

2015/16

Illness Benefit

Dependants Benefit (Death)

Maternity Benefit

Adoption Benefit

Unemployment Benefit

UNEMPLOYMENT INSURANCE FUND ANNUAL REPORT



labour

Department:  
Labour  
REPUBLIC OF SOUTH AFRICA





**Department of Labour**

**Annual Report for the Unemployment Insurance Fund**

**for the year ended 31 March 2016**

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## Minister of Labour



### The Honourable Minister of Labour

It is my privilege to submit to you the Annual Report on the activities of the Unemployment Insurance Fund (UIF) for the year ended 31 March 2016. As required by section 11(3) of the Unemployment Insurance Act (UIA), 63 of 2001, the report includes the statement of financial position and the Statement of Financial Performance for the year ended 31 March 2016. It also contains the Auditor-General's report in terms of the Public Finance Management Act (PMFA), No. 1 of 1999.

**Minister, MN Oliphant, MP**



## UIF Board Members

### Standing left to right

Mr T Tshefuta, Mr N Nxele, Mr M Macikama, Mr A Franks, Mr N Vermeulen, Mr E Nwedo, Mr A Crawford

### Seated left to right

Mr J Mahlangu, Ms L Kganyago, Mr W Nzimande (Chairperson of the Board),

Mr B Seruwe (Unemployment Insurance Fund Commissioner), Mr D Mthlane

Absent: Mr G Strauss





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**PART**

**A**

**GENERAL INFORMATION**





## 1. General Information

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



## 2. LIST OF ABBREVIATIONS/ACRONYMS

<b>AGSA</b>	Auditor General of South Africa
<b>CCMA</b>	Commission for Conciliation, Mediation and Arbitration
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>DG</b>	Director-General
<b>DOL</b>	Department of Labour
<b>DPSA</b>	Department of Public Service and Administration
<b>ERP</b>	Enterprise Resource Planning
<b>GCIS</b>	Government Communications and Information Systems
<b>MOU</b>	Memorandum of Understanding
<b>MP</b>	Member of Parliament
<b>PFMA</b>	Public Finance Management Act
<b>PIC</b>	Public Investment Corporation
<b>PSA</b>	Productivity South Africa
<b>SCM</b>	Supply Chain Management
<b>SLA</b>	Service Level Agreement
<b>SRI</b>	Social Responsible Investment
<b>TETA</b>	Transport Education and Training Authority
<b>TLS</b>	Training Layoff Scheme
<b>TVET</b>	Technical Vocational Education and Training
<b>UIA</b>	Unemployment Insurance Act
<b>UIF</b>	Unemployment Insurance Fund
<b>UICA</b>	Unemployment Insurance Contributions Act
<b>UIA</b>	Unemployment Insurance Act
<b>SARS</b>	South African Revenue Services



### 3. FOREWORD BY THE ACCOUNTING AUTHORITY



#### INTRODUCTION

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

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

The UIF has identified four strategic outcome oriented goals to pursue over five years (2010/11 to 2015/16). These are:

- Improve payment of benefits to UIF beneficiaries
- Improve revenue collection from employers
- Participate in government initiatives to create and sustain decent employment
- Effective administration of UIF operations

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

- Improve financial management
- Improve service delivery
- Improve compliance to the UIA
- Fund poverty alleviation schemes

To achieve these objectives, the UIF develops performance measures for each financial year. In the 2015/16 financial year, there were 15 performance targets to be pursued by the UIF.

The UIF achieved 8 of the 15 performance targets, giving it a performance of 53%. Those that were not achieved, reflected an improvement from the levels achieved in the previous year.

#### STRATEGIC RELATIONSHIPS

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



This was achieved by strengthening relationships which were cemented through a Memorandum of Understanding signed by some of the listed partners below:

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

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

**T Lamati**

Director-General of Labour





## 4. UNEMPLOYMENT COMMISSIONER'S STATEMENT

**TB Seruwe**

Unemployment Commissioner



The Unemployment Insurance Fund is delighted to present its Annual Report for the 2015/16 financial year. Although the Fund has received an unqualified opinion for the 2014/15 and 2015/16 with findings on non-compliance with laws, regulations and predetermined objectives, strong internal controls and accurate assurance reports pertaining to financial management have ensured that the Fund continues to maintain a positive financial growth trajectory.

The subdued economic growth, characterised by concomitant job losses across a number of industries has increased payments of unemployment benefits by 8.55%. However, prudent financial management by the Fund continues to strengthen its financial position and will ensure that beneficiaries continue to enjoy their benefits and are shielded against abject poverty.

We are also delighted with the significant progress made on the Unemployment Insurance Amendment Bill. The Bill has received unanimous support from business and labour, and all political parties in Parliament have given it a stamp of approval, which has paved the way for endorsement by the National Assembly. We are confident that the National Council of Provinces will accede to it, thus giving way for the President to proclaim it into Act.

### FINANCIAL HIGHLIGHTS

The prudent management of financial resources has ensured that UIF continues to maintain a positive financial growth trajectory, despite the volatile market conditions. The Fund's net surplus for the year amounted to R10.69 billion (before reserving), reflecting a decrease of 43.83% in comparison to the previous financial year's R19.02 billion. The decrease is attributed to the unrealised negative fair value adjustment of the Fund's investment portfolio as at 31 March 2016.

#### CONTRIBUTION REVENUE

6.03%



Revenue includes contributions, penalties and interest collected from contributors. A number of revenue collection strategies implemented by management during the reporting period proved to be successful. During the year under review, the Fund collected R17.12 billion in comparison to the previous financial year's R16.15 billion.

#### BENEFIT PAYMENTS

8.55%



The Fund approved 720 625 claims during the year under review in comparison to 708 467 approved last year. This resulted in benefit payments to the value of R7.69 billion compared to R7.08 billion paid in the previous financial year.



## INVESTMENTS

7.53%



According to the UIA, as amended, the Fund deposits all surplus funds with the Fund's Investment Manager, the Public Investment Corporation (PIC), to invest, manage and administer the terms and conditions as set out in the Fund's investment mandate. The Fund's total investment portfolio increased from R111.29 billion as at 31 March 2015 to R119.68 billion as at 31 March 2016.

The Fund's total assets in the last decade grew from R10.46 billion to R124.69 billion as at 31 March 2016. This has enabled the Fund to commit over R7 billion towards developmental investment projects through the PIC.

## INVESTMENTS REVENUE

15.94%



Investment revenue includes interest on financial assets, dividends received, interest received from banking institutions and other sundry interest received. During the year under review, the Fund received R6.7 billion interest on financial instruments in comparison to the previous financial year's R5.6 billion. The Fund received R977 million dividend income from domestic equities in comparison to the previous financial year's R856 million. The Fund received R29 million interest from banking institutions in comparison to the previous financial year's R23 million and R2 million revenue was received from other sundry investment in comparison to the previous financial year's R13 000.

## RESERVES (NET ASSETS)

9.76%



The Fund's actuaries conduct an annual actuarial valuation of the Fund as required by the UIA. As at 31 March 2016, the Fund's reserves which comprise of the accumulated surplus and the Unearned Contribution Reserve, increased from R109.43 billion as at 31 March 2015 to R120.12 billion. The Fund is fully funded and the actuaries concluded that the Fund is in a sound financial position.

## CONTRIBUTION TO SKILLS DEVELOPMENT

The Labour Activation Programme of the Fund has played a key role in skills development in the country through the provision of artisan and entrepreneurial skills to unemployed UIF beneficiaries. In 2009, the DOL launched the poverty alleviation scheme which made provisions for interventions towards job creation, retention and skills development. Since the inception of the Training Lay-off scheme, the Fund saved 10 094 jobs in manufacturing and allied services, textile and hospitality sectors, and has trained more than 5 000 UIF beneficiaries in various skills. During the reporting period, the programme expensed over R80.5 million in skills development and training initiatives.

## INTERNAL OPERATIONAL EFFICIENCY

The operational performance of the organisation has registered positive results. This is in particular reference to the achievement of 84% of claims with complete information being approved or rejected within five weeks of receipt.

However, more still needs to be done to ensure that the public is educated and informed about UIF processes and procedures to enable the organisation to receive applications with sufficient information to approve all claims received.

Apart from educating UIF customers about the processes and procedures, I am excited that a number of strategies leveraging on the technological developments in information technology are being implemented to improve operational efficiencies.

The Business Operations Improvement Strategy – which in the main – drives operational efficiencies through the usage of the internet and mobile technology is beginning to yield positive results. During the period under review, a total of 21 156 claims were submitted online against a target of 15 000 claims. The continued marketing of the online claims portal from the employers and employees' perspective will gain more traction with time, as more and more people become aware of and more confident to use the system.

Another aspect critical to the improvement of the operations of the Fund is the implementation of the compliance strategy, which aims to compel all employers to abide with the provisions of the UIF Act. Optimal compliance to the Act will ensure the financial sustainability of the organisation, well into the future, enabling the organisation to continue to contribute in overall government efforts to curb unemployment and poverty.



The Fund has leveraged on mobile technological advances to improve communication with clients by introducing the short messaging service (SMS) application to inform clients about the status of their applications. During the pilot phase of the project, over 80 000 SMS were posted to UIF claimants to update them about the progress of their claims. This capability will be improved and increased to all UIF beneficiaries in future.

## **FUTURE OUTLOOK**

### **Relocation of the Fund's Head Office**

The Fund has temporarily relocated to ABSA Towers building. The Fund's Executive Committee has approved the concept for reconstruction of the 94 WF Nkomo building and the PIC is in the process of securing tenants, prior to starting construction. The building will be transformed into a parkade and let to the Department of Public Works (DPW).

The PIC, as the investment manager of the Fund has been mandated to manage the Fund's property portfolio which includes managing the process of assisting the Fund to build new offices.

### **Implementation of SAP - ERP Project**

The Fund has appointed Accenture, an implementation partner to rollout the Systems Applications and Products (SAP), Enterprise Resource Planning (ERP) for its operations for a period of three years, commencing November 2014. The current financial and operational systems will be replaced by the new SAP system through an incremental implementation approach. The first deployment of the finance module is anticipated to be implemented during the 2016/17 financial year. The project is expected to introduce efficiencies and transform the way the Fund does its business. The first phase will see the replacement of the core financial modules, while the second phase will be the replacement of the systems that drive the core business of the Fund, namely, contributions and claims management.

### **Implementation of the UIF Bill**

The Unemployment Insurance Board recommended various amendments to the current UI Act to extend unemployment coverage to excluded employees as well as improvements to the unemployment benefit structure. It is expected that the proposed amendments to the UI Act will reduce the net surplus of the Fund.

The proposals have been included in the UIF Amendment Bill that has been approved by the National Assembly on 19 May 2016.

### **Appreciation**

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

### **Ke a Leboga**

Baie Dankie

Nginyabonga

**T.B. Seruwe**

Unemployment Insurance Commissioner



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

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

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

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

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

The Annual Financial Statements (Part F) have been prepared in accordance with the Generally Recognised Accounting Practise (GRAP) standards applicable to the public entity.

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

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

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

In our opinion, the Annual Report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2016.

Yours faithfully

Unemployment Insurance Commissioner

TB Seruwe

Director-General of Labour

T Lamati





## 6. STRATEGIC OVERVIEW

### 6.1. Vision

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

### 6.2. Mission

The UIF sees its mission as:

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

### 6.3. Values

#### Transparency

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

#### Mutual Respect

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

#### Client-Centred Services

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

#### Integrity

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

#### Accountability

- We will own up to our responsibilities in relation to our behaviour, actions and results.

#### Team Work

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



## 7. LEGISLATIVE AND OTHER MANDATES

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

### **Constitutional Mandate**

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

### **Other Legislative Mandates**

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

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

#### **Unemployment Insurance Contributions Act (UICA), 4 of 2002**

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

## 8. ORGANISATIONAL STRUCTURE



**Boas Seruwe**

Unemployment Insurance Commissioner



**Fezeka Puzi**

Director:  
Risk Management



**Teboho Maruping**

Chief Director:  
Operations



**Mpumi Mnconywa**

Chief Director: Labour  
Activation Programmes



**Hilda Mhlongo**

Chief Director:  
Corporate Services



**Lezanne Briedenhann**  
Acting Chief Financial Officer



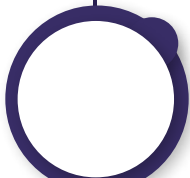
**Vuledzani Mulindi**

Director:  
Internal Audit



**Judith Kumbi**

Director: Operations



**Vacant**

Director: Labour  
Activation Programmes



**Lebo van Wyk**

Director: Board Services &  
Security Management



**Hlalisa Aderibigbe**

Director: Budgets, Expenditure and  
Bank Reconciliations



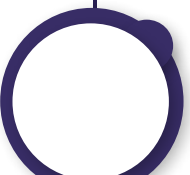
**Lezanne Briedenhann**

Director: Reporting



**Malesela Makgamatho**

Director: Compliance



**Vacant**

Director: Labour Activation  
Programmes



**Lebogang Molefe**

Director: Organisational  
Effectiveness



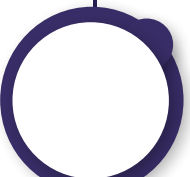
**Mmatshupo Raseboppe**

Director: Supply Chain  
Management



**Vacant**

Director: Provincial Support



**Vacant**

Director: Labour Activation  
Programmes



**Petro Roux**

Acting Director: Human  
Resources Management



**Ziyanda Fololo**

Director: Income



**Xola Monakali**

Director: ICT



**Mazwiogwani Phathela**

Director: Legal Services



**Makhosonke Buthelezi**

Director: Communication &  
Marketing



**David Khumalo**

Acting Director: Strategic  
Planning, Monitoring &  
Evaluation



**Christine Fourie**

Director: Treasury Investment  
and Actuarial Services

**PART**

**B**



**PERFORMANCE INFORMATION**





## 1. AUDITOR'S REPORT: PREDETERMINED 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 Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the auditor's report.

Refer to page 76 of the Report on the Auditors Report, published as Part E: Financial Information.

## 2. SITUATIONAL ANALYSIS

### 2.1 Service Delivery Environment

The unemployment rate increased to 26.7% in the last quarter of the 2015/16 financial year. The economy was also sluggish, growing at less than 2%. As a result of these factors, the Fund received more than 700 000 claims for benefits and about 80% of these were for unemployment benefits.

### 2.2 Organisational Environment

The Chief Financial Officer (CFO) was appointed to act as Compensation Commissioner and an acting CFO was appointed. The Fund has created a new unit that deals with claims that are submitted electronically.

### 2.3 Key policy developments and legislative changes

There were no major changes to policies or legislation that impacted on the operations of the Fund during the reporting period.

### 2.4 Strategic Outcome Oriented Goals

Strategic outcome oriented goal 1		
Improve collection of revenue from employers		
Goal statement	Increase contributions collected by at least the prevailing Consumer Price Index	The Fund collected 6% more revenue from employers as compared to the previous year
Strategic outcome oriented goal 2		
Improve payment of benefits to beneficiaries of the Fund		
Goal statement	Increase the rate of processing claims in order to pay within the targeted service levels and turnaround times	The fund processed 84% of the claims received within five weeks
Strategic outcome oriented goal 3		
Participate in government initiatives of creating and sustaining decent employment		
Goal statement	Contribute in the various schemes designed to alleviate the harmful effects of unemployment, which includes investing mandated funds in the Social Responsible Investments (SRIs)	Seven companies participated in the Training Lay-off scheme and 41 companies were assisted with turnaround solutions. The Fund has invested R7 680 million in SRIs
Strategic outcome oriented goal 4		
Effective administration of the Fund's operations		
Goal statement	Maintain effective systems of internal control as required by the PMFA of 1999 (an unqualified audit opinion)	The Fund is implementing a new system in order to improve controls and improve productivity



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

#### 3.1. Description of operational units within the UIF

The UIF is in the process of reviewing the current organisational structure in order to create additional capacity required to continuously improve service delivery to clients. The current organisational structure of the Fund is comprised of the following:

#### 3.2. Office of the Commissioner

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

#### 3.3. Chief Directorate: Labour Activation Programmes

The unit focuses on the management of special projects and active labour market programmes.

#### 3.4. Chief Directorate: Financial Management

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

##### a. Financial Reporting

- Management of financial reporting
- Provision of financial systems support

##### b. Investment and Actuarial services

- Investment management and treasury services

##### c. Income Management

- Management of revenue and debt collection processes
- Management of payroll audits and enforcement

##### d. Expenditure, Budgets and Bank Reconciliation

- Creditor and expenditure management
- Claims payments
- Reconciliation of bank accounts
- Integrated budget planning and management

##### e. Supply Chain Management and Auxiliary Services

- Procurement management
- Records management
- Asset and facilities management

#### 3.5. Chief Directorate: Corporate Services

The purpose of the Corporate Services function is to provide strategic support through enabling the Fund to meet its human resource needs in line with the strategic plan and to ensure that there are right people at the right time, at the right place, and provide an enabling environment to achieve the strategic objectives of the Fund. The office is complemented by the following sub-divisions, namely;



#### **a. Human Resource Management**

It provides the following support services:

- Maintaining sound labour relations
- Promoting equality in the Fund
- Recruitment and selection
- Provision of service condition and benefits

#### **b. Organisational Effectiveness**

It ensures and enhances effectiveness within the organisation and facilitates change processes

- Training and development of staff
- Performance management
- Job design and evaluation
- Change management
- Business process development and mapping

#### **c. Board Services**

The focus of the office is to provide strategic support services to the Board and the Fund. The key functions are:

- Enhance good governance
- Board support and administration
- Compliance management and governance
- Policy management
- Security management services

#### **d. Strategic planning, Monitoring and Evaluation**

It facilitates the strategic planning processes of the Fund and the monitoring and reporting of the performance of the organisation

- Strategic planning
- Monitoring and evaluation

#### **e. Communications and Marketing**

Focuses on internal and external communication of the Funds's service offerings

- Provision of communication services
- Provision of marketing services
- Advertising, branding and publications

#### **f. Legal Services**

- Provision of legal services

#### **g. Information and Communication Technology**

The focus of the office is to provide strategic Information and Communication Technology (ICT) to the Fund and the purpose is to:

- Manage the Fund's projects
- Develop and implement ICT governance model and framework



### 3.6. Chief Directorate: Operations

The focus of the office is to support the operations of the Fund and the management and administration of benefits payments which includes:

- Management and administration of declaration processes
- Monitoring of provincial office performance
- Provision of call centre services
- Registration of employers

### 3.7. Directorate: Risk Management

It identifies strategic and operational risks within the Fund

- Enterprise wide risk management
- Fraud investigations

### 3.8. Directorate: Internal Audit

- Independently focus on reviewing internal controls of the Fund
- Reviewing risk management and programmes of the Fund
- Reviewing governance processes of the Fund

### 3.9. Chief Directorate: Labour Activation Programmes

### 3.10. Provincial Offices Set-up

The operations performed at provincial level, but supported at the Fund's Head Office, as follows:

- Registration of employees
- Declaration management
- Claims management
- Overpayment and debt management
- Appeals
- Financial administration (budget and expenditure)



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

Programme: Administration						
Performance Indicators	Strategic objectives	Actual Achievement 2014/2015	Planned Target 2015/2016	Actual Achievement 2015/2016	Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
Sound financial management	Improve financial management	<p>11.83% return on investment achieved by March 2015</p> <p><b>(Calculation)</b></p> <p>R11 085 878 569.30 / R 93 714 431 323.24 = 0.11829 * 100 = 11.83%</p>	8% return on investment by March 2016	<p>3.3% return on investments by March 2016</p> <p>R3 687m /112 757m= 0.0326 * 100= 3.3%</p>	Annual target missed by 4.7%	The investment returns were affected by the negative overall performance for the year of the all share index
Sound financial management	Improve financial management	<p>Administrative expenditure was 10% of revenue by March 2015</p> <p>R1573 656 X R16 150 796 = 10%</p>	Administrative expenditure ≤ 15% by March 2016	<p>Administrative Expenditure was 9.9% of Revenue by 31 March 2016</p> <p>R1 691m / R17 120m X 100 = 9.9%</p>	Below the annual target by 5.1%	Cost cutting measures are being implemented
Social Responsible Investment	Improve financial management	<p>R 7 930 270 6609 invested / Committed /</p> <p>R 9 371 443 132 (10% of Portfolio as at 1/4/2014) = 85%</p>	<p>80% of the total mandated Social Responsibility Investment committed by March 2016 (total investments as at beginning of financial year)</p>	<p>R7 68m invested / committed R11 275m (10% of portfolio as at 01/04/2015)</p> <p>R7 688m / R11 275m = 0.68 * 100 = 68%</p>	Annual target missed by 12%	Lengthy process involved in approving the investment strategy



