent;
- Development of talent;
- Deployment of talent;
- Retention of talent; and
- Career progression opportunities.

Having career paths are beneficial for both the organisation and its employees in the following ways:

For the organisation:

- It translates business strategy into people needs.
- It helps leaders see where employees are in development progression to identify gaps in talent and skills.
- It encourages organisational flexibility by building breadth and depth of knowledge and skills.
- It lays the foundation to incorporate tenets of the career framework into aspects of talent management (e.g. recruiting, performance management and succession planning).

For the employee:

- It makes available information for development and career development.
- It sets accurate expectations of where to progress within the organisation.
- It clarifies opportunities both within and across functions.
- It provides a clear picture of the job within the organisation.

## CHANGE MANAGEMENT

During the year under review, RAF Change Management focused on the integration of various disciplines in terms of the service required by the business.

The Change Management Framework, approved with tangible action items, was implemented during the financial year. The Change Framework exists to ensure the intended outcomes and success of projects and initiatives undertaken and that the change process is conducted professionally and in an organised manner. The focal points are outlined below:

The Change Management activities are integrated into the Project Management Framework and aligned with the Prince 2 Methodology. The purpose of the integration is to ensure that while the project management provides the structure, processes and tools to make this happen, Change Management focuses on ensuring that the change is embraced, adopted and utilised by the employees.

Building organisational Change Management capability is achieved through the Change Champion network and organisational engagements. The Change Champion network has been expanded and assigned to each of the RAF transversal projects. Change Champions were extensively trained on the Change Framework.

## CHANGE MANAGEMENT ACTIVITIES (TRANSVERSAL PROJECTS)

### *RABSA (Road Accident Benefit Scheme Administrator)*

The RABSA Change Management Plan was approved by the CEO in October 2016 as an APP target for the 2017/18 financial year. It outlines the approach that will be followed and activities to be implemented as aligned with the RAF Strategic Plan for 2015-2020.

During the reporting period, the following activities were undertaken to engage the regions in preparation for the RAF transition to RABS:

- The Change Management Plan was presented to Management at the Leadership Forum;
- The Communication and Stakeholders Engagement Plan was prepared, and approved by the Executive in November 2016; and
- Post the RABSA launch campaign that took place, the Change Management team conducted regional focus groups to assess the current communication effort to RAF employees. The planned outcome of the assessment was to ensure that the communication is segmented to the relevant stakeholders as per Pillar and content relevance to employees.

The Change Impact Assessment was completed as part of the APP and it outlines the following:

- Changes in the current operation model and how it will unfold in the RABSA, including the organisational structure;
- Skills impact to outline the required set of skills to ensure the operational targets for RABSA are achieved; and
- Operational and support processes impact will be aligned with the upskilling required from the current RAF employees.

The HC Division successfully completed the second organisational structure review for the 2016/17 financial year

### *ICMS (Integrated Claims Management System)*

The ICMS project was initiated to streamline and enhance performance of the current RAF processes. The Change Management Plan was prepared and approved to outline the change activities envisaged and the following has been achieved:

- The Communication Plan was completed and regional engagements have been conducted through awareness campaigns and change networks;
- The Training Plan outlining the process, functional and systems training was completed;
- Regions were engaged through workshops and focus groups;
- These engagements were aligned with the change impact communications verification engagements; and
- The Change Impact Assessment was conducted to outline how the process enhancement will impact employees in terms of the process, functions and system.

### RAF *Amendment* Act

The RAF Amendment Act Change Management Plan was approved during the latter part of the financial year, and activities to date included: Awareness sessions in the regions to provide information on the amendments and what they contain; preparation of the stakeholders and Communications Plan; and Communications and Stakeholders' Engagement Assessments.

## ▶ ORGANISATIONAL DESIGN

The HC Division successfully completed the second organisational structure review for the 2016/17 financial year. The review of the organisational structure consisted of filled and vacant positions making up the total number of approved and budgeted positions. The total number of approved and budgeted positions for the reporting period was 2,829 as at 31 March 2017.

## ▶ LEARNING AND DEVELOPMENT

Learning and Development focused on the following interventions during the review period:

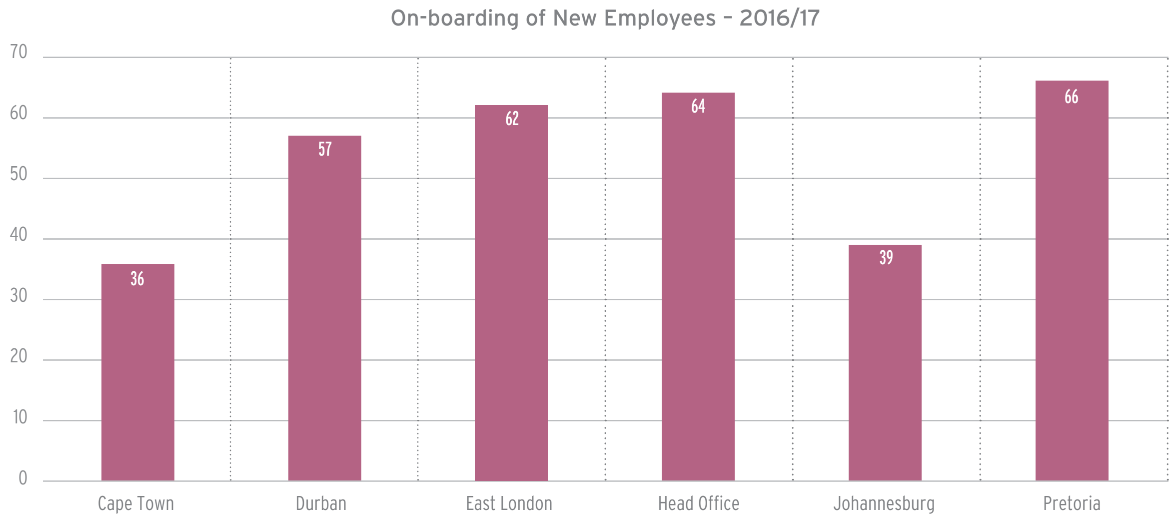
### *Motor Vehicle Accident (MVA) Foundation Course*

This training is conducted throughout the regions on a monthly basis. It is aimed at equipping new recruits moving into the operational environment and enables Operations to deliver on its mandate and to meet their APP targets without any interruptions.

### *Microsoft Packages (Outlook, Word Excel, PowerPoint)*

This training is aimed at empowering staff on Microsoft packages in order to enable them to navigate the system and to equip learners with the necessary skills in order to deliver their tasks in a professional and competent manner.

### *On-boarding of New Employees*




*Graph 1 – On-boarding of new employees per region – 2016/17*

The On-boarding Programme is aimed at introducing new employees into the RAF. It is a two-day programme which includes a meet-and-greet with the CEO and a comprehensive programme of introduction into the various departments within the RAF.

### *Learnership and Internship Programme*

This programme is in line with the National Skills Development (NSD) Plan, according to which the RAF offers unemployed youth and graduates an opportunity to acquire workplace skills and experience. 39 Interns and 21 Leaners were employed in the 2016/17 financial year.

### *SAP System Training*

SAP training is aimed at ensuring that all learners are equipped to deal with the end-to-end processes on the SAP system relating to their field of expertise within the SAP environment.

### *Litigation Management System*

This relates to the correspondence and monitoring system between the RAF and attorneys. Various documents are uploaded onto the system, including all other documentation attached to the litigation process.

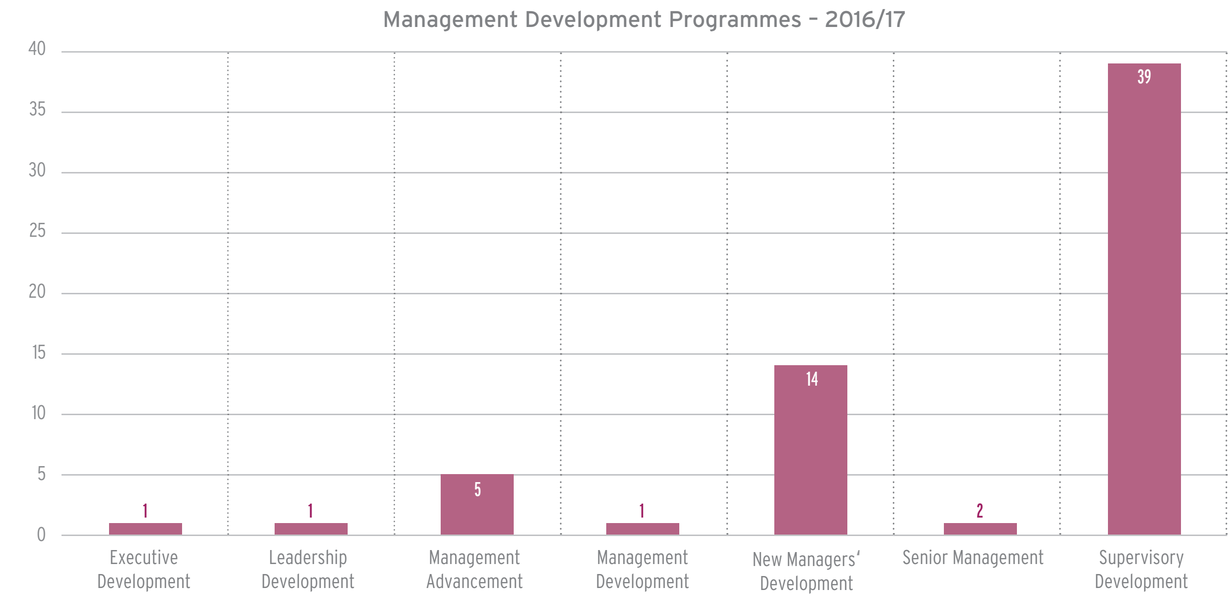
### *Writs Management System*

This system is aimed at enabling those employees who deal with writs to keep track of the various processes that are involved with the serving, verifying and authorisation of payment and monitoring of writs.

### *Implementation of E-forms*

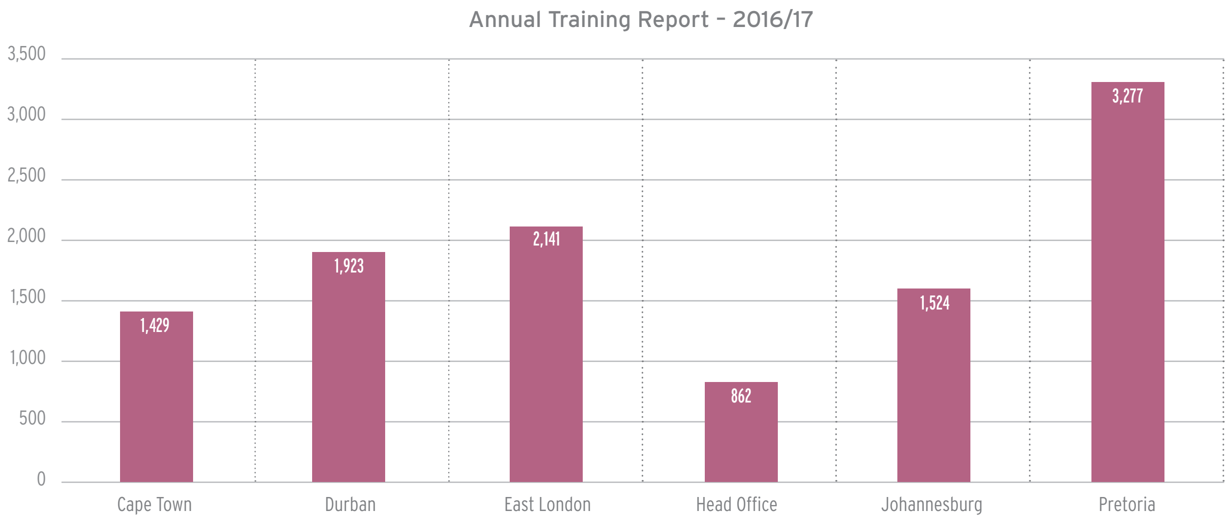
Trainees are taken through the various important forms, such as the RAF 1 form, Consultation form and Client Complaint form for, among others, the CSCs and HSCs in the organisation.

## *Leadership Training*




*Graph 2 – Management development programmes – 2016/17*

The emphasis is placed on leadership development for the various levels of Management. Staff continues to attend leadership learning interventions with various institutions.




*Graph 3 – Number of learning interventions per employee per region for the period 1 April 2016 – 31 March 2017*

## CENTRE OF EXCELLENCE

The Centre of Excellence plays an important role in making the RAF an employer of choice by establishing a culture of performance through the Recognition and Reward System. During the year under review, the Centre entered into a contract with the South African Board for People Practices (SABPP) to conduct an audit of its HC standards against the approved SABPP HRM standards.

## RECOGNITION AND REWARD OF PERFORMERS

In recognition of the achievement of APP targets for 2016/17, the Board approved the payment of performance bonuses. In addition, 586 staff members were recognised in the 2016/17 financial year in the form of spot, monthly, quarterly and annual awards for living the RAF values in their daily execution of tasks.

The RAF participated in three benchmarking surveys, benchmarking salaries and benefits. The salary scale benchmark was implemented in September 2016. Survey results have been used to enhance remuneration practices in 2016/17.

## MAINTENANCE OF INSTITUTIONAL KNOWLEDGE AND ENGAGEMENTS

The Knowledge Management team focused on the advocacy of knowledge management within the Fund by ensuring that information is shared among staff. Knowledge-sharing sessions for the HSCs and claims case estimates' Communities of Practice (COP) were continued throughout the RAF Regional Offices. On these platforms, best practices, lessons learned, knowledge sharing and uniformity were promoted.

## PUBLIC SPEAKING

As a state-owned entity, the RAF promotes external/public speaking by Senior Management in advocating the RAF and its processes and successes to the outside world. These events have become popular with conference organisers and/or attendees who always look forward to hearing about the Fund.

## RAF LIBRARY

During the period under review, the RAF Library introduced an online catalogue and e-books to improve visibility and provide information to business and staff. The library also added to their subscriptions a global information database that allows access to top local and international journals. Approximately 450 new books were purchased and made accessible to RAF staff.

## REGULATION AND COMPLIANCE

During the 2016/17 financial year, the RAF implemented best practice HC policies and SOPs to guide Line Managers and employees in the alignment of HC practices to the achievement of business objectives and goals.

## EMPLOYEE WELLNESS SERVICES

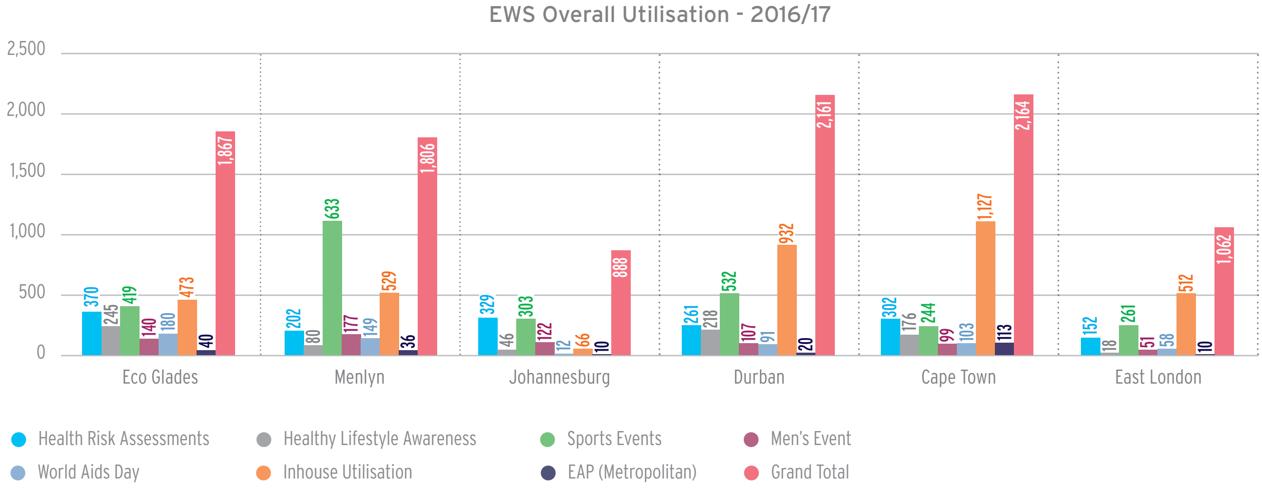
Employee Wellness Services (EWS), guided by the Health and Wellness Framework, aims to provide comprehensive health and wellness programmes and services to all RAF employees, with a mission to build and maintain a healthy workforce for increased productivity and excellent service delivery to the benefit of RAF employees and their families.

An integrated health and wellness approach is used, which also contributes to staff retention. During the year under review, an average of 916 walk-in employees were assisted at the respective regional EWS offices per quarter.

The HC Division is committed to providing employee health, safety and comprehensive wellness programmes in promoting work-life balance to the broader RAF community.

## *Overall EWS Utilisation*

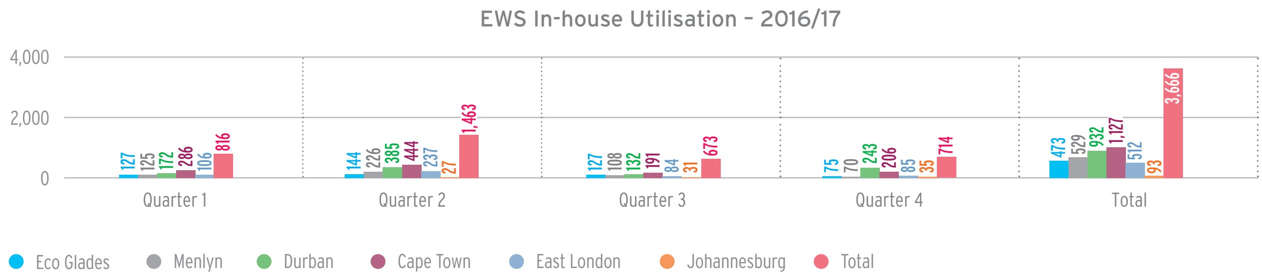
The graph below depicts the overall EWS utilisation, which took place in all Regional Offices during the year under review.




*Graph 4 – Employee wellness utilisation per event – 2016/17*

## *In-House Utilisation*

The graph below depicts the in-house utilisation which took place in all the Regions during the year under review.




*Graph 5 – Employee wellness in-house utilisation – 2016/17*

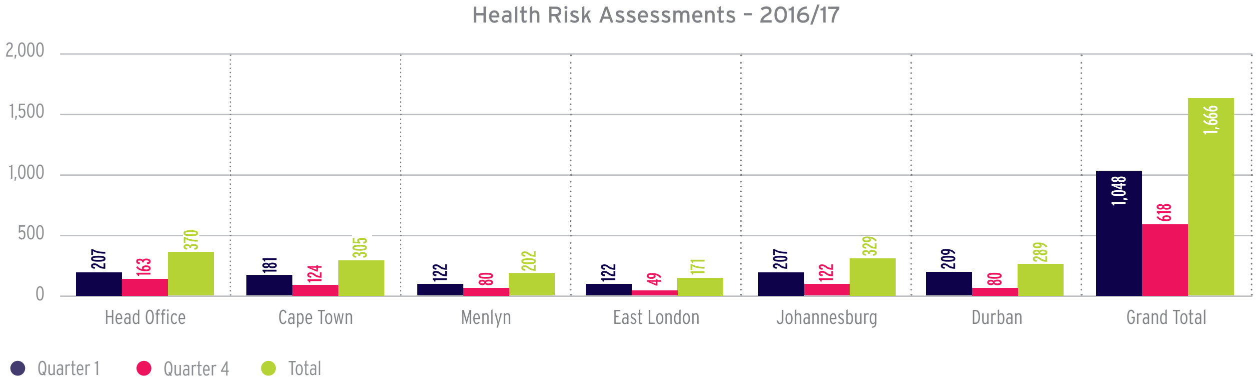
### *Health Risk Assessments*

Health Risk Assessments (HRAs) were conducted with the following main objectives:

- To assess the health status of RAF employees;
- To estimate the level of health risk among employees;
- To inform and provide feedback to screened employees to motivate behavioural change and reduce health risks; and
- To implement programmes to address the outcomes of adverse health risks.

A total of 1,666 employees were screened during the 2016/17 financial year.

The graph below depicts the HRAs conducted in all the regions during the year under review.




***Graph 6** - Health Risk Assessments per region - 2016/17*

## ▶ MANAGING ABSENTEEISM

In South Africa, the cost of absenteeism is estimated to be more than R12 billion and this trend was confirmed by the data that was extracted from the RAF Leave System. In light of this, absenteeism is a concern within the organisation and has led to the implementation of an Absenteeism Management Tool called "Advanced Time Process Manager".

The tool will assist Managers to better manage absenteeism. The tool also provides analytical reports which will enable Managers to identify trends and misuse of leave.

Apart from this, training was also provided to ensure that Managers can identify health and wellness problems that might impact on productivity and refer such issues appropriately.