Programme: Business Operations												
Performance Indicators	Strategic Objective	Actual Achievement 2014/2015				Planned Target 2015/2016	Actual Achievement 2015/2016				Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
Percentage of valid claims with complete information approved or rejected	Improve service delivery	Province	Received	Finalised	%	90% of valid claims with complete information approved or rejected within five weeks of application as reflected in the Fund's operational system by March 2016	Province	Received	Finalised	%	Annual target missed by 6%	Stringent measures introduced to reduce opportunities for fraud, prolonged the finalisation of claims
		Bfn	39 483	37 579	95%		Bfn	33 316	29 615	89%		
		CT	110 512	103 504	94%		CT	106 365	98 607	93%		
		Durban	103 965	99 441	96%		Durban	106 071	99 388	94%		
		EL	29,424	24 515	83%		EL	31 161	23 063	74%		
		George	16 443	15 384	94%		George	16 948	15 521	92%		
		Germiston	50 903	40 544	80%		Germiston	56 673	42 383	75%		
		Jhb	73 245	66 053	90%		Jhb	60 969	46 512	76%		
		Kimberly	26 602	22 875	86%		Kimberley	29 747	26 534	89%		
		Mmabatho	33 606	28 369	87%		Mmabatho	30 495	24 212	79%		
		Ptmg	38 766	36 985	95%		Ptmg	40 981	38 461	94%		
		Polokwane	61 587	51 246	83%		Polokwane	61 161	45 360	74%		
		PE	38 831	31 555	81%		PE	34 926	27 950	80%		
Pretoria	43 378	36 945	85%	Pretoria	41 240	28 389	69%					
Witbank	63 985	59 059	92%	Witbank	70 576	62 352	88%					
Total	729 730	654 053	90%	Total	720 629	608 347	84%					
Number of claims submitted through U-filing claims portal	Improve service delivery	A total of 16 799 registered employees used the u-filing claims portal by end of March 2015				15 000 claims submitted through u-filing claims portal by March 2016	A total of 21 156 claims against the annual target of 15 000 were submitted through the u-filing claims portal				Target exceeded by 6 156	Intensified communication campaign targeted at the beneficiaries, yielded the good results





Programme: Business Operations						
Performance Indicators	Strategic Objective	Actual Achievement 2014/2015	Planned Target 2015/2016	Actual Achievement 2015/2016	Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
Percentage increased in the number of newly registered employers	Improve compliance to UIF Acts	An increase of 3.4% employers registered 2014/15 = 53 312 Employers Registered as at 31 March 2014 = 1 526 416 $53312 / 1\,526\,416 = 0.034 * 100 = 3.4\%$	4% increase in the number of new employer registration by March 2016	A total of 51 904 new employers were registered against the target of 63 189 which represents 3.3% $(51\,904 / 1\,579\,728 = 0.0328 * 100 = 3.3\%)$	Annual target missed by 0.7%	Lack of compliance by employers
Percentage increase in revenue	Improve compliance to UIF Acts	Contributions revenue collected by 31 March 2014-2015 - R15 309m Contributions revenue collected by 31 March 2015 (R16 147m) an increase of 5.5%	6% increase in revenue as compared to prior year by March 2016	6% increase in revenue collected was achieved as at March 2016 Contribution revenue collected by March 2016 - R17 120m Contribution revenue collected by March 2015 - R16 147m		

Programme: Business Operations						
Performance Indicators	Strategic Objective	Actual Achievement 2014/2015	Planned Target 2015/2016	Actual Achievement 2015/2016	Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
Percentage of overpayment balance collected (opening balance plus new overpayments noted less write offs and cancellations)	Improve compliance to UIF Acts	Overpayments balance amounting to R273m (rounded off)  Total recoveries of R58m as a percentage of the overpayment balance equals to 21.19% recovery rate	Collect 20% of outstanding overpayments balance by March 2016	Collected 23.04% of the current balance - R216 459 847 (rounded off) which comprises of:  O/B: R216 459 847 + New: R104 095 894 -rev sub ovp: R7 448 964 -Cancel: R2 225 575 -W/Offs: R53 565 664  Total Recoveries = R 59 278 884.60	Target exceeded by 3.04%	Intensified debt collection
Increase in the number of employers using the U-filing system per year	Improve compliance to UIF Acts	20% increase in employers using u-filing to declare and pay contributions as compared to prior year by March 2015  31 March 2014 - 54 848 31 March 2015 - 66 247	20%(13 246) increase in employers using u-filing to declare and pay contributions as compared to prior year by March 2016	37.7% (24 987) increase in employers using u-filing by March 2016	Target exceeded by 17.7%	Robust communication campaigns assisted in increasing awareness





Programme: Labour Activation Programme						
Performance Indicators	Strategic Objective	Actual Achievement 2014/2015	Planned Target 2015/2016	Actual Achievement 2015/2016	Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
The number of aspiring entrepreneurs developed	Fund poverty alleviation schemes	314 aspiring entrepreneurs developed	600 aspiring entrepreneurs developed by March 2016	Trained 857 aspiring entrepreneurs	Target exceeded by 257	Labour centres promoted the scheme
The number of beneficiaries trained / in training	Fund poverty alleviation schemes	5 084 UIF beneficiaries trained / in training by March 2015	6 000 beneficiaries trained / in training by March 2016	3 258 UIF beneficiaries trained	Target missed by 2 742	Recruitment and contracting took longer than anticipated
Number of distressed companies assisted	Fund poverty alleviation schemes	14 companies were assisted under the Training Lay-off scheme 91 companies were signed on for turnaround solutions In total, 105 distressed companies assisted by March 2015	100 distressed companies assisted by March 2016	41 companies were assisted with turnaround solutions	Target missed by 59 companies	Slow uptake of the Training Lay-off scheme by employers
Labour activation fund established	Fund poverty alleviation schemes	Feasibility study report finalised and presented by March 2015	Labour Activation Fund established by March 2016	Not achieved	Not achieved	Lack of internal technical experience and skills to establish a Fund PIC was requested to assist

Programme: Labour Activation Programme						
Performance Indicators	Strategic Objective	Actual Achievement 2014/2015	Planned Target 2015/2016	Actual Achievement 2015/2016	Deviation from planned target to Actual Achievement for 2015/2016	Comment on deviations
Labour activation programme strategy developed and implemented	Fund poverty alleviation schemes	The Labour Activation programme strategy developed and approved by Exco	Labour Activation programmes strategy implemented by March 2016	The following pillars were implemented: Partnerships with various stakeholders Training of the unemployed Supporting companies in distress Providing business skills		
Number of service level agreements signed with educational institutions	Fund poverty alleviation schemes	9 service level agreements (SLAs) signed with educational institutions	20 SLAs signed with educational institutions by March 2016	23 SLAs have been signed with educational institutions	Target exceeded by 3	Forward planning resulted in quicker finalisation of SLAs







## 5. Strategy to overcome areas of under performance

No.	Performance target	Major variance and reasons	Action taken to resolve the problem
1.	Percentage return on investment	The economic conditions were not favourable	Portfolio to be reviewed and structured as such that it can withstand negative market movement
2.	Percentage of total mandated SRIs committed	Lengthy process involved in approving investment strategy	Early engagement with stakeholders to obtain early approval of the investment strategy
3.	Percentage of valid claims with complete information approved or rejected	Stringent verification measures introduced to cap fraud, resulted in prolonged finalisation of claims	Stream line and speed up the verification processes
4.	Percentage increase in the number of newly registered employers (1579 728 baseline)	General lack of compliance by employers	Collaborate with employer bodies to reach some of the unregistered employers
5.	Number of UI beneficiaries trained/ in training	Recruitment and contracting took longer than expected	Training initiative to be advertised at all labour centres
6.	Number of distressed companies assisted	Process of contracting and verification is too long	Process to be reviewed and shortened
7.	Labour Activation Fund established	The technical complexity of establishing a Fund was underestimated	Lack of internal technical experience and skills to establish a Fund PIC was requested to assist

## 6. Annexure A

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

Indicator title	Number of aspiring entrepreneurs developed
Short definition	Number of unemployed beneficiaries that are keen to start their own businesses assisted with training and/or mentoring Number of unemployed beneficiaries who have indicated on the Employment Services of South Africa (ESSA) system that they would like to start their own businesses. Formal training which provide basic information on how to start a business(training content)
Purpose/importance	To assist unemployed persons with skills to open and run their own businesses
Source/collection of data	Database, certificates, attendance registers, evaluation forms, curriculum vitae
Method of calculation	Simple count
Data limitations	None
Type of indicator	Output
Calculation type	Cumulative
Reporting cycle	Annually
New indicator	Yes
Desired performance	Increase in the number of persons trained
Indicator responsibility	Chief Director: Labour Activation Programme



Indicator title	Number of distressed companies assisted
<b>Short definition</b>	<p>Distressed companies refers to companies who are about to lay off their employees due to loss in production or other financial constraints</p> <p>The distress of a company is determined by the Commission for Conciliation, Mediation and Arbitration (CCMA) as follows:</p> <ul style="list-style-type: none"> <li>• The Advisory Committee determines business distress by examining the change in the business's turnover, with a reduction of 10% or more being accepted as indicating distress</li> <li>• Where the business is not in distress but facing distress, a reduction in total orders/production output of 10% or more is accepted</li> <li>• Employee distress is determined by examining reduction in working time or intended retrenchment</li> <li>• In determining whether the short-term financial relief could assist in alleviating business distress, the labour costs in relation to total operating costs are examined</li> </ul> <p>The employer needs to supply financial information showing that the business is in financial distress</p> <ul style="list-style-type: none"> <li>• Annual financial statements – balance sheet, income statement and cash flow statement (most recent and audited if applicable)</li> <li>• Management accounts – balance sheet and income statement to cover the period from the date of the last annual financial statements to date of request where this period is more than 3 months</li> <li>• Any other information to support the Training Lay-off Scheme (TL) request, such as, order books, production schedules and notice of cancellation of orders</li> <li>• <b>The CCMA gives an advisory award to the company. This award is a recommendation to the Project Evaluation Committee regarding the eligibility of the company to participate in the Training Lay-off Scheme</b></li> <li>• <b>Assisted: employees of companies in distress are provided with training, and for the duration of training, the employer does not pay wages/salaries. The UIF pays these employees an allowance whilst in training</b></li> <li>• <b>The company is thus given a short-term relief with regards to the payment of salaries/wages</b></li> </ul> <p><b>The definition of a distress company by Productivity SA is as follows:</b></p> <ul style="list-style-type: none"> <li>• An organisation should be in decline or in distress</li> <li>• Have positive equity or give an undertaking that its finances would be positively restructured, or alternatively that the organisation is able to finance itself or attract new funds</li> <li>• A break-even analysis should prove with reasonable certainty that the organisation can be turned around</li> <li>• Have underutilised or spare capacity, or be able to attract finances for investment in a new capacity to relieve constraint areas</li> <li>• Have sufficient market potential to become a viable entity</li> <li>• Any redeployment strategy should materially impact on the long-term survival and/or competitiveness of the organisation</li> <li>• For each employment opportunity created, the cost of intervention should not exceed the potential derived value</li> </ul> <p>Company about to shed jobs</p> <p>Company with operational inefficiencies</p> <p>Company that has potential to create jobs</p> <p>Company with going concern issues</p> <p>Assisted: Productivity SA implements turnaround solutions in order to save jobs and bring in efficiencies in order to improve going concern issues. The turnaround solutions are paid for by the UIF</p>



<b>Indicator title</b>	Number of distressed companies assisted
<b>Purpose/importance</b>	To measure the number of distressed companies that are assisted with staff training as well as turnaround solutions
<b>Source/collection of data</b>	CCMA Award/Records for application for funding
<b>Method of calculation</b>	Simple count
<b>Data limitations</b>	None
<b>Type of indicator</b>	Output
<b>Calculation type</b>	Cumulative
<b>Reporting cycle</b>	Annually
<b>New indicator</b>	Yes
<b>Desired performance</b>	Increase in the number of assisted companies
<b>Indicator responsibility</b>	Chief Director: Labour Activation Programme

<b>Indicator title</b>	Percentage of valid claims with complete information approved or rejected
<b>Short definition</b>	<p>Number of claims with complete information received and finalised within five weeks</p> <p>Valid claims with complete information is determined to be:</p> <ol style="list-style-type: none"> <li>1. Ordinary/unemployment claim (13 digit bar-coded RSA ID or valid passport, banking details in the form of UI 2.8; declaration from employer in respect of employment details – employers to submit UI 19 form to UIF; registration as work -seeker)</li> <li>2. Illness claim (13 digit bar-coded RSA ID or valid passport, banking details in the form of UI 2.8; declaration from employer in respect of employment details – employers to submit UI 19 form to UIF; declaration in respect of remuneration received whilst on illness leave-UI2.7, (if applicable)</li> <li>3. Maternity claim (13 digit bar-coded RSA ID or valid passport, banking details in the form of UI 2.8; declaration from employer in respect of employment details – employers to submit UI 19 form to UIF; declaration in respect of remuneration received whilst on maternity leave-UI2.7, (if applicable)</li> <li>4. Adoption claim (13 digit bar-coded RSA ID or valid passport, banking details in the form of UI 2.8; declaration from employer in respect of employment details – employers to submit UI 19 form to UIF; declaration in respect of remuneration received whilst on adoption leave-UI2.7, (if applicable)</li> <li>5. Death/dependants claim: (13 digit bar-coded RSA ID or valid passport, banking details in the form of UI 2.8; declaration from employer in respect of employment details – employers to submit UI 19 form to UIF; marriage certificate or lobola letter or affidavit in case of life partner; death certificate</li> </ol>
<b>Purpose/importance</b>	Efficient customer service. The Fund is tracking the time it takes to finalise a valid claim with complete information
<b>Source/collection of data</b>	Siyaya Operating System
<b>Method of calculation</b>	Number of valid claims with complete information finalised within 5 weeks divided by the total number of valid claims with complete information received for the period and the quotient is multiplied by 100%
<b>Data limitations</b>	Access to system limited to certain ICT officials
<b>Type of indicator</b>	Output
<b>Calculation type</b>	Cumulative
<b>Reporting cycle</b>	Quarterly
<b>New indicator</b>	No
<b>Desired performance</b>	Increase in the number of valid claims with complete information that are finalised within 5 weeks
<b>Indicator responsibility</b>	Chief Director: Operation



## 7. Summary of financial information

### a) Summary of expenditure

Item	2015/2016			2014/2015		
	Budget	Actual	(Over)/ Under Expenditure	Budget	Actual	(Over)/ Under Expenditure
	R'000	Expenditure R'000	R'000	R'000	Expenditure R'000	R'000
Benefits payments	8 536 592	7 691 153	845 440	7 528 169	7 085 583	-442 586
Labour Activation Programmes (Schemes)	1 627 200	80 571	1 546 629	550 000	93 316	-456 684
Administration	2 071 415	1 788 740	283 675	1 691 131	1 573 659	117 472
Total	12 235 207	9 559 463	2 675 744	9 769 300	8 752 558	-781 798

### b) Summary of income

Item	2015/2016			2014/15		
	Budget	Actual	(Over)/ Under	Budget	Actual	(Over)/ Under
	R'000	Revenue R'000	R'000	R'000	Revenue R'000	R'000
Revenue collected	16 866 962	17 120 381	-253 419	16 649 681	16 146 737	502 944
Total	16 866 962	17 120 381	-253 419	16 649 681	16 146 737	502 944

### c) Summary of other income

Item	2015/2016			2014/15		
	Budget	Actual	(Over)/ Under	Budget	Actual	(Over)/ Under
	R'000	Income R'000	R'000	R'000	Income R'000	R'000
Other income	6 418	6 147	271	2 682	4 065	-1 383
Investment revenue	9 372 595	7 746 161	1 626 434	8 973 195	6 511 430	2 461 765
Fair value adjustment	0	4 233 877	-4 233 877	0	5 339 907	-5 339 907
Total	9 379 013	11 936 185	-2 613 155	8 975 877	11 855 402	-2 879 525

### d) Summary of change in reserves

Item	2015/2016			2014/2015		
	Budget	Actual	(Over)/ Under Expenditure	Budget	Actual	(Over)/ Under Expenditure
	R'000	Change R'000	R'000	R'000	Change R'000	R'000
Change in benefits payable	-344 345	-392 211	47 866	-370 434	-225 238	-145 196
Change in unearned premium reserve	-1 166 995	-2 475 516	1 308 521	-1 644 937	-1 048 521	-596 416
Total	-1 511 340	-2 867 728	1 356 388	-2 015 371	-1 273 759	-741 612



## Summary of financial Information

### Summary of income, expenses and reserves

Item	2015/2016			2014/2015		
	Budget	Actual	(Over)/ Under	Budget	Actual	(Over)/ Under
	R'000	R'000	R'000	R'000	R'000	R'000
<b>Total revenue</b>	26 245 975	24 872 687	1 373 288	25 625 559	22 662 231	2 963 328
<b>Administration expenditure</b>	-2 071 415	-1 787 286	-283 321	-1 691 004	-1 573 659	-117 345
<b>Benefit expenditure</b>	-8 536 592	-7 691 152	-845 440	-7 528 169	-7 085 583	-442 586
<b>Unemployment Alleviating Schemes</b>	-1 627 200	-80 571	-1 546 629	-550 000	-93 316	-456 684
<b>Outstanding claims reserves</b>	-344 345	-392 211	-47 866	-370 434	-225 238	-145 196
<b>Unearned premium reserve</b>	-1 166 995	-2 475 516	1 308 521	-1 644 937	-1 048 521	-596 416
<b>Fair value adjustment</b>	-	-4 233 877	4 239 862	-	5 339 906	-5 339 906
<b>Net Surplus for the year</b>	<b>12 499 428</b>	<b>8 210 621</b>	<b>4 198 414</b>	<b>13 841 015</b>	<b>17 975 820</b>	<b>-4 134 805</b>

### LINKING PERFORMANCE WITH BUDGET

The overall performance information of the Fund from 01 April to 31 March 2016 is at 60.6% with 39.4% of targets not achieved. For the financial year 2015/16, 86.26% of the budget was spent.

#### Programme 01 - Administration

	2015/2016			2014/2015		
	Budget	Actual	(Over)/ Under	Budget	Actual	(Over)/ Under
	R'000	R'000	R'000	R'000	R'000	R'000
Programme 01 - Administration						
<b>Improve Financial Management</b>	849 452	639 287	222 603	602 319	542 221	60 098
<b>Total</b>	<b>849 452</b>	<b>639 287</b>	<b>222 603</b>	<b>602 319</b>	<b>542 221</b>	<b>60 098</b>

The programme purpose is to provide management, strategic and administrative support services to the Fund. To carry out this objective, Programme 1 spent 75.03% of its budget for the financial year 2015/16 and achieved 66.6% of the set targets.

#### Programme 2 - Business Operations

Programme 2 - Business Operations						
<b>Improve compliance</b>	351 411	323 235	27 936	260 268	253 741	6 527
<b>Improve service delivery</b>	866 794	824 780	31 270	825 408	776 469	48 939
<b>Total</b>	<b>1 218 205</b>	<b>1 148 015</b>	<b>59 206</b>	<b>1 085 676</b>	<b>1 030 210</b>	<b>55 466</b>

The programme purpose is to collect contributions and pay benefits. To carry out this objective, Programme 02 spent 94.24% of its budget for the financial year 2015/16 and achieved 66.6% of the set targets.

#### Programme 3 - Fund poverty alleviation schemes

Programme 3 - Fund poverty alleviation schemes						
<b>Labour Activation Programmes</b>	3 758	1 438	2 320	3 009	1 228	1 781
<b>Total</b>	<b>3 758</b>	<b>1 438</b>	<b>2 320</b>	<b>3 009</b>	<b>1 228</b>	<b>1 781</b>

	2 071 415	1 788 740	284 129	1 691 004	1 573 659	117 345
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The programme purpose is to provide labour market programmes. To carry out this objective, Programme 03 spent 5.03% of its budget for the financial year 2015/16 and achieved 50% of the set targets. The programme is also mandated to fund Labour Activation schemes. The transfers made to entities responsible for the implementation of the Labour Activation Programmes were 4.95% of the budget.

#### Revenue

A total of 1.5% more revenue was collected than the budgeted amount. The budget for revenue is based on a revenue indicator developed for the Fund, which utilises a combination projected Consumer Price Index (CPI) and Gross Domestic Product (GDP) to determine the likely rate of growth in the revenue of the Fund. Based on this revenue indicator, revenue projected was slightly lower than the actual amount collected during the 2015/16 financial year.

253 419

#### Benefit payments

A total of 9.9% less was paid out in benefits than the budgeted amount. The budget was compiled based on the economic conditions and constant rise in unemployment in South Africa during the previous financial year. Due to the declining economic conditions, in addition to the projected amounts based on the actuarial valuation report of the Fund for 31 March 2015, the Fund adjusted the budget for benefit payments, based on the run-rate of benefit payments for the period 1 April 2015 to 31 August 2015 during the budget preparation period.

845 439

#### Unemployment alleviation schemes

During the financial year under review, two amendments were proposed to the Training Lay-off Scheme which had budget implications for the Fund. The first proposed amendment was that the Training Lay-off Scheme be linked to the earning threshold published by the Minister of Labour in terms of section 6(3) of the Basic Conditions of Employment Act - the earnings threshold was set at R205 433.20 in July 2014 and has remained unchanged in 2015. The second proposed amendment was that the period for payment of training allowances be increased from six to 12 months. The implication of these proposals were that the maximum monthly allowance payable to any employee participating in the Training Lay-off Scheme will be R17 120.00 and that the rule that allowances be set at 75% of an employee's basic salary remained unchanged. A large scale of retrenchments had commenced. The under expenditure is attributed to the slow take up in the Training Lay-off Scheme.

1 546 629

#### Auditors fees

This was 59.49%, less than budget. The budget for audit fees is based on the budget of the audit for the financial year under review. As at the end of the financial year, the Fund had paid invoices relating to the finalisation of the 2014/15 financial year in addition to audit fees for the 2015/16 audit, however, the 2015/16 audit was not yet concluded as at 31 March 2016 due to timelines set by the PFMA for submission of the Fund's annual financial statements within two months after the Fund's year-end for external audit purposes.

6 544

#### Administrative cost

Savings incurred by the Fund on various budget items as a result of cost containment measures that were implemented in order to comply with the cost containment measures as imposed by the National Treasury. A saving of 13.02% was made against the following main budget items:

##### Stationery and Printing

6 988

##### Venues and Facilities

4 637

Training and Development - the budget was revised upwards to make provision for training on the Enterprise Resource Planning (ERP) system that the Fund is in the process of implementing. The project was not finalised as anticipated which had an impact on the planned budgeted training.

5 261

##### Entertainment/Catering

3 087

Advertising: due to the non-timely finalisation of television, print media and SABC radio advertising material between the Fund's Head Office and its Gauteng Provincial Office, a scheduled UIF seminar in Gauteng could not be held. In addition, the Fund's national campaign on Community Radio through GCIS was placed on hold due to the non-compliance of certain media owners dealing with community mediums from GCIS.

4 154





External IT services: The State Information Technology Agency (SITA) services and software licenses expenditure were less than the amount budgeted for.	9 680
SARS contribution commission: Over budget based on higher than expected contribution revenue	18 041

### Depreciation and impairment

Depreciation is 83.79% less than the budgeted amount due to the capital projects which did not realise/were not finalised during the financial year under review, with specific reference to the implementation of the Fund's ERP system and the re-location of the data centre. The Fund re-assesses the useful life of assets on an annual basis in line with GRAP 17 which resulted in a negative depreciation adjustment due to assets which useful lives were extended. No depreciation was calculated on the investment properties and the Fund's Head Office building during the current year, since the residual values of the properties increased to amounts greater than the carrying amounts. The depreciation charge on investment properties and the Fund's Head Office building will remain zero until the property's residual value subsequently decreases to an amount below its carrying amount. In addition, the impairment loss on the Midrand building was reversed during the financial year under review, based on the new valuation for which no budget provision was made.	78 474
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### Employee cost

Employee cost is 8.61% underspent in comparison to the budget. The Fund anticipated to have implemented the new organisational structure by the end of the financial year under review, however, delays in finalising the structure and the immigration of staff members into the new structure impacted expenditure on employee cost.	88 797
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### Operating expenses

#### Operating expenditure 20.04% saving/under-expenditure against the following main budgeted items:

Travel and Subsistence: Cost containment measures to comply with the circular issued by National Treasury	19 923
Consumables: Cost containment measures to comply with the circular issued by National Treasury	1 725
Communications: Cost containment measures to comply with the circular issued by National Treasury	14 669

### Investment revenue

A total of 17.38% less investment income was received than budgeted for, due to the deteriorating economic conditions in the country. The budget was conservatively calculated based on uncertain economic conditions in the investment market during the budget period.	1,626,435
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### Fair value adjustments

The Fund does not budget for fair value adjustments as it reflects market movements on investment instruments. Due to the current economic condition in the country, the Fund's fair value adjustment profit reflected in the 2014/15 financial year, moved to a net fair value adjustment loss as reflected in the Statement of Financial Performance.	4 233 877
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### Unearned premium reserve

Unearned premium reserve is budgeted for but disclosed in the Statement of Changes in Net Assets and not in the Statement of Financial Performance	1 308 521
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### Capital

The 48.38% under expenditure is due to the change in the Fund's decision to renovate its building at 94 WF Nkomo Street, in addition to IT capital projects which were not finalised.	127 205
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## 8. OFFICIAL SIGN-OFF

It is hereby certified that this ANNUAL REPORT 2015/16:

Was developed by the management of the Unemployment Insurance Fund under the guidance of Mr. B Seruwe

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

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

Accurately reflects the performance of the UIF during the 2015-2016 financial year

**T.B. Seruwe**

Unemployment Insurance Commissioner

**T Lamati**

Director-General of Labour



**PART**

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**GOVERNANCE**



## GOVERNANCE

### 1. Portfolio Committees

During the 2015/16 financial year, the UIF was requested to appear three times before the Portfolio Committee on Labour.

#### Portfolio Committee on Labour

On 25 March 2015, a presentation on the APP of the Fund was made to the committee. The Fund also appeared before the committee to deliberate on submissions received during the public hearings on the Unemployment Insurance Bill. The Bill was endorsed by the National Assembly. The Bill will be presented to the National Council of Provinces after which it will be presented to the President of the country for proclamation into an Act.

#### Select Committee on Labour and Public Enterprises

There were no requests made for the UIF to appear before the Select Committee on Labour and Public Enterprises.

#### Standing Committee on Public Accounts

There were no requests made for the UIF to appear before the Standing Committee on Public Accounts.

### 2. Executive Authority

The three-year term of the Board came to an end in October 2014. The Minister of Labour, through social partners' nominations, appointed seven new members and reappointed four members for continuity in the new term of the Board, to advise the Minister on issues related to operations of the UIF as a social security instrument. Board orientation and development of members are conducted on a continuous basis.

During the term of the Board, reports of the Board were submitted to the Minister and the UIF Board Chairperson met frequently with the Minister to discuss the functioning of the UIF and its progress in implementing the approved Five Year Strategic Plan of the UIF. The main theme of the meetings was around the UIF's contribution to job creation (Labour Activation Programmes) and governance issues.

The UIF Board has reaffirmed its commitment to assisting the Minister of Labour to reach her job creation goals. Efforts in the coming financial year will be made to resuscitate the Joint Working Committee of the Unemployment Insurance and Compensation Fund Board to finalise the proposed governance model for the (DOL's) entities. A report with recommendations will be presented to the Minister of Labour.

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

- The 2015/16 Medium Term Expenditure Framework (MTEF) Budget was submitted in October 2015
- The 2015/16 APP was submitted in April 2015
- Schemes to alleviate the effects of unemployment were established and approved by the Minister
- A new submission was submitted to the Minister of Labour requesting her to table the UI Bill in cabinet
- Submission through the National Economic Development and Labour Council (NEDLAC) constituencies to engage the Ministry of Finance and all social partners on pronouncement of the ceiling contribution decrease and its impact

### 3. The Accounting Authority

In terms of section 11(1) of the UIA, the Director General of the DOL is the Accounting Authority of UIF.



## 4. The Advisory Board

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

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

In terms of section 48 of the UIA, the role of the Board is to

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

**The powers and duties of the Board must be exercised and performed subject to:**

- The provisions of the UIA and its constitution contemplated in section 50
- Any directive issued by the Minister of Labour
- Any guidelines determined by the Director-General of Labour

### 4.2. Board Charter

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

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

The Minister of Labour re-appointed the Chairperson of the Board with effect from 1 February 2016 for a period of three years in accordance with the composition of the Board. The Board is fully constituted in terms of the Act. Orientation and briefings for newly appointed members are conducted.

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





Name	Designation	Date Appointed	Date Resigned	Qualifications	Area of Expertise	Board meeting	Investment Committee	FAC	No. of Meetings Attended
Mr W Nzimande	Chairperson	1 Feb 2013	N/A	B Admin	Management and leadership	05	N/A	N/A	05
Mr T Franks	Board Member	01 November 2014	N/A	Legal Labour Law Certificate IMMSA Arbitration Certificate CCMA Certificate HRM Certificate Project Management Training	N/A	05	N/A	N/A	05
Mr NIM Vermeulen	Board Member	01 November 2014	N/A	B.Social Science BCom (Hon)	Financial and Business Administration	05	N/A	04	09
Mr A Crawford	Board Member	01 November 2014	N/A	BCom (Hon) CFPR Post Graduate Certificate in Social Security and Pensions	Social security and pension	03	05	N/A	08
Mr G Strauss	Board Member	01 November 2014	N/A	Certificates: CCMA Financials and Financial Accounting	Financial Management, Law and Accounting	05	04	05	14
Mr J Mahlangu	Board Member	01 November 2014	N/A	N/A	N/A	05	05	05	5
Adv. E Nwedo	Board Member	01 November 2014	N/A	Masters in Labour Law and Employment Relations Awarded a Merit Bursary for Academic Excellence Magister Philosophiae (M. Phil)	N/A	05	N/A	05	10
Mr D Mthlane	Board Member	01 November 2014	N/A	N/A	N/A	06	04	N/A	10
Mr N Nxele	Board Member	01 November 2014	N/A	National Diploma Taxation BComm Accounting	Financial management Taxation	05	05	05	15

Name	Designation	Date Appointed	Date Resigned	Qualifications	Area of Expertise	Board meeting	Investment Committee	FAC	No. of Meetings Attended
Ms L Kganyago	Board Member	01 November 2014	N/A	Project Management	Community Development Programmes and Training	06	N/A	05	11
Mr T Tshefuta	Board Member	01 November 2014	N/A	B.A. (Public Administration and Politics)	Public Administration, Political Science, Economics, Industrial and Organisational Psychology, Business Management, Sociology,	06	05	04	15
Mr M Macikama	Board Member	01 November 2014	N/A	Higher Diploma in Tax Law (H. Dip. Tax) BCOMM (ACCOUNTING)		04	0	03	07
Mr B Seruwe	Board Member	01 November 2014	N/A	BCom (Accounting) National Higher Diploma Taxation Cert in IT Project Management MBA	Management Financial Accounting	05	06	05	16
Mr D Hlatshwayo	Audit Committee Chairperson	5 March 2015	N/A	N/A	N/A	03	N/A	N/A	03





#### 4.4. Board Committees

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

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

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

##### Financial Advisory Committee (FAC)

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

##### Investment Committee (IC)

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

##### National Appeals Committee (NAC)

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

Committee	No. of meetings held	No. of members	Name of members	
Financial Advisory Committee	05	08	<ul style="list-style-type: none"> <li>Mr J Mahlangu</li> <li>Mr G Strauss</li> <li>Mr E Nwedo</li> <li>Mr N Vermeulen</li> </ul>	<ul style="list-style-type: none"> <li>Mr TT Tshfuta</li> <li>Ms L Kganyago</li> <li>Mr M Macikama</li> <li>Mr N Nxele</li> </ul>
Investment Committee	05	08	<ul style="list-style-type: none"> <li>Mr J Mahlangu</li> <li>Mr G Strauss</li> <li>Mr A Crawford</li> <li>Mr TT Tshfuta</li> </ul>	<ul style="list-style-type: none"> <li>Mr PSD Mthalane</li> <li>Mr Mvuyisi Macikama</li> <li>Mr N Nxele</li> <li>Mr B Seruwe</li> </ul>
Board	06	14	<ul style="list-style-type: none"> <li>Mr W Nzimande</li> <li>Mr D Hlatshwayo</li> <li>Mr T Franks</li> <li>Mr J Mahlangu</li> <li>Mr G Strauss</li> <li>Adv. E Nwedo</li> <li>Mr N Vermeulen</li> </ul>	<ul style="list-style-type: none"> <li>Mr A Crawford</li> <li>Mr TT Tshfuta</li> <li>Ms L Kganyago</li> <li>Mr D Mthalane</li> <li>Mr M Macikama</li> <li>Mr N Nxele</li> <li>Mr B Seruwe</li> </ul>
National Appeals Committee	0	03	<ul style="list-style-type: none"> <li>Mr J Mahlangu</li> <li>Ms L Kganyago</li> <li>Adv E Nwedo</li> </ul>	



## 4.5. Remuneration of Board members

A member of the Board or its committees who are not in the full-time employment of the State, shall be paid a remuneration and allowance determined by the Minister in terms of the Treasury Instructions issued by the National Treasury. Remuneration of Board members is determined in terms of section 52 of the UIA, No. 63 of 2001 and the Minister of Labour has determined the category classification.

Name	Remuneration R'000	Other Allowances R'000	Other Reimbursements R'000	Total R'000
W Nzimande	65	17	0	82
BKM Nhlapo	58	23	0	81
AS Crawford	5	2	0	7
I Frye	25	1	0	26
L Kganyago	120	3	0	123
MP Nkosi	30	10	0	40
NMW Vermeulen	95	8	0	103
GH Strauss	63	76	0	139
S Gangca	62	9	0	71
WJ Jacobs	51	16	0	67
B Seruwe	0	0	0	0
C Bothe	0	0	0	0
N Mashiya	0	0	0	0

## 5. Risk Management

### 5.1. Introduction

The purpose of this report is to provide the Audit and Risk Committee and the Unemployment Insurance Commissioner with the performance of the risk management directorate for the financial year 2015/16..

## 6. Governance

The purpose of Governance is to provide the Minister, Deputy Minister, the Director General and the executive Committee (DEXCOM) of the Department of Labour (DoL) with the progress of the work performed by the Risk Management Committee of the Department for the year 2015/16.

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

The Board has furthermore, demonstrated its oversight role over the entire risk management by monitoring of the strategic risk profile, mitigation plans and setting key risk indicator in relation to risk tolerance and risk appetite.

## 7. Internal Audit and Risk Committee

Unemployment Insurance Fund has an Independent Audit and Risk Committee. The committee consists of both internal and external members, chaired by external members. The Chairperson of the Audit and Risk Committee reports directly to the National Risk Committee. National Risk Committee is a departmental (DoL) wide structure that reviews and interrogates the risks of UIF, Compensation Fund (CF) and Department of Labour (DoL), with an aim to ensure that the risk management process is integrated across the Department.



## 8. Key Objectives of Risk Management

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

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

The Fund has established risk management unit and has adopted the enterprise –wide risk management approach. The unit is the custodian of the Risk Management Policy, Strategy and Plan, and coordinates the risk management activities throughout the Fund unit.

## 9. Risk Management Strategies

Risk management involves the identification of the key risks facing the Fund and the implementation of controls to mitigate them. The Fund regularly reviews its strategic and operational risks and follows a consistent approach by identifying and prioritizing high-risk areas, according to the standard risk rating guidelines based on the impact and likelihood. High- risk areas are further analysed to identify potential root causes. This allows the Fund to better understand the context in which risks occur and identify probable areas for risk mitigation and organisational control.

Risk and control procedures are enhanced on an on-going basis. The top management of the Fund considers our strategic risks when they formulate the strategy, approve budgets and monitor progress against business plans. The Fund’s approach towards effective risk a management is underpinned by the three key principles:

### a. Culture

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

### b. Structure

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

### c. Process

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

The table below illustrates the key risks impacting the Fund

Risk	Risk Description	Mitigation controls
Non - payment of UI claims (Reputational Risk)	Delays in finalization of claims and delays in improving UI benefits	Roll out of virtual office/U filling – Procurement of Mobile Labour centers/ buses
Non Compliance with legislation ( UI Act) and UI Contributions Act	Employers are required to register, declare and pay contributions on a monthly basis	The UI Compliance Strategy was developed and is in a process of implementation
Lack of Business Continuity and Disaster Recovery Plan	No BCP and Disaster Recovery Plan in place, in the event of emergency occurrence	– Data Recovery is in place to recover from daily backups when required – A Disaster Recovery Plan is to be drafted



Risk	Risk Description	Mitigation controls
Fraud and Corruption	Fraudulent claims submitted and processed	Fraud Prevention Plan is implemented and Siyaya systems enhancements are done to mitigate the risks

#### a. Risk Assessment and Monitoring

The Unemployment Insurance Fund assessment (UIF) risk assessment process is performed annually. The risk assessment was conducted during the first quarter in line with strategic and operational plan, and thereafter sustainable monitoring was conducted on quarterly basis.

## 10. Effectiveness of risk management

The Internal Audit directorate via the Audit and Risk Committee is responsible for providing the Accounting Officer with the independent and objective assurance on the effectiveness of risk management process and system. In the current financial year, Risk Management unit was audited for effectiveness and the processes were to be adequate with the area of improvement identified which is: Risk Committee to be separated from the Audit Committee to ensure that risk management matter obtained the attention they deserve.

## 11. Fraud Prevention, Detection and Investigation

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

- Create a culture which is intolerable of fraud and corruption
- Deter fraud and corruption
- Preventing fraud / corruption which cannot be deterred
- Detection of fraud and corruption

The Fund has conducted a Fraud Risk Assessment under the current financial year. Areas where preventative controls were inadequate or ineffective were identified. As a result management has developed an Operations Turnaround and Compliance Strategy to address the gaps identified in our processes.

All suspected fraud or criminal activity is reported to the Fraud Investigation unit via an anonymous fraud hotline, walk in or e-mails. Protection disclosure Act, No 26 of 2000 is to protect workers from detrimental treatment or victimising from the employer. The unit investigates all the allegations and provides a conclusive report with recommendations for business to act.

The table below illustrates a consolidated summary of HQ-UIF case for the first quarter

CONSOLIDATED SUMMARY OF HQ CASES			
Nature	Received	Finalized	Outstanding
Carried over	5	5	0
Work & Draw	20	20	0
Disputed declaration	23	21	2
Fraud related	24	21	3
Duplicate bank details	1	1	0
<b>TOTAL</b>	<b>73</b>	<b>68</b>	<b>5</b>

During the 2015/16 financial year, the unit working received 73 cases, 5 cases were carried over from the previous financial year and in total 68 cases were received. A total number of 68 cases were finalised and 5 are outstanding. Overall finalisation rate of 93%.





## 12. Risk Maturity

The Fund is striving to have a risk matured and intelligent culture by 31 March 2017. In the financial year 2013/14, an independent maturity assessment was conducted to establish the maturity level of risk management within the Fund. The Fund achieved a maturity level 3 (Repeatable) out of 5 (Optimized) level.

The Fund has elevated risk management as a strategic enabler and had implemented the following:

- There is a fully operational risk governance structure in place, namely the Operational Risk Committee (constituted of Directors and Deputy Directors)
- Provincial Risk Management Committee is held quarterly by the different provinces and is chaired by the Chief Director Provincial office.
- All business units and provinces have appointed Risk Champions, who monitor and report on emerging, materialised, avoided and accepted risks.
- Risk Management is a standing agenda item in Management Committee, EXCO, FAC and Board.
- A Risk appetite Framework has been established, which forms part of the risk-taking philosophy and establishes principles of managing risks.
- The Accounting Officer has ensured a directive that risk management will be part of the performance contracts for all the employees in the department and the Fund.
- There is a two year plan developed to assist the Fund to achieve the desired maturity level

## 13. Audit Committee

The Audit Committee of the Fund serves as the risk committee and the responsibilities of the risk committee are discharged by the Audit. The meeting of the committee were held as per the Audit committee report below (page 54).

## 14. Risk Governance

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

## 15. Minimising Conflict of Interest

All UIF officials are required to declare any business interests and remunerative work outside the public service annually. Approval to carry out remunerative work outside the public service is approved by the Executive Authority of the Fund. Senior managers are also obliged to declare their business interest, additional remunerative work, receipts of gifts and sponsorships.

Members of management who serve on procurement committees are required to declare their interests in every meeting. Members who declare a conflict of interest are excused from the proceedings when decisions are to be taken.

Supply Chain Management officials are vetted and are required to declare their interests as well as gifts obtained from service providers during the conduct of their business. The conduct of officials is guided by the Code of Conduct in the Public Service.



## 16. Code of Conduct

The UIF adheres to the Public Service Code of Conduct as issued by the Department of Public Service and Administration (DPSA). The code is shared with officials of the UIF and they are educated on its content.

The DoL develops human resources management policies for the Department and its Schedule 3A public entities, included in these are policies on discipline and grievances. When the code is breached, the relevant policy directives are followed.