# 6. BENEFITS ADMINISTRATION

HC is continually scanning the environment for new HC innovations, such as automated reporting and enhancement of Management information

## PENSION FUND

### *Introduction of Flexible Death Benefits*

It is the fiduciary duty of the RAF Pension Fund Board of Trustees to regularly review and evaluate the benefits the Fund offers to its members. Current benefits were reviewed accordingly and the following changes were introduced in the reporting period:

### *Change in Death Benefit Structure:*

With effect from 1 March 2016, the Board of the Pension Fund approved the change of the current death benefit structure of 8 x (3 x taxable and 5 x non-taxable) to a flexible death benefit structure as stated below:
8 x pensionable salary (default cover, if you do not make a selection); or
6 x pensionable salary; or
4 x pensionable salary.

All the above benefits will be approved for tax, i.e. the benefit will be taxed at the time of death and the contributions are tax deductible. The premiums payable for the flexible death benefits, as stated above, are as follows:

### *Previous Benefits:*

8 x pensionable salary (current benefit = 3 x approved and 5 x unapproved benefits) = 2.64% of pensionable salary.

### *New Benefits:*

8 x pensionable salary = 2.58% of pensionable salary;
6 x pensionable salary = 1.97% of pensionable salary;
4 x pensionable salary = 1.28% of pensionable salary.

Members are now in a position to elect an amount of death cover that will suit their personal needs. Pension Fund Board of Trustees meetings were held quarterly and the minutes and performance of the Fund were presented to REMCO for noting.

A Pension Fund Board of Trustees meeting was held on 23 February 2017.

The Board approved the conversion of the spouses cover from compulsory to voluntary. The cost for the voluntary scheme is 0.13% and the effective date of inception was 1 August 2017.

# 7. RECORDS MANAGEMENT

As per the requirements of the National Archives Act, 1996 (Act No. 43 of 1996), PFMA, Promotion of Access to Information Act (PAIA), POPI Act, etc., the RAF must ensure proper care and management of public records. In order to comply with this requirement, a File Plan was designed for the RAF and approved by the National Archivist for implementation. It is within this context that the RAF implemented the File Plan as of 1 July 2016.

HC has adopted the approved File Plan. Personal files were re-labelled and where necessary, new personnel files were opened and aligned to the File Plan. The project has come to the final stage and all personnel files of active employees in Head Office and all Regional HR Offices are re-labelled and are compliant to the RAF File Plan. The completion target date was 31 March 2017.

# 8. HUMAN CAPITAL SYSTEMS AUTOMATION

HC is continually scanning the environment for new HC innovations, such as automated reporting and enhancement of Management information to enable Line Managers to better manage their direct reports. The HC Shared Services Department acquired an automated Absenteeism Management Tool to manage absenteeism. The Performance Management System was also updated during the year under review to incorporate changes to the RAF template.

Furthermore, SAP HR access was reviewed to identify all employees who were not supposed to have access, in order to comply with the POPI Act so as to ensure that data is not compromised. The exercise assisted in ensuring that access is provided correctly and that there is segregation of duties.

The RAF's ability to attract and retain best talent is as a result of its competitive and benchmarked remuneration practices, supported by an enabling and conducive working environment to retain our most valued asset

# 9. TALENT SOURCING

A total of 333 appointments were made during the year, of which 27% was internal and 73% was external. Staff attrition rate remains below 10% at 5.61%. The RAF vacancy rate during the reporting period stood at 5.41%, with 153 vacant positions still to be filled. The Skills Audit (reported on in the last Annual Report) has enabled HC to identify key future skills requirements. The HC planning in terms of the future demand and supply of skills internally and externally is underway. The RAF started advertising on LinkedIn in December 2016 in order to reach the right people with the right skills at a low cost. LinkedIn has a pool of over 400,000 professionals that are registered with them. The Fund has posted 28 critical positions since December 2016. The RAF Job Search page has received more than 10,693 views. There have been strong levels of engagement with our Job Slots, with strong performance from the jobs posted (in particular the apply-view ratio is significantly higher than the market average).

Of late, the RAF's ability to attract and retain best talent is becoming a challenge due to stiff competition for best talent in the market. The Policy on the Regulation of Working Hours will enable the RAF to create a work environment that is conducive and with some level of flexibility for employees by creating work-life balance.

The RAF's ability to attract and retain best talent is as a result of its competitive and benchmarked remuneration practices, supported by an enabling and conducive working environment to retain our most valued asset. Our retention strategies is a balance between fixed and variable remuneration and a recognition system directly linked to our values of Ubuntu, Pride in What We Do, Solution Focused, Excellence and Efficiency. A working environment has been established where employees can flourish and be developed through new learning opportunities.

This division's main focus will continue to be the capacitation of the RAF to reduce the vacancy rate. Adequate human resources were attracted and retained through the implementation of various resourcing initiatives.

# 10. PRIORITIES AND FUTURE PLANS

| Priority Goal | Outcomes |
|---|---|
| Absenteeism Management | Reduction in the prevalence of sick leave by 10% compared to the previous year's baseline.<br>Roll-out of automated Absenteeism Tool to Management. |
| Leadership and Performance Assessment | Introduce the 360 degree leadership feedback tool at Executive Management level. |
| Performance Management | Performance Management electronic system enhancement to EHP 6.<br>Reinforce a high-performance culture through on-going Performance Management training and coaching; and<br>Implement a 360 degree assessment tool at Executive Management level. |
| Talent Sourcing – Automation of the Recruitment Process | The e-Recruitment Tool implemented and functional. |
| Workforce Planning and Skills Audit for Future Requirements | Future workforce and skills requirements assessed.<br>Introduce the Learning Management System (LMS), which will allow for the establishment of a Learning Academy.<br>Conduct a skills audit to ensure that RAF staff has the right skills to fulfil the RAF mandate.<br>Continue talent and succession management, thereby ensuring capacity availability of leaders to fill strategic and critical positions supported by continued implementation of Management and leadership development interventions.<br>Develop career paths for mission critical and strategic positions to develop and attract talent with the right skills and right roles. |
| Talent and Change Management | Capacitate the RAF's critical and strategic positions.<br>Entrench change management through capable Line Managers leading and managing change. |
| Reduction in Vacancies | Reduction in the vacancy rate to ensure a capacitated RAF. |
| Organisational Structure Maintained | The RAF will maintain its budgeted and approved positions with no further plans of expansion through an automated Integrated Organisation Modeller Tool. This will also assist in tracking and reporting on talent within the RAF. |
| Social and Economic Transformation | Implement talent attraction programmes to maintain gender equity and attract females to Management positions, thereby contributing to government's social and economic transformation agenda.<br><br>Implement e-Recruitment portal to reduce the administrative burden of screening applications. The system will enable the RAF to screen CVs, create an audit trail and save a database of applications, thus also improving turnaround times. |

# 11. HUMAN RESOURCE OVERSIGHT STATISTICS

## PERSONNEL COST BY PROGRAMME

| 2016/17 Programme | Total Expenditure for the Entity | Personnel Expenditure (Total Employment Cost (TEC) and Non-TEC HC-related Costs) | Personnel Expenditure as a Percentage of Total Expenditure | Number of Permanent Employees | Average Personnel Cost per Employee |
|---|---|---|---|---|---|
| | R'000 | R'000 | % | No | R'000 |
| All | 68,083,357 | 1,434,772 | 2% | 2,676 | 536 |

## PERSONNEL COST BY SALARY BAND (TEC)

| 2016/17 Level | Personnel Expenditure (TEC) | Percentage of Personnel Expenditure to Total Personnel Cost | Number of Employees | Average Personnel Cost per Employee |
|---|---|---|---|---|
| | R'000 | % | No | R'000 |
| Top Management | 4,985 | 0.43% | 1 | 4,985 |
| Senior Management | 46,862 | 4.04% | 24 | 1,953 |
| Professional qualified | 323,371 | 27.87% | 389 | 831 |
| Skilled | 606,699 | 52.30% | 1,490 | 407 |
| Semi-skilled | 176,129 | 15.18% | 755 | 233 |
| Unskilled | 2,096 | 0.18% | 17 | 123 |
| Total | 1,160,142 | 100% | 2,676 | 434 |

## PERFORMANCE REWARDS

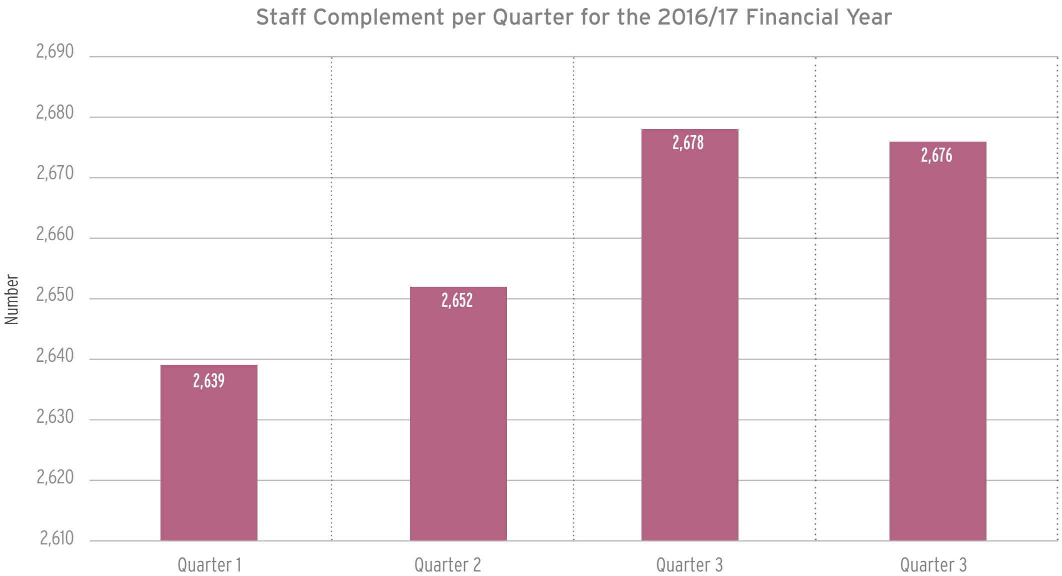
| 2016/17 Level | Performance Rewards | Personnel Expenditure (TEC) | Percentage of Performance Rewards to Total Personnel Cost |
|---|---|---|---|
| | R'000 | R'000 | % |
| Top Management | 1,919 | 4,985 | 38% |
| Senior Management | 8,368 | 46,862 | 18% |
| Professional qualified | 43,668 | 323,371 | 14% |
| Skilled | 60,076 | 606,699 | 10% |
| Semi-skilled | 18,683 | 176,129 | 11% |
| Unskilled | 175 | 2,096 | 8% |
| Total | 132,889 | 1,160,142 | 11% |

## TRAINING COSTS

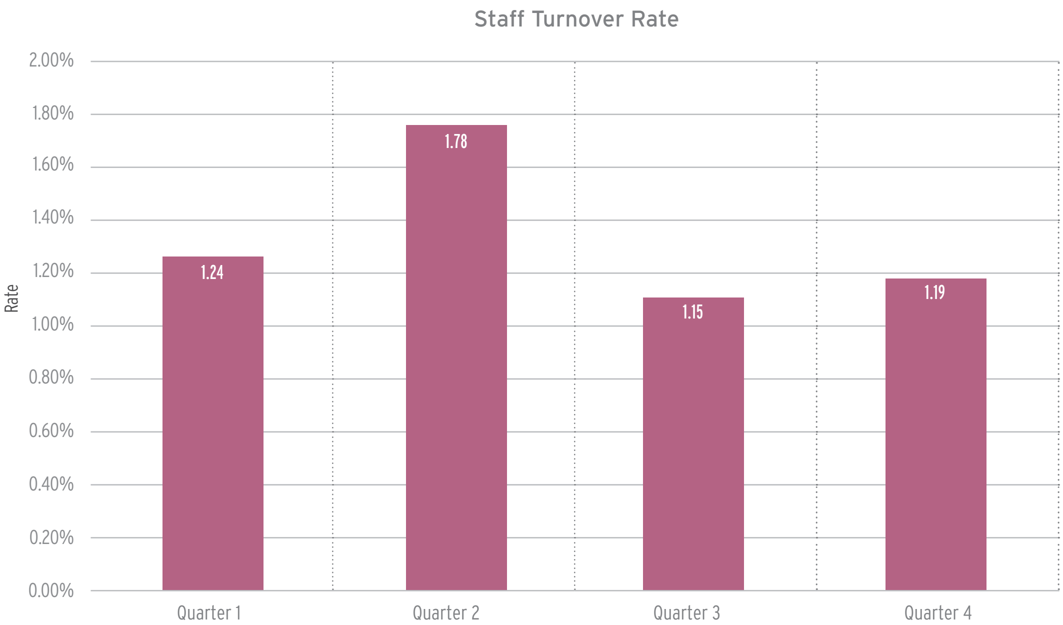
| 2016/17 Business Unit | Personnel Expenditure (TEC Related costs) | Training Expenditure | Training Expenditure as a Percentage of Personnel Cost | Number of Employees Trained | Average Training Cost per Employee |
|---|---|---|---|---|---|
| | R'000 | R'000 | % | No | |
| RAF Learning and Development | 1,160,142 | 22,269 | 2% | 2,625 | 8,483 |

## EMPLOYMENT AND VACANCIES

| Level | 2015/16 Number of Employees | 2016/17 Approved Posts | 2016/17 Number of Employees | 2016/17 Vacancies | Percentage of Vacancies |
|---|---|---|---|---|---|
| | No | No | No | No | % |
| Top Management | 1 | 1 | 1 | 0 | 0.00% |
| Senior Management | 23 | 27 | 24 | 3 | 11.11% |
| Professional qualified | 368 | 413 | 389 | 24 | 5.81% |
| Skilled | 1,418 | 1,562 | 1,490 | 72 | 4.61% |
| Semi-skilled | 768 | 809 | 755 | 54 | 6.67% |
| Unskilled | 15 | 17 | 17 | 0 | 0.00% |
| Total | 2,593 | 2,829 | 2,676 | 153 | 5.41% |




*Graph 7 – Permanent staff complement per quarter*




*Graph 8 – Staff turnover rate per quarter*

## STAFF MOVEMENT

| 2016/17 Level | Employment at Beginning of Period | Appointments Internal | Appointments External | Terminations | Employment at End of the Period |
|---|---|---|---|---|---|
| Top Management | 1 | 0 | 0 | 0 | 1 |
| Senior Management | 23 | 1 | 3 | 2 | 24 |
| Professional qualified | 368 | 22 | 34 | 31 | 389 |
| Skilled | 1,418 | 51 | 143 | 98 | 1,490 |
| Semi-skilled | 768 | 15 | 60 | 19 | 755 |
| Unskilled | 15 | 0 | 4 | 0 | 17 |
| Total | 2,593 | 89 | 244 | 150 | 2,676 |

## REASONS FOR STAFF LEAVING

| 2016/17 | Number | % of Total No. of Staff Leaving |
|---|---|---|
| Death | 6 | 4% |
| Resignation | 133 | 89% |
| Dismissal | 7 | 5% |
| Retirement | 4 | 3% |
| Ill health | 0 | 0% |
| Expiry of contract | 0 | 0% |
| Other | 0 | 0% |
| Total | 150 | 100% |

## MISCONDUCT AND DISCIPLINARY ACTION

| Nature of Disciplinary Action | Number 2015/16 | Number 2016/17 |
|---|---|---|
| Verbal Warning | 51 | 10 |
| Written Warning | 57 | 26 |
| Final Written Warning | 19 | 20 |
| Dismissal | 16 | 7 |
| Total | 143 | 63 |

## EMPLOYEE RELATIONS

The RAF considers its relations with the union as a key interface to meet employee expectations in the workplace. Similarly, the RAF considers employee discipline and adherence to the RAF Code of Conduct and compliance to its policies, procedures and regulations as serious matters. During the reporting period, a total of 7 employees were dismissed for serious offences and transgressions.

## INCIDENCES AND GRIEVANCES

There were 40 grievances lodged during the year under review.

## EMPLOYMENT EQUITY

Equity Target and Employment Equity Status

| Levels 2016/17 | Male | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Permanent Employees | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top Management | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| Senior Management | 8 | 9 | 1 | 1 | 1 | 0 | 0 | 1 |
| Professional qualified | 146 | 150 | 14 | 17 | 11 | 5 | 31 | 18 |
| Skilled | 508 | 574 | 38 | 66 | 25 | 21 | 34 | 67 |
| Semi-skilled | 266 | 291 | 31 | 33 | 9 | 11 | 7 | 34 |
| Unskilled | 0 | 6 | 0 | 1 | 0 | 0 | 0 | 0 |
| Total | 928 | 1,030 | 85 | 119 | 46 | 37 | 72 | 120 |

| Levels 2016/17 | Female | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Permanent Employees | African | | Coloured | | Indian | | White | |
| | Current | Target | Current | Target | Current | Target | Current | Target |
| Top Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Management | 12 | 10 | 0 | 1 | 0 | 0 | 2 | 1 |
| Professional qualified | 151 | 157 | 10 | 19 | 8 | 5 | 18 | 18 |
| Skilled | 683 | 602 | 65 | 72 | 59 | 21 | 78 | 69 |
| Semi-skilled | 364 | 305 | 43 | 36 | 14 | 11 | 21 | 35 |
| Unskilled | 16 | 7 | 1 | 1 | 0 | 0 | 0 | 0 |
| Total | 1,226 | 1,081 | 119 | 129 | 81 | 37 | 119 | 123 |

| 2016/17 | Race | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Employees Living with Disability | African | | Coloured | | Indian | | White | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| | 11 | 17 | 0 | 2 | 0 | 0 | 2 | 0 |


-256.32
-5412.32
325.23
2541.00
8122.32
-630.40

# PART E
# FINANCIAL INFORMATION

**The reports and statements set out below comprise the Financial Statements presented to Parliament**

# REPORT OF THE AUDITOR-GENERAL

*to Parliament on the Road Accident Fund*

## REPORT ON THE FINANCIAL STATEMENTS

### OPINION

1. I have audited the financial statements of the Road Accident Fund set out on pages 191 to 255, which comprise the statement of financial position as at 31 March 2017, and 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 to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Road Accident Fund as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with generally recognised accounting practice (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

### BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

6. I draw attention to Note 34 in the financial statements, which indicates that the public entity incurred a net deficit of R34,741,498,000 during the year ended 31 March 2017 and, as of that date the public entity's total liabilities exceeded its total assets by R179,992 925,000. As stated in Note 34, these events or conditions, along with other matters as set forth in Note 34, indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern. My opinion is not modified in respect of this matter.

### RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY

7. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the financial statements, the accounting authority is responsible for assessing the Road Accident Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

## AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

9. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
10. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

## INTRODUCTION AND SCOPE

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

| Objectives | Pages in the Annual Performance Report |
|---|---|
| Objective 1 – Efficient claims processing | 69 - 71 |

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objective:
    - Efficient claims processing

## OTHER MATTER

16. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## ACHIEVEMENT OF PLANNED TARGETS

17. Refer to the annual performance report on page(s) 69 to 84 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets.

## REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

## INTRODUCTION AND SCOPE

18. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed

procedures to identify findings but not to gather evidence to express assurance. 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.

## OTHER INFORMATION

19. The Road Accident Fund accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
20. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

## INTERNAL CONTROL DEFICIENCIES

22. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

## OTHER REPORTS

23. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
24. At the date of this report investigations are being carried out by the Public Protector. The investigations are related to processing of certain claims and are in still in progress at the date of this report. The impact, if any, on the financial statements of the Road Accident Fund can only be determined once the investigations have been concluded.

Auditor-General

Pretoria

*31 July 2017*

AUDITOR-GENERAL
SOUTH AFRICA

*Auditing to build public confidence*

# ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

## FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   - obtain an understanding of internal control relevant to the audit 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 public entity's internal control.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
   - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Road Accident Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

# REPORT OF THE AUDIT COMMITTEE

The Audit Committee is pleased to present its report for the financial year ended 31 March 2017.

The Audit Committee is an independent statutory committee appointed by the Board of the RAF. The duties and responsibilities of the Audit Committee, as delegated by the Board of the RAF, are included in this report.

## ▶ AUDIT COMMITTEE TERMS OF REFERENCE

The Audit Committee has adopted formal Terms of Reference as its Audit Committee Charter, that has been approved by the Board of the RAF. The Committee has conducted its affairs in compliance with this Charter and has discharged its responsibilities contained therein. The Charter is available on request.

## ▶ AUDIT COMMITTEE MEMBERS AND ATTENDANCE

The Audit Committee consists of four independent, Non-executive Board members. It meets at least four times per year, as specified in terms of the Audit Committee Charter.

The Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief Audit Executive, external auditors and other assurance providers (legal, compliance, risk, health and safety) attend meetings by invitation only.