## 17. Health, Safety and Environmental Issues

The UIF as an employer, considers its employees to be its most valuable asset and undertakes to safeguard them through providing and maintaining, as far as reasonable, a working environment that is safe and without risk to their health.

A Health and Safety Operational Risk Assessment is conducted regularly to identify risk exposures applicable to the Fund, and to assist management to identifying risk factors that have an impact on the achievement of the strategic objectives and to give a realistic perspective of material risks facing the Fund. Management commitments to address the findings have ensured a successful system of health and safety.

Health and safety inspections are conducted regularly and monthly reports are consolidated and presented to management and to the Health and Safety Committee of the Fund.

## 18. Company/Board Secretary

In terms of the UIA (Act 63 of 2001), section 51, the Commissioner is responsible for administering the affairs of the Board. In order to enable the Board to perform its functions effectively, the Director-General must provide the Board with the necessary financial and administrative resources.

## 19. Social Responsibility

South Africa's current economic outlook makes it imperative for the Fund to play a role in alleviating the hardships that unemployed South African workers have to bear. The Fund contributes to meaningful job retention and job creation initiatives, in partnership with the Industrial Development Corporation (IDC) and the Public Investment Corporation (PIC).

The Fund has disbursed approximately R2.8 billion through the IDC bond that is utilised to fund SRIs. Since the inception of the bond, the combined efforts of UIF and IDC has created and saved 53 140 jobs in the following sectors: Automotive and Transport Equipment, Basic Metals and Mining, Chemical Products and Pharmaceuticals, and Clothing and Textiles.

In addition, UIF investments through the PIC have sustained 6 860 jobs of which 3 024 are permanent, 3 836 are temporary/seasonal and 195 are new jobs created during the 2016/16 financial year.



## 20. AUDIT COMMITTEE REPORT

### Final Report of the Audit and Risk Committee for the year ended 31 March 2016 (UNEMPLOYMENT INSURANCE FUND)

#### Introduction

The Committee is pleased to present its report for the financial year ending 31 March 2016. The report is presented in accordance with the requirement of the Public Finance Management Act 1 of 1999 (PFMA), as amended and in line with the National Treasury Guide.

#### Audit Committee Responsibility

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

#### Committee Meetings for 2015/2016 Financial year

The UIF has a constituted Audit Committee, comprising of three independent non-executive representatives and two additional members nominated by the UIF advisory Board to serve as Audit Committee members. For the period under review, one member's contract term ended 13 June 2016. Subsequently a new member was appointed on 22 January 2016 by the Accounting Authority.

Name	Qualification	Members	Date Appointment	Date Resigned	No. of meetings attended	Comments
Mr. LED Hlatshwayo	CD (SA) CA (SA) MBA, CTA, B Compt (Hons)	External	05 May 2014	N/A	4	N/A
Mr SE Makhubu	CA (SA)	External	05 March 2012	N/A	1	Term ended: 13 June 2015
Dr K Reddy	PhD (Computer Science) BSc, BSc Hons, MSc (Computer Science)	External	04 June 2015	N/A	3	N/A
Mr N Vermeulen	B Social Science Bcom (Hon)	Board	27 February 2015	N/A	4	Nominated by the Board to serve in the committee for the second time
Mr G Strauss	Certificates CCMA, Financials and Financial Accounting	Board	23 January 2015	N/A	2	Nominated by the Board to serve in the committee
Ms D Botha	CIA, CRMA, CISA, MBA, Higher Diploma in Computer Audit	External	22 January 2016	N/A	1	New appointment



## Internal Control environment

In line with the PFMA and best practice on corporate governance requirements, Internal Audit provides the Audit and Risk Committee and management with reports and assurance that the internal controls are adequate and effective. This is achieved by means of risk management processes, as well as the identification of corrective actions and recommendations to enhance the control environment.

The Audit and Risk Committee is satisfied that management has taken adequate steps to monitor risks across the organization during the year under review, to ensure that all controls identified and action plans are implemented, to mitigate risk as part of an integrated enterprise wide risk management programme.

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

Through internal audit reports significant issues were raised, however with the risk management processes and follow up audits done both at head office and provincial offices, there has been a significant implementation of corrective measures to minimise the risk exposure. Having considered all the assurance reports we therefore conclude that the overall control environment of UIF is adequate and effective, with both financial management reports and performance information for the period under review.

## Internal Audit

The Unemployment Insurance Fund has an Internal Audit function in place. The committee is satisfied that Internal Audit has operated effectively for the period under review and it has addressed the risks pertinent to the Fund in its audits. However since the co-sourced services contract ended as at April 2016, the committee encouraged the Internal Audit function to fast track the procurement processes to appoint a service provider for Internal Audit services.

## External Audit

In the performance of their duties, the committee considered the work and matters raised by external audit (Auditor-General). The Auditor General raised issues around performance Information and non-compliance to legislation; however these issues do not have an impact on the audit opinion.

The committee has consistently monitored the progress made by management in the implementation of corrective measures and is pleased with the Management implementation rate of the action plans to address the issues. The committee has also requested management new action plans to address performance information and non-compliance to legislation matters.

## Governance

It is the Audit and Risk Committee view that the overall governance processes within the UIF are adequate and effective.

## Risk Management

The Unemployment Insurance fund has a risk management division in place as per the PFMA. The Audit and Risk committee has evaluated risk management reports during its meetings and the committee is satisfied with the implementation of risk management processes in the Fund.

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



The Risk Committee will focus on risk management issues.

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

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

**Evaluation of the Financial Statements**

The committee has evaluated the quarterly financial reports as part of the quarterly management reports. The committee has reviewed the draft annual financial statements as part of the financial statements process review.

**Performance Information Review**

The committee reviewed the entity's Performance Information and we are satisfied with the achievements against performance indicators and targets as identified in the Strategic plans, Annual Performance Plans and budget document. However the committee has requested management to revise some of its indicators and targets based on lessons learned in the current financial year. Furthermore the committee advised management to set up processes of capacitating units that are struggling to achieve their objectives.

**Combined Assurance**

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

The Audit and Risk Committee often held separate meetings with Management, Internal Audit, Risk Management and Auditor General to enable the stakeholders to raise any confidential matters.

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Mr. LED Hlatshwayo  
Chairperson of the Audit Committee

2016/07/29

Date: -----



## 21. Key activities and objectives of Internal Audit

Internal Audit (IA) is an independent, objective assurance and consulting activity designed to add value and improve the UIF's operations. The objective of the IA function is to assist UIF to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of **1.1 internal controls**, **1.2 risk management** and **1.3 governance processes**. The function renders an independent appraisal function as a service to UIF by examining and reviewing the effectiveness of internal controls for the purpose of assisting management in effectively discharging its responsibilities.

The IA function reviews the following:

- The reliability and integrity of financial and operational information
- Compliance with laws, regulations, policies and contracts
- Safeguarding of assets
- The economical and efficient use of resources
- Establishment of operational goals and objectives
- Appropriateness of processes for the achievement of objectives

### Summary of audit work done

No.	Type of Audit	Reports Issued	Number
1.	Provincial Audits (Regions)	Yes	14
2.	Head Office Audits	Yes	20
3.	Information Technology Audits	Yes	9
4.	Consulting Services	Yes	9
5.	Performance Information Audits	Yes	3
TOTAL			55

Internal audit overall assessment on the 1.1 internal controls, 1.2 risk management and 1.3 governance processes are as follows:

### 21.1 Internal Controls

The opinion is an accumulative view of audits performed as allocated during the 2015/16 financial year. In our opinion, the overall control environment of the UIF is partly adequate and effective, with significant issues noted that requires management's immediate attention, during provincial follow up audits in February and March 2016, we have noted a significant implementation of recommendations and management action plans.

### 21.2 Risk Management

In our opinion, the risk management within the UIF is adequate and partly effective. The audit objectives were met as we noted significant findings relating to risk management processes. However, the UIF risk management processes have been established with both strategic and operational risk registers being developed. Risk assessments have been conducted during the 2015/16 financial year which included strategic risk assessments as well as divisional/unit/process operational risk registers.

### 21.3 Governance Processes

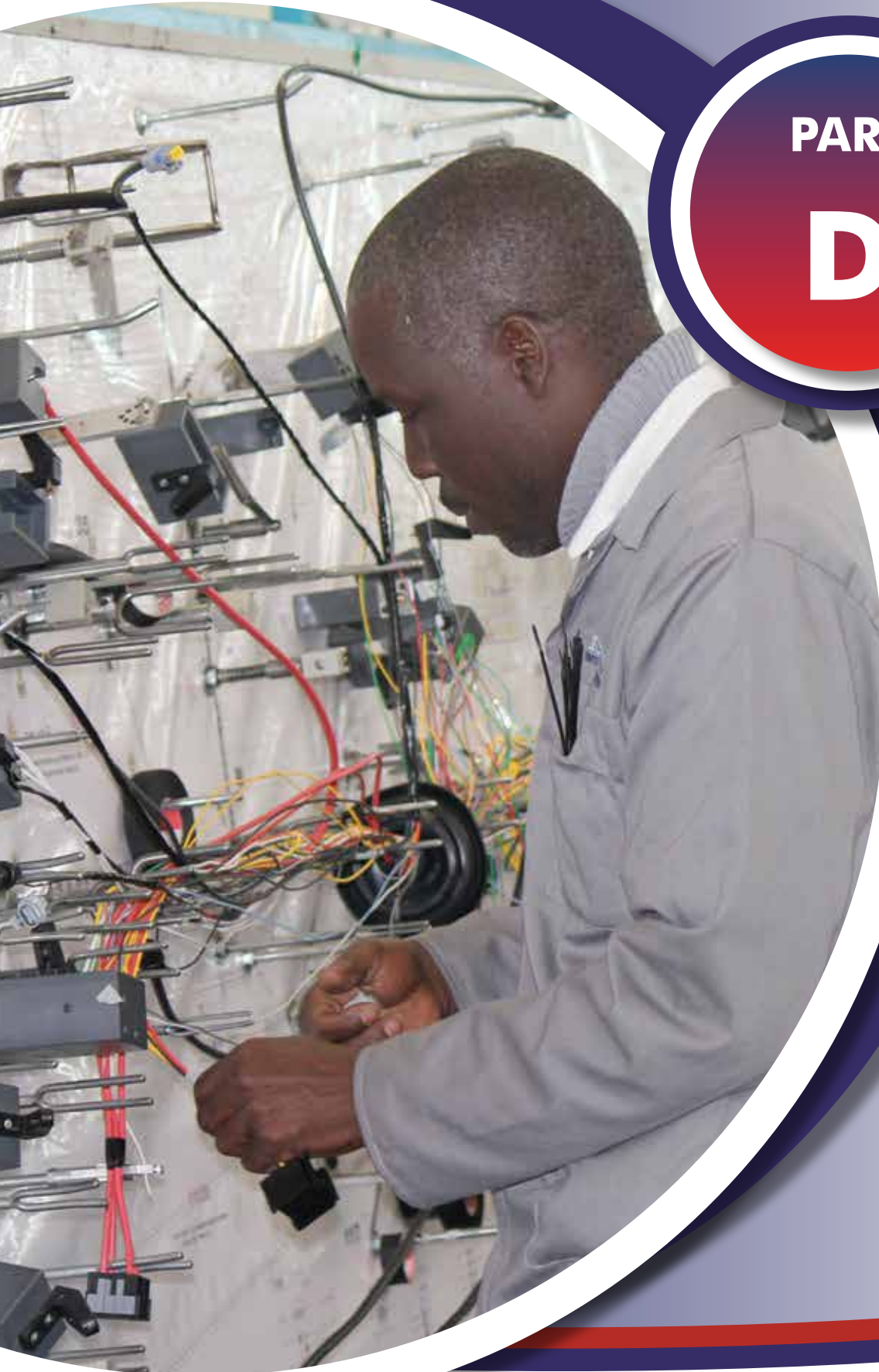
In our opinion, the overall governance porcesses within the UIF are adequate and effective.





**PART**

**D**



**HUMAN RESOURCE MANAGEMENT**



## 1. Introduction

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

## 2. The key strategic human resource priorities

### 2.1 The key focus areas for the Directorate were:

- Employment of people from designated group
- Contribution to employment creation initiatives by implementing both learnerships and internship programmes
- Staff development
- Promote employee health and wellness
- Promote sound labour relations

### 2.2 Staff establishment

At the end of March 2016, the Fund had 537 posts of which 79.7% were filled and 20.3% were vacant. The high vacancy rate was as a result of the implementation of the new organisational structure in the Fund. This process required individual consultations with all employees and organised labour which took longer than anticipated.

### 2.3 Employment Equity

The Fund placed a high priority on employment equity in support of government's transformation initiatives. Women constitute 56.8% of employees on the UIF establishment, whilst 43.2% are men. A total of 55% of senior management posts are filled by women. People with disability represent 3.3% of the total employees.

### 2.4 Organisational effectiveness and organisational design

The Fund, in an attempt to improve service delivery, embarked on the reengineering of its operational business processes. The Organisational Development unit conducted change management interventions for all new initiatives introduced in the financial year to ensure buy-in from all stakeholders and facilitated the necessary training.

### 2.5 Labour Relations

The Fund continues to harmonise labour peace through the enforcement of collective agreements and implementation of the Public Service Disciplinary Code and Grievance Procedures. 100% of the grievances lodged were resolved and 85% of misconduct cases were investigated and finalised.

### 2.6 Skills Development

The UIF is committed to the development of staff and promotion of learning amongst all levels of occupational categories. It is for this reason that the Fund trained 261 Head Office employees in 23 prioritised learning areas in terms of the approved Workplace Skills Plan, and 23 employees were awarded bursaries to study at institutions of higher learning.

To improve the level of service in labour centres and in support of the provinces, a total number of 321 client service officers and supervisors were trained on Customer Care and Supervisory Skills in three provinces. The same course will be rolled out in the other provinces in the next financial year. For compliance and sound financial management of government funds, a further 257 employees were trained in the UIA and PMFA in four provinces.



## 2.7 Performance Management

The performance management of officials is managed on a regular basis, with formal assessments taking place twice a year. During the 2014/15 financial year, 58.3% of the employees were rewarded with merit awards for above satisfactory performance.

## 2.8 Employee health and wellness programmes

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

# 3. Key strategic organisational effectiveness prioritisation

The key focus areas for the directorate were:

- 3.1 Organisational effectiveness and organisational design
- 3.2 Training development
- 3.3 Performance management

## 4. Key challenges

- The target of 10% vacancy rate was not achieved as a result of the implementation of a new organisational structure within the Fund. A total of 51 posts on the establishment were affected by the review process and therefore could not be filled as it become vacant.

## 5. Key strategic focus for 2015/16

- Reducing the vacancy rate
- Employment of people from designated groups
- Staff development
- Promote sound labour relations
- Promote employee health and wellness
- Change management initiatives to improve service delivery and productivity

## 6. Human resource oversight statistics

The personnel cost reflected in the following tables, is an oversight of the total cost for the employees on the UIF's Head Office establishment, excluding staff members in provincial offices and officials paid a split percentage.

### Personnel Cost by programme

Programme	Total expenditure for the entity (R'000)	Personnel expenditure (R'000)	Personnel expenditure as a % of total expenditure (R'000)	No. of employees	Average personnel cost per employee (R'000)
UIF	1 637 510	188 399	12%	428	440



### Personnel cost by salary band

Top Management	1 715	1.00	1	1 715
Senior Management	20 742	11	19	1 092
Professional qualified	56 305	30	95	593
Skilled	34 238	18	91	376
Semi-skilled	73 937	39	214	346
Unskilled	1 462	1	8	183
<b>TOTAL</b>	<b>188 399</b>	<b>100</b>	<b>428</b>	<b>440</b>

### Performance Rewards

Programme	No of employees	Performance rewards	Personnel expenditure (R'000)	% of performance rewards to total personnel cost (R'000)
Top Management	0	0	1 715	0%
Senior Management	3	41	20 742	0.2%
Professional qualified	37	1 370	56 305	2.4%
Skilled	80	1 279	34 238	3.7%
Semi-skilled	112	1 468	73 937	2.0 %
Unskilled	4	27	1 462	1.9%
<b>TOTAL</b>	<b>236</b>	<b>4 185</b>	<b>188 399</b>	<b>2.22%</b>

### Training Costs

Programme	Personnel expenditure (R'000)	Training expenditure (R'000)	Training expenditure as a % of personnel cost	No. of employees trained	Avg training cost per employee
UIF	188 399	2 436	1.3%	261	9

**Note:** The total expenditure for training in this report excludes the training provided for 321 officials from provincial offices on customer care course amounting to R2 740 446.00.

### Employment and vacancies

Programme	2014/2015 No. of employees	2015/2016 Approved Posts	2015/2016 No. of employees	2015/2016 Vacancies	% of vacancies
Top Management	1	1	1	0	0.0
Senior Management	18	24	19	5	20.8
Professional qualified	92	125	95	30	24.0
Skilled	100	118	91	27	22.9
Semi-skilled	221	256	214	42	16.4
Unskilled	9	13	8	5	38.4
<b>TOTAL</b>	<b>441</b>	<b>537</b>	<b>428</b>	<b>109</b>	<b>20.3</b>

Efforts were made to ensure that posts were filled within 90 days of being vacant. Constraints in the filling of posts were the result of the implementation of the new organisational structure. This process required individual consultations with all employees and organised labour which took longer than anticipated. The Fund has prioritised the filling of outstanding vacancies and the reduction of the vacancy rate for the 2015/16 financial year.



## Employment changes

Salary Band	Employment at beginning of period	Appointments	Promotions	Terminations	Employment at end of the period
Top Management	1	0	0	0	1
Senior Management	18	2	0	1	19
Professional qualified	92	17	2	15	95
Skilled	100	0	1	11	91
Semi-skilled	221	0	0	4	214
Unskilled	9	0	0	1	8
<b>Total</b>	<b>441</b>	<b>19</b>	<b>3</b>	<b>32</b>	<b>428</b>

## Reasons for staff leaving

Reason	Number	% of total no. of staff leaving
Death	1	3.1
Resignation	10	31.3
Dismissal	1	3.1
Retirement	4	12.5
Ill health	1	3.1
Transfer-Out	8	25.0
Career Advancement	7	21.9
<b>Total</b>	<b>32</b>	<b>100.0</b>

During the financial year, the Fund witnesses a slight increase in the number of staff leaving the organisation. The majority of the staff terminations were due to career advancement and transfer opportunities within the Public Service.

## Labour Relations: misconduct and disciplinary action

Nature of disciplinary Action	Number
Verbal Warning	3
Written Warning	1
Final Written Warning	0
Suspension	1

## Equity Target and Employment Equity Status

Levels	MALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	100.0	81.3	0.0	0.5	0.0	0.7	0.0	2.9
Senior Management	42.1	39.2	0.0	0.5	0.0	0.7	0.0	2.9
Professional qualified	43.2	44.3	1.1	2.1	2.1	3.2	2.1	5.0
Skilled	27.7	35.2	0.8	0.5	0.8	1.2	2.5	4.5
Semi-skilled	46.8	44.9	0.0	0.9	0.5	1.0	2.2	4.2
Unskilled	37.5	36.8	0.0	0.5	0.0	0.7	0.0	2.9
<b>TOTAL</b>	<b>92.0</b>		<b>1.1</b>		<b>2.1</b>		<b>4.8</b>	





Levels	FEMALE							
	AFRICAN		COLOURED		INDIAN		WHITE	
	Current	Target	Current	Target	Current	Target	Current	Target
Top Management	0.0	11.6	0.0	0.5	0.0	0.4	0.0	2.2
Senior Management	47.4	43.1	0.0	0.5	0.0	0.4	10.5	12.7
Professional qualified	40.0	35.1	2.1	1.7	1.1	0.4	8.4	8.3
Skilled	39.5	38.7	0.0	0.5	0.8	0.9	27.7	18.4
Semi-skilled	36.6	35.5	4.3	3.2	0.0	0.4	9.7	9.9
Unskilled	62.5	56.0	0.0	0.5	0.0	0.4	0.0	2.2
<b>TOTAL</b>	<b>69.6</b>		<b>4.2</b>		<b>0.8</b>		<b>25.4</b>	

Levels	Disabled Staff			
	Male		Female	
	Current	Target	Current	Target
Top Management	0.0	3.0	0.0	3.0
Senior Management	0.0	3.0	7.1	3.0
Professional qualified	7.1	3.0	0.0	3.0
Skilled	21.4	3.0	7.1	3.0
Semi-skilled	21.4	3.0	35.7	3.0
Unskilled	0.0	3.0	0.0	3.0
<b>TOTAL</b>	<b>50.0</b>		<b>50.0</b>	

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

**PART**

**E**



**REPORT ON BUSINESS OPERATIONS &  
OTHER SUPPORT SERVICES**



## 1. Business Operations

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

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

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



Region	Labour Centre	Region	Labour Centre	Region	Labour Centre	Region	Labour Centre
<b>Eastern Cape</b>	East London P/O	<b>KwaZulu Natal</b>	Durban	<b>Northern</b>	Kimberley	<b>Mpumalanga</b>	Barberton
	Port Elizabeth P/O		Durban P/O		Kimberley P/O		Bethal
	Queenstown		Newcastle	<b>Western</b>	Beaufort West		Carolina
<b>Free State</b>	Bethlehem		Pietermaritzburg		Bellville		Ermelo
	Bloemfontein P/O		Pietermaritzburg P/O		Cape Town		KwaMhlanga
	Welkom		Pinetown		Cape Town P/O		Lydenburg
<b>Gauteng North</b>	Bronkhorstspuit		Port Shepstone		George		Middelburg
	Ga-Rankuwa		Prospecton		George P/O		Nelspruit
	Krugersdorp		Richards Bay		Mitchells Plain		Piet Retief
	Mamelodi		Stanger		Somerset West		Sabie
	Pretoria		Ulundi		Vredenburg		Secunda
	Pretoria P/O		Verulam				Standerton
	Soshanguve	<b>Limpopo</b>	Giyani				eMalahleni (Wtb)
	Temba		Lebowakgomo				eMalahleni (Wtb)
<b>Gauteng South</b>	Benoni		Modimolle	<b>North West</b>			P/O
	Carletonville		Mokopane				
	Germiston		Polokwane				
	Germiston P/O		Polokwane P/O				
	Johannesburg		Thohoyandou				
	Johannesburg P/O	<b>North West</b>	Tzaneen				
	Kempton Park		Klerksdorp				
	Randburg		Mafikeng				
	Roodepoort		Mmabatho				
	Sandton		Rustenburg				
	Soweto						
	Springs						
	Vanderbijlpark						

#### Registration of Employers:

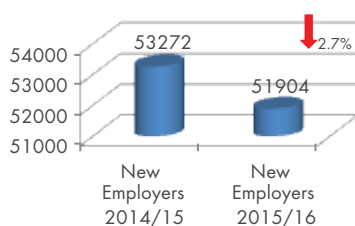
A total of 1 700 592 employers are currently registered with the Fund. These are categorised mainly as commercial employers, domestic employers and taxi employers. The bulk of the employers registered are in the commercial sector. Since 2003, domestic households have continued to register themselves and the number of registered employers on the database has grown steadily. Unfortunately, the taxi sector has been slow in complying with the Fund's requirements and continues to resist attempts by the Fund to register, as can be seen in the negligible increase in registrations during the past year.



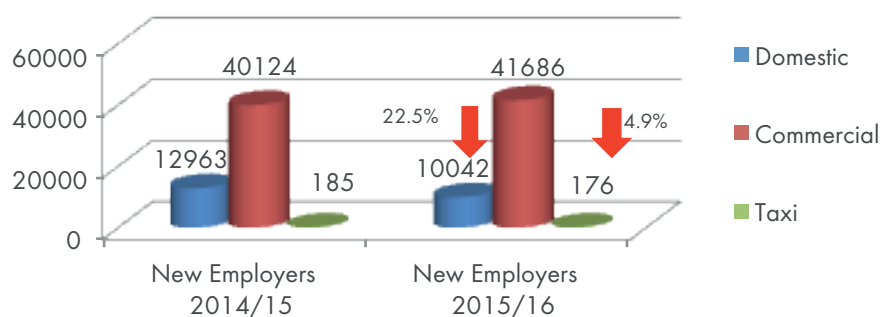
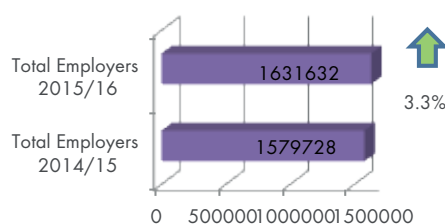
## Registration of Employers:

A total of 51904 new employers registered with the fund in the financial year 2015/16, this has shown a 2.7% decrease as compared to the 2014/15 financial year. Domestic and Taxi employers has shown a decline of 22.5% and 4.9% respectively. However commercial employers continues to grow rapidly with 3.9% increase. The overall employers registered with the fund as at 31 March 2016 is 1631632 thus 3.3% increase from 1579728 in 2014/15.

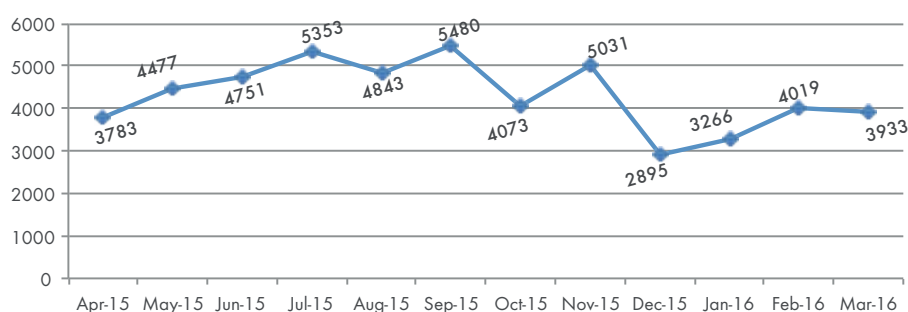
New Employers



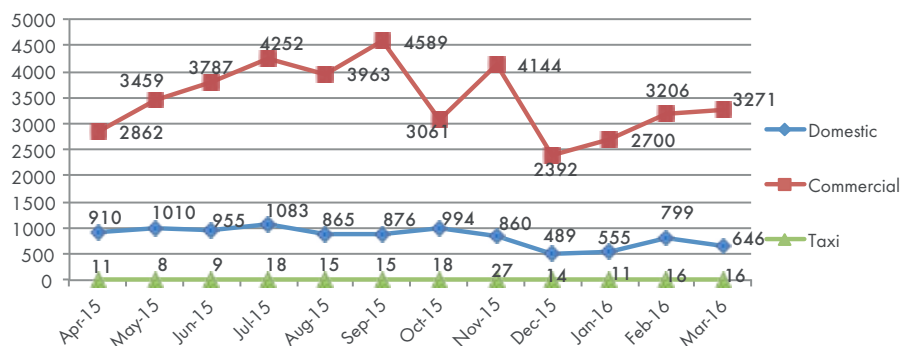
Overall Employers

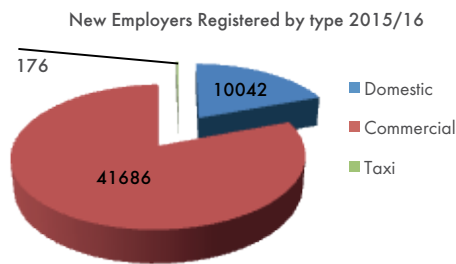


New Employers Registered Monthly



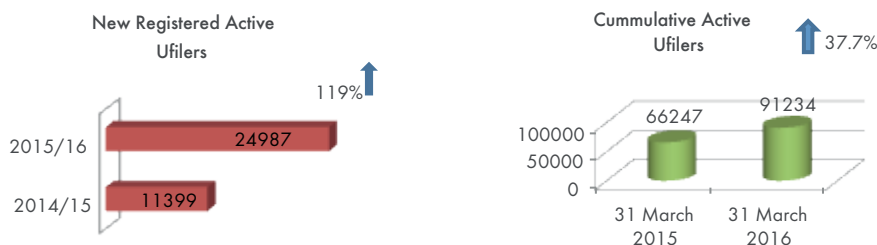
Monthly New Employers by type





## Employers registered to use ufiling system for submitting employee details and pay contributions

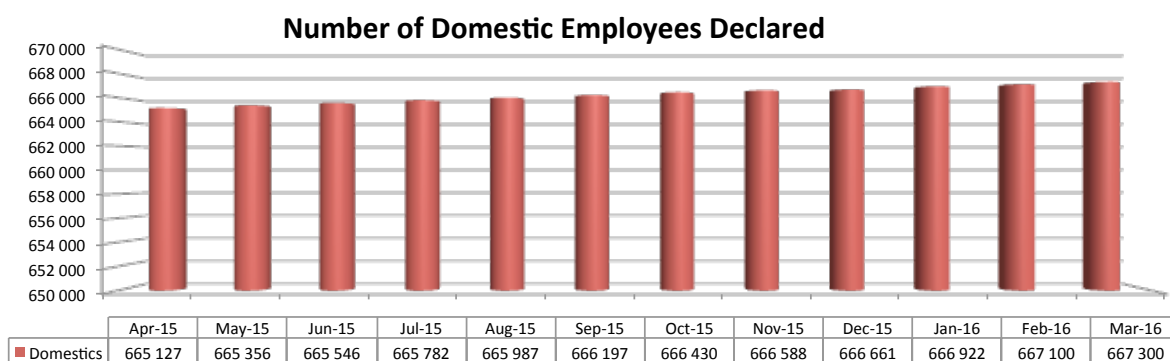
In 2015/16 financial year 24 987 employers were registered to the Ufiling system to submit employee details and pay contributions, thus 119% increase as compared to 2014/15 financial year. The ufiling database has a population of 91 234 active employers as at 31 March 2016 which indicates an increase of 37.7% from 66 247 as at 31 March 2015.



## Employees Declarations

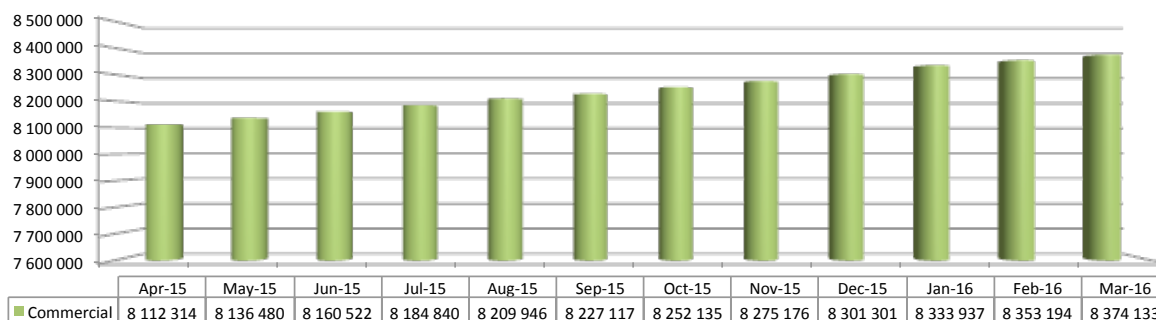
"The Fund has a database section which is mainly responsible for maintaining the records "of individual contributors to the Fund. "The Fund boasts a comprehensive database of more than "Cumulative Report" 136, "workers, each with their unique records of employment. "Contributors to the Fund including employers are also serviced through a dedicated in-house data capture centre "consisting of more than 50 agents. The operations administration system Siyaya, has continued "to bring value to the clients we serve. The system has proven to be stable and highly efficient in fulfilling the obligations to clients. "User Access to the system is very strictly controlled and is managed by a group of dedicated officials. "During the year under review, in an effort to enhance skills, enrich work "their environment and reduce reliance on the IT service provider, a number of UIF staff were trained "to extract management data from the data base themselves."

The graphs below highlight the numbers of employees declares.

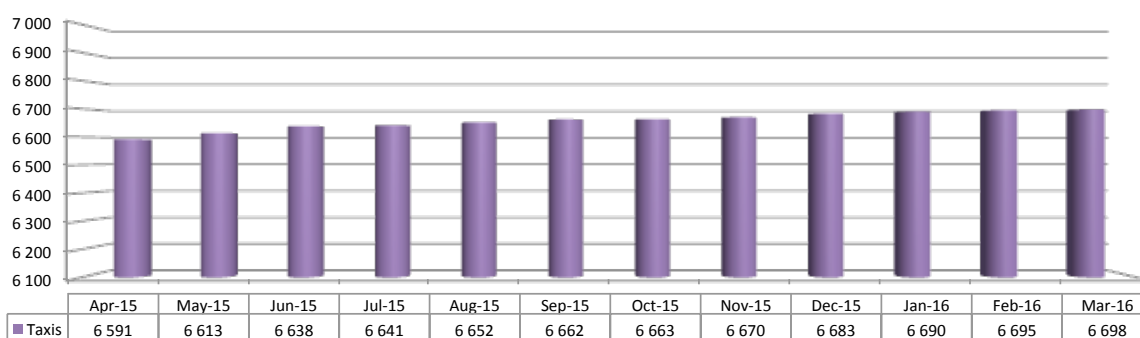




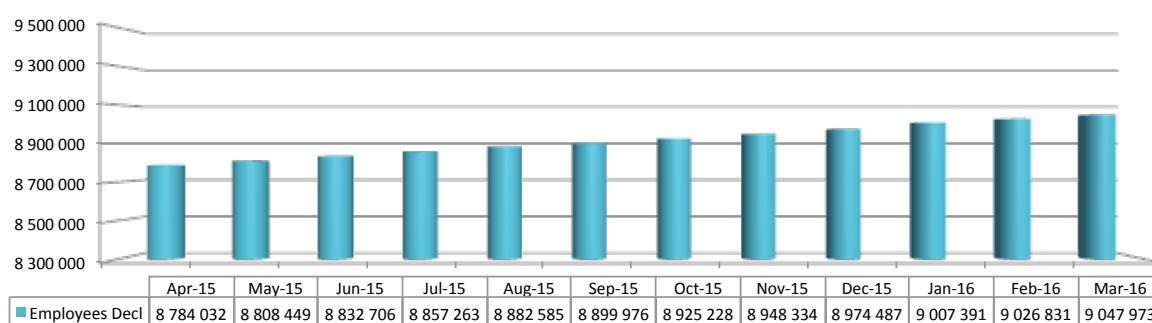
### Number of Commercial Employees Declared



### Number of Taxi Employees Declared



### Total Number of Employees Registered Declared



### Assessment of claims and payment of benefits

The Fund provides benefits to workers who lose their jobs as a result of unemployment, illness, maternity, adoption leave or when the spouse, or life partner or children in the event of the death of a contributor. A total of 720 629 claims was received compared against the 729 730 received in the previous financial year. This reflects a drop of 9 101 claims. A total of 691 356 claims were approved, which translates to 96% approval rate and rejected 29 269..

#### Total number of claims approved

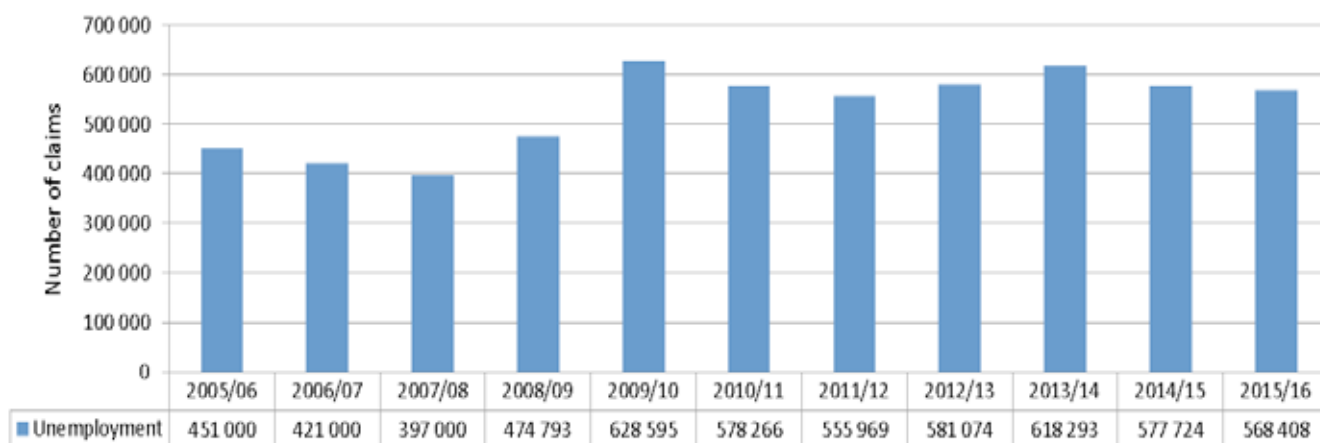
Year	Unemployment	Illness	Maternity/Adoption	Dependents	Total
2005/06	451 000	26 000	81 000	31 000	589 000
2006/07	421 000	30 000	96 000	25 000	572 000
2007/08	397 000	25 000	89 000	16 000	527 000
2008/09	474 793	25 648	94 336	15 959	610 736
2009/10	628 595	24 720	104 529	21 760	779 604
2010/11	578 266	22 727	104 042	27 123	732 158



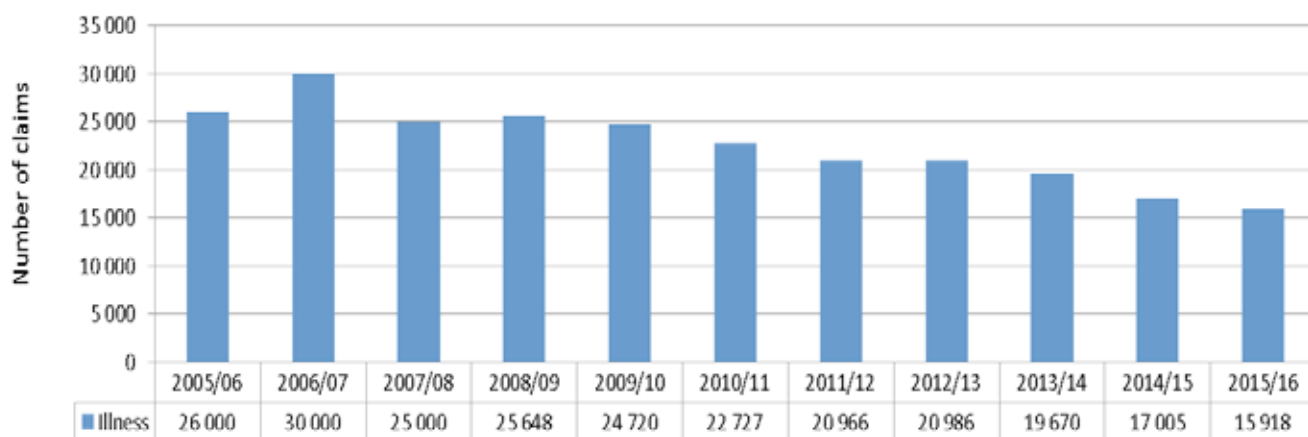


Year	Unemployment	Illness	Maternity/Adoption	Dependents	Total
2011/12	555 969	20 966	104 407	24 513	705 855
2012/13	581 074	20 986	106 339	22 732	731 131
2013/14	618 293	19 670	105 021	19 670	762 654
2014/15	577 724	17 005	97 232	16 506	708 467
2015/16	568 408	15 918	90 562	16 468	691 356