During the year under review four meetings were held. (Apologies were rendered for meetings not attended.)

| Name of Member | 21 April 2016 | 26 May 2016 | 20 July 2016 | 25 January 2017 | Total |
|---|---|---|---|---|---|
| Mr LED Hlatshwayo | Yes | Yes | Yes | * | 3 |
| Mr D Coovadia | Yes | Yes | Yes | Yes | 4 |
| Mr TP Masobe | Yes | Yes | Yes | Yes | 4 |
| Mr DK Smith | X | Yes | X | * | 1 |
| Mr AM Pandor | # | # | # | Yes | 1 |
| Dr MC Peenze | # | # | # | Yes | 1 |

| Director General's Representative | 21 April 2016 | 26 May 2016 | 20 July 2016 | 25 January 2017 | Total |
|---|---|---|---|---|---|
| Mr T Tenza | X | Yes | X | * | 1 |
| Ms M Somaru | # | # | # | Yes | 1 |

X Apologies were rendered for meetings not attended
* Member's term expired on 30 September 2016
# Member appointed on 21 October 2016

## ROLES AND RESPONSIBILITIES

The Audit Committee's roles and responsibilities include its statutory duties as per the PFMA, 1999 (Act No. 1 of 1999), as well as the Treasury Regulations issued in terms of the PFMA and the responsibilities assigned to it by the Board.

The Committee was responsible for performing its duties as set out in the Audit Committee Charter, which included reviewing the following:

- The effectiveness of the RAF's internal control systems;
- The risk areas of the RAF's operations to be covered in the scope of the internal and external audits;
- The accounting and auditing concerns identified as a result of the internal or external audits;
- The RAF's compliance with legal and regulatory provisions, in particular the Road Accident Fund Act, 1996 (Act No. 56 of 1996) (RAF Act); the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) (RAF Amendment Act); the PFMA, as well as NT Regulations;
- The activities of the Internal Audit function, including its work programmes, co-ordination with the external auditors, the reports of significant investigations, and the responses of Management to specific recommendations;
- The independence and objectivity of the external auditors;
- The review of the Financial Statements with specific attention to:
  - Underlying accounting policies or changes thereto;
  - Major estimates and managerial judgements;
  - Significant adjustments flowing from the year-end audit;
  - Compliance with effective South African Standards of Generally Recognised Accounting Practice (GRAP), the PFMA, IFRS 4 and other statutory precepts; and
  - The appropriateness of the going concern assumption.

The Audit Committee also undertook the following activities during the year under review:

- Reviewing and recommending the Internal Audit Department's Charter for approval by the Board;
- Reviewing and approving the Internal Audit Plan;
- Conducting investigations within its Terms of Reference; and
- Encouraging communication between members of the Board, Senior and Executive Management, the Internal Audit Department, and the external auditors.

## EXTERNAL AUDITORS

During the year, the Audit Committee met with the external auditors and with the Chief Audit Executive without Management being present. The Audit Committee is satisfied that it complied with its legal, regulatory and other responsibilities.

The Audit Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the financial year ended 31 March 2017.

## FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The Audit Committee has evaluated the Accounting Policies and Annual Financial Statements of the RAF for the year ended 31 March 2017 and concluded that they comply, in all material respects, with the requirements of the PFMA, and were prepared in accordance with the effective South African Standards of GRAP issued by the Accounting Standards Board (ASB).

The Audit Committee has established a process to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the RAF. No matters were raised in the past financial year.

## UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

The Audit Committee is satisfied with the processes in place to detect and disclose unauthorised, irregular and fruitless and wasteful expenditure. Any unauthorised, irregular and fruitless and wasteful expenditure that exceeds the materiality limit of 5% of the total asset value as documented in the Materiality Framework will be disclosed. For the year under review, there was no such expenditure which breached the materiality limit of R459,924,600, either individually or in aggregate.

## INTERNAL FINANCIAL CONTROLS

The Audit Committee's assessment of the internal financial controls in the claims environment is that the systems, although enhanced, should still be improved. Despite this, and based on the information and explanations given by Management and the Internal Audit function, together with discussions held with the AGSA on the result of their audits, the Audit Committee is of the opinion that the internal financial controls are adequate to ensure that the financial records may be relied upon for preparing the Annual Financial Statements, and accountability for the assets and liabilities is maintained.

Based on the results of the formal documented review of the design, implementation and effectiveness of the RAF's system of internal financial controls conducted by the Internal Audit function during the 2016/17 financial year and, in addition, considering information and explanations given by Management and discussions with the external auditor on the results of their audit, the Audit Committee is of the opinion that the RAF's system of internal financial controls is effective and forms a sound basis for the preparation of reliable Annual Financial Statements.

## WHISTLE-BLOWING

The Audit Committee receives and deals with any concern or complaint, whether from within or outside the RAF, relating to the accounting practices and Internal Audit of the RAF, the content or auditing of the RAF's Annual Financial Statements, the internal financial controls of the RAF and related matters.

## REPORTING AND COMBINED ASSURANCE

The Audit Committee fulfils an oversight role regarding the RAF's Annual Report and the reporting process, including the system of internal financial control. Furthermore, the Audit Committee oversees co-operation between the internal and external auditors and other service providers. A Combined Assurance Forum has been formed which is chaired by the General Manager: Risk and reports to the Audit Committee on a quarterly basis.

## GOING CONCERN

The Audit Committee reviewed a documented assessment by Management of the going concern premise before agreeing that the adoption of the 'going concern' premise is appropriate in preparing the Annual Financial Statements (refer to the Report of the Board as it pertains to the section on 'going concern').

## GOVERNANCE OF RISK

The Board has assigned oversight of the RAF's Risk Management function to the Risk Management and Ethics Committee (RMEC).

The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud, and information technology (IT) risks as it relates to financial reporting.

## INTERNAL AUDIT

The Audit Committee is responsible for ensuring that the RAF's Internal Audit function is independent and has the necessary resources, standing and authority within the RAF to enable it to discharge its duties.

The Internal Audit function reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the RAF's operations. The Chief Audit Executive is responsible for reporting the findings of the Internal Audit work against the agreed Internal Audit Plan to the Audit Committee on a regular basis.

The Chief Audit Executive has a functional reporting line to the Audit Committee, primarily through its Chairperson, and reports administratively to the CEO. The Audit Committee is also responsible for the assessment of the performance of the Chief Audit Executive and the Internal Audit function.

## EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The Audit Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience.

The Audit Committee has considered, and has satisfied itself with the appropriateness of the expertise and adequacy of the resources in the Finance function and the experience of the senior members of Management responsible for the Finance function.

**Mr AM Pandor**
*Chairperson of the Audit Committee*
*26 July 2017*

# STATEMENT OF RESPONSIBILITY BY THE BOARD

The Annual Financial Statements have been prepared in accordance with SA Standards of GRAP including any interpretations, guidelines and directives issued by the ASB.

The PFMA requires the Accounting Authority to ensure that the RAF keeps full and proper records of its financial affairs. The Financial Statements should fairly present the state of affairs of the RAF, its financial results, its performance against predetermined objectives and its financial position at the end of the year in terms of the effective South African Standards of GRAP.

The Annual Financial Statements are the responsibility of the Board. The external auditors are responsible for independently auditing and reporting on the Annual Financial Statements.

To enable the Board to meet the above-mentioned responsibilities, the RAF Board sets standards and oversees systems of internal control. The controls are designed to provide cost-effective assurance that assets are safeguarded, and that liabilities and working capital are efficiently managed.

Policies, procedures, structures and approval frameworks provide direction, accountability and division of responsibilities, and contain self-monitoring mechanisms. The controls throughout the RAF focus on the critical risk areas identified by operational risk management and confirmed by Executive Management. Both Management and the Internal Audit Department closely monitor the controls and actions taken to correct deficiencies as they are identified.

Based on the information and explanations given by Management and the Internal Audit Department, and discussions held with the AGSA on the results of their audits, the Board is of the opinion that the internal financial controls are adequate to ensure that the financial records may be relied upon for preparing the Financial Statements, and accountability for the assets and liabilities is maintained.

Nothing significant has come to the attention of the Board to indicate that any material breakdown has occurred in the functioning of these controls, procedures and systems during the year under review.

In the opinion of the Board, based on the information available, the Financial Statements fairly present the financial position of the RAF at 31 March 2017 and the results of its operations and cash flow information for the year.

Though the RAF will continue to face material cash flow constraints, it is believed that based on the initiatives implemented to date, the support from its stakeholders, the absence of any indication that it should no longer execute its statutory obligations and by continuing to work with its service providers, that the RAF will be able to meet its obligations arising in the next 12 months.

On an annual basis, following the Minister of Finance's Budget Speech in Parliament, the Taxation Amendment Act indicates what the RAF Fuel Levy will be for the applicable financial year. The RAF Fuel Levy for the 2016/17 financial year was 154c per litre. This rate was increased by 9c per litre to 163c per litre with effect from 1 April 2017.

The Annual Financial Statements of the RAF for the year ended 31 March 2017, which have been prepared on the going concern basis (refer to the Report of the Board as it pertains to the section on 'going concern'), have been approved by the Board and signed on its behalf by:

**DR NM Bhengu**
*Chairperson of the Board*
*Date: 26 July 2017*

# REPORT OF THE BOARD

## 1. INTRODUCTION

The Board presents its report which forms part of the Annual Financial Statements of the RAF for the year ended 31 March 2017 to the Minister of Transport, who is the Executive Authority in terms of section 55(1)(d) of the PFMA.

The RAF, as established by the RAF Act, is listed as a National Public Entity in accordance with schedule 3A of the PFMA. The Board acts as the Accounting Authority in terms of the PFMA.

## 2. BOARD

The Board members who held office during the year under review are as follows:

| **Non-Executive Board Members** | |
|---|---|
| Dr NM Bhengu (Chairperson) | |
| Mr D Coovadia (Vice Chairperson) | |
| Dr KLN Linda | |
| Mr TP Masobe | |
| Mr AM Pandor | |
| Ms R Mokoena | |
| Mr LED Hlatshwayo | (Term expired 30 September 2016) |
| Mr DK Smith | (Term expired 30 September 2016) |
| Adv DS Qocha | (Term expired 30 September 2016) |
| Ms A Steyn | (Term expired 30 September 2016) |
| Dr TO Kommal | (Appointed on 21 October 2016) |
| Mr KM Mothobi | (Appointed on 21 October 2016) |
| Dr MC Peenze | (Appointed on 21 October 2016) |
| Ms LUZ Rataemane | (Appointed on 21 October 2016) |
| Mr T Tenza (DG representative)* | (Term expired 30 September 2016) |
| Ms M Somaru (DG representative)* | (Appointed on 21 October 2016) |

**The Director-General of the Department of Transport or any other Senior Officer in the Department of Transport, designated by him or her for a particular purpose, serves as an ex officio member of the Board.*

### Chief Executive Officer
Dr EA Watson (Term expired 30 June 2017)

### Acting Chief Executive Officer
Ms L Jabavu (Acting CEO from 1 July 2017)

### Chief Financial Officer
Ms Y van Biljon (Resigned 14 June 2017)

### Acting Chief Financial Officer
Mr V Songelwa (Acting CFO from 19 June 2017)

### Company Secretary
Ms JR Cornelius

## 3. REVIEW OF ACTIVITIES

To provide appropriate cover to all road users within the borders of South Africa; to rehabilitate persons injured, compensate for injuries or death and indemnify wrongdoers as a result of motor vehicle accidents in a timely, caring and sustainable manner; and to support the safe use of our roads.

The detailed review of the results of the RAF for the year ended 31 March 2017 is included in Part B: Performance Information in the Annual Report.

## 4. SOLVENCY AND GOING CONCERN

We draw attention to the fact that as at 31 March 2017, the entity had an accumulated deficit of R180,076,988,000 and that the entity's total liabilities exceeded its assets by R179,992,925,000.

The RAF has been technically insolvent for a considerable amount of time. The effect of the Turnaround Strategy implemented in the 2012/13 financial year has seen a substantial increase in the ability of the entity to settle claims and the resultant reduction in the number of open claims previously accumulated over many years. As a result, and following the depletion of historic cash reserves, the available funding to settle claims is currently limited to the annual RAF Fuel Levy received, a levy that bears no reference to the historic or forecasted claims profile, the value of claims settled or the operational capacity the entity has to settle claims.

Over the course of this financial year, the RAF continued to complete and settle more claims than it could honour from available funding. As a result, the RAF has experienced material cash flow constraints for the past three years to the extent that 'going concern' is deemed to be under a continued and significant threat.

It is, however, worth noting that in the past the RAF received additional financial support from NT in the form of cash injections over and above the normal RAF Fuel Levy income, as and when it faced liquidity problems. During the 2006 financial year, it received a cash injection of R2.5 billion and in the 2009 financial year it received R2.5 billion. Effective 1 April 2015, an *ad hoc* 50c increase to the Fuel Levy became effective (adding approximately R11 billion to the annual Fuel Levy received). More recently a 9c increase was approved to be effective 1 April 2017, which adds a further R1.9 billion to the annual Fuel Levy received.

Though the recent increases in the Fuel Levy, amounting to an additional R13 billion per annum, to a large extent, succeeded in reducing the gap between productivity and funding on a monthly basis, it could not contribute to reducing the backlog in claims requested for payment but not yet paid that had accumulated since the cash flow constraints became a reality in the latter part of 2014. The backlog amounted to R8.6 billion on 30 June 2015 when the first tranche of the additional funding was received.

The pressure on available funding, however, remains as inflationary pressures on the Heads of Damages claims, the preference for the more expensive claims by represented claimants and consistently higher claims registration patterns are observed.

The assessment and the assumptions used to conclude on the continued appropriateness of the application of 'going concern' as a basis for the preparation of the Annual Financial Statements are explored below. The assessment and assumptions inform mitigation measures being implemented.

### Assessment:

Professional opinions obtained in the 2014/15 financial year still believed to be relevant:

- The Legal Opinion obtained on what it means for the RAF to be considered 'insolvent', whether it can be classified as a 'going concern', what process needed to be followed for the RAF to be wound up, how the

RAF was to deal with creditors where it could not pay them, what exposure the RAF had were it not in a position to pay claimants, the recourse of such claimants and the personal liability of the RAF's Board and Officials were a case to be made for financial mismanagement.
- The Technical Opinion on 'going concern' from one of its Panel of Internal Audit Firms with respect to the basis on which the Financial Statements of the RAF should be prepared and how the institution should mitigate the risk of obtaining a qualified audit opinion given the threat to the 'going concern'.

Initiatives put in place in the 2014/15 financial year that were maintained in the 2016/17 financial year:

- Updated cash flow forecasts were prepared on a daily, weekly and monthly basis to reflect the latest available financial status both in-year and multiyear and to identify the funding shortfall for any next steps.
- Extensive reporting mechanisms existed to monitor cash flows on a real-time basis and to report relevant information to the various affected parties and stakeholders, as well as to develop a proactive response to the extent possible.
- Writs instances and the processes followed in responding thereto were actively monitored and tracked by Operations and the Finance Treasury Department, whilst being supported by the Corporate Legal Department.
- Assessed the risk against the risk-bearing capacity of the entity and responding accordingly.
- Again considered the fact that the RAF Act contemplates that the RAF may be 'unable' to pay and may be insolvent, but to liquidate the Fund is not possible under the said Act. To wind up the business of the RAF will require an Act of Parliament. Section 21 of the Act provides for the revival of the common law claim of the person injured in a road crash, or the dependents of the person killed as a result of the injuries sustained in a road crash, to sue the wrongdoer. Should section 21 of the RAF Act be "triggered" by the RAF's inability to pay claimants, the implications for the public, and the State, would be dire.

It thus remains clear that the RAF cannot stop making payments, despite its cash flow constraints.

The RAF developed and implemented the following actions:

- A Cash Management Strategy was designed, recently reviewed and implemented to ensure available funding was distributed in an equitable and fair manner. This has since evolved to cash management in the ordinary course of business, which is reviewed at least annually or otherwise in response to the business environment.
- An extensive multipronged Communication Strategy remains in place to ensure that all service providers are kept abreast of developments in a transparent and frank manner.
- The entity, on a continuous basis, sought to optimise its own cost base and any funds that are not committed due to general savings or delays as a result of Supply Chain Management processes, are allocated to the settlement of claims.
- Extensive engagements with stakeholders – NT, DoT and other relevant parties and forums – are on-going to ensure awareness, to present status updates and to seek solutions.
- A letter of comfort/support/indemnity was received in July 2015 and will again be sought from the Shareholders (NT and DoT).
- In addition, when confronted with the increasing prevalence of bank attachments in the past financial year, the response plan to our on-going cash flow constraints further evolved to identify, research and implement measures to minimise the interruption caused by these attachments.

## Assumptions:

In the context of the above and consistent with the reporting in previous financial years, Management takes the following assumptions into consideration in its assessment of the threat to the going concern of the RAF:

- The ability of the RAF to continue as a 'going concern' cannot be considered, primarily because it is not a commercial enterprise. The RAF is, as its name implies, a fund. It is a receptacle of all monies procured from the NT pursuant to section 5(1) of the RAF Act, from which all claims for damages arising from bodily injuries are to be paid. The Fund therefore has no realistic alternative other than to continue to operate in accordance with the above-said legislation.

- The RAF is incapable of being liquidated. To wind up the business of the RAF will require an intervention through an Act of Parliament. The winding up process will, however, not absolve the RAF from the debts that it would have incurred as at the time of the culmination of such a process. There is currently no indication of any intention to repeal the Act.
- Cash flow forecasts for the next 12 months indicate that the extent to which Net Liabilities exceed Net Assets is expected to increase as a result of the projected growth in the Provision for Outstanding Claims. The Accounts Payable Book (Claims Requested Not Yet Paid), however, is showing early signs of having stabilised at levels of approximately R10 billion (originally budgeted to reach levels of R24 billion by March 2018). This, as a result of the average settlement rate in recent months being nearer to R2.9 billion per month versus the originally budgeted average settlement rate of R3.5 billion per month. As a result, Management is not of the view that material uncertainties exist that will cast significant doubt upon the entity's ability to continue as a going concern.
- The power to levy rates or taxes enables the RAF to be considered a 'going concern' even though it may operate with negative net assets.
- Support from its stakeholders, repeatedly expressed and visibly actioned in the past and more recently, continues.
- The intention to continue with the Cash Management Strategy and the Communication Strategy and the maintenance of the relationships built with service providers, which has now become common practice.
- The continuous reporting and implementation of actions to respond to what the reporting indicates, also proactively, where possible.
- The RAF will continue to execute its mandate within its available funding and, with the initiatives mentioned, is confident that it will be able to meet its short-term obligations.
- The initiatives identified above with respect to cost optimisation will continue.
- Engagements with NT and the DoT will continue with status updates and to support expectations communicated, as and when required.
- Active pursuit of the promulgation of the RABS will see a financially viable social security system introduced via a mechanism like the RAF become affordable and appropriately funded going forward.

Though the institution will continue to face material cash flow constraints, it is believed that based on the initiatives implemented to date and the support from its stakeholders, no indication exists that the entity shall no longer execute its mandate and will no longer be able to meet its obligations in the next 12 months.

Based on the above, it is the opinion of the Management of the RAF that though the concept of 'going concern' may not be applicable to the RAF, it is nonetheless the appropriate basis for the presentation of the Financial Statements for 31 March 2017 based on this assessment.

The following table depicts the total assets and the total liabilities of the RAF over the past five years. From the table below, it is clear that the RAF has not been solvent for a number of years. The accumulated deficit has increased by the deficit for the year of R34,741,498,957 in the 2016/17 financial year.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Total Assets | 9,198,494 | 9,795,762 | 7,367,289 | 7,694,347 | 10,717,258 |
| Total Liabilities | (189,191,419) | (155,047,854) | (117,613,845) | (98,492,105) | (84,219,622) |
| | (179,992,925) | (145,252,092) | (110,246,556) | (90,797,758) | (73,502,364) |

## 5. SUBSEQUENT EVENTS

No undisclosed material events have taken place between the Statement of Financial Position date and the authorisation of the Annual Financial Statements.

## 6. ACCOUNTING POLICIES

The Annual Financial Statements are prepared in accordance with the prescribed South African Standards of GRAP issued by the ASB as the prescribed framework by NT. During the current financial year, no new GRAP Standards were applied for the first time.

## 7. MATERIALITY FRAMEWORK

A Materiality Framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, or for significant transactions that require approval by the Executive Authority, as envisaged in Section 54(2) of the PFMA. The framework was finalised by the RAF and approved by the Board on 6 February 2014.

## 8. FRUITLESS AND WASTEFUL AND IRREGULAR EXPENDITURE

### Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure of R16,312,494 (2015/16: R31,127,704) relating to administrative costs, bad debts written off, interest, sheriff costs and writ costs, has been disclosed in Note 25 of the Annual Financial Statements.

### Interest, Sheriff Costs and Writ Costs

Interest cost is the cost paid for late payment of the claim compensation as agreed to in a settlement agreement or order of the court, and taxed legal bills settled through taxation, as these costs are due immediately. The interest is charged under the Prescribed Rate of Interest Act of 1975 at 9.0% as per *Government Gazette No. 37831*, issued on 18 July 2014. This interest rate was amended to the repo rate plus 3.5% (currently 10.25%) with effect from 1 March 2016 as per *Government Gazette No. 39587*, issued on 8 January 2016.