### Unemployment claims approved

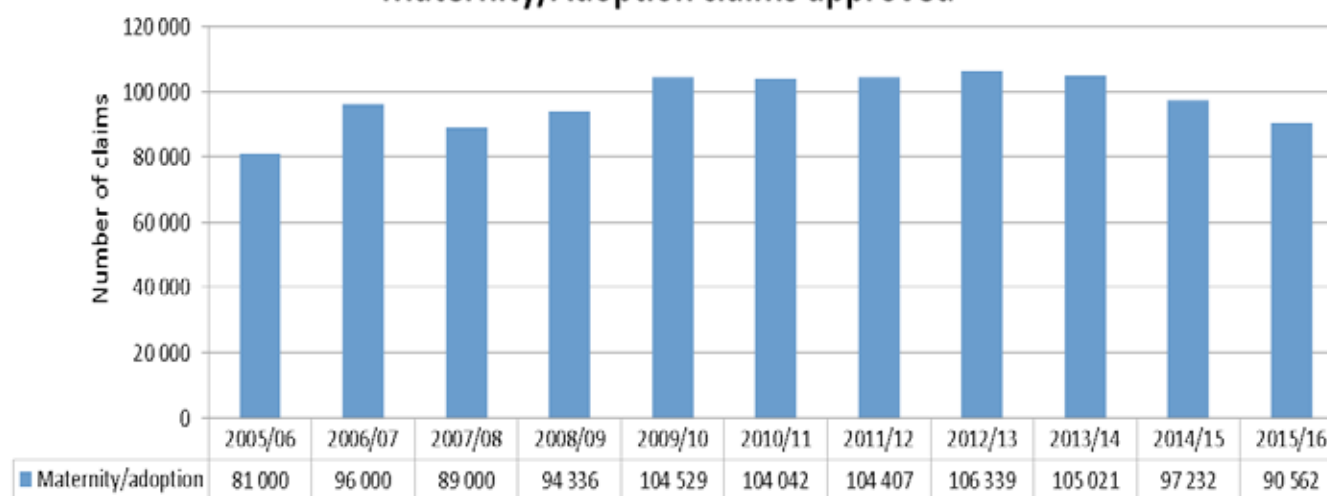


### Illness claims approved

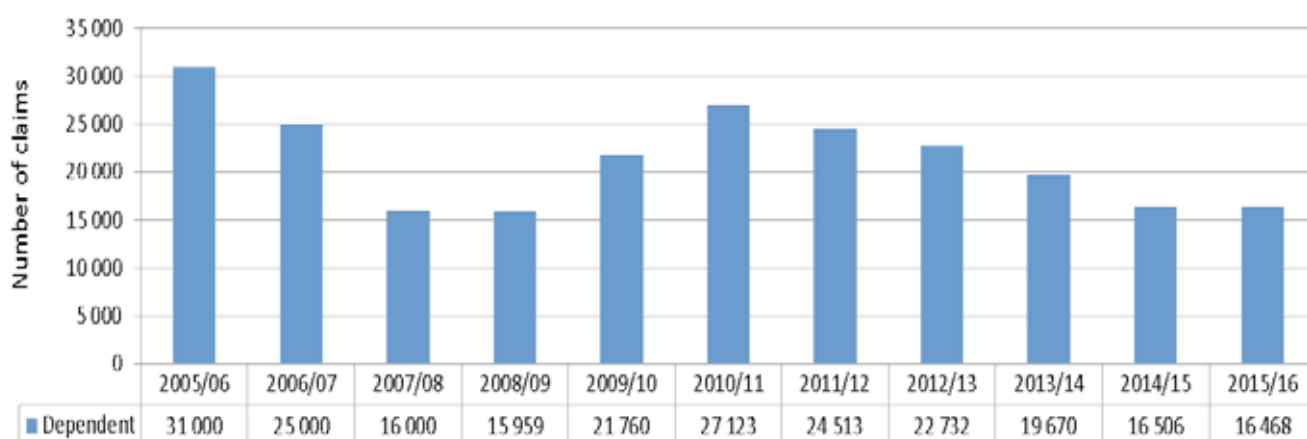




## Maternity/Adoption claims approved



## Dependents claims approved



### Total monetary value of benefits sent to financial system 2014/15

Year	Unemployment	Illness	Maternity / Adoption	Dependents	Total
2005/06	2 191 024	187 100	355 823	199 478	2 933 425
2006/07	1 991 428	179 776	419 185	247 462	2 837 851
2007/08	2 030 877	187 381	460 907	242 295	2 921 460
2008/09	2 833 539	211 639	537 574	263 866	3 846 618
2009/10	4 535 973	231 784	624 373	317 263	5 709 393
2010/11	4 322 279	236 901	668 472	321 327	5 548 979
2011/12	4 472 968	236 604	712 245	316 184	5 738 001
2012/13	4 781 257	254 286	765 978	320 691	6 122 212
2013/14	5 750 077	265 634	840 891	328 989	7 185 591
2014/15	5 855 371	258 525	819 701	276 773	7 210 370
2015/16	6 449 973	264 912	818 107	288 145	7 821 136

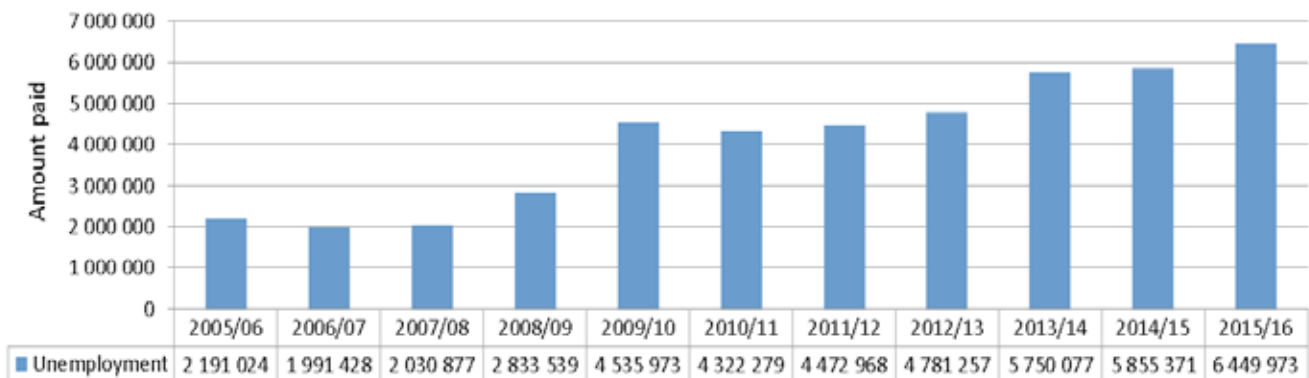
### Total monetary value of benefits sent to financial system 2013/14



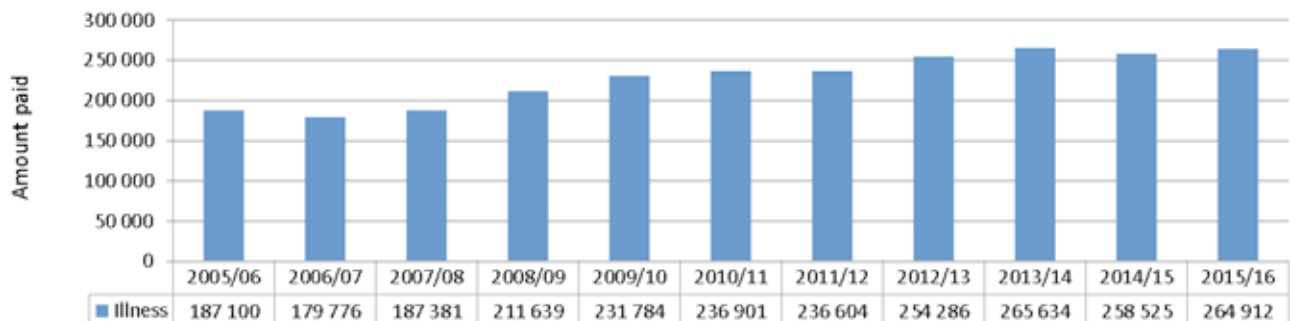
Benefit payments	Total
Unemployment	R 6 449 973
Illness	R 264 912
Maternity/Adoption	R 818 107
Dependents	R 288 145
<b>Total</b>	<b>R 7 821 136</b>

The Fund continues to maintain excellent relations with all the major banks and the Post Office who have provided access to banking facilities to UIF clients. All benefits are paid electronically to reduce the risks associated with cash and cheque payments.

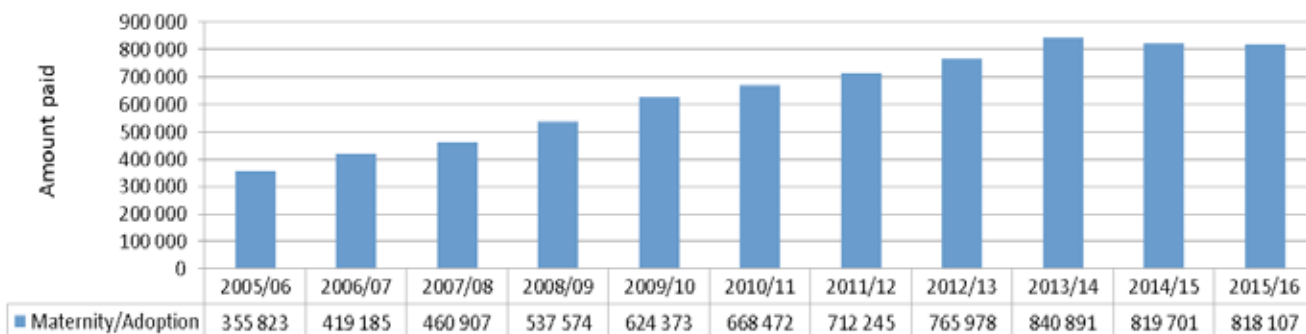
### Amount sent to financial system: Unemployment claims



### Amount sent to financial system: Illness claim

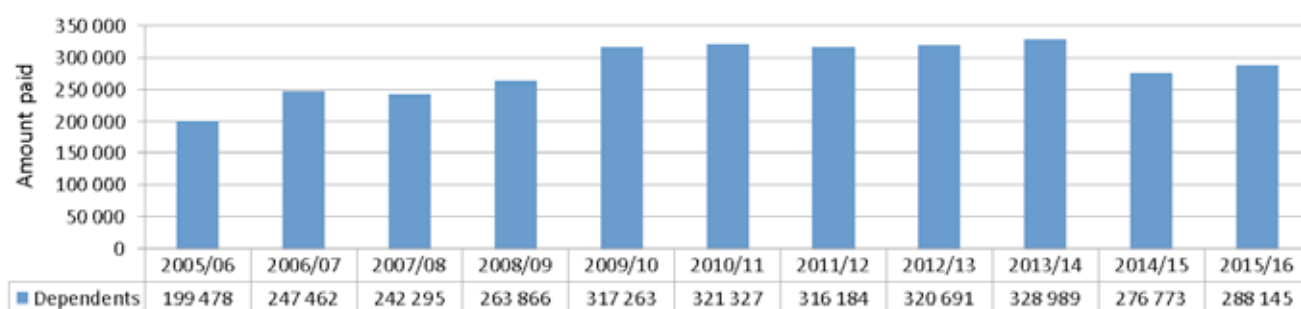


### Amount sent to financial system: Maternity/adoption claims

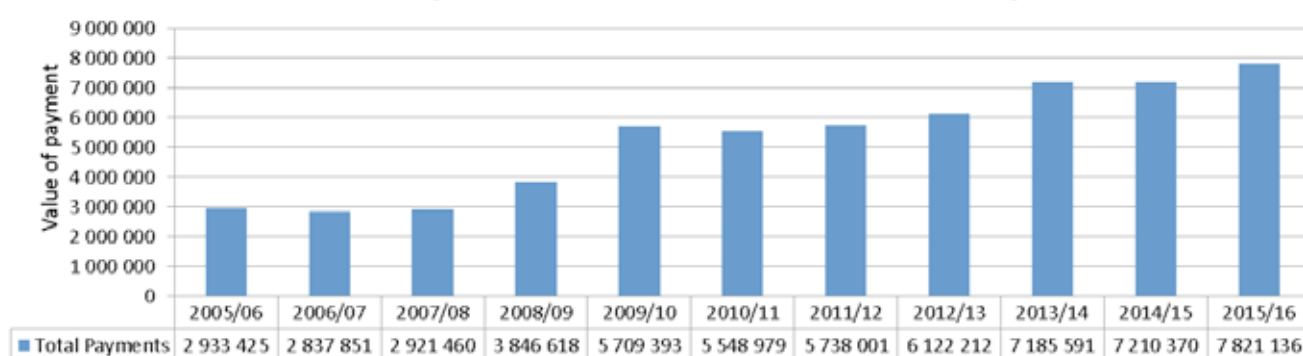




### Amount sent to financial system: Dependents claims



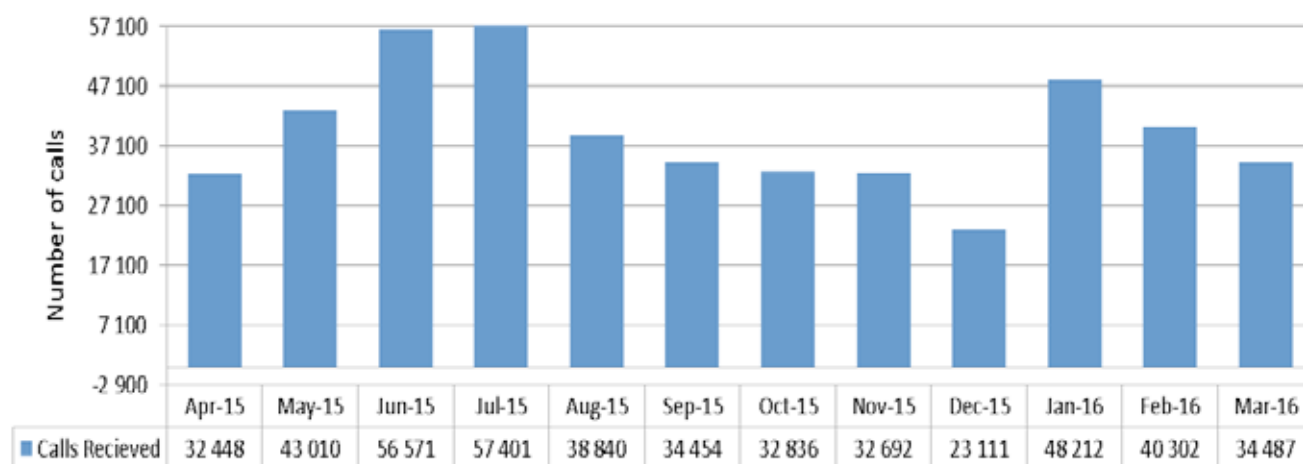
### Total monetary value of benefits sent to financial system



### UIF Call Centre

The Fund's Call Centre is one of the cornerstones of its operational success. It has a total staff complement of 18 inbound agents, who are always willing to serve the UIF clients. The Call Centre also handles letters, faxes and e-mails. Call Centre agents are well trained and exposed to continuous assessment, mentoring and coaching which translates to customer satisfaction, reduced queuing time and higher first time call resolution. During the year under review, the UIF Call Centre handled more than 474 364 calls from UIF clients requesting information regarding the UIF and related matters. A breakdown of the calls received per month is highlighted in the graph below.

### Number of calls received by UIF Call Centre





## 2. Communication and Marketing

The Communication and Marketing unit in the UIF is responsible for creating awareness about the services offered by the organisation to its stakeholders. The unit uses communication and marketing techniques such as advertising, direct stakeholder engagement and promotions to create awareness about service offerings of the UIF in support of the organisation's strategic objectives.

In the 2015/16 reporting period, the unit committed to undertake 36 provincial communication campaigns by the end of March 2016. The section managed to participate in 42 provincial communication campaigns throughout the country. The provincial campaigns were in support of the following key strategic objectives of the UIF:

- Increasing UIF compliance
- Promote UIF services
- Improve payment of benefits to UIF beneficiaries
- Participate in government initiatives to create and sustain decent employment
- Effective administration of UIF operations

In addition to the provincial campaigns, the section also dealt directly with stakeholders, particularly those who had entered into Memorandum of Understanding with the UIF, such as, the Pay Day Software System; South African Institute of Chartered Accountants; South African Institute of Professional Accountants and other related professional bodies whose primary business operations dealt with the UIF.

In this regard, briefing sessions were held with a number of such stakeholders and in the year under review, the section was expected to participate in 64 briefing sessions with primary stakeholders, but the unit managed to undertake 72 briefing sessions surpassing the expected norm in the process.

Complementary to the briefing sessions the unit also directly engaged various client and stakeholders through exhibitions. This platform provided an opportunity to educate clients about UIF benefits and enabled the organisation to assist beneficiaries with queries relating to their claims. The Unit participated in exhibitions targeting employers to educate them about online services that they can use to pay contributions and declare their employees. The unit contracted to participate in 24 exhibitions but was able to surpass the target by participating in 80 exhibitions around the country.

In an effort to reach millions of UIF stakeholders, the unit conducted four national advertising campaigns using mediums, such as, print, broadcast and outdoor to educate, inform and communicate critical strategic issues pertinent to the organisation. The mediums used were earmarked to reach a multitude of UIF beneficiaries in view of the huge number of registered employers and employees with the organisation.

The section also used media networking sessions to generate publicity for the work done by the UIF in order that the public is kept abreast of the new development within the Fund. In this regard, three media networking sessions were undertaken in the period under review.

The Communication and Marketing unit planned to initiate four direct engagements with key stakeholders during the reporting period. The unit managed to facilitate 12 engagements with key stakeholders to strengthen relations and pursue the objective of increasing understanding of the UIF's service offerings amongst stakeholders.

The success of any organisation lies in its ability to communicate internally to ensure strategic alignment in the overall organisational efforts. In this regard, the section facilitated the staff Lekogila, a gathering where the head of the organisation was able to engage staff members and outline the strategic objectives that the organisation was pursuing in the period under review. In addition, the unit managed to publish the required six issues of the internal publication to inform staff of key developments within the Fund.

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



### 3. Labour Activation Programmes

The UIF was established with the primary objective of collecting UIF contributions and paying such contributions to workers when the need arises, based on the benefit qualification criteria.

However, the global economic recession propelled the Fund to seek alternative ways to assist overall government efforts to create and retain jobs.

The UIF management and Board of the Fund sought alternative solutions to the skills development problems, which are contributory to issues of structural unemployment and on the issues of job creation.

The UIF Act does make provision for interventions towards job creation, retention and skills development. Section 48(1)(a)(iv) of the UIA, 2001, as amended, stipulates that the UI Board must advise the Minister on the creation of schemes to alleviate the effects of unemployment.

To this end, the UIF has established the Labour Activation Programmes unit whose primary objective is to increase the Fund's participation in poverty alleviation schemes by adding four poverty alleviation schemes annually, providing funding for Productivity South Africa's (PSA) Social Plan and invests 10% of the fund's total investment portfolio in SRIs. The Labour Activation unit realises this objective through focusing on:

- Targeted training of the unemployed
- Providing support to companies in distress
- Partnering with other government departments and public entities
- Supporting employment creation initiatives

During the 2015/16 financial year, the Chief Directorate: Labour Activation Programme focused on the implementation of the training of the unemployed in partnership with Technical Vocational Education and Training (TVET) Colleges, Sector Education and Training Sectors (SETAs) and SOEs, Social Funding Plan, and Training Lay-off Scheme. In order to ensure that the Chief Directorate delivers on its objectives, a budget of **R400 million** LAP during the reporting period

#### Training of the Unemployed

Skills development is central to the reduction of unemployment and poverty alleviation. In order to enhance the employability of UIF beneficiaries and to ensure that they are re-integrated back into the job market, the UIF signed funding agreements with 23 TVET Colleges across the country and Transport Education and Training Authority (TETA) for the training of **3 258** beneficiaries on the following programmes:

**TABLE 1: NUMBER OF UIF BENEFICIARIES TRAINED**

PARTNER(S)	PROGRAMME(S)	NUMBER OF LEARNERS	FUNDS ALLOCATED
TVET Colleges (23)	Building and Civil Construction	356	R414 million @ R1,8m per TVET College
TETA	Professional Driving	152	R25 501 050
	Motor Mechanic		
	Welding		
	Electrical		
	Scuba Diving		
	Pilots		
TLS	Various programmes as per TLS table below	2 703	R46 391 283
<b>TOTAL</b>		<b>3 290</b>	<b>R485 892 333</b>



### Training of Aspiring Entrepreneurs

Noting the high rate of unemployment, coupled with the inability of the economy to create sufficient sustainable jobs, the UIF had to rethink its strategy in such a way that it aids in creating jobs rather than to prepare all beneficiaries to go out and look for jobs. During the reporting period, the UIF trained 657 aspiring entrepreneurs on business skills as indicated in the table below. The long-term plan of this approach is to ensure that the trainees are linked with state financial institutions where they will receive financial and non-financial support.

### Social Plan Funding

The current economic conditions in the country are affecting companies/employers negatively and this results in job losses, if not curbed timeously. PSA is a key stakeholder of the UIF in the implementation of the Social Plan Programme. The programme is aimed at providing turn-around solutions to companies in distress. An amount of **R17 million** was transferred to PSA during the 2015/16 financial year for the provision of support to 100 companies in distress. PSA has supported 41 companies in distress and managed to save 6 461 jobs, as part of this programme.

### Training Lay-off Scheme

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

During the reporting period, the Fund signed funding agreements to the value of **R46 391 283.20** for the period under review and paid **R8 377 104.82** based on withdrawal terms and conditions. The committed funds will be disclosed as a contingent liability until the project is exhausted or cancelled, and actual expenditure will be disclosed in the Statement of Financial Performance under Unemployment Alleviation Schemes as it is committed.

**TABLE 4: NUMBER OF LEARNERS TRAINED THROUGH THE TLS SCHEME**

COMPANY	PROVINCE	NUMBER OF LEARNERS	TOTAL COST
GGA Fenestrations (PTY) LTD	Gauteng	100	R3 376 840.43
Swatek Electrical	Mpumalanga	16	R 428 620.80
Modern Collision	Gauteng	28	R906 545.42
Able Walling	Gauteng	39	R709 317.57
DCD Rolling Stock	Gauteng	228	R9 228 991.33
Venture Diversification Product	Gauteng	381	R8 940 851.49
BMW	Gauteng	1 911	R22 800 116.17
<b>TOTAL</b>		<b>2703</b>	<b>R46 391 283.20</b>





**PART**

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94 Church St

## **FINANCIAL INFORMATION**



# Report of the auditor-general to Parliament on the Unemployment Insurance Fund

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Unemployment Insurance Fund (UIF) set out on pages 89 to 175, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



## Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Unemployment Insurance Fund as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the PFMA.

## Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected strategic objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected strategic objectives presented in the annual performance report of the public entity for the year ended 31 March 2016:
  - Strategic objective 2: Improve service delivery on page 30
  - Strategic objective 3: Improve compliance to Unemployment Insurance Act, 2001 (Act No. 63 of 2001) on pages 31 to 32
  - Strategic objective 4: Fund poverty alleviation schemes on pages 32 to 33
9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned strategic objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
11. The material findings in respect of the selected strategic are as follows:



## Strategic objective 4: Fund poverty alleviation schemes

### Usefulness of reported performance information

#### Measurability of performance indicators

12. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of performance indicators were not well defined.

### Reliability of reported performance information

13. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. For 33% of performance indicators, the reported achievements against planned targets were not reliable because we were unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for 17% of performance indicators were not reliable when compared to the evidence provided.
14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the strategic objective 2: improve service delivery and strategic objective 3: improve compliance to UIF Acts.

### Additional matters

15. I draw attention to the following matters:

### Achievement of planned targets

16. Refer to the annual performance report on pages 21 to 37 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 12 and 13 of this report.

### Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of strategic objective 3: improve compliance with UI Act and strategic objective 4: fund poverty alleviation scheme. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information for strategic objective 4.

### Unaudited supplementary information

18. The supplementary information set out on pages 81 to 176 does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.





## **Compliance with legislation**

19. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements, performance and annual reports**

20. The accounting authority did not ensure that fourth quarterly performance report was submitted to the Minister of Labour as required by treasury regulation 30.2.1.

## **Expenditure management**

21. Effective steps were not taken to prevent irregular expenditure, amounting to R64 456 000 as disclosed in note 31 of the annual financial statement, as required by section 51(1)(b)(ii) of the Public Finance Management Act and treasury regulation 9.1

## **Procurement and contract management**

22. Goods and services of transaction values above R500 000 were procured without inviting competitive bids, as required by treasury regulations 16A6.1. Deviations for not inviting open competitive bids were approved even though it was not impractical to invite competitive bids, in contravention of treasury regulation 16A6.4
23. Contracts awarded in the prior years were adjudicated by a bid adjudication committee which was not composed as per the public entity's supply chain management policy, as required by treasury regulations 16A6.2 (a), (b) and (c)
24. A supplier was not disqualified from the bidding process even though it had not submitted an original valid tax clearance certificate at the time of bidding as required by treasury regulation 16A9.1 (d) and the preferential procurement regulations.

## **Internal control**

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

26. The accounting authority did not exercise oversight responsibility to ensure that performance indicators included in the strategic plan and annual performance plan for strategic objective 4 are well defined in accordance with the requirements of the *framework for managing programme performance information (FMPPI)*.

## **Financial and performance management**

27. The Fund did not maintain proper record-keeping so that complete, relevant and accurate information is accessible and available to support performance reporting.



28. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored and control measures implemented.

Auditor - General

Pretoria

31 July 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## General Information

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### Nature of business and principal activities

The Unemployment Insurance Fund (the Fund/UIF) collects and receives contributions under the Unemployment Insurance Contributions Act (Act no.4 of 2002). In accordance with the Unemployment Insurance Act (Act no.63 of 2001), contributions received are managed and unemployment insurance claims are paid.

### Legal form of entity

The Unemployment Insurance Fund is in terms of section 48 of the Public Finance Management Act (Act no. 1 of 1999), classified as a Schedule 3 "National Public Entity".

### Registered office

ABSA Towers  
230 Lillian Ngoyi Street  
Pretoria  
0001

### Business address

ABSA Towers  
230 Lillian Ngoyi Street  
Pretoria  
0001

### Postal address

UIF  
Pretoria  
0052

### Auditors

The Auditor-General of South Africa

### Accounting Authority

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Authority's responsibilities and approval

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

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

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

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

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

As Accounting Authority I reviewed the Fund's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, I am satisfied that the Fund has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements set out on pages 81 to 176, which have been prepared on the going concern basis were reviewed by the Unemployment Insurance Board on 30 May 2016 and was signed by me the Accounting Authority on recommendation of the Unemployment Insurance Board.



T Lamati

Director-General of Labour

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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The Unemployment Insurance Commissioner submits his report for the year ended 31 March 2016.

### 1. General financial review of activities

#### Main business and operations

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

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

The Unemployment Insurance Fund's (the Fund) business model is based on a "Pay as You Go" system. There are limited risks to the financial sustainability of the Fund due to constant stream of inflows and outflows of funds. The Fund is fully reserved and conducts regular actuarial valuations to determine future financial obligations and benefits. Based on the valuation that was conducted on 31 March 2015, the Fund is in a sound financial position and will be able to meet the projected unemployment insurance claims.

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

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

Net surplus of the Fund was R 10,686 billion (2015: surplus R 19,024 billion).

### 2. Accounting policies

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

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

### 3. Public Private Partnership

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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

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

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

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

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

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

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

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

EOH Management Services: PS (Pty) Ltd's contract was extended to 31 May 2014 to complete the outstanding systems for the Department of Labour and its entities. These are systems that were in development phase at the expiry of the Termination Support period

#### 4. Compliance with applicable legislation

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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

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

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

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

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

### Control measures

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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

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

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

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

**Section 51(1)(b)(ii) of the PFMA** requires that effective and appropriate steps be implemented to prevent, amongst other things, losses from criminal conduct. The Fund is vulnerable to fraudulent claims and dependent on employee information supplied by employers via declarations and claimants' affidavits that they are unemployed. Based on the employee information declared the Fund calculates entitled benefits and pays benefits based on the claimants' affidavits. The accuracy, completeness and timeliness of this information impacts on the correctness of the claim calculation and payment.

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

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

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

During the financial year under review, the Fund introduced verification on all manual declarations received. The verification process is as follows:

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

This verification is performed on all manual UI19's received at the time of application and normal update.



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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### 5. Spending trends

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

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

### 6. Capacity constraints and challenges

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

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

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

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

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

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

### 7. New/proposed activities

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



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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

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

### 8. Roll over of funds

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

### 9. Supply Chain Management

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

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

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

Material findings during the audit on the 2014/15 financial year with regards to performance management required major attention. The Fund continues to improve its control environment to ensure that there are transparent and effective systems for managing the financial resources at its disposal. There was a concerted effort by Fund in the year under review on the management of organisational performance, specifically those areas that were under achieved during the 2015/16 financial year.

### 11. Post reporting date events

The Unemployment Insurance Board recommended various amendments to the current UI Act to improve unemployment coverage of excluded employees as well as improvements to the unemployment benefit structure. It is expected that the proposed amendments in the UI Act will reduce the net surplus of the Fund. Final amendments will be based on ensuring a sustainable organisation. The proposals have been included in the UI amendment bill that has been approved by the National Assembly on 19 May 2016.

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

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

The Fund has appointed Accenture an implementation partner to rollout the SAP ERP for its operations for a period of three years commencing November 2014. The current financial and operational systems will be replaced by the new SAP system with the first deployment of the finance modules during the 2016/2017 financial year. The project is expected to introduce some efficiencies in the way the Fund does its business and will improve the functioning of the operations of the Fund. The first phase will see the replacement of the core financial modules while the second phase will be the replacement of the systems that drive the core business of the Fund, namely contributions and claims management.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Unemployment Insurance Commissioner's report

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### 13. Auditors

The annual financial statements have been audited by the Auditor-General of South Africa, who was given unrestricted access to all financial records and related data, including minutes of all meetings of the

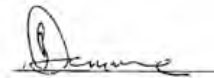
Unemployment Insurance Board and committees of the Board. The Auditor-General of South Africa is responsible for independently reviewing and reporting on the Funds annual financial statements.

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

### 14. Appreciation

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

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



**T.B. Seruwe**

**Unemployment Insurance Commissioner**

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Statement of Financial Performance for the financial year ended 31 March 2016

(Illustrating the classification of expenses by nature)

	Note(s)	2016 R '000	2015 R '000
Revenue	3	17,120,381	16,146,737
Benefit payments	4	(7,691,153)	(7,085,584)
Changes in benefits payable	4	(392,211)	(225,238)
Unemployment alleviation schemes	5	(80,571)	(93,316)
<b>Gross surplus</b>		<b>8,956,446</b>	<b>8,742,599</b>
Other income	6	6,147	4,059
Auditors fees	7	(4,456)	(6,000)
Administrative costs		(434,093)	(394,951)
Depreciation, amortisation and impairments	8	(15,707)	(6,838)
Employee costs		(941,945)	(880,004)
Other operating expenses		(392,539)	(285,564)
<b>Operating surplus</b>		<b>7,173,853</b>	<b>7,173,301</b>
Investment revenue	9	7,746,161	6,511,429
Fair value adjustments	10	(4,233,877)	5,339,907
Finance costs	11	-	(299)
<b>Net surplus for the year</b>		<b>10,686,137</b>	<b>19,024,338</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Statement of Financial Position as at 31 March 2016

	Note(s)	2016 R '000	2015 R '000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	12	1,990	1,990
Property, plant and equipment	13	113,476	64,000
Intangible assets	14	101,962	30,644
Investments	15	76,420,403	71,228,991
		<b>76,637,831</b>	<b>71,325,625</b>
<b>Current Assets</b>			
Investments	15	44,020,591	40,550,988
Trade and other receivables	16	5,392	10,700
Statutory receivables	16	222,500	199,942
Cash and cash equivalents	17	3,812,875	1,492,136
		<b>48,061,358</b>	<b>42,253,766</b>
<b>Total Assets</b>		<b>124,699,189</b>	<b>113,579,391</b>
<b>Net Assets and Liabilities</b>			
<b>Net Assets</b>			
Technical reserves		21,621,408	19,145,892
Accumulated surplus		98,503,433	90,292,812
		<b>120,124,841</b>	<b>109,438,704</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Provisions	20	25,817	26,099
<b>Current Liabilities</b>			
Trade and other payables	21	313,591	273,962
Benefits payable	23	6,870	4,766
Benefits payable - technical provision	23	4,228,058	3,835,846
Bank overdraft	17	12	11
		<b>4,548,531</b>	<b>4,114,584</b>
<b>Total Liabilities</b>		<b>4,574,348</b>	<b>4,140,683</b>
<b>Total Net Assets and Liabilities</b>		<b>124,699,189</b>	<b>113,579,391</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Statement of Changes in Net Assets

	Technical reserves R '000	Accumulated surplus R '000	Total net assets R '000
<b>Balance at 1 April 2014</b>	<b>18,097,371</b>	<b>72,316,995</b>	<b>90,414,366</b>
Changes in net assets			
Surplus for the year	-	19,024,338	19,024,338
Transfers to technical reserves	1,048,521	(1,048,521)	-
Total changes	1,048,521	17,975,817	19,024,338
<b>Balance at 31 March 2015</b>	<b>19,145,892</b>	<b>90,292,812</b>	<b>109,438,704</b>
Changes in net assets:			
Surplus for the year	-	10,686,137	10,686,137
Transfers to technical reserves	2,475,516	(2,475,516)	-
Total changes	2,475,516	8,210,621	10,686,137
<b>Balance at 31 March 2016</b>	<b>21,621,408</b>	<b>98,503,433</b>	<b>120,124,841</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Cash Flow Statement

	Note(s)	2016 R '000	2015 R '000
<b>Cash flows from operating activities</b>			
Cash receipts from contributors, tenants and other		16,981,691	16,049,854
Cash paid to suppliers, employees and beneficiaries		(9,503,312)	(8,716,212)
Cash generated from operations	25	7,478,379	7,333,642
Interest received on cash at banks		30,112	23,415
Finance costs		-	(299)
<b>Net cash from operating activities</b>		<b>7,508,491</b>	<b>7,356,758</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	13	(59,301)	(10,471)
Acquisition of intangible assets	14	(92,176)	(16,630)
Proceeds on sale of intangible assets	14	-	-
Acquisition of financial assets		(51,668,239)	(47,009,222)
Disposal of financial assets		41,391,847	35,740,016
Interest received on investments		4,263,071	3,362,647
Dividends received		977,045	856,199
<b>Net cash used in investing activities</b>		<b>(5,187,753)</b>	<b>(7,077,461)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,320,738</b>	<b>279,297</b>
		1,492,125	1,212,828
<b>Cash and cash equivalents at end of the year</b>	17	<b>3,812,863</b>	<b>1,492,125</b>

## Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

### Statement of Comparison of Budget and Actual Amounts for the financial year ended 31 March 2016

	Note(s)	Approved R '000	Final R '000	Actual R '000	Variance R '000
Revenue	34.2	17,972,018	16,866,962	17,120,381	(253,419)
Benefit payments	34.3	(7,949,322)	(8,536,592)	(7,691,153)	(845,439)
Changes in benefits payable		(370,434)	(344,345)	(392,211)	47,866
Unemployment alleviation schemes	34.4	(695,000)	(1,627,200)	(80,571)	(1,546,629)
<b>Gross surplus</b>		<b>8,957,262</b>	<b>6,358,825</b>	<b>8,956,446</b>	<b>(2,597,621)</b>
Other income		10,354	6,418	6,147	271
Auditors fees	34.5	(11,000)	(11,000)	(4,456)	(6,544)
Administrative costs	34.6	(508,419)	(496,826)	(434,093)	(62,733)
Depreciation, amortisation and impairments	34.7	(23,359)	(93,657)	(15,707)	(77,950)
Employee costs	34.8	(1,003,762)	(1,030,742)	(941,945)	(88,797)
Other operating expenses	34.9	(290,663)	(439,184)	(392,539)	(46,645)
<b>Operating surplus</b>		<b>7,130,413</b>	<b>4,293,834</b>	<b>7,173,853</b>	<b>(2,880,019)</b>
Investment revenue	34.10	10,050,128	9,372,595	7,746,161	1,626,434
Fair value adjustments	34.11	-	-	(4,233,877)	4,233,877
Finance cost		(6)	(6)	-	(6)
Unearned premium reserve	34.12	(1,690,390)	(1,166,995)	(2,475,516)	1,308,521
<b>Net surplus for the year after reserving</b>		<b>15,490,145</b>	<b>12,499,428</b>	<b>8,210,621</b>	<b>4,288,807</b>
		<b>Note 33</b>	<b>Note 33</b>		
<b>Capital</b>					
Capital expenditure	34.13	182,320	262,952	129,454	133,498



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1. Basis of preparation

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

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

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

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

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

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

#### 1.1 Investment property

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

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

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

##### Cost model

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

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

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.2 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

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

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

An intangible asset arising from development is recognised when:

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

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

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

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

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

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

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

Intangible assets are derecognised:

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.4 Impairment of non-financial assets

The Fund assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Fund estimates the recoverable service amount of the asset.

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

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

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

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

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

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

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

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

### 1.5 Financial assets and liabilities

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

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

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

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.5 Financial assets and liabilities (continued)

#### 1.5.1 Classification of financial assets and liabilities

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

##### **Financial instruments held-for-trading**

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

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

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

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

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

##### **Financial instruments at amortised cost**

##### **Investments**

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

##### **Cash and cash equivalents**

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

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

##### **Trade and other receivables**

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.5 Financial assets and liabilities (continued)

#### Trade and other payables

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

#### 1.5.2 Recognition

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

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

#### 1.5.3 Measurement

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

#### 1.5.4 Fair value measurement principles

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

Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve, volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values. Inputs are based on market data at the statement of financial position date where other pricing models are used.

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

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

The fair value of floating rate and overnight deposits with credit institutions are their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the statement of financial position date. If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.5 Financial assets and liabilities (continued)

#### 1.5.5 Gains and losses on subsequent measurement

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

#### 1.5.6 Impairment of financial assets

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

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

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

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

The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Short-term receivables are not discounted. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within "administrative costs". An uncollectable trade receivable is written off against the allowance account for trade receivables. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance. Subsequent recoveries of amounts previously written off are credited against "other income" in the statement of financial performance.

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

#### 1.5.7 De-recognition

##### Financial Assets

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

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



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.5 Financial assets and liabilities (continued)

#### Financial Liabilities

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

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

#### 1.5.8 Interest income and expense

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

#### 1.5.9 Dividend income

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

Dividend income is recognised as part of "Investment Revenue".

#### 1.5.10 Expenses

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

#### 1.5.11 Investments in associates

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

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

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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

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

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

#### Legal Claims Debtors – Contributions

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

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

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

#### Transactions under Investigation

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

Risk Management Transactions are categorised in:

- Transactions under investigation
- Actual Fraud Detected

Impairment is based on:

- Known debtors
- Unknown debtors

#### Known Debtors

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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

#### Unknown Debtors

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

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

#### Statutory receivables

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

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

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

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

### 1.7 Unemployment insurance and liabilities

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

A contributor's entitlement to benefits in terms of the Unemployment Insurance Act accrues at a rate of one day's benefit for every completed six days of employment as a contributor, subject to a maximum accrual of 238 days benefits in the four year period immediately preceding the date of application for benefits, less any days of benefits received by the contributor during the period. The allocation of credit days within the maximum accrual of 238 days in a four year cycle is calculated in accordance with "Regulation no. 98 Government Notice no. 29594" on an equal basis of 59.5 days per year. To calculate the benefit payable to a contributor, the daily rate of remuneration of the contributor, subject to the prescribed maximum, must be determined. A graduated income replacement rate, ranging from 60% for the low-income earners to 38% for the middle and high income earners is then applied.

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.7 Unemployment insurance and liabilities (continued)

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

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

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

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

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

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

#### Technical reserve

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

The provision is not discounted.

#### Outstanding benefits provision

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

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

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

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

The provision is not discounted.

#### 1.7.1 Liability adequacy test

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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### 1.8 Leases

#### Operating leases - lessor

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

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

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

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

#### Operating leases – lessee

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

### 1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

### 1.10 Contribution revenue - revenue from exchange transactions

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

#### Recognition and measurement

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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

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

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

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

This policy is consistent with prior years.

#### Employee remuneration information gap

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

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

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

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

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

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

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

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

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

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



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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

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

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

The following revenue streams have been classified:

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

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

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

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

### 1.11 Benefit payments

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

### 1.12 Significant judgments, estimates and assumptions

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

#### Derivatives

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

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

#### Outstanding benefits provision

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

#### Technical Reserve

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



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Accounting Policies

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

#### Unexpired risk liabilities and assumptions used

The average claim amount is currently approximately R3,451.18.

Claims handling expenses (CHE) are approximately 15.1% of the value of a claim.

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

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

The average salary of the claimants is R5,861.89.

The PAYG rate is set at 1.32% of which 1.09% is contributed by the cost of benefits and 0.23% is contributed by claims handling expenses. The cost of benefits PAYG rates for the last three financial years are 1.03%, 1.13% and 1.15% for 2016, 2015 and 2014 respectively. The claims handling expense PAYG rates are 0.24%, 0.22% and 0.23%. The overall rate is a weighted average of these rates.

#### Provisions - Capped leave

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

### 1.13 Unauthorised, irregular, fruitless and wasteful expenditure

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

### 1.14 Budget

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

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

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 2. Standards and interpretations of GRAP and changes in accounting policies

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

#### New Standards of GRAP

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

#### GRAP 20: Related Parties

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

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

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

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

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

#### GRAP 108: Statutory Receivables

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

#### Changes in accounting policies

During the 2016 financial year, the Fund changed its accounting policy with respect to the treatment of funds receivable from National Treasury which had an effect on the statement of financial position and cash flow statement of the Fund.