**Sheriff cost** is the cost paid to the Sheriff for its service with regard to serving the warrant of execution (writs) on the Fund.

As per the definition in the PFMA, fruitless and wasteful expenditure means "expenditure which was made in vain and could have been avoided had reasonable care been exercised". The amounts listed below are costs incurred in the settlement process of claims influenced by external legal processes and time limits legally enforced on the RAF in the settlement of claims.

The total value of claims-related fruitless and wasteful expenditure included in the Annual Financial Statements for the year ended 31 March 2017 is R14,043,296 (2015/16: R28,386,904) representing a 50.5% decrease. This, as a percentage of claims expenditure, is 0.04% (2015/16: 0.05%). The total value of claims-related fruitless and wasteful expenditure, had it not been reduced for the current cash position and Management Strategy, would have been R240,941,605 (2015/16: R139,025,402).

Reporting and adherence to the Writs Standard Operating Procedure (SOP) will continue.

Legal costs create operational constraints, as there are no legal obligations for plaintiff attorneys to submit the bill within any stipulated time frames. The majority of legal cost bills are disputed, because the content or the items billed is incorrect or invalid. The process of taxation of legal cost bills through the Office of the Taxation Master is the only option to settle these disputes.

The taxation of the legal cost bills exposes the RAF to a risk of non-compliance with court processes despite an Instruction Note from NT that all payments from legal settlements must be paid within 30 days from the date of settlement. Court rules require that taxed bills must be paid immediately after taxation and plaintiff attorneys issue warrants of execution (i.e. immediately after settlement).

As a result, payments may comply with the PFMA, but not the court rules.

The following information relates to the legal cost bills settled through taxation for 2016/17:

- Number of bills settled through taxation: 21,997 (2015/16: 17,280) – increased by 27%.
- Number of bills where a saving was made through taxation: 20,897 (2015/16: 16,741) – increased by 21%.
- Amount saved through taxation: R1,577,478,335 (2015/16: R1,097,303,853) – increased by 44%.
- The success rate in terms of saving legal cost bills was 95% (2015/16: 97%).

The number of taxed legal cost bills has increased as a result of increased processing efficiency, higher volumes of claims settled compared to the previous corresponding period and attorneys submitting bills as soon as possible for payments to queue at Treasury as a result of the cash constraints.

The increased savings are as a result of higher capital settlements, an increase in tariffs, as well as attorneys overreaching when drawing up their bills which equate to higher bills, and when taxed, result in higher savings. In addition to the above, savings originate from the appointment of cost consultants by the RAF who strive to further realise higher savings as their fee is determined by the saving.

RAF officials are required to diligently apply the process of the legal cost bills assessment. Writs SOPs are in place to ensure that all taxed bills are paid timeously to minimise the impact of the interest cost at a rate of 9% and 10.25% from 1 March 2016.

The number of writs received in the 2016/17 financial year was 15,720 (2015/16: 15,273). It was 2.8% higher than in 2015/16 and was related to the documented cash flow constraints.

The fruitless and wasteful expenditure is monitored closely by the Executive Management and the Board. There are processes which have been undertaken to ensure that this risk is mitigated.

Fruitless and wasteful expenditure relating to administrative costs totalled R2,269,199 (2015/16: R2,740,800) and comprised of bad debts written off, additional travel costs which could have been avoided, and costs related to the cancellation of a tender, and expenditures incurred in prior periods.

Disciplinary action was taken against staff members as a result of negligence resulting in the payment of sheriff and interest costs, as well as duplicate payments and administrative costs. During the financial year, 48 staff members received counselling, 44 verbal warnings; and 31 written warnings were issued. The outcome of two matters has not yet been finalised and no dismissals were necessary. (These figures were obtained from the Writs and Financial Misconduct Registers.)

## Irregular Expenditure

Irregular expenditure of R6,035,980 (2015/16: R11,428,300) was condoned during the financial year and is disclosed in Note 26 of the Annual Financial Statements.

Irregular expenditure arose as a result of:

- Non-compliance with Supply Chain Management practices;
- Failure to comply with Procurement processes when procuring goods or services as stipulated in the Supply Chain Management Policy, and also committing acts that contravened or failed to comply with a provision of the PFMA and the RAF Act; and
- Non-compliance with the provisions of the RAF Financial Misconduct Policy and PFMA, which constituted financial misconduct and warranted disciplinary actions.

The total value of irregular expenditure condoned above includes five instances of irregular expenditure identified during the 2015/16 financial year-end audit. The total value of these five instances is R2,767,918 and represents 46% of the total irregular expenditure condoned during the year under review.

A total of 10 instances to the value of R3,268,062 were identified, reported and condoned during the 2016/17 financial year. This represents a 71% reduction in value and a 23% reduction in number of instances of irregular expenditure from the 13 instances totalling R11,428,300 reported in the 2015/16 financial year. The reduction observed is primarily due to enhanced recording and reporting mechanisms, as well as revised consequence management processes being reviewed during the year. Further details regarding these initiatives are disclosed under Note 26 to the Annual Financial Statements.

Any employee who committed an act which undermined the financial management and internal control systems of the RAF, as required by relevant legislations and policies, was dealt with in terms of the Disciplinary Policy.

Employees who made or permitted irregular expenditure or fruitless and wasteful expenditure, as defined in section 57 of the PFMA, exposed themselves to appropriate disciplinary measures.

In 2016/17, two verbal warnings were issued to employees and four employees were counselled as a result of financial misconduct where the employees were found to have contravened provisions of the Act. Disciplinary action could not be taken against employees in three matters, as the employees were no longer employed by the RAF.

## ▶ 9. ADDRESSES

**Business address:**
Eco Glades Office Park 2
420 Witch-hazel Avenue
Centurion 0046

**Postal address:**
Private Bag X178
Centurion
0046

**Website:**
www.raf.co.za

## ▶ 10. APPROVAL

The Annual Financial Statements, which have been prepared on the going concern basis, were approved by the Board on 26 July 2017 and were signed on its behalf by:

**DR NM Bhengu**
*Chairperson of the Board*
*Date: 26 July 2017*

**MS L Jabavu**
*Acting Chief Executive Officer*
*Date: 26 July 2017*

# COMPANY SECRETARY'S CERTIFICATION

I hereby certify that the RAF has lodged all returns as required by the Public Finance Management Act, 1999 (Act No. 1 of 1999), as amended by Act No. 29 of 1999.

JR Cornelius

**MS JR Cornelius**
*Company Secretary*
*Date: 26 July 2017*

# STATEMENT OF FINANCIAL POSITION

*as at 31 March 2017*

| | Note(s) | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 3 | 1,652,386 | 2,044,261 |
| Receivables from non-exchange transactions | 4 | 7,156,541 | 7,361,832 |
| Receivables from exchange transactions | 5 | 7,198 | 9,541 |
| Other financial assets | 6 | 160,913 | 147,147 |
| Consumable stock | 7 | 5,668 | 5,736 |
| | | **8,982,706** | **9,568,517** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 8 | 177,845 | 201,443 |
| Intangible assets | 9 | 37,943 | 25,802 |
| | | **215,788** | **227,245** |
| **TOTAL ASSETS** | | **9,198,494** | **9,795,762** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Payables from exchange transactions | 10 | 229,351 | 194,290 |
| Other financial liabilities | 11 | 40,838 | 46,719 |
| Claims liabilities | 12 | 34,180,160 | 46,505,919 |
| Other provision | 13 | 848,578 | 738,525 |
| | | **35,298,927** | **47,485,453** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 14 | 58,117 | 53,821 |
| Claims liabilities | 12 | 153,826,417 | 107,500,974 |
| Operating lease liability | 15 | 7,958 | 7,606 |
| | | **153,892,492** | **107,562,401** |
| **TOTAL LIABILITIES** | | **189,191,419** | **155,047,854** |
| **NET ASSETS** | | **(179,992,925)** | **(145,252,092)** |
| **Reserves** | | | |
| Revaluation reserve | | 84,063 | 83,398 |
| Accumulated deficit | | (180,076,988) | (145,335,490) |
| **TOTAL NET ASSETS** | | **(179,992,925)** | **(145,252,092)** |

# STATEMENT OF FINANCIAL PERFORMANCE

*for the year ended 31 March 2017*

| | Note(s) | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **REVENUE** | | | |
| **Revenue from Exchange Transactions** | | | |
| Recoveries | | 1,974 | 2,750 |
| Allowance for credit losses adjustment | | - | 410 |
| Investment revenue | 18 | 109,330 | 88,557 |
| Gains on disposal of assets | | 1,023 | 1,388 |
| **TOTAL REVENUE FROM EXCHANGE TRANSACTIONS** | | **112,327** | **93,105** |
| | | | |
| **Revenue from Non-exchange Transactions** | | | |
| Transfer revenue | | | |
| Net fuel levies | 16 | 33,229,532 | 33,113,056 |
| **TOTAL REVENUE** | | **33,341,859** | **33,206,161** |
| | | | |
| **EXPENDITURE** | | | |
| Claims expenditure | 19 | (65,954,638) | (66,266,472) |
| Depreciation and amortisation | | (42,890) | (47,219) |
| Employee costs | 21 | (1,434,772) | (1,279,874) |
| Finance costs | 22 | (209,375) | (151,036) |
| General expenses | 23 | (420,016) | (397,542) |
| Reinsurance premiums | 20 | (21,666) | (22,417) |
| **TOTAL EXPENDITURE** | | **(68,083,357)** | **(68,164,560)** |
| **DEFICIT FOR THE YEAR** | | **(34,741,498)** | **(34,958,399)** |

# STATEMENT OF CHANGES IN NET ASSETS

*for the year ended 31 March 2017*

| | Revaluation Reserve R'000 | Accumulated Deficit R'000 | Total Net Assets R'000 |
|---|---|---|---|
| **BALANCE AT 1 APRIL 2015** | 130,535 | (110,377,091) | (110,246,556) |
| **Changes in net assets** | | | |
| Revaluation of land | (7,070) | - | (7,070) |
| Revaluation of building | (40,067) | - | (40,067) |
| Deficit for the year | - | (34,958,399) | (34,958,399) |
| **TOTAL CHANGES** | (47,137) | (34,958,399) | (35,005,536) |
| **BALANCE AT 1 APRIL 2016** | 83,398 | (145,335,490) | (145,252,092) |
| **Changes in net assets** | | | |
| Revaluation of land | (2,820) | - | (2,820) |
| Revaluation of building | 3,485 | - | 3,485 |
| Deficit for the year | - | (34,741,498) | (34,741,498) |
| **TOTAL CHANGES** | 665 | (34,741,498) | (34,740,833) |
| **BALANCE AT 31 MARCH 2017** | 84,063 | (180,076,988) | (179,992,925) |

# CASH FLOW STATEMENT

*for the year ended 31 March 2017*

| | Note(s) | 2017 R'000 | 2016 R'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Receipts** | | | |
| Fuel levies | | 33,544,875 | 31,441,748 |
| Interest income | | 111,672 | 83,372 |
| Other income | | 1,974 | 2,750 |
| | | **33,658,521** | **31,527,870** |
| **Payments** | | | |
| Employee costs | | (1,434,772) | (1,279,874) |
| Claims expenditure | | (31,954,954) | (28,628,546) |
| Finance costs | | (209,375) | (151,036) |
| Reinsurance premiums | | (21,666) | (22,417) |
| Other expenditure | | (399,868) | (411,555) |
| | | **(34,020,635)** | **(30,493,428)** |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | 27 | **(362,114)** | **1,034,442** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 8 | (8,407) | (33,600) |
| Proceeds from sale of property, plant and equipment | 8 | 3,193 | 2,490 |
| Purchase of other intangible assets | 9 | (24,547) | (7,295) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | | **(29,761)** | **(38,405)** |
| **Net (Decrease)/Increase in Cash and Cash Equivalents** | | (391,875) | 996,037 |
| Cash and cash equivalents at the beginning of the year | | 2,044,261 | 1,048,224 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 3 | **1,652,386** | **2,044,261** |

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

*for the year ended 31 March 2017*

| | Approved Budget R'000 | Adjustments R'000 | Final Budget R'000 | Actual Amounts on Comparable basis R'000 | Difference Between Final Budget and Actual R'000 | Ref |
|---|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL PERFORMANCE** | | | | | | |
| **REVENUE** | | | | | | |
| **Revenue from Exchange Transactions** | | | | | | |
| Other income | - | - | - | 1,974 | 1,974 | |
| Investment revenue | 90,173 | - | 90,173 | 109,330 | 19,157 | 36 |
| Total Revenue from Exchange Transactions | **90,173** | **-** | **90,173** | **111,304** | **21,131** | |
| **Revenue from Non-exchange Transactions** | | | | | | |
| **Transfer Revenue** | | | | | | |
| Net fuel levies | 34,194,791 | - | 34,194,791 | 33,229,532 | (965,259) | |
| **TOTAL REVENUE** | **34,284,964** | **-** | **34,284,964** | **33,340,836** | **(944,128)** | |
| **EXPENDITURE** | | | | | | |
| Employee costs | (1,586,303) | - | (1,586,303) | (1,434,772) | 151,531 | |
| Claims expenditure | (52,881,479) | - | (52,881,479) | (65,954,638) | (13,073,159) | 36 |
| Depreciation and amortisation | (39,988) | - | (39,988) | (42,890) | (2,902) | |
| Finance costs | (13,712) | - | (13,712) | (209,375) | (195,663) | 36 |
| Reinsurance premiums | (21,514) | - | (21,514) | (21,666) | (152) | |
| General expenses | (534,127) | - | (534,127) | (420,016) | 114,111 | 36 |
| **TOTAL EXPENDITURE** | **(55,077,123)** | **-** | **(55,077,123)** | **(68,083,357)** | **(13,006,234)** | |
| **OPERATING DEFICIT** | **(20,792,159)** | **-** | **(20,792,159)** | **(34,742,521)** | **(13,950,362)** | |
| Gain/(Loss) on disposal of assets and liabilities | - | - | - | 1,023 | 1,023 | |
| **DEFICIT FOR THE YEAR** | **(20,792,159)** | **-** | **(20,792,159)** | **(34,741,498)** | **(13,949,339)** | |

# ACCOUNTING POLICIES

*for the year ended 31 March 2017*

## 1. PRESENTATION OF FINANCIAL STATEMENTS

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (SA Standards of 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).

Where Standards of GRAP are not available, International Financial Reporting Standards (IFRS) have been applied. The IFRS Standards applied are detailed below:

### IFRS 4 Insurance Contracts

In accordance with a directive issued to the RAF by the ASB in the 2014/15 financial year, IFRS 4 Insurance Contracts have been applied in the recognition, measurement, presentation and disclosure of Claims Liabilities. The Standard was adopted for the first time in the 2014/15 financial year.

### IFRS 7 Financial Instruments: Disclosures

The Standard has only been applied to disclosures of Claims Liabilities where required in accordance with IFRS 4 Insurance Contracts.

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, unless specified otherwise. It is presented in South African Rand and rounded to the nearest thousand Rand.

A summary of the significant Accounting Policies applied in the preparation of these Annual Financial Statements are disclosed below and are consistent with those applied in the prior period.

## 1.1. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Annual Financial Statements, Management is required to make estimates and assumptions that affect the amounts represented in the Annual Financial Statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the Annual Financial Statements, as new information becomes known, circumstances change or more experience is obtained. The RAF recognises the effect of these changes in accounting estimates prospectively, by including the effects in surplus or deficit in the period of the change if the change affects that period only, or in the period of the change and future periods, if the change affects both. Significant judgements include:

### Impairment Testing

A cash generating or non-cash generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. These calculations require the use of estimates and assumptions.

The RAF reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

### Outstanding Claims Provision

The estimation of the ultimate liability arising from claims incurred but not settled at the reporting date is the RAF's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the amount that the RAF will ultimately pay for such claims. The provision for outstanding claims is actuarially determined on an annual basis.

The measurement of the obligations in respect of this liability requires actuarial estimates and valuations. An actuary is engaged to perform these calculations. More detail on the actuarial assumptions can be found in Note 12 – Claims Liabilities.

### Post-retirement Benefits

The RAF provides a defined benefit post-retirement medical plan to some of its employees. The measurement of the obligations (and assets) in respect of this liability requires actuarial estimates and valuations. An actuary is engaged to perform these calculations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

### Impairment of Financial Assets Held at Amortised Cost

Financial assets held at amortised cost include receivables from exchange transactions, receivables from non-exchange transactions and other financial assets held at amortised cost. On the financial assets an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. Additional information is disclosed in Note 6 and Note 23.

### Revenue Recognition on the Road Accident Fund Fuel Levy

With effect from 1 April 2006, the responsibility for the collection of the Fuel Levy was devolved from the Central Energy Fund (CEF) to the South African Revenue Services (SARS).

The changes to the Customs and Excise Act, 1964 (Act No. 91 of 1964) have introduced new provisions that require the fuel companies to pay 50% of the RAF Fuel Levy at the end of the month following the month of removal of the fuel from the refinery and the remaining 50% at the end of the following month.

The effect of these provisions is that cash receipts of RAF Levies do not correspond with the accrual of Fuel Levy revenue by the RAF. This particularly impacts the year-end revenue receivable raised from the RAF Fuel Levy. To correctly accrue for the revenue for the period, RAF Management makes an estimate as to what the expected Fuel Levy income should be based on historical evidence. Additional information is disclosed in Note 4 and Note 16.

### Diesel Refunds

Diesel refunds are concessions deducted from the Fuel Levy received. Diesel concessions are granted to certain sectors of the economy on the basis of the level of use by the diesel consumer in primary production activities.

In terms of section 5(2) of the RAF Act, after being amended by the Revenue Laws Amendment Act, 2005 (Act No. 31 of 2005), the RAF receives the RAF Fuel Levy net of diesel refund after it has been collected by SARS.

Diesel refunds affect the amount of revenue to be recognised and cannot be measured accurately at the point of revenue recognition. Consequently, estimates are made by Management as to what the value of the diesel refunds will be. The estimates are based on historical evidence, and Management formulates a percentage that is applied to the RAF Fuel Levy. The average percentage for diesel refunds for the current year was 7.8% of the gross Fuel Levy for the year. Additional information is disclosed in Note 13 and Note 16.

### Revaluation of Land and Building

Land and building held for administrative purposes are carried at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by an independent valuer on a yearly basis, such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date. The fair value of land and building, measured using the Valuation Model, is based on market values. The market value of property is determined by taking into account the market rentals that are paid in the immediate area. The applicable relevant market rental is used to determine potential income. Thereafter, the relevant expenditure is deducted to determine the net income and with a relevant capitalisation rate, the market value is calculated. Additional information is disclosed in Note 8.

## ▶ 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 production or supply of goods or services, rental to others, or 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 RAF; and
- The cost of the item can be measured reliably.

Property, plant and equipment are 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.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of 'property, plant and equipment'.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses except for land and building, which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

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

| Item | Depreciation Method | Average Useful Life |
|---|---|---|
| Buildings | Straight line | 30 years |
| Office furniture | Straight line | 15 years |
| Motor vehicles | Straight line | 5 years |
| Office equipment | Straight line | 10 years |
| IT equipment | Straight line | 7 years |
| Leasehold improvements | Straight line | 3 years |

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. 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.

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.

### ▶ 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 RAF 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 RAF; 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.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

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

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

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

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

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result, the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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

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

| Item | Useful Life |
|---|---|
| Computer software | 5 years |

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 asset is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and lease-back).

## 1.4. FINANCIAL INSTRUMENTS

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.

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 (see the Standard of GRAP on Revenue from Exchange Transactions), 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 either cash, a residual interest of another entity, a contractual right to receive cash or another financial asset from another entity, exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the RAF.

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 RAF.

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.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- Equity instruments or similar forms of unitised capital;
- A formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- A formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

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.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- Derivatives.
- Combined instruments that are designated at fair value.
- Instruments held for trading. A financial instrument is held for trading if:
    - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
    - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
    - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated a fair value at initial recognition; and
    - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

## Classification

The RAF has the following types of financial assets, in terms of classes and category, as reflected on the face of the Statement of Financial Position or in the Notes thereto:

| Class | Category |
|---|---|
| Advance payment in respect of suppliers' claims | Financial asset measured at amortised cost |
| Employee debtors | Financial asset measured at amortised cost |
| Sundry debtors | Financial asset measured at amortised cost |
| Claims debtors | Financial asset measured at amortised cost |
| Other deposits | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Rent-a-Captive insurance | Financial asset measured at amortised cost |

Advance payment in respect of suppliers' claims represents a payment made to a third party to settle claims on the RAF's behalf. Though all the ring-fenced claims have been settled, an overall debtor remains. Claims debtors represent over-payments, duplicate payments and wrong payments made to claimants. These items are financial assets and do not meet the criteria of an insurance asset as defined in IFRS 4.

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the Statement of Financial Position or in the Notes thereto:

| Class | Category |
|---|---|
| Trade and other creditors | Financial liability measured at amortised cost |

## Initial Recognition

The RAF 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.

The RAF recognises financial assets using trade date accounting.

## Initial Measurement of Financial Assets and Financial Liabilities

The RAF 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 RAF 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 are subject to an impairment review.

## Impairment and Uncollectibility of Financial Assets

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

## Objective evidence of impairment includes:

- Amounts not recovered or no instalments received within 90 days of recognition of the financial asset or the previous instalment received;
- Information received about the debtor indicating their inability to settle the financial asset; or
- Legal action has been instituted to recover the amount receivable.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit. When a receivable is uncollectable, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

### Derecognition

### Financial Assets

The RAF derecognises financial assets using trade date accounting.

The RAF derecognises a financial asset only when:

- The contractual rights to the cash flows from the financial asset expire, are settled or waived;
- The entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- The entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the RAF:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

### Financial Liabilities

The entity removes a financial liability, or a part of a financial liability, from its Statement of Financial Position when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

### Presentation

A financial asset and a financial liability are only offset and the net amount presented in the Statement of Financial Position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

## ▶ 1.5. TAX

Tax expenses

The RAF is exempt from taxation in terms of the provision of section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962) and section 16 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996).

## ▶ 1.6. 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.

When a lease includes land and buildings elements, the entity assesses the classification of each element separately.

### Operating Leases – Lessee

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.

## 1.7. CONSUMABLE STOCK

Consumable stock is initially measured at cost except where consumable stock is acquired through a non-exchange transaction, then its costs is its fair value as at the date of acquisition.

Subsequently, consumable stock is measured at the lower of cost and net realisable value.

Consumable stock is measured at the lower of cost and current replacement cost where it is held for distribution at no charge or for a nominal charge.

Current replacement cost is the cost the RAF incurs to acquire the asset on the reporting date.

The cost of consumable stock comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the consumable stock to its present location and condition.

The cost of consumable stock is assigned using the weighted average cost formula. The same cost formula is used for all consumable stock having a similar nature and use to the RAF.

When consumable stock is utilised, the carrying amounts of the consumable stock are recognised as an expense in the period in which the stock is distributed. The amount of any write-down of consumable stock to net realisable value or current replacement cost and all losses of consumable stock are recognised as an expense in the period, the write-down or loss occurs. The amount of any reversal of any write-down of consumable stock, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of consumable stock recognised as an expense in the period in which the reversal occurs.

## 1.8. IMPAIRMENT OF 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.

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 managed with the 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.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- The period of time over which an asset is expected to be used by the RAF; or

- The number or production of similar units expected to be obtained from the asset by the RAF.

### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The RAF assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the RAF estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the RAF also tests a cash-generating intangible asset with an indefinite useful life, or a cash-generating intangible asset not yet available for use for impairment annually, by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### Reversal of Impairment Loss

The RAF assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the RAF estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit *pro rata* with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- Its recoverable amount (if determinable); and
- The carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated *pro rata* to the other assets of the unit.

## ▶ 1.9. IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Non-cash-generating assets are assets other than cash-generating assets.

### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The RAF assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the RAF also tests a non-cash-generating intangible asset with an indefinite useful life, or a non-cash-generating intangible asset not yet available for use for impairment annually, by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## Value in Use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets' remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

### *Depreciated Replacement Cost Approach*

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

### *Restoration Cost Approach*

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

### *Service Units Approach*

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

### *Recognition and Measurement*

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss, which is recognised immediately in the surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value, if any, on a systematic basis over its remaining useful life.

### *Reversal of an Impairment Loss*

The RAF assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the RAF estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## ▶ 1.10. 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 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- Wages, salaries and social security contributions;
- Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- Bonus, incentive and performance-related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- Non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the RAF recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the RAF recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences 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 RAF measures 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 recognises the expected cost of bonuses, incentives and performance-related payments when the RAF 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 RAF has no realistic alternative but to make the payments.

### Post-employment Benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than State plans and composite social security programmes) or defined benefit plans (other than State plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

The RAF contributes towards the Employees' Pension Fund administrated by ABSA Consultants and Actuaries (Pty) Limited, the cost of which is recognised in surplus or deficit in the year that it is paid.

### Post-employment Benefits: Defined Benefit Plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability, the RAF recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a benefit fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and these assets are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity, or the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation, which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive, that is, when benefits are introduced or changed so that the present value of the defined benefit obligation increases, or negative, that is, when existing benefits are changed so that the present value of the defined benefit obligation decreases. In measuring its defined benefit liability, the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The RAF accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the RAF's informal practices. Informal practices give rise to a constructive obligation where the RAF has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the RAF's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- The present value of the defined benefit obligation at the reporting date;
- Minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- Plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The RAF measures the resulting asset at the lower of the amount determined above or the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The RAF determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity, such that the amounts recognised in the Annual Financial Statements do not differ materially from the amounts that would be determined at the reporting date.

The RAF recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- Current service cost;
- Interest cost;
- The expected return on any plan assets and on any reimbursement rights;
- Actuarial gains and losses;
- Past service cost;
- The effect of any curtailments or settlements; and
- The effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The RAF uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- The date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- The date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The RAF offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial Assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- Estimated future salary increases;
- The benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- Estimated future changes in the level of any State benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those State benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### Termination Benefits

Termination benefits are recognised as an expense when the RAF is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the RAF has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

## ▶ 1.11. PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- The RAF 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 will affect the decisions of the users of the Annual Financial Statements, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when:

- It is virtually certain that reimbursement will be received if the entity settles the obligation.
- The reimbursement is treated as a separate asset.
- The amount recognised for the reimbursement does not exceed the amount of the provision.

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.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- Has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/ operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and

- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- Necessarily entailed by the restructuring; and
- Not associated with the on-going activities of the RAF.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in Note 33.

## ▶ 1.12. PAYABLES

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Provisions can be distinguished from other liabilities, such as payables and accruals, because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- Payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier (and include payments in respect of social benefits where formal agreements for specified amounts exist); and
- Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued leave pay).

Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

The RAF reports accruals and provisions as part of Trade and Other Creditors.

### Recognition

The RAF recognises payables in accordance with GRAP 19.

A provision shall be recognised when:

- An entity has a present obligation (legal or constructive) 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 amount of the obligation.

If these conditions are not met, no provision shall be recognised.

The recognition criteria for accruals is similar to those of the provisions, except that the amount of the obligation is not estimated.

The amount recognised is accurately determined using the relevant report, contract or invoice. In most instances, the system is used to derive these amounts.

### Measurement

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

It will often be impossible or prohibitively expensive to settle or transfer an obligation at the reporting date. However, the estimate of the amount that the RAF would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

The estimates of outcome and financial effect are determined by the judgment of the Management of the RAF, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

The RAF measures the accruals based on the actual amount as per internal and external reports, including contracts and invoices.

The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

With regard to accruals, there is little to no risk and uncertainty as compared to provisions, as actual amounts are used.

## ▶ 1.13. REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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.

### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

### Income

Income arising from the use by others of entity assets yielding interest, reinsurance income and other income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the RAF, and the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Reinsurance income comprises income received in terms of high-value claims insured by reinsurance companies and commutation offers received from same.

Other income comprises fees that are collected for published tenders, vending machines and parking fees received from employees and other immaterial inflows not related to the mandate of the RAF.

## ▶ 1.14. REVENUE FROM NON-EXCHANGE TRANSACTIONS

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.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### 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.

As the RAF satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised, and recognises an amount of revenue equal to that reduction.

### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the RAF.

The main income received by the RAF is a levy that is based on fuel sales known as the RAF Fuel Levy. The RAF Fuel Levy income is a charge levied on fuel throughout the country and the quantum of the RAF Fuel Levy per litre is determined by NT. The RAF Fuel Levy amendments are communicated through the Budget Speech.

The RAF recognises revenue from fuel levies when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the RAF.

Revenue is measured at the fair value of the consideration received or receivable (net of the diesel rebate).

## ▶ 1.15. BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

## ▶ 1.16. TRANSLATION OF FOREIGN CURRENCIES

### Foreign Currency Transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- Foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous Annual Financial Statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

## ▶ 1.17. CLAIMS PAYMENTS

An insurance contract is defined as a contract under which the insurer accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policy holder if a specified uncertain future event (the insured event) adversely affects the policy holder. The RAF does not have any insurance contracts, but does however accept insurance risk as it is mandated by legislation to compensate victims of road accidents for injuries suffered as a result of motor vehicle accidents.

### Claims Incurred

Claims incurred comprise claims and related expenses incurred and paid during the year and changes in the claims finalised but not yet paid at year-end and provisions for outstanding claims, including related external expenses, together with any other adjustments to claims from previous years.

### Provision for Outstanding Claims Recorded

Provision is made at the year-end for the estimated cost of claims incurred, but not yet settled at the reporting date. Claims outstanding are determined as accurately as possible on the basis of a number of factors, which include previous experience in claims and claims settlement patterns.

Further, the outstanding claims provision is calculated taking the following estimates into account:

- Estimates of additional claims payments that may be required on claims that have already been reported to the RAF and are still open;
- Estimates of additional claims payments that may be required on claims that have already been reported to the RAF and are closed, but could be reopened in the future; and
- Estimates of external claims handling expenses, i.e. legal and medical experts, assessors and other experts – excluding the RAF's overhead administrative costs.

The outstanding claims estimate is reflected in the Financial Statements at a discounted value, based on expected monetary values at the expected time of payment of those claims. The discount rate is the rate before tax that reflects current market assessments of the time value of money and the risks specific to the liability. Reserves for internal or indirect claim handling expenses (e.g. administration costs) are specifically excluded from the estimates.

## Provision for Incurred but Not Yet Reported Claims (IBNR)

Provision is made at year-end for the cost of claims incurred but not yet reported (commonly referred to as "Claims IBNR") to the RAF. This provision represents claims which are deemed to have happened before the valuation date, but which are not yet registered on the claims system.

An adjusted Bornheutter Fergusson method is used to determine the number of IBNR claims. This requires two separate estimates to be made of ultimate expected claims per accident year. The two estimates are based on the Chain ladder method, and an independent estimate respectively. The Chain ladder method is very sensitive to small movements in the most recent accident quarters. A small number of claims reported to date is grossed up to the ultimate number, and, as such, a small change in claims reported to date will have a large impact on the result. Therefore, an independent estimate for the more recent quarters was used in order to provide stability. The extent to which the independent estimate is used reduces based on how far an accident quarter has run off. For older accident quarters, the Chain ladder result alone would be applied, while for more recent quarters the independent estimate is given more weight.

A best estimate of the amount that the RAF would rationally pay to settle its claims obligation has been calculated. As the claims received every month are funded by the RAF Fuel Levy received each month, there is no unexpired risk exposure. Therefore, the total claims liabilities are considered to be adequate.

## Reinsurance Contracts Held

The RAF procures reinsurance cover for the purposes of limiting its net loss potential. The reinsurance policies do not release the RAF from its direct obligations to its claimants, as the duty to compensate the claimants remains with the RAF in spite of the fact that the reinsurance cover has been procured.

The contracts entered into by the RAF with reinsurers, under which the RAF is compensated for losses on one or more "contracts" issued by the RAF and that meet the classification requirements for the insurance contracts above, are classified as reinsurance contracts held. Only the rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums are charged to the Statement of Financial Performance over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks.

Reinsurance assets comprise contracts with reinsurers under which the entity is compensated for losses on one or more contracts which are classified as insurance contracts. Reinsurance assets on contracts that do not meet this classification are classified as financial assets.

Reinsurance assets principally include the reinsurer's share of liabilities in respect of the legislative obligation to claimants. Amounts recoverable under reinsurance contracts are recognised in a manner consistent with the reinsured risks and in accordance with the reinsurance contract.

The RAF does not recognise reinsurance assets except for claims which have already been lodged with reinsurers and liability acknowledged, due to uncertainty regarding the successful realisation of the claims.

Reinsurance assets are assessed for impairment at each reporting date. Impairments on reinsurance assets are recognised in surplus/deficit.

A reinsurance asset is impaired if, and only if:
(a) There is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the RAF may not receive all amounts due to it under the terms of the contract; and
(b) That event has a reliably measurable impact on the amounts that the RAF will receive from the reinsurer.

### Claims Requested for Payment and Not Paid at Year-end

Claims requested for payment which have not been paid at the reporting date are recognised as an insurance liability in the Statement of Financial Position when the value of the claim has been determined and the payment of the claim has been requested.

At initial recognition, claims requested for payment but not yet paid at year-end are measured at fair value. The fair value of a claim is the amount payable by the RAF to extinguish its obligation in respect of the claim, and represents the future cash flows arising from the request for the claim to be paid.

The claims requested for payment but not paid at year-end are subsequently measured at amortised cost. These liabilities are considered to be short-term, as they will be settled within 12 months of the reporting date and are therefore not discounted.

## ▶ 1.18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure, as defined in section 1 of the PFMA, is expenditure which was made in vain and could 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.

## ▶ 1.19. 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:

- This Act; or
- The State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- Any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/09 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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 must also be recorded appropriately in the Irregular Expenditure Register. In such an instance, no further action is also required with the exception of updating the Note to the Financial Statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year-end must be recorded in the Irregular Expenditure Register. No further action is required with the exception of updating the Note to the Financial Statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the Register and the Disclosure Notes to the Financial Statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the NT or the relevant authority must be recorded appropriately in the Irregular Expenditure Register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the Accounting Officer or Accounting Authority may write off the amount as debt impairment and disclose such in the relevant Note to the Financial Statements. The Irregular Expenditure Register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the Note to the Financial Statements and updated accordingly in the Irregular Expenditure Register.

## 1.20. BUDGET INFORMATION

Entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

The approved budget covers the fiscal period from 1 April 2016 to 31 March 2017.

The Annual Financial Statements and the budget are prepared on the same basis of accounting; therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts. Material movements will be explained in the Statement of Comparison of Budget and Actual Amounts and movements of greater than 10% will be assumed material.

## 1.21. RELATED PARTIES

The entity 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.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

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 RAF.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

*for the year ended 31 March 2017*

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1. STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The entity has not applied the following Standards and Interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 April 2017 or later periods:

#### GRAP 20: Related Parties

The objective of this Standard is to ensure that a reporting entity's Annual Financial Statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents Financial Statements under the accrual basis of accounting (in this Standard referred to as the reporting entity) shall apply this Standard in:

- Identifying related party relationships and transactions;
- Identifying outstanding balances, including commitments, between an entity and its related parties;
- Identifying the circumstances in which disclosure of the items above is required; and
- Determining the disclosures to be made about those items.

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate Financial Statements of the reporting entity in accordance with the SA Standard of GRAP on Consolidated and Separate Annual Financial Statements. This Standard also applies to individual Annual Financial Statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The effective date of the Standard has not yet been set by the Minister of Finance.

The entity expects to adopt the Standard for the first time when the Minister sets the effective date for the Standard.

It is unlikely that the Standard will have a material impact on the RAF's Financial Statements.

#### GRAP 108: Statutory Receivables

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the Standard has not yet been set by the Minister of Finance.

The entity expects to adopt the Standard for the first time when the Minister sets the effective date for the Standard.

It is unlikely that the Standard will have a material impact on the RAF's Financial Statements.

## 3. CASH AND CASH EQUIVALENTS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cash and cash equivalents include the following: | | |
| Short-term deposits | 1,595,188 | 2,038,126 |
| Current accounts | 57,148 | 6,085 |
| Cash on hand | 50 | 50 |
| | **1,652,386** | **2,044,261** |

The effective interest rate on call deposits in 2016/17 was 6.69% and 5.80% in 2015/16.

## 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Fuel Levy receivable | 7,156,541 | 7,361,832 |

The RAF Fuel Levy is recovered directly from the oil refineries by the South African Revenue Service (SARS) and is paid into the National Revenue Fund. SARS pays the funds into the National Revenue Fund after certain deductions are made in terms of section 47 of the Customs and Excise Act, 1964 (Act No. 91 of 1964), section 5 of the RAF Act, as well as Schedule No. 6 to the Customs and Excise Act, 1964. National Treasury then pays these levies from the National Revenue Fund to the RAF.

Approximately 50% of the levies due are payable by the refineries at the end of the month following the month of removal from the refinery, and the remaining 50% at the end of the following month.

This amount is reduced by any bad debts that the refineries have sustained that need to be refunded by the RAF.

## 5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Interest receivable from short-term investments | 7,198 | 9,541 |

## 6. OTHER FINANCIAL ASSETS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **At amortised cost** | | |
| Refund receivable i.r.o. supplier claims and other | 27,341 | 24,757 |
| Employee debtors | 722 | 1,149 |
| Sundry debtors | 5,173 | 2,038 |
| Rent-a-captive insurance | 139,653 | 131,290 |
| Other deposits | 121 | 127 |
| Claims debtors | 7,906 | 5,027 |
| | **180,916** | **164,388** |
| Impairments of claims, advance payment, employee and sundry debtors | (20,003) | (17,241) |
| | **160,913** | **147,147** |
| **Current assets** | | |
| At amortised cost | **160,913** | **147,147** |

### FINANCIAL ASSETS AT AMORTISED COST

**Financial Assets at Amortised Cost Past Due but Not Impaired**

Financial assets which are past due but are not considered to be impaired amounted to R833,342 as at 31 March 2017 and R2,754,000 in 2015/16.

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **The breakdown of amounts past due but not impaired are as follows:** | | |
| Claims debtors (greater than 90 days) | 833 | 2,754 |

**Financial Assets at Amortised Cost Impaired**

Claims, advance payment, employee and sundry debtors that are impaired were R20,989,542 as at 31 March 2017 and R17,240,579 in 2015/16.
These were impaired and provided for.

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| The breakdown of amounts is as follows: | | |
| Sundry debtors | - | 153 |
| Claims debtors | 6,930 | 3,691 |
| Employee debtors | - | 323 |
| Refund receivable i.r.o. supplier claims and other | 13,074 | 13,074 |
| | **20,004** | **17,241** |

## 6. OTHER FINANCIAL ASSETS (CONTINUED)

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **FINANCIAL ASSETS AT AMORTISED COST (CONTINUED)** | | |
| **Reconciliation of Provision for Impairment of Financial Assets at Amortised Cost** | | |
| **Sundry Debtors** | | |
| Opening balance | 153 | - |
| Provision for impairment | - | 153 |
| Unused amounts reversed | (153) | - |
| | - | 153 |
| **Claims Debtors** | | |
| Opening balance | 3,691 | 3,888 |
| Provision for impairment | 3,939 | 44 |
| Amounts written off as irrecoverable | (693) | (140) |
| Amounts recovered | (7) | (101) |
| | **6,930** | **3,691** |
| **Employee Debtors** | | |
| Opening balance | 323 | 323 |
| Amounts written off as uncollectable | (323) | - |
| | **-** | **323** |
| **Refunds receivable i.r.o. supplier claims and other** | | |
| Opening balance | 13,074 | 13,439 |
| Amounts recovered | - | (365) |
| | **13,074** | **13,074** |

The creation and release of provision for impairment receivables have been included in General Expenses Note 23. The impairment of financial liabilities was estimated using the factors set out in the Accounting Policies.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The RAF does not hold any collateral as security.

## 7. CONSUMABLE STOCK

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Consumable stock | **5,668** | **5,736** |

Included in consumable stock is printing paper, printer cartridges and stationery.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated Depreciation and Accumulated Impairment | Carrying Value | Cost / Valuation | Accumulated Depreciation and Accumulated Impairment | Carrying Value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Land | 16,000 | - | 16,000 | 18,820 | - | 18,820 |
| Buildings | 79,009 | (9) | 79,000 | 78,950 | - | 78,950 |
| Office furniture | 37,969 | (18,285) | 19,684 | 36,249 | (15,369) | 20,880 |
| Motor vehicles | 204 | (103) | 101 | 7,620 | (5,985) | 1,635 |
| Office equipment | 29,473 | (20,722) | 8,751 | 31,848 | (21,254) | 10,594 |
| IT equipment | 212,749 | (158,440) | 54,309 | 216,708 | (146,645) | 70,063 |
| Leasehold improvements | 17,116 | (17,116) | - | 17,116 | (16,615) | 501 |
| **TOTAL** | **392,520** | **(214,675)** | **177,845** | **407,311** | **(205,868)** | **201,443** |

Reconciliation of property, plant and equipment - 2017

| | Opening Balance | Additions | Disposals | Revaluations | Accumulated Depreciation on Disposals | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Land | 18,820 | - | - | (2,820) | - | - | 16,000 |
| Buildings | 78,950 | - | - | 3,485 | - | (3,435) | 79,000 |
| Office furniture | 20,880 | 2,456 | (736) | - | 509 | (3,425) | 19,684 |
| Motor vehicles | 1,635 | - | (7,416) | - | 6,529 | (647) | 101 |
| Office equipment | 10,594 | 830 | (3,205) | - | 2,956 | (2,424) | 8,751 |
| IT equipment | 70,063 | 5,121 | (9,080) | - | 8,258 | (20,053) | 54,309 |
| Leasehold improvements | 501 | - | - | - | - | (501) | - |
| | 201,443 | 8,407 | (20,437) | 665 | 18,252 | (30,485) | 177,845 |

## ▶ 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The carrying amount of fully depreciated property, plant and equipment that are still in use is as follows:

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Cost | 205,110 | 162,476 |
| Accumulated Depreciation | (205,095) | (162,468) |
| **Carrying amount** | 15 | 8 |

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

| | Opening Balance | Additions | Disposals | Transfers | Revaluations | Accumulated Depreciation on Transfers | Accumulated Depreciation on Disposals | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Land | 25,890 | - | - | - | (7,070) | - | - | - | 18,820 |
| Buildings | 124,423 | - | - | - | (40,067) | - | - | (5,406) | 78,950 |
| Office furniture | 20,607 | 3,421 | (401) | 4 | - | - | 308 | (3,059) | 20,880 |
| Motor vehicles | 3,015 | - | (8,023) | - | - | - | 7,526 | (883) | 1,635 |
| Office equipment | 11,021 | 2,065 | (988) | (1,472) | - | 1,472 | 940 | (2,444) | 10,594 |
| IT equipment | 66,728 | 27,438 | (6,086) | 1,586 | - | (1,496) | 5,633 | (23,740) | 70,063 |
| Leasehold improvements | 68 | 676 | - | - | - | - | - | (243) | 501 |
| | **251,752** | **33,600** | **(15,498)** | **118** | **(47,137)** | **(24)** | **14,407** | **(35,775)** | **201,443** |

### Revaluations

The effective date of the revaluations was 31 March 2017. Revaluations were performed independently by Mr J Dateling, Professional Associated Valuer of DDP Valuation and Advisory Services (Pty) Ltd. Neither Mr Dateling or DDP Valuation and Advisory Services (Pty) Ltd is a related party to the entity.

Land and buildings are re-valued independently every year in terms of the RAF Policy.

The valuation was performed using the Income Capitalisation Method to determine the market value by discounting the future income flows to a present value. A capitalisation rate of 10% (2015/16: 10.5%) was applied to the first year's net income to arrive at the capitalised value.

## 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Registration of the land in the name of the RAF has not yet taken place due to circumstances beyond the control of that of the RAF. The Deed of Sale specifically states that all risks and rewards incidental to ownership pass to the RAF on the signing of the Deed of Sale. Economic benefits are flowing to the entity in the form of use of the land, as well as any appreciation in value. The cost of the land was measured reliably at recognition as the consideration paid for the purchase of the property. The asset has therefore been recognised in the Annual Financial Statements in accordance with the definition of an asset, as set out in GRAP 1 Presentation of Financial Statements, and recognition criteria, as set out in GRAP 17 Property, Plant and Equipment.

## 9. INTANGIBLE ASSETS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated Amortisation and Accumulated Impairment | Carrying Value | Cost / Valuation | Accumulated Amortisation and Accumulated Impairment | Carrying Value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Computer Software | 137,934 | (99,991) | 37,943 | 113,387 | (87,585) | 25,802 |

### Reconciliation of intangible assets - 2017

| | Opening Balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| Computer Software | 25,802 | 24,547 | (12,406) | 37,943 |

### Reconciliation of intangible assets - 2016

| | Opening Balance | Additions | Disposals | Transfers | Accumulated Amortisation on Transfers | Accumulated Amortisation on Disposals | Amortisation | Total |
|---|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Computer Software | 30,055 | 7,295 | (48) | (118) | 24 | 38 | (11,444) | 25,802 |

## ▶ 10. PAYABLES FROM EXCHANGE TRANSACTIONS

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Accrual for overtime | 7,587 | 2,264 |
| Accrual for leave | 54,236 | 44,266 |
| Accrual for 13th cheque | 15,647 | 15,084 |
| Accrual for performance bonuses | 151,881 | 132,676 |
| | 229,351 | 194,290 |

## ▶ 11. OTHER FINANCIAL LIABILITIES

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| **At amortised cost** | | |
| Trade and other creditors | 40,838 | 46,719 |
| **Current liabilities** | | |
| At amortised cost | 40,838 | 46,719 |

## ▶ 12. CLAIMS LIABILITIES

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Provision for outstanding claims recorded | 119,830,000 | 99,152,409 |
| Provision for claims incurred but not yet reported | 59,633,000 | 44,182,223 |
| Provision for hand-over costs | 27,332 | 36,573 |
| Claims requested for payment but not paid at year-end | 8,516,245 | 10,635,688 |
| | 188,006,577 | 154,006,893 |
| Claims liabilities are classified as follows: | | |
| Non-current liabilities | 153,826,417 | 107,500,974 |
| Current liabilities | 34,180,160 | 46,505,919 |
| | 188,006,577 | 154,006,893 |

## ▶ 12. CLAIMS LIABILITIES (CONTINUED)

### Provision for Claims Recorded and Incurred But Not Yet Reported (IBNR)

No adjustments have been made to the methodology used in the valuation of the Outstanding Claims and Claims Incurred But Not Yet Reported (IBNR) liabilities for the year ended 31 March 2016 in the current year valuation.

The total claims liability, including provision for claims IBNR as at 31 March 2017, was estimated to be R179,463,483,000 (2015/16: R143,334,632,000). This R179,463,483,000 should be interpreted as the expected monetary amount that, together with notional investment income on this amount, would be sufficient to cover future payments in respect of accidents that occurred prior to 1 April 2017. The estimate of the total claims liability increased by R36,128,851,000 from the March 2016 estimate due to an increase in the average cost of a claim, high levels of newly reported claims (increasing IBNR), interest and legislative changes.

Claims registered represent an insurance liability. However, what is not certain is when it will be paid and how much will be paid based on the environment within which the RAF operates. Hence, the valuation amount relating to reported claims is classified as a Provision for Outstanding Claims and is as such recognised in the Statement of Financial Position as at the reporting period. The provision amount recognised in the Statement of Financial Position as at 31 March 2017 amounted to R119,830,000,000 (2015/16: R99,152,409,000).

With regard to the IBNR claims, a claim has not been lodged nor has an assessment been made in terms of the RAF Act to determine whether the RAF has an obligation or not. The validity of a claim depends on the assessments being done in terms of the RAF Act. This uncertainty has been accounted for in the actuarial valuation of the IBNR liability of R59,633,000,000 as at 31 March 2017 (2015/16: R44,182,223,000).

It was further estimated that, had the Amendment Act not been introduced, the liability would have been approximately R36,100,000,000 higher (i.e. a total liability of approximately R215,563,483,000). If the actual future experience is as expected, the outstanding claims liability is expected to increase at a lower rate than claims inflation during the next five years, as the effect of the Amendment Act filters through. Thereafter, it is expected to increase with claims inflation, as well as any increase in the number of accidents.

### Method Used in Determining the Provision for Outstanding Claims

The calculation of the Provision for Outstanding Claims was divided into the following components:

- Personal claims (Pre- and Post-Amendment Act); and
- Undertakings.

### Method Used to Estimate the Liability for Personal Claims

Non-undertaking, non-supplier claims were subdivided into the following groups:

- Group A: Nil claims: Claims with no compensation payments and no expense payments.
- Group B: Small claims: Claims with no compensation, but some expenses.
- Group C: Injury claims, further split into the following:
    - Group C1: No general damages.
    - Group C2: General damages, but no loss of earnings.
    - Group C3: General damages, with some loss of earnings.

## ▶ 12. CLAIMS LIABILITIES (CONTINUED)

- Group D: Death claims, further split into the following:
  - Group D1: Death claims with loss of support.
  - Group D2: Death claims with only funeral costs, but no loss of support.

The reason for subdividing non-supplier claims into these groups was to obtain homogeneous groups. Claims in the different groups have very different characteristics. Estimates of future payments based on historical data are better if homogeneous groups are used.

The liability in respect of personal claims was estimated as follows:

- Firstly, the number of ultimate claims, and, hence, the number of outstanding claims for each accident interval was estimated.
- Secondly, it was estimated how many of the outstanding non-supplier claims (both reported and IBNR) are expected to fall into each group.
- The average amount expected to be paid on outstanding claims in each group was estimated taking into account that past experience showed that, on average, larger claims in each group took longer to finalise than smaller claims.
- The outstanding liability was then estimated by multiplying the estimated number of outstanding claims in each group by the average amounts for the respective groups, for each accident year.
- Amounts already paid in respect of open claims were then deducted and further amounts payable in respect of finalised claims were then estimated and added. These additional payments were also taken into account in determining the average amounts.
- The liability of all open limited passenger claims that occurred prior to 1 August 2008 became unlimited (referred to as the Mvumvu liability) and was also added.
- The liability as a result of the Van Zyl judgments was also allowed for.

### Method Used to Estimate Liability for Undertakings

The conversion date of an undertaking is defined as the first date that an undertaking payment is made on a claim. Then, the liability is calculated as follows for each conversion year:

*Liability=Number of undertakings (UTs) converted x Average future annual payments x Life expectancy of recipients*

Each of these components is explained in more detail below.

### Number of Undertakings

From past data it is observed that about 80% of undertaking payments are in respect of claims in Group C3. Hence, by using basic Chain ladder techniques, the ultimate number of undertakings per accident quarter is estimated as a % of the ultimate number of Group C3 claims expected for that quarter.

## Average Annual Payment per Undertaking

From past data it is observed that the annual cost of an undertaking is dependent on the time that has elapsed since the conversion date. Initially payments are much higher, and as undertakings get older, on average lower annual payments are made, as illustrated by the table below for undertakings that converted since the 2005 financial year:

| Year Converted | Number of UTs | Average Annual Cost per Undertaking in Development Year (R'000) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 2006 | 946 | 32.3 | 13.6 | 8.7 | 10.9 | 8.3 | 8.0 | 8.4 | 6.4 | 7.6 | 8.1 | 9.6 | 8.1 |
| 2007 | 711 | 39.7 | 12.7 | 9.1 | 13.7 | 10.8 | 13.5 | 10.7 | 9.4 | 8.8 | 9.9 | 10.0 | |
| 2008 | 565 | 43.9 | 27.2 | 22.2 | 13.0 | 12.0 | 20.7 | 18.7 | 10.1 | 19.6 | 9.7 | | |
| 2009 | 868 | 43.0 | 10.7 | 11.4 | 8.1 | 11.5 | 10.4 | 8.7 | 9.2 | 9.4 | | | |
| 2010 | 746 | 44.6 | 18.5 | 18.3 | 17.6 | 19.7 | 14.9 | 14.5 | 16.1 | | | | |
| 2011 | 515 | 56.2 | 20.6 | 22.0 | 23.6 | 18.1 | 19.9 | 14.5 | | | | | |
| 2012 | 1,003 | 51.1 | 55.3 | 25.8 | 21.8 | 19.9 | 14.5 | | | | | | |
| 2013 | 1,931 | 43.0 | 23.1 | 18.6 | 17.9 | 17.1 | | | | | | | |
| 2014 | 1,888 | 62.1 | 35.1 | 24.0 | 23.1 | | | | | | | | |
| 2015 | 2,211 | 57.9 | 33.1 | 29.3 | | | | | | | | | |
| 2016 | 2,013 | 68.9 | 42.1 | | | | | | | | | | |
| 2017 | 2,154 | 82.9 | | | | | | | | | | | |

An additional important feature of the data above is that the annual average cost of undertakings seems to stabilise after a number of years, and the assumption is made that this level of average payment will continue for the expected future lifetime of the recipients.

Using the data above, we arrive at the following overall future average cost per undertaking, leading to the liability as shown:

| | Number of UTs | Average Annual Cost | Life Expectancy | Liability (R'm) |
|---|---|---|---|---|
| TOTAL | 37,787 | 21,621 | 23.5 | 19,210 |

## Discounted and Undiscounted Provisions

The method outlined above leads to an estimate of R179,463,483,000 (in March 2017 monetary terms) in respect of accidents prior to 1 April 2017. The table below summarises the overall results, based on future claims inflation of 8% per year (2% above assumed CPI of 6%) and a discount rate of 8% per year (2% above assumed CPI of 6%) – further assuming past payment patterns will be repeated in future. (Note that the undiscounted liability for undertakings is shown in March 2017 terms without allowing for future inflation. This is done because the RAF is of the opinion that an undiscounted liability in respect of undertakings is meaningless, considering the long-term nature of undertakings).

## 12. CLAIMS LIABILITIES (CONTINUED)

In respect of the discount rate, it is assumed that CPI will be 6%. The level of CPI is less important than the "gap" between claims inflation and the discount rate. When amounts are adjusted to reflect time-value at a different date, CPI + 2% is used. There is justification for this in the calculation bases used by actuaries in determining loss of earnings/loss of support claims and the historic differential between CPI, salary inflation and medical inflation. This is the same assumption used when projecting claims into the future (for purposes of determining the discounted and undiscounted liabilities). Real yields (as implied by the yield on inflation-linked bonds), suggest that the discount rate should be CPI + 2%, which is what was used in the basis. It was therefore assumed that, had the provision for outstanding claims been backed by actual assets, these assets would have earned investment returns of CPI + 2%.

The discounted liability for supplier claims included in the below is R951,373,000 (2015/16: R939,000,000).

| | March 2017 Monetary Terms R'million | Discounted Liability R'million | Undiscounted Liability R'million |
|---|---|---|---|
| Pre-Amendment Act | 6,992 | 6,992 | 8,670 |
| Post-Amendment Act | 153,261 | 153,261 | 218,472 |
| Undertakings | 19,210 | 19,210 | 19,210 |
| **TOTAL** | **179,463** | **179,463** | **246,352** |

### Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are:

- The proportion of the number of claims falling into each of the defined groups (taking into account that some groups take on average longer to finalise) will remain similar to the past experience.
- The average amount payable per claim in each defined group (taking into account that larger claims take on average longer to finalise) will remain similar to the past experience, allowing for claims inflation of 2% above price inflation.
- The reporting pattern observed for post-Amendment Act claims.
- Payments in respect of undertakings will follow similar patterns as in the recent past.

| Movement in Outstanding Claims Liability Including IBNR | Notes | Personal: Old Act R'million | Personal: New Act R'million | Undertakings R'million | Supplier R'million | Total R'million |
|---|---|---|---|---|---|---|
| Opening balance | | 9,339 | 19,220 | 13,837 | 939 | 143,335 |
| Unwinding | 1 | 747 | 9,538 | 1,107 | 75 | 11,467 |
| Payments | 2 | (3,561) | (26,087) | (520) | (1,007) | (31,176) |
| Accidents since 31 March 2016 | 3 | - | 35,061 | 2,390 | 1,095 | 38,546 |
| Impact of reporting | 4a | 154 | 5,505 | 924 | (150) | 6,433 |
| Unexpected increase | 4b | 617 | 8,770 | 1,472 | - | 10,859 |
| **Closing balance** | | **7,296** | **152,006** | **19,210** | **951** | **179,463** |

## Notes

**Note 1:** This represents interest credited to the liability at the rate of 8% per annum for 12 months (our assumption for future investment returns).

**Note 2:** The RAF expects actual claim payments made during the inter-valuation period to result in a corresponding release in the liability.

**Note 3:** This represents the expected new claims for accidents that happened during the 12-month inter-valuation period.

**Note 4:** This is the amount required in addition to the items above, to add up to the newly calculated liability (on a similar basis). For personal claims, the unexpected increase was a result of the net effect of the following factors:

**Note 4a:** The recent increase in the number of claims reported has caused the IBNR estimate to increase by more than what was expected. The large increase in the number of claims reported also led to an increase in the number of open claims on the system (considering the number of claims that were closed).

**Note 4b:** Settlement patterns have changed in recent periods, leading to a change in the assumed proportions of open claims that will fall into each finalised group.

## Sensitivity Analysis

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. Should the materiality level of an individual variable change, however, an assessment of reasonable possible changes to that variable in the future may be required.

The RAF believes that the stated discounted liability of R179,463,483,000 is reasonable. It was calculated on a best estimate basis. The actual payments will differ from the estimated liability, as the estimate was based on certain variables and assumptions.

The sensitivity of some of the assumptions is shown below:

| | Notes | Outstanding Reported Claims R'billion | IBNR R'billion | Total R'billion | Effect on Deficit R'billion |
|---|---|---|---|---|---|
| Base scenario | | 119.8 | 59.6 | 179.5 | - |
| Faster run-off | 1 | 119.8 | 50.3 | 170.1 | 9.4 |
| Fewer assumed nil claims | 2 | 123.9 | 62.1 | 186.1 | 6.6 |

**Note 1:** The current IBNR calculation methodology assumes that the speed with which claims will be reported in future, will be in line with what has been observed to date. We will therefore over-reserve if the actual reporting speed for recent reporting quarters has been quicker than observed in the past. In this sensitivity, the impact on the provision, where if claims reported to date (in respect of accidents on or after 1/4/2011) are 10% higher than what is normally the case, is shown.

**Note 2:** It is currently assumed that a material number of open claims will settle as nil claims. If our assumption is too high, the provision could be materially understated. This scenario assumes that only 90% of the claims currently assumed to settle as nil claims will actually settle as such.

## 12. CLAIMS LIABILITIES (CONTINUED)

### Reconciliation of Other Claims Liabilities

The claims requested for payment but not paid at year-end increased significantly from the prior period. This is due to the ability of the RAF to settle claims being limited to the net Fuel Levy received. For further discussion on the RAF's ability to settle claims, see Note 34.

The movement in other claims liabilities not detailed above is set out below:

| 2017 | Opening Balance R'000 | Estimate Adjustment R'000 | Claims Paid R'000 | Claims Requested for Payment R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Claims requested for payment but not paid at year-end | 10,635,688 | - | (31,954,954) | 29,835,511 | 8,516,245 |
| Provision for hand-over costs | 36,573 | (9,241) | - | - | 27,332 |
| | **10,672,261** | **(9,241)** | **(31,954,954)** | **29,835,511** | **8,543,577** |

| 2016 | Opening Balance R'000 | Estimate Adjustment R'000 | Claims Paid R'000 | Claims Requested for Payment R'000 | Closing Balance R'000 |
|---|---|---|---|---|---|
| Claims requested for payment but not paid at year-end | 6,940,109 | - | (28,628,546) | 32,324,125 | 10,635,688 |
| Provision for hand-over costs | 130,859 | (94,286) | - | - | 36,573 |
| | **7,070,968** | **(94,286)** | **(28,628,546)** | **32,324,125** | **10,672,261** |

## ▶ 13. OTHER PROVISION

In terms of legislation, the RAF has an obligation to refund a portion of the RAF Fuel Levy, 154c/l (2015/16: 154c/l), relating to the diesel usage in other economic sectors where vehicles are not used. The provision is calculated based on actual claims from these sectors processed through SARS. The provision is settled on a quarterly basis with the provision at year-end being based on the last quarter's results. These results are generally finalised after year-end and after all rebates have been taken into account.

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Opening balance | 738,525 | 935,119 |
| Increase in the provision charged to surplus or deficit | 2,823,457 | 4,440,491 |
| Provision utilised | (2,713,404) | (4,637,085) |
| **CLOSING BALANCE** | **848,578** | **738,525** |

## ▶ 14. EMPLOYEE BENEFIT OBLIGATION

### Defined Benefit Plan

#### *Post-retirement Medical Aid Plan*

The RAF operates a post-employment medical benefit scheme that covers employees who were appointed prior to 1 May 1998.

The latest valuation of the RAF's liability in respect of post-retirement medical benefits for the financial year-end was performed on 31 March 2017 and it will be valued at annual intervals thereafter.

Twenty nine (29) pensioners qualify for this benefit and approximately 4.5% of employees currently employeed are prospectively entitled to this benefit. The initial liability and future increases thereof are charged to surplus or deficit.

No plan assets are shown as the medical benefits are unfunded.

## 14. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **The amounts recognised in the Statement of Financial Position are as follows:** | | |
| **Carrying value** | | |
| Present value of the defined benefit obligation - wholly unfunded | 58,117 | 53,821 |
| **Changes in the present value of the defined benefit obligation are as follows:** | | |
| Opening balance | 53,821 | 50,675 |
| Benefits paid | (726) | (665) |
| Net expense recognised in the Statement of Financial Performance | 5,022 | 3,811 |
| | **58,117** | **53,821** |
| **Net income/(expense) recognised in the Statement of Financial Performance** | | |
| Current service cost | 2,153 | 2,105 |
| Interest cost | 5,362 | 4,388 |
| Actuarial gains | (2,493) | (2,682) |
| | **5,022** | **3,811** |
| **Key assumptions used** | | |
| Assumptions used at the reporting date: | | |
| Discount rates used | 10.12% | 10.03% |
| Healthcare cost inflation | 8.64% | 8.93% |
| Real discount rate | 1.36% | 1.01% |
| Spouse age gap | 3 | 3 |
| Expected average age of retirement | 59 | 59 |
| Normal retirement age | 60 | 60 |
| Proportion married at retirement | 80% | 80% |
| Continuation at retirement | 100% | 100% |
| Mortality: Pre-expected retirement age | SA85-90 light | SA85-90 light |
| Mortality: Post-expected retirement age | PA(90) - 1 | PA(90) - 1 |

## ▶ 14. EMPLOYEE BENEFIT OBLIGATION (CONTINUED)

**Expected return on assets**

There are currently no assets set aside in respect of the post-employment medical scheme liability. Therefore no assumption specific to the assets has been made.
Expected contributions to the plan during the subsequent 2017/18 financial year is R1,439,000.

**Sensitivity analysis**

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A percentage point change in assumed healthcare cost trends rates would have the following effects:

| | 0.5% Increase R'000 | 0.5% Increase R'000 |
|---|---|---|
| Effect on the aggregate of the service cost and interest cost | (4,203) | 4,700 |
| Effect on defined benefit obligation | 53,914 | 62,817 |

Amounts for the current and previous four years are as follows:

| | 2017 R'000 | 2016 R'000 | 2015 R'000 | 2014 R'000 | 2013 R'000 |
|---|---|---|---|---|---|
| Defined benefit obligation | 58,117 | 53,821 | 50,675 | 43,340 | 46,588 |

## ▶ 15. OPERATING LEASE LIABILITY

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Non-current liability | 7,958 | 7,606 |

Refer to Note 32 for the disclosure of the minimum payments due in respect of operating leases.

## ▶ 16. NET FUEL LEVIES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Gross fuel levies | 36,052,989 | 37,553,547 |
| Less: diesel rebate | (2,823,457) | (4,440,491) |
| | 33,229,532 | 33,113,056 |

## 17. OTHER INCOME

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Recoveries | 1,974 | 2,750 |
| Allowance for credit losses adjustment | - | 410 |
| | **1,974** | 3,160 |

Recoveries relate to minor recoveries that do not form part of the normal business of the RAF, such as bad debts recovered and SETA refunds.

## 18. INVESTMENT REVENUE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **Interest revenue** | | |
| Interest received from short-term investments | 100,947 | 81,646 |
| Interest received from Rent-a-captive insurance | 8,383 | 6,911 |
| | **109,330** | **88,557** |

## 19. CLAIMS EXPENDITURE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Claims paid | 31,954,954 | 28,628,546 |
| Claims finalised and requested for payment but not yet paid as at 31 March 2017 | 8,516,245 | 10,635,688 |
| Reversal of claims finalised and requested for payment but not yet paid as at 31 March 2016 | (10,635,688) | (6,940,109) |
| Net increase in claims provision | 36,119,127 | 33,942,347 |
| | **65,954,638** | **66,266,472** |
| The breakdown of the claims paid is as follows: | | |
| Claimant compensation (loss of earnings and support, general damages and funeral costs) | 22,286,820 | 21,644,355 |
| Claimant medical costs | 2,119,799 | 1,510,476 |
| Claimant and RAF legal and other costs | 7,548,335 | 5,473,715 |
| | **31,954,954** | 28,628,546 |

## 20. REINSURANCE PREMIUMS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Paid to reinsurers during the year | 21,666 | 22,417 |

## 21. EMPLOYEE COSTS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **TOTAL STAFF COSTS** | 1,434,772 | 1,279,874 |
| **Included in staff costs are:** | | |
| Contributions to post-retirement healthcare benefit | 5,022 | 3,811 |

As at 31 March 2017, 2,801 staff members (of which 2,676 permanent) were employed by the RAF (2015/16: 2,682 staff members of which 2,593 permanent).

## 22. FINANCE COSTS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Foreign exchange losses | 96 | - |
| Interest charged by creditors | - | 2,482 |
| Interest charged on claims | 209,279 | 148,554 |
| | 209,375 | 151,036 |

Finance costs of R25,456,083 included in the amounts above have been considered fruitless and wasteful expenditure and have been included in the disclosures in Note 25.

## 23. GENERAL EXPENSES

| | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|
| Included in general expenses are: | | |
| Advertising | 34,086 | 29,960 |
| Auditors remuneration | 5,864 | 6,247 |
| Bad debts | 3,746 | 141 |
| Board members' expenses | 1,124 | 2,069 |
| Computer expenses | 72,150 | 55,973 |
| Consulting and professional fees | 50,425 | 41,037 |
| Electricity | 12,095 | 11,798 |
| Forensic costs | - | 7,797 |
| Insurance | 3,045 | 2,910 |
| Lease rentals on operating lease | 61,486 | 60,082 |
| Legal costs | 6,878 | 5,866 |
| Maintenance | 19,097 | 17,651 |
| Marketing | 38,865 | 33,106 |
| Motor vehicle expenses | 20,097 | 15,121 |
| Operating costs | 10,926 | 18,304 |
| Printing and stationery | 7,280 | 13,420 |
| Security | 8,235 | 9,009 |
| Telephone and fax | 16,989 | 18,775 |
| Travel local | 26,792 | 25,702 |
| Travel overseas | 968 | 1,294 |
| | 400,148 | 376,262 |

The expenses indicated above are viewed as material and have therefore been separately disclosed.

## 24. TAXATION

In accordance with section 16(1) of the Road Accident Fund Act, 1996 (Act No. 56 of 1996), the RAF is exempt from Income Tax and all customs, excise and stamp duties, as well as any liability for payment, withholding or collecting of any tax or duty.

## 25. FRUITLESS AND WASTEFUL EXPENDITURE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **Reconciliation of fruitless and wasteful expenditure** | | |
| Opening balance | - | - |
| Fruitless and wasteful expenditure - relating to prior year | 2,209 | - |
| Fruitless and wasteful expenditure - relating to current year | 14,103 | 31,128 |
| Less: Amounts finalised | (16,262) | (31,128) |
| Less: Amounts transferred to receivables for recovery | (50) | - |
| Fruitless and wasteful expenditure awaiting resolution | - | - |
| **Reconciliation of fruitless and wasteful expenditure recoverable** | | |
| Opening balance | - | - |
| Recoverable fruitless and wasteful expenditure identified in the current year | 50 | - |
| Less: Amounts recovered | (38) | - |
| Fruitless and wasteful expenditure recoverable | 12 | - |

**Analysis of current year's fruitless and wasteful expenditure**

| | | 2017 R'000 |
|---|---|---|
| **Nature of expenditure** | **Disciplinary steps taken** | |
| Claims-related expenditures | 48 employees were counselled, 44 verbal warnings and 31 written warnings were issued and 2 matters are pending disciplinary outcomes | 13,380 |
| Additional travel costs | 2 employees received counselling, 3 verbal warnings and 2 written warnings were issued | 21 |
| Costs related to cancellation of a tender | Amount recovered from the supplier assisting with the tender administration | 37 |
| Duplicate, wrong and overpayments not recoverable | No action taken as employees are disciplined at the time of making the payment | 663 |
| VAT amount paid to a non-VAT vendor | No action taken as no employee directly responsible | 2 |
| | | 14,103 |

## ▶ 25. FRUITLESS AND WASTEFUL EXPENDITURE (CONTINUED)

### Claims-related Expenditures

Claims-related fruitless and wasteful expenditure relates to interest, Sheriff and writ costs and wrong, duplicate and overpayments written off.

**Interest cost** is the cost paid for the late payment of the claims compensation as agreed to in a settlement agreement or an order of the court, and taxed legal bills settled through taxation, as these costs are due immediately. The interest is charged under the Prescribed Rate of Interest Act of 1975 at 9.0% as per *Government Gazette No. 37831* issued on 18 July 2014. This interest rate was amended to the repo rate plus 3.5% (currently 10.25%) from 1 March 2016 as per *Government Gazette No. 39587* issued on 8 January 2016.

**Sheriff cost** is the cost paid to the Sheriff for its service with regard to serving the warrant of execution (writs) on the RAF.

As per the definition in the PFMA, fruitless and wasteful expenditure means "expenditure which was made in vain and could have been avoided had reasonable care been exercised". The amounts listed below are costs incurred in the settlement process of claims influenced by external legal processes and time limits legally enforced on the RAF in the settlement of claims.

The total value of claims-related fruitless and wasteful expenditure included in the Annual Financial Statements for the year ended 31 March 2017 is R14,043,296 (2015/16: R28,386,904) representing a 50.5% decrease. This, as a percentage of claims expenditure is 0.04% (2015/16: 0.05%). The total value of the claims-related fruitless and wasteful expenditure, had it not been reduced for the prevailing cash constraints experienced by the institution and the impact as a result of the inability to settle timeously, would have been R240,941,605 (2015/16: R139,025,402).

Reporting and adherence to the Writs SOPs will continue.

Legal costs create operational constraints as there are no legal obligations for plaintiff attorneys to submit the bill within any stipulated time frames. The majority of legal cost bills are disputed because their content or the items billed are incorrect or invalid. The process of taxation of legal cost bills through the Office of the Taxation Master is the only option to settle these disputes.

The taxation of legal cost bills exposes the RAF to a risk of non-compliance to court processes, despite an Instruction Note from National Treasury that all payments from legal settlements must be paid within 30 days from the date of settlement. Court rules require that taxed bills must be paid immediately after taxation and plaintiff attorneys issue warrants of execution immediately after settlement.

As a result, payments may comply with the PFMA, but not the court rules.

The following information relates to the legal cost bills settled through taxation for 2016/17:

- Number of bills settled through taxation: 21,997 (2015/16: 17,280) – increased by 27%.
- Number of bills where a saving was made through taxation: 20,897 (2015/16: 16,741) – increased by 25%.
- Amount saved through taxation: R1,577,478,335 (2015/16: R1,097,303,853) – increased by 44%.
- The success rate in terms of saving legal cost bills was 95% (2015/16: 97%).

The number of taxed legal cost bills has increased as a result of increased processing efficiency, higher volume of claims settled compared to the previous period and attorneys submitting bills as soon as possible for payments to queue at Treasury as a result of the cash constraints.

The increased savings are therefore as a result of higher capital settlements, an increase in tariffs, as well as attorneys overreaching when drawing up their bills, which equate to higher bills, and when taxed, result in higher savings. In addition to the above, savings originate from the appointment of cost consultants by the RAF who strive to further realise higher savings as their fee is determined by the saving.

RAF officials are required to diligently apply the process of the legal cost bills assessment. Writs SOPs are in place to ensure that all taxed bills are paid timeously to minimise the impact of the interest cost at a rate of 9% and 10.25% from 1 March 2016.

The number of writs received in 2016/17 was 15,720 (2015/16: 15,273). It was 2.8% higher than in 2015/16 and was mainly related to the documented cash flow constraints.

Fruitless and wasteful expenditure was monitored closely by the Executive and Board. There are processes which have been undertaken to ensure that this risk is mitigated.

Wrong, duplicate and overpayments considered irrecoverable and written off in the current financial year amounted to R692,791 (2015/16: R140,144). Disciplinary action in respect of wrong, duplicate and overpayments is taken when the payment is made, irrespective of whether the amounts are recoverable.

## Administrative Expenditure

Fruitless and wasteful expenditure for the 2016/17 financial year relating to administrative costs totalled R60,121 (2015/16: R2,740,800) and comprised of additional travel costs, which could have been avoided, costs related to the cancellation of a tender and a VAT amount of R2,394 paid to a non-VAT vendor which has subsequently been recovered.

Fruitless and wasteful expenditure relating to prior periods totalled R2,209,078 and comprised of expenditure incurred during the 2012 – 2015 financial years. This was in relation to a specific project in conjunction with a third party for which adequate supporting documentation or authorisation could not be secured, following an extensive investigation that included an Internal Audit review.

## Consequence Management

During the financial year, new initiatives were implemented to enhance the consequence management of the entity in respect of Fruitless and Wasteful and Irregular Expenditure. These included, among others:

- Enhancing the recording and reporting of financial misconduct transactions to better facilitate consequence management.
- Designing practical consequence management mechanisms to ensure that required corrective actions taken are appropriate and applicable to the nature of the transactions incurred. Details of disciplinary measures considered appropriate and completed are set out in the Analysis of the Current Year Fruitless and Wasteful Expenditure table above.
- Engaging with NT, the AGSA and other academic professionals to address shortcomings in current practices and reporting mechanisms.
- Implementation of recommendations by the AGSA in their Management Report for the 2015/16 financial year.

The most significant action taken, however, remain the taxation of legal cost bills resulting in a cost saving of R1,577,478,335 (2015/16: R1,097,303,853) as discussed under claims-related expenditure above.

## 26. IRREGULAR EXPENDITURE

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Opening balance | - | - |
| Add: Irregular expenditure - prior year | 4,107 | - |
| Add: Irregular expenditure - current year | 1,929 | 11,428 |
| Less: Amounts condoned | (6,036) | (11,428) |
| | - | - |

**Details of irregular expenditure - current year**

| | | 2017 R'000 |
|---|---|---|
| **Nature of transaction** | **Disciplinary steps taken** | |
| Non-compliance with Supply Chain Management practices | 1 employee received counselling and one verbal warning issued | 23 |
| Inadequate contract management | 1 employee counselled, 3 employees are no longer employed by the RAF | 1,906 |
| | | 1,929 |

**Details of irregular expenditure - prior year**

| | | 2017 R'000 |
|---|---|---|
| **Nature of transaction** | **Disciplinary steps taken** | |
| Non-compliance with Supply Chain Management practices | 2 employees received counselling | 31 |
| Inadequate contract management | Verbal warning issued | 3,714 |
| Non-compliance with CIDB regulations in respect of construction contracts | Employee no longer employed by the RAF | 362 |
| | | 4,107 |

## Consequence Management

Irregular expenditure arose as a result of:

- Incorrect assessment of bid evaluations;
- Requesting updated information from bidders resulting in uncompetitive procurement practice;
- Contract extensions deemed unfair procurement practice by the AGSA;
- Failure to comply with CIDB regulations in respect of construction contracts.

Any employee who commits an act which undermines the financial management and internal control systems of the RAF, as required by relevant legislations and policies, is dealt with in terms of the RAF Disciplinary Policy. Employees who make or permit an irregular expenditure or fruitless and wasteful expenditure exposes themselves to appropriate disciplinary measures as required by section 57 of the PFMA. In 2016/17, four employees were counselled as a result of financial misconduct where the employees were found to have contravened provisions of the Act and internal policies. In seven instances of irregular expenditure reported in the currrent financial year, disciplinary action was not appropriate or possible as the non-compliance could not be attributable to a specific employee, or the employee had since left the employ of the RAF.

The five instances of irregular expenditure identified for the prior year were identified during the 2015/16 financial year-end audit. The total value of these five instances was R2,767,918 and represented 46% of the total irregular expenditure condoned during the year under review.

A total of 10 instances to the value of R3,268,062 were identified, reported and condoned during the 2016/17 financial year. This represents a 71% reduction in value and a 23% reduction in number of instances of irregular expenditure from the 13 instances totalling R11,428,300 reported in the 2015/16 financial year.

In accordance with section 51(1)(b)(ii) of the PFMA, 1999 (Act No. 1 of 1999), Management implemented the following actions to enhance efficient prevention of irregular expenditure and fruitless and wasteful expenditure:

- Supply Chain Management compliance was enhanced by extensive implementation of a revised Supply Chain Management Policy and Delegation of Authority (effective 1 March 2016) within IT systems and various other mechanisms.
- Training of employees and creating awareness of applicable Supply Chain Management practices.
- The regular issue of Management Directives to guide business units and manage expectations, roles and responsibilities, as well as timelines.
- Recruitment procedures to increase capacity with skilled and experienced resources are underway.
- Processes informing the requests for extension of contracts has been significantly tightened.
- Enhancing consequence management through implementation of initiatives discussed under Note 25 and ensuring individuals are held accountable when transgressions are identified.

## 27. CASH FLOWS FROM OPERATING ACTIVITIES

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Deficit | (34,741,498) | (34,958,399) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 42,890 | 47,219 |
| Surplus on sale or derecognition of assets | (1,023) | (1,388) |
| Movements in retirement benefit assets and liabilities | 4,296 | 3,146 |
| Movements in claims liabilities | 33,999,684 | 37,637,926 |
| Movement in diesel rebate provision | 110,052 | (196,594) |
| Movement in operating lease liability | 352 | 3,993 |
| **Changes in working capital:** | | |
| Consumable stock | 68 | (807) |
| Receivables from exchange transactions | 2,343 | (5,185) |
| Other receivables from non-exchange transactions | 205,291 | (1,474,714) |
| Other financial assets | (13,531) | (6,310) |
| Payables from exchange transactions | 28,962 | (14,445) |
| | **(362,114)** | **1,034,442** |

## 28. RELATED PARTIES

The RAF is an entity created by statute, with the Minister of Transport being the Executive Authority representing the government of South Africa. The RAF is a Schedule 3A Public Entity in terms of the PFMA. The related party disclosures are in terms of the requirements of IPSAS 20. The related parties of the RAF mainly consist of Departments, State-owned Entities (SOEs), other public entities in the national sphere of government and key Management personnel of the RAF, or its Executive Authority and close family members of related parties. The list of public entities in the national sphere of government is provided by NT on their website www.treasury.gov.za. NT also provides the names of subsidiaries of public entities.

Although the RAF transacted with other public entities within the national sphere of government, none of the related parties identified influenced, or was influenced by the RAF during the reporting period and therefore no related party transactions with other entities in the national sphere of government are disclosed. All these transactions took place at arm's length.

The following transactions were concluded with key Management of the RAF in terms of employment contracts entered into with the RAF (please refer to Note 29 - Board and Executive members' emoluments for detailed information relating to compensation of members and other key Management).

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **Compensation to members and other key Management** | | |
| Key Management compensation | 28,657 | 26,233 |

## 29. BOARD MEMBERS' AND EXECUTIVE MANAGEMENT'S EMOLUMENTS

### Non-executive Board Members

The Executive Authority approves the remuneration of the Board. Remuneration of Non-executive members is benchmarked against the norms for organisations of a similar size and in line with the guidelines issued by the Executive Authority.

Non-executive Board members receive a fixed monthly remuneration. Remuneration is not determined by meeting frequencies and it is escalated by inflationary adjustments only.

### Executive Remuneration

The Chief Executive Officer makes recommendations to the Board concerning the remuneration of Executives (EXCO) and the Board approves the remuneration of EXCO members, including that of the CEO, in accordance with the approved Remuneration Policy.

The RAF introduced performance-based remuneration for its Management staff by linking annual salary increases to individual contributions. Management receives an annual increase based on a combination of Consumer Price Index (CPI) and individual performance. The organisation conducts an annual salary survey/benchmark to ensure that Management rewards and remuneration are market-related and kept at levels that will assist in retaining and attracting key leadership skills. The RAF aims to remunerate in line with the 50th percentile (median) of the market to recruit and retain the Management team to lead the organisation. Over and above the basic salary, staff members receive a performance incentive as a percentage of their total cost of employment.

## 29. BOARD MEMBERS' AND EXECUTIVE MANAGEMENT'S EMOLUMENTS (CONTINUED)

All EXCO members are employed on fixed-term contracts of employment.

The table below reflects amounts paid to the Board members and Executive remuneration.

| Executive 2017 | Salary | Leave Pay | Performance Bonus | Pension Contributions | Medical Contributions | Total |
|---|---|---|---|---|---|---|
| Dr EA Watson | 4,919 | - | 1,919 | - | 66 | 6,904 |
| Ms Y van Biljon | 2,262 | - | 559 | 224 | 22 | 3,067 |
| Ms L Jabavu | 2,390 | - | 597 | 214 | 55 | 3,256 |
| Mr R Gounden | 2,224 | - | 590 | - | - | 2,814 |
| Ms M Kola | 2,226 | - | 581 | 211 | 71 | 3,089 |
| Mr PE Dhlomo | 1,742 | - | 519 | 178 | 33 | 2,472 |
| Ms JR Cornelius | 1,706 | - | 453 | 200 | - | 2,359 |
| Ms LP Gumbi | 2,142 | - | 352 | 168 | 22 | 2,684 |
| Ms VC Menye (Resigned 16 November 2016) | 1,364 | 137 | 475 | - | 36 | 2,012 |
| | **20,975** | **137** | **6,045** | **1,195** | **305** | **28,657** |

| Executive 2016 | Salary | Performance Bonus | Pension Contributions | Medical Contributions | Total |
|---|---|---|---|---|---|
| Dr EA Watson | 4,643 | 1,901 | - | 60 | 6,604 |
| Ms Y van Biljon | 2,081 | 432 | 265 | 20 | 2,798 |
| Ms L Jabavu | 2,235 | 530 | 202 | 71 | 3,038 |
| Mr R Gounden | 2,098 | 572 | - | - | 2,670 |
| Ms M Kola | 2,103 | 600 | 199 | 65 | 2,967 |
| Mr PE Dhlomo | 1,644 | - | 168 | 30 | 1,842 |
| Ms JR Cornelius | 1,610 | 473 | 189 | - | 2,272 |
| Ms LP Gumbi (Appointed 1 August 2015) | 1,347 | - | 105 | 14 | 1,466 |
| Ms VC Menye | 1,935 | 478 | 112 | 51 | 2 576 |
| | **19,696** | **4,986** | **1,240** | **311** | **26,233** |

## 29. BOARD MEMBERS' AND EXECUTIVE MANAGEMENT'S EMOLUMENTS (CONTINUED)

| Non-executive 2017 | Members' fees R'000 | Total R'000 |
|---|---|---|
| Dr NM Bhengu (Chairperson) | 825 | 825 |
| Mr D Coovadia (Vice-Chairperson) | 632 | 632 |
| Dr KLN Linda | 565 | 565 |
| Adv DS Qocha (Term expired 30 September 2016) | 320 | 320 |
| Mr T Masobe | 560 | 560 |
| Mr AM Pandor | 605 | 605 |
| Mr DK Smith (Term expired 30 September 2016) | 291 | 291 |
| Ms R Mokoena | 594 | 594 |
| Ms A Steyn (Term expired 30 September 2016) | 291 | 291 |
| Mr LED Hlatshwayo (Term expired 30 September 2016) | 320 | 320 |
| Dr TO Kommal (Appointed 21 October 2016) | 259 | 259 |
| Dr MC Peenze (Appointed 21 October 2016) | 269 | 269 |
| Ms LUZ Rataemane (Appointed 21 October 2016) | 269 | 269 |
| Mr MK Mothobi (Appointed 21 October 2016) | 259 | 259 |
| | 6,059 | 6,059 |

| Non-executive 2016 | Members' fees R'000 | Total R'000 |
|---|---|---|
| Dr NM Bhengu (Chairperson) | 852 | 852 |
| Mr D Coovadia (Vice-Chairperson) | 653 | 653 |
| Dr KLN Linda | 568 | 568 |
| Adv DS Qocha | 625 | 625 |
| Mr T Masobe | 568 | 568 |
| Mr AM Pandor | 625 | 625 |
| Mr DK Smith | 568 | 568 |
| Ms R Mokoena | 625 | 625 |
| Ms A Steyn | 568 | 568 |
| Mr LED Hlatshwayo | 625 | 625 |
| | 6,277 | 6,277 |

## ▶ 30. RISK MANAGEMENT

### Overview

The RAF is exposed to a range of financial and insurance risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are credit risk, liquidity risk and market risk, which comprises interest rate risk, currency risk and other price risks. The risks that the RAF primarily faces due to the nature of its assets and liabilities are liquidity risk, interest rate risk and currency risk.

### Liquidity Risk

Liquidity risk is the risk that the RAF will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate Liquidity Risk Management Framework for the management of the RAF's short-, medium- and long-term funding and liquidity management requirements.

Cash management is rigorously applied to manage the liquidity risk of the RAF which ensures available funding is distributed in an equitable and fair manner. For further information on how the RAF manages liquidity risk, also refer to the Report of the Board.

Reinsurance is also used to manage liquidity risk.

The following table analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

| As at 31 March 2017 | Within 1 Year R'000 | 2 - 5 Years R'000 | After 5 Years R'000 | Total R'000 |
|---|---|---|---|---|
| Trade and other creditors | 40,838 | - | - | 40,838 |
| Claims liabilities | 34,180,160 | 107,678,491 | 46,147,926 | 188,006,577 |
| Operating lease liability | - | 7,958 | - | 7,958 |

| As at 31 March 2016 | Within 1 year R'000 | 2 - 5 years R'000 | After 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| Trade and other creditors | 46,719 | - | - | 46,719 |
| Claims liabilities | 46,505,919 | 75,967,355 | 31,533,619 | 154,006,893 |
| Operating lease liability | - | 7,606 | - | 7,606 |

## Credit Risk

The RAF has exposure to credit risk, which is the risk of financial loss to the RAF if a counterparty to a financial instrument fails to meet its contractual obligations. Key areas where the RAF is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due with respect to claims debtors;
- Amounts due with respect to study loans and bursaries (this risk is very minimal as the amounts are immaterial);
- Short-term call deposits;
- The ultimate amount due from the self-funding Claims Reinsurance Policy; and
- Fuel Levy debtor.

The nature of the RAF's exposure to credit risk, as well as the policies and processes for managing the credit risk have not changed significantly from the prior period.

Potential concentrations of credit risk consist mainly of short-term cash. Money market instrument operations are only entered into with well-established and reputable financial institutions.

It is the RAF's policy to grant bursaries, relevant only to its line of business, to employees.

The Rent-a-Captive insurance includes an amount set aside as a self-funding Claims Reinsurance Policy. This policy will be utilised to fund the first R100 million of the retention amount of the Claims Reinsurance Policy in the event of a catastrophic claim being instituted against the RAF. The deposit amount of R139,653,000 (2015/16: R131,290,000) represents the balance of the special experience account, an account the insurer maintains for the purposes of recording this policy. The insurer is a well-established and reputable financial institution.

Under the terms of reinsurance agreements, reinsurers agree to reimburse the settled amount in the event that a gross claim is paid. The RAF, however, remains liable to its claimants regardless of whether the reinsurer meets the obligations it has assumed. Consequently, the RAF is exposed to credit risk.

The RAF monitors the financial condition of reinsurers on an on-going basis and reviews its reinsurance arrangements periodically.

The carrying amounts of financial assets and reinsurance assets included in the Statement of Financial Position represent the RAF's exposure to credit risk in relation to these assets. As at 31 March 2017, the RAF did not consider there to be a significant concentration of credit risk which had not been adequately provided for.

## Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the RAF's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on investment.

The RAF is also exposed to foreign exchange fluctuations where claims from foreigners have been lodged, and damages for future medical expenses and loss of earnings or support are claimed in a foreign currency. When such claims are settled, the RAF pays the compensation as soon as possible after settlement date so as to minimise the risk of foreign exchange fluctuations.

# 30. RISK MANAGEMENT (CONTINUED)

## Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The RAF is exposed to interest rate risk, as it invests funds in the money market at floating interest rates.

As at 31 March 2017, no derivative financial instruments were used to manage the RAF's exposure to interest rate risk.

All liquid funds are invested with registered South African banking institutions with maturities of 90 days or less, thereby minimising interest rate risk.

Interest rates of interest-bearing debts are linked to the prime overdraft rate.

### Interest Rate Risk Sensitivity Analysis

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For financial instruments and insurance contracts, the sensitivity is solely associated with the former, as the carrying amounts of the latter are not directly affected by changes in the interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the RAF's deficit for the year ended 31 March 2017 would decrease/(increase) by R9,000,000 (2014/15: decrease/(increase) by R10,900,000). This is mainly attributable to the RAF's exposure to interest rates on its floating rate investments. The sensitivity analysis has been determined based on the exposure to interest rates for the RAF's non-derivative instruments at the financial reporting date. The analysis was prepared assuming that the investments at year-end were constant throughout the year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key Management personnel and represents Management's assessment of the reasonably possible change in interest rates.

## Foreign Exchange Risk

The financial items that are exposed to currency risk at the reporting date are claims that have not been paid to foreign claimants yet. The engaging of forward cover is considered on a case-by-case basis if the period between making an offer and final payment is material. As at 31 March 2017, no derivative financial instruments were used to manage the RAF's exposure to foreign currency risk; only fixed-term forward cover contracts were utilised. There was no movement in the number of claims denominated in foreign currency in the current financial year.

## The Carrying Amount of RAF's Outstanding Foreign Currency Denominated Claims

| Liabilities | | | 2017<br>R'000 | 2016<br>R'000 |
|---|---|---|---|---|
| USD | 4,047 | (2015/16: 4,047) | 54,245 | 61,938 |
| GBP | 464 | (2015/16: 464) | 7,757 | 10,070 |
| Euro | 1,289 | (2015/16: 1,289) | 18,450 | 22,493 |
| | | | **80,452** | **94,501** |

The following table details RAF's sensitivity to a 10% increase and decrease in the South African Rand against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key Management personnel, and represents Management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated claims at reporting date and adjusts their translation at the period end for a 10% change in foreign currency rates. The figures below indicate an increase in surplus or deficit where the presentation currency strengthens 10% against the relevant currency. For a 10% weakening of the presentation currency against the relevant currency, there would be an equal and opposite impact on the surplus or deficit and the balances below would be negative.

| | USD Impact R'000 | GBP Impact R'000 | Euro Impact R'000 | All Foreign Currencies R'000 |
|---|---|---|---|---|
| 2017 | 5,425 | 777 | 1,845 | 8,047 |
| 2016 | 6,194 | 1,019 | 2,255 | 9,468 |

## 31. INSURANCE RISK MANAGEMENT

### Overview

The RAF accepts insurance risk as it is mandated by legislation to compensate victims of road accidents for injuries suffered as a result of motor vehicle accidents. The RAF is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

This Note presents information about the RAF's exposure to insurance risk and the RAF's objectives, policies and processes for managing this risk.

The RAF has developed, implemented and maintained a sound and prudent Insurance Risk Management Strategy that encompasses all aspects of the RAF's operations, including the reinsurance risk retention limits. Key aspects of the processes established to mitigate insurance risk include:

- The maintenance and use of sophisticated management information systems, which provide reliable and up-to-date data on the risks to which the business is exposed at any point in time;
- Actuarial models, using information derived from the management information systems, are used to monitor claims patterns. Past experience and statistical methods are used as part of the process;
- Catastrophic accidents are modelled and the RAF's exposures are protected by arranging reinsurance to limit the losses arising from an individual event. The retention and limits are approved by the RAF's Board; and
- Only reinsurers with credit ratings equal to 'AA' or in excess of a minimum level determined by Management are accepted as participants in the RAF's reinsurance agreements.

### Reinsurance Income

The RAF enters into reinsurance treaties with major international reinsurance companies to cover catastrophic accidents. No amounts were recovered from reinsurers during the current financial year in respect of claims settled by the RAF, as there were no claims in excess of the retention amount.

## 31. INSURANCE RISK MANAGEMENT (CONTINUED)

### Foreign Claims

The number of claims by foreign visitors to South Africa continues to rise as the volume of visitors to the country increases. As the bulk of these claims are paid in the applicable foreign currency and these claimants also enjoy unlimited benefits, foreigners' claims form a large proportion of high-value claims. At 31 March 2017, 3.1% (2015/16: 4.4%) of the value of the provision for outstanding claims in excess of R5,000,000 was made up of claims by foreign nationals. It is important to note, however, that the actual claimed amount can exceed the estimated value of the claim.

### Claims Reinsurance

In terms of section 4(1)(d) of the Road Accident Fund Act, 1996 (Act No. 56 of 1996), the RAF may procure reinsurance for any risk undertaken in accordance with this Act. Simultaneously, section 51(1)(a)(i) of the PFMA, 1999 (Act No. 1 of 1999) states as a condition that a public entity must ensure that it has and maintains effective, efficient and transparent systems of financial and risk management.

The RAF, through its reinsurance brokers procures reinsurance cover and negotiates reinsurance treaties for the RAF. The RAF's reinsurance treaties are all excess of loss agreements. Therefore, the reinsurers indemnify the RAF for that part of the ultimate net loss (total amount paid) which exceeds the retention amount, as per the relevant treaty subject to an indexation clause as contained in the treaties. The RAF will only accept terms provided by reinsurers with acceptable ratings. The ratings are done by Standard & Poor and AM & Best, which are international rating companies. The RAF currently places its limited reinsurance cover with a South African company, AIG SA, and the unlimited cover is placed with reinsurers based in London. The current limited cover has a set retention level of R100,000,000 and, in terms of the treaty, the reinsurer's liability is limited to paying up to R400,000,000 per any one loss occurrence event, on account of each and every loss occurrence. The unlimited cover placed in the London reinsurance market provides for cover in excess of R500,000,000 per any loss occurrence event, on account of each and every loss occurrence.

The RAF must report to reinsurers all losses (all claims arising from an accident) likely to exceed the notification amounts, as specified in the respective reinsurance treaties.

In terms of the reinsurance treaties, the reinsurers indemnify the RAF for that part of the ultimate net loss (total amount paid) which exceeds the retention amounts as specified in the treaties, subject to the indexation clause.

The following table illustrates the notification amounts and retention amounts for the respective annual reinsurance treaties:

| Accident Year | Notification Amount | Retention Amount |
|---|---:|---:|
| 1984/85 | 500,000 | 1,500,000 |
| 1985/86 | 500,000 | 1,500,000 |
| 1986/87 | 3,000,000 | 5,000,000 |
| 1987/88 | 3,000,000 | 5,000,000 |
| 1988/89 | 1,000,000 | 2,500,000 |
| 1989/90 | 1,000,000 | 3,000,000 |
| 1990/91 | 1,000,000 | 3,000,000 |
| 1991/92 | 1,000,000 | 4,000,000 |
| 1992/93 | 1,000,000 | 4,500,000 |
| 1993/94 | 2,000,000 | 4,500,000 |
| 1994/95 | 2,000,000 | 5,000,000 |
| 1995/96 | 2,000,000 | 5,000,000 |
| 1996/97 | 2,000,000 | 10,000,000 |
| 1997/98 | 5,000,000 | 10,000,000 |
| 1998/99 | 5,000,000 | 10,000,000 |
| 1999/00 | 7,500,000 | 15,000,000 |
| 2000/01 | 15,000,000 | 20,000,000 |
| 2001/02 | 15,000,000 | 20,000,000 |
| 2002/03 | 15,000,000 | 50,000,000 |
| 2003/04 | 15,000,000 | 50,000,000 |
| 2004/05 | 15,000,000 | 50,000,000 |
| 2005/06 | 15,000,000 | 100,000,000 |
| 2006/07 | 15,000,000 | 100,000,000 |
| 2007/08 - 2016/17 | 75,000,000 | 100,000,000 |

The RAF monitors its reinsurance risk on a quarterly basis by reviewing and updating reports to reinsurers, which indicate the current status with regard to matters reported to reinsurers. Furthermore, regular reports are run against the RAF's database to identify potential reportable matters, as a pro-active measure.

### Board Members' and Officers' Liability Insurance

The RAF manages the risks that the Board members and Officers of the RAF are exposed to by way of Board Members' and Officers' liability insurance. The RAF's current Board members' and Officers' insurance cover is placed with two underwriters respectively. The total limit of indemnity per claim is R250,000,000 and to all in the aggregate.

### Claims Development Table

The table below illustrates how estimates of cumulative claims have developed over time on a gross basis. The top half of the table shows the development of estimates of gross cumulative claims for each accident year. The lower half of the table shows the gross claims paid. The table has been categorised according to the nature of the claim.

| Personal claims<br>Estimates of gross ultimate claims | 2014<br>R'million | 2015<br>R'million | 2016<br>R'million | 2017<br>R'million | Total |
|---|---|---|---|---|---|
| **Personal claims** | | | | | |
| At end of accident year | 17,419 | 19,144 | 27,594 | 35,324 | |
| One year later | 19,258 | 26,666 | 33,584 | - | |
| Two years later | 25,336 | 30,667 | - | - | |
| Three years later | 28,897 | - | - | - | |
| **Supplier claims** | | | | | |
| At end of accident year | 519 | 770 | 1,001 | 1,109 | |
| One year later | 534 | 662 | 995 | - | |
| Two years later | 566 | 697 | - | - | |
| Three years later | 593 | - | - | - | |
| **Undertakings** | | | | | |
| At end of accident year | 608 | 868 | 1,505 | 2,390 | |
| One year later | 873 | 1,418 | 2,191 | - | |
| Two years later | 1,305 | 1,838 | - | - | |
| Three years later | 1,649 | - | - | - | |
| **Personal claims** | | | | | |
| **Claims paid** | | | | | |
| **Personal claims** | | | | | |
| At end of accident year | 96 | 113 | 151 | 131 | |
| One year later | 1,081 | 1,196 | 1,297 | - | |
| Two years later | 4,542 | 4,713 | - | - | |
| Three years later | 10,035 | - | - | - | |
| **Supplier claims** | | | | | |
| At end of accident year | 163 | 210 | 316 | 462 | |
| One year later | 396 | 498 | 784 | - | |
| Two years later | 506 | 628 | - | - | |
| Three years later | 579 | - | - | - | |
| **Undertakings** | | | | | |
| At end of accident year | 3 | 2 | 6 | 6 | |
| One year later | 21 | 19 | 48 | - | |
| Two years later | 45 | 44 | - | - | |
| Three years later | 80 | - | - | - | |
| **Estimates of gross ultimate claims** | | | | | |
| Gross liabilities in respect of accident years 2014 - 2017 | 20,445 | 27,817 | 34,640 | 38,224 | 121,126 |
| Gross liabilities in respect of 2014 and prior accident years | - | - | - | - | 58,337 |
| | 20,445 | 27,817 | 34,640 | 38,224 | 179,463 |

## 32. COMMITMENTS

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| Property, plant and equipment | 3,946 | 14,028 |
| Intangible assets | 4,092 | 10,477 |
| Operating expenditure | 71,921 | 61,762 |
| | **79,959** | **86,267** |
| **Operating leases - as lessee (expense)** | | |
| **Minimum lease payments due** | | |
| - within one year | **51,338** | **50,683** |
| - within second to fifth year inclusive | **68,892** | **95,816** |
| | **120,230** | **146,499** |

Operating lease payments represent rentals payable by the RAF for certain of its office properties. The leases have varying terms, escalation clauses and renewal rights.

## 33. CONTINGENCIES

**Other Contingent Liabilities**

There are a number of outstanding corporate legal matters. These are as follows:

- Litigation by/against service providers – 11 matters
- Constitutional challenges – 10 matters
- Other litigation/disputes – 27 matters

The RAF is involved in commercial and labour-related litigious matters. The total value of the contingent liability in respect of the above legal matters and their related legal costs is estimated at R142,121,381.

### Guarantees

The guarantee exposure as at 31 March 2017 was R1,442,000 (2015/16: R2,320,000)

## 33. CONTINGENCIES (CONTINUED)

| | 2017 R'000 | 2016 R'000 |
|---|---|---|
| Columbia Falls Properties (Pty) Ltd | 77 | 77 |
| Redefine Properties (Pty) Ltd | - | 878 |
| Faerie Glen Waterpark (Pty) Ltd | 1,365 | 1,365 |
| | 1,442 | 2,320 |

## 34. GOING CONCERN

The RAF draws attention to the fact that at 31 March 2017, the entity had an accumulated deficit of R180,076,988,000 and that the entity's total liabilities exceeded its assets by R179,992,925,000. This indicates that a material uncertainty exists as to whether the 'going concern' assumption is appropriate for the preparation of the Annual Financial Statements.

The RAF Fuel Levy is not consistently informed by the RAF's productivity, nor by the longstanding liability for claims incurred under the RAF Act, which was R180 billion as at 31 March 2017. As at 31 March 2017, the total claims liabilities amounted to R188 billion.

The liability, as well as the historic mismatch between the Fund's income and expenditure, continue to result in a significant threat to the 'going concern' basis for the preparation of the Financial Statements of the Fund.

Though the recent increases in April 2015 and that anticipated in April 2017, amounting to an estimated additional R13 billion per annum, to a large extent succeeded in reducing the gap between productivity and funding on a monthly basis, it could not contribute to reducing the backlog in claims requested for payment but not yet paid (accounts payable) that had accumulated since the cash flow constraints became a reality in the latter part of 2014. The backlog amounted to R8.6 billion on 30 June 2015, when the first tranche of the additional funding was received.

The pressure on available funding is further increasing, given the inflationary pressures on the Heads of Damages, the preference for the more expensive claims by representing firms and the consistently higher claims registration patterns observed.

The 'going concern' basis was nonetheless used for the preparation of the Annual Financial Statements despite the cash flow challenges faced by the RAF – a basis that presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Though the RAF will continue to face material cash flow constraints, it is believed that based on the initiatives implemented to date, the support from its stakeholders, the absence of any indication that it should no longer execute its statutory obligations and by continuing to work with its service providers and claimants, that the RAF will be able to meet its obligations arising.

## 35. EVENTS AFTER THE REPORTING DATE

No undisclosed material events have taken place between the Statement of Financial Position date and the authorisation of the Annual Financial Statements, as disclosed in the Report of the Board.

## 36. BUDGET DIFFERENCES

### Material Differences between Budget and Actual Amounts

The material differences can be explained as follows:

### Investment Revenue

The average interest earned on the cash holdings was 6.69% on the actual cash holdings throughout the financial year, in comparison to the expected budgeted rate of 5%. This resulted in a higher return on cash invested for short-term periods.

### Gains on Disposal of Assets and Liabilities

The Gain/(Loss) on Disposal of Assets and Liabilities varied from the amount projected in the budget due to the RAF entering into a fleet management agreement and disposing of the motor vehicles on hand at the time of entering the agreement. This was not expected at the time of the budget approval.

### Claims Expenditure

The variance in Claims Expenditure is due to an increase in the Provision for Outstanding Claims of R21,000,000,000 more than what was budgeted for. The number of claims reported was consistently higher than expected. Together with this, the change in the mix of the Heads of Damages settled and higher inflation rates than what was budgeted for resulted in an increase in the claims provision, which was not estimated at the time the budget was prepared.

### Finance Costs

Interest on late payment of claims was projected to reduce due to improved efficiencies being implemented in order to reduce the number of claims being paid late. However, the depletion in cash reserves has resulted in more finalised claims being paid late, resulting in the increase in finance costs.

### General Expenses

The variance in general expenditure is due to the cost containment initiatives implemented as per the NT Instruction Note and the delay in initiation of projects.

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