Comparative information was adjusted in accordance with GRAP3, Accounting Policies, Changes in accounting estimates and errors. The effect on the disclosures are as follow:

#### Statement of financial position

##### Current assets

##### Cash and cash equivalents

Previously stated	-	1,692,067
Adjustment - statutory receivables	-	(199,942)
	-	<b>1,492,125</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>2. Standards and interpretations of GRAP and changes in accounting policies (continued)</b>		
<b>Statutory receivables</b>		
Previously stated	-	-
Adjustment - statutory receivables	-	199,942
	<b>-</b>	<b>199,942</b>
<b>Cash flow statement</b>		
<b>Cash generated from operations</b>		
Previously stated	-	7,363,650
Adjustment - statutory receivables	-	(30,008)
	<b>-</b>	<b>7,333,642</b>
<b>Cash and cash equivalents at the end of the year</b>		
Previously stated	-	1,692,067
Adjustment - statutory receivables	-	(199,942)
	<b>-</b>	<b>1,492,125</b>
<b>3. Revenue</b>		
Contributions received	16,701,243	15,754,116
Penalties and interest received from contributors	419,138	392,621
	<b>17,120,381</b>	<b>16,146,737</b>
Revenue consists of Unemployment Insurance contributions, interest and penalties received from registered employers in terms of the Unemployment Insurance Contributions Act (Act No.4 of 2002).		
<b>4. Benefit payments</b>		
<b>Benefit payments to beneficiaries</b>		
Benefit payments - Unemployment	6,332,857	5,743,330
Benefit payments - Illness	262,098	255,097
Benefit payments - Maternity	808,523	810,299
Benefit payments - Adoption	789	625
Benefit payments - Dependants	286,886	276,233
	<b>7,691,153</b>	<b>7,085,584</b>
<b>Changes in benefits payable</b>		
Changes in benefits payable	392,211	225,238
	<b>8,083,364</b>	<b>7,310,822</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 4. Benefit payments (continued)

#### Calculation of benefits

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

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

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

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

#### Creation and maintenance of database

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

In terms of Section 57 of the Unemployment Insurance Act, 2001 the Fund has to maintain a database of contributors. The Fund recognises the importance of the information captured on the database as it forms the basis for the payment of unemployment insurance claims. Apart from the system controls by way of the various business rules built into the application, the Fund implemented various other controls:

- Declarations received are screened by the Team Leaders in the Employee Declaration Section (EDS),
- Employer record is verified to ensure that the address matches the master record
- Information on the form is verified to ensure that it is properly and correctly completed and dates and other fields meet business rule requirements
- Declarations captured at UIF Head Office are subjected to a random sampling by the supervisors in the section and errors identified are corrected
- Declarations are updated directly from extracts of auditable payrolls of employers
- ID numbers captured are validated against the population register

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

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

### 5. Unemployment alleviation schemes

Training and Social Plan Funding	51,772	77,640
Training lay-off scheme	28,799	15,676
	<b>80,571</b>	<b>93,316</b>

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 5. Unemployment alleviation schemes (continued)

#### Training Lay-off Scheme

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

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

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

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

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

The Fund's committed R1.2 billion to the "Training Layoff Scheme" was budgeted for expenditure over the MTEF period

The Fund signed funding agreements to the value of R156 million since the inception of the scheme and paid R28.78 million during the year under review (2015: R15.67 million) based on withdrawal conditions. The committed funds will be disclosed as a contingent liability until the project is exhausted or cancelled and actual expenditure will be disclosed in the Statement of Financial Performance under Unemployment Alleviation Schemes.

#### Training and Social Plan Funding

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

The Minister of Labour approved in principle projects to provide funding to "Poverty Alleviation Schemes" including up-skilling/training to the unemployed and Social Plan funding. The Fund budgeted R400 million for up-skilling/training and Social Plan funding for the financial year ended 31 March 2016 (2015: R400 million). The up-skilling/training and Social Plan funding are to be executed in close relationship with the National Skills Fund (NSF), the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives.

R320 million has been committed through funding agreements since the inception of the "Training of the Unemployed" initiative. The Fund signed funding agreements to the value of R129 million with the Mining Qualifications Authority (MQA) and the Manufacturing, Engineering and Related Services SETA (merSETA) to train 1,000 and 1,500 artisans respectively. A further R78 million was signed with the Media Information Communication and Technology SETA (MICT SETA) to train 3,000 unemployed on End-user Computing. Additional contracts to the value of R72 million were signed with the Energy and Water SETA to train 300 learners on solar geyser installation and the Transport SETA (TETA) to train 777 learners on the different artisan programmes; 140 on learnerships, 20 pilots and 100 on scuba diving. During the year under review, a further R59 million was committed through 33 funding agreements with different TVET Colleges for Building and Civil Construction Learnerships.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 5. Unemployment alleviation schemes (continued)

R34.104 million was paid for the year under review to the various schemes based on their withdrawal conditions (2015: R48.389 million).

The Social Plan is implemented through Productivity South Africa. Productivity South Africa implements Turnaround Solutions to companies that want to improve their productivity. This services has also been extended to companies that are in distress through the Training Lay-off Scheme. The three year service level agreement which was signed with Productivity South Africa according to which the UIF has committed to pay R62 million for the year under review, R98.81 million for 2016/2017 and R78.72 million for 2017/2018. R17.67 million was paid to Productivity South Africa with regards to Social Plan Funding for the year under review based on the funding conditions in the agreement (2015: R29.25 million).

### 6. Other income

Rental income	2,247	1,944
Recoveries on overpayments written off	3,640	2,117
Other recoveries	8	(1)
Proceeds on disposals	252	(1)
	<b>6,147</b>	<b>4,059</b>

### PPP Reinvestment Fund

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

### 7. Auditors' fees

#### Audit 2013/14

- Audit fees	-	2,395
- Expenses	-	-

#### Audit 2014/15

- Audit fees	2,695	3,256
- Expenses	37	349

#### Audit 2015/16

- Audit fees	1,447	-
- Expenses	277	-
	<b>4,456</b>	<b>6,000</b>

The Auditor-General's budgeted audit fee for the financial year ended 31 March 2016 amounts to R5,404,739 (2015: R4,744,259) excluding VAT.

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

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<b>8. Depreciation, amortisation and impairments</b>		
<b>Depreciation and amortisation</b>		
Buildings	1,157	1,676
Furniture and fixtures	1,185	1,060
Motor vehicles	221	252
Office equipment	527	1,127
IT equipment	5,142	2,639
Computer software	6,066	1,365
Leasehold improvements	399	-
Other property, plant and equipment	1,010	350
	<b>15,707</b>	<b>8,472</b>
<b>Impairments loss/(reversal)</b>		
Land and buildings	-	(1,631)
	<b>15,707</b>	<b>8,472</b>
<b>Depreciation and amortisation</b>	<b>15,707</b>	<b>8,472</b>
<b>Impairments loss/(reversal)</b>	<b>-</b>	<b>(1,631)</b>
	<b>15,706</b>	<b>6,842</b>

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

## 9. Investment revenue

Interest - Financial assets	6,736,752	5,631,815
Dividends received	977,045	856,199
Interest - Bank (Commercial banks)	29,899	23,402
Other interest	2,465	13
	<b>7,746,161</b>	<b>6,511,429</b>
<b>Investment revenue earned on financial assets by category</b>		
Interest earned on financial assets at fair value	6,102,736	5,060,710
Dividends earned on financial assets at fair value	977,045	856,199
Interest earned on financial assets at amortised cost	666,378	594,520
	<b>7,746,159</b>	<b>6,511,429</b>



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## Notes to the Annual Financial Statements

		2016 R '000	2015 R '000
<b>9. Investment revenue (continued)</b>			
<b>Rates of interest</b>			<b>Effective interest rate Weighted average</b>
Government bonds	Fixed rate	5.39%	5.48%
Parastatal bonds	Fixed rate	7.49%	7.38%
<b>Corporate bonds</b>			
- Manufacturing bonds	Fixed rate	7.97%	7.99%
- Manufacturing bonds	Floating rate	7.60%	7.18%
- Service bonds	Fixed rate	9.57%	9.57%
- Financial bonds	Fixed rate	9.34%	9.03%
- Asset backed securitisation (SPV)	Fixed rate	0.00%	0.00%
Commercial papers	Fixed rate	7.52%	0.00%
Certificate of deposits	Fixed rate	7.88%	6.87%
Promissory notes	Fixed rate	7.85%	6.76%
Bills	Fixed rate	7.78%	6.44%
Fixed deposits - FNB	Fixed rate	6.82%	5.82%
Fixed deposits - PIC	Fixed rate	7.57%	6.89%
Cash and cash equivalents	Floating rate	6.49%	4.80%

## 10. Fair value adjustments

• At fair value	(4,233,877)	5,339,907
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### Fair value per asset category

Listed Equity	(398,963)	3,662,643
Bonds	(3,846,967)	1,714,658
Bills	(633)	1,382
Promissory Notes	(2,658)	3,184
Negotiable Certificates of Deposit	90	609
Derivatives	-	(44,381)
Social Responsible Investments	15,210	1,812
Commercial papers	45	-
	<b>(4,233,877)</b>	<b>5,339,907</b>

Financial instruments designated at fair value upon initial recognition are investments in money market instruments, certificate of deposits, promissory notes, bills, equities, capital market instruments and options, derivatives in a net receivable position (positive fair value) as well as options purchased.

The assets and liabilities designated are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management and investment strategy.

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>11. Finance costs</b>		
Interest paid	-	299

During 2006, the Department of Labour conducted a job evaluation for all Assistant Directors on SR 9 and 10 and Deputy Directors on SR 11 and 12 respectively. The purpose of the evaluation was to upgrade the posts of those levels with effect from January 2007. The Assistant and Deputy Directors of the Fund were excluded from such evaluation because at the time the Fund was in the process of implementing its agencification processes which were ultimately discarded.

The job evaluation result were approved by the Director General and effected from 1 January 2007 to all employees of the Department who fell within those categories, that is, SR 9 were upgraded to SR 10 and SR 11 to SR 12. However, UIF employees were excluded from the whole process and did not benefit from the upgrade. A complain was lodged by the affected employees of the Fund and as result, a process of evaluating them was conducted and finalised in November 2007.

On the 30th November 2007 the Director-General approved the UIF job evaluation results and those results were implemented with effect from 1 December 2007. A grievance was lodged by the affected employees complaining that the failure of the Department to upgrade their posts simultaneously with other employees in the Department with effect from 1 January 2007 amounted to unfair labour practice.

The above matter was referred to CCMA for arbitration and the arbitrator concluded that the Department committed an unfair labour practice and must pay UIF employees compensation with effect from 1 January 2007, just like all other Department employees who benefited from the upgrade.

The Department was dissatisfied with the award and applied for a judicial review with the Labour Court. The Department of Labour's application was dismissed and they were ordered to comply with the arbitration award by compensating those affected employees with effect from 1 January 2007.

Interest was calculated according to Section 143(1) of the Labour Relations Act which provides that "If an arbitration award orders a party to pay a sum of money, the amount earns interest from the date of the award at the same rate prescribed from time to time in respect of a judgement debt in terms of section 2 of the Prescribe Rate of Interest Act, 1975 (Act 55 of 1975), unless the award provide otherwise". The applicable interest rate that was used is the legal rate prescribed in the above Act which is 15,5% per annum.

## 12. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	2,799	(809)	1,990	2,799	(809)	1,990

### Reconciliation of investment property - 2016

	Opening Balance	Closing Balance
Investment property	1,990	1,990

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 12. Investment property (continued)

#### Reconciliation of investment property - 2015

	Opening Balance	Closing Balance
Investment property	1,990	1,990

#### Details of property

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

Purchase price: 2 February 1985	41	41
Additions since purchase	818	818
	<b>859</b>	<b>859</b>

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

Purchase price: 2 July 1991	1,940	1,940
Additions since purchase	-	-
	<b>1,940</b>	<b>1,940</b>

#### Details of valuation

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

The effective date of the valuation was 31 March 2016. The market valuation was performed by John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor, professional registered valuers. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor certified that the present day market value of the property was R5,800,000 as at 31 March 2016.

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

The effective date of the valuation was 31 March 2016. The market valuation was performed by John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor, professional registered valuers. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor certified that the present day market value of the property was R8,000,000 as at 31 March 2016.

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>12. Investment property (continued)</b>		
<b>Erf 895 (a portion of erf 252) Bisho</b>		
<b>The following income and expenditure are included in the surplus/deficit of the Fund:</b>		
Rental income	904	642
Direct operational expenses	(203)	(199)
	<b>701</b>	<b>443</b>

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

The following income and expenditure are included in the surplus/deficit of the Fund:

Rental income	828	755
Direct operational expenses	(586)	(550)
	<b>242</b>	<b>205</b>

## 13. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	35,025	-	35,025	9,519	-	9,519
Buildings	68,505	(22,152)	46,353	62,942	(20,996)	41,946
Furniture and fixtures	12,767	(9,250)	3,517	10,422	(8,345)	2,077
Motor vehicles	3,004	(371)	2,633	1,567	(1,247)	320
Office equipment	3,557	(2,775)	782	7,153	(5,960)	1,193
IT equipment	25,214	(9,806)	15,408	10,067	(4,664)	5,403
Leasehold improvements	3,593	(399)	3,194	-	-	-
Other property, plant and equipment	7,704	(1,140)	6,564	3,891	(349)	3,542
<b>Total</b>	<b>159,369</b>	<b>(45,893)</b>	<b>113,476</b>	<b>105,561</b>	<b>(41,561)</b>	<b>64,000</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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

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

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

#### Reconciliation of property, plant and equipment - 2015

	Opening Balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	8,974	-	-	-	545	9,519
Buildings	42,508	28	-	(1,674)	1,084	41,946
Furniture and fixtures	2,643	498	(4)	(1,060)	-	2,077
Motor vehicles	572	-	-	(252)	-	320
Office equipment	2,167	164	(11)	(1,127)	-	1,193
IT equipment	1,852	6,241	(50)	(2,640)	-	5,403
Other property, plant and equipment	355	3,540	(3)	(350)	-	3,542
	<b>59,071</b>	<b>10,471</b>	<b>(68)</b>	<b>(7,103)</b>	<b>1,629</b>	<b>64,000</b>

#### Details of properties

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

#### Details of valuation:

The effective date of the valuation was 31 March 2016. The market valuation was performed by John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor, professional registered valuers. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor certified that the present day market value of the property was R91,200,000 as at 31 March 2016.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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

#### Erf 34, Randjespark, Extension 30, Midrand

##### Details of valuation:

The effective date of the valuation was 31 March 2016. The market valuation was performed by John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor, professional registered valuers. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor certified that the present day market value of the property was R5,400,000 as at 31 March 2016.

#### Erf 834 Portion 50, Sunnyside, Pretoria

##### Details of valuation:

The effective date of the valuation was 31 March 2016. The market valuation was performed by John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor, professional registered valuers. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor are not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. John Cloete Professional Associated Valuer and Sello Mabuza Single Residential Property Assessor certified that the present day market value of the property was R27,500,000 as at 31 March 2016.

### 14. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	92,988	(5,744)	87,244	17,430	(1,504)	15,926
Intellectual property	14,718	-	14,718	14,718	-	14,718
<b>Total</b>	<b>107,706</b>	<b>(5,744)</b>	<b>101,962</b>	<b>32,148</b>	<b>(1,504)</b>	<b>30,644</b>

# Unemployment Insurance Fund

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### 14. Intangible assets (continued)

#### Reconciliation of intangible assets - 2016

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

#### Reconciliation of intangible assets - 2015

	Opening Balance	Additions	Disposals	Amortisation	Total
Computer software	741	16,557	(7)	(1,365)	15,926
Intellectual property	14,645	73	-	-	14,718
	<b>15,386</b>	<b>16,630</b>	<b>(7)</b>	<b>(1,365)</b>	<b>30,644</b>

#### Work-in-progress

Included in computer software additions for the financial year ended 31 March 2016 is an amount of R68,901,300 with regards to computer software that is in the process of development with the implementation of the Fund's ERP system. The lifespan could not be assessed as at 31 March 2016 due to the fact that the asset's full service potential was not yet known.

#### Intellectual property

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

### 15. Investments

#### At fair value through surplus or deficit

Listed equity	30,259,914	27,974,710
Unlisted shares	705,720	-
Bonds	74,930,879	73,647,807
Bills and Negotiable Certificates of Deposits	1,404,926	849,317
Promissory Notes	1,662,811	1,453,501
Unit Trusts	296,506	39,129
Commercial papers	156,422	-
	<b>109,417,178</b>	<b>103,964,464</b>

#### At amortised cost

Loans and receivables	1,153,662	57,002
Investment income receivable	260,619	133,032
Fixed deposits	9,609,535	7,625,481
	<b>11,023,816</b>	<b>7,815,515</b>

#### Total investments

**120,440,994 111,779,979**



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<b>15. Investments (continued)</b>		
<b>Non-current assets</b>		
At fair value through surplus or deficit	75,266,741	71,171,989
At amortised cost	1,153,662	57,002
	<b>76,420,403</b>	<b>71,228,991</b>
<b>Current assets</b>		
At fair value through surplus or deficit	34,150,437	32,792,475
At amortised cost	9,870,154	7,758,513
	<b>44,020,591</b>	<b>40,550,988</b>
	<b>120,440,994</b>	<b>111,779,979</b>

## 16. Trade and other receivables

### Trade and other receivables - financial assets

Rent receivable	1,271	4,675
Provision for impairment of rental debtors	(246)	(231)
Sundry debtors	1,325	1,154
Provision for impairment of sundry debtors	(1,307)	(1)
PPP Reinvestment Fund	324	324
Bank interest receivable	2,477	1,161
Uncleared bank deposits	12	487
	<b>3,856</b>	<b>7,569</b>

### Trade and other receivables - non-financial assets

Transactions under investigation debt	10,801	9,090
Provision for impairment of transactions under investigation debt	(10,801)	(6,621)
Disallowances and overpayments debt	209,635	216,460
Provision for impairment of disallowances/overpayments debt	(208,099)	(215,804)
Legal claims - contributions debt	9,482	3,354
Provision for impairment of legal claims debt	(9,482)	(3,354)
	<b>1,536</b>	<b>3,131</b>
	<b>5,392</b>	<b>10,700</b>

### Disallowances/overpayments debt

Disallowances/overpayments debt balance decreased by 3.3% (2015: 7.9% increase) from R216,459,847 in 2014/15 to R209,634,647 in 2015/16 due to the recovery of overpayment debt.

# Unemployment Insurance Fund

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

#### Risk of paying benefits in error

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

The UI Act proclaims:

1. **Section 14(a)(ii)** - "A contributor is not entitled to benefits for any period that the contributor (a) was in receipt of (ii) any benefit from the Compensation Fund ..., as a result of an occupational injury or disease, which injury or disease caused the total or temporary unemployment of that contributor."

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

3. **Section 56(3)** - Every employer must, before the seventh of each month, inform the Commissioner of any changes during the previous months in any information furnished in terms of 2(c). Section 56(4) empowers the Commissioner of the Fund to request the employer to provide additional particulars which may be required to give purpose to the Act.

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

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

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

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

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

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

#### Adjudication/Updated employee information received

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

# Unemployment Insurance Fund

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

#### Overpayment Policy

An overpayment policy was developed to guide, assist and standardise the management of debts arising from benefits paid in error by the Provincial Offices. When overpayments (benefits paid in error) are noted the Fund starts with the "Recovery of benefits paid in error" as per section 35 of the UI Act and institutes section 61(6) to recover the loss from any outstanding benefits payable due. In addition the Fund may institute the "Suspension of Contributors" as per UI Act Section 36. Since the approval of the policy there has been a major improvement in the general administration of debt management.

#### Debt Collection

During the financial year under review, the Fund collected R59,278,885; in set-offs R53,881,287 and bank deposits R5,397,598. For the financial year ending 31 March 2015 the Fund collected R57,868,900 in total; set-offs R53,063,197 and bank deposits R4,805,703.

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

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

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

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

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

Opening balance	232	207
New provision	1,321	25
	<b>1,553</b>	<b>232</b>

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

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

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

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>16. Trade and other receivables (continued)</b>		
<b>Reconciliation of provision for impairment of other trade and receivables - non-financial assets</b>		
<b>Provision for impairment of transactions under investigation debt</b>		
Opening balance	6,621	6,599
New provision	4,180	22
	<b>10,801</b>	<b>6,621</b>
<b>Provision for impairment of disallowances/overpayments debt</b>		
Opening balance	215,804	198,811
Movement in prior year provision	(4,702)	(6)
Written off	(62,168)	(32,129)
Cancelled	-	(730)
Recovered	-	(25,178)
New provision	59,165	75,036
	<b>208,099</b>	<b>215,804</b>
<b>Provision of impairment of legal claims - contribution debt</b>		
Opening balance	3,354	2,903
Movement in prior year provision	-	24
Written off	-	(68)
Recovered	(38)	(20)
New provision	6,167	515
	<b>9,483</b>	<b>3,354</b>
	<b>228,383</b>	<b>225,779</b>

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

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

Trade and other receivables less than 3 months past due are not considered to be impaired. At 31 March 2016, R3,740,220 (2015: R1,972,911) were less than 3 months past due but not impaired.

The amounts past due but not impaired are as follows:

PPP Reinvestment Fund	324	324
Bank interest receivable	2,477	1,161
Uncleared bank deposits	12	487
	<b>2,813</b>	<b>1,972</b>

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

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

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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

#### Trade and other receivables - financial assets, impaired

As of 31 March 2016, trade and other receivables - "rent receivable" of R1,271,020 were impaired with R245,868 (2015: R4,675,446, impairment R230,602).

The ageing of trade and other receivables - "rent receivable" is as follows:

0 to 3 months	331	83
3 to 6 months	251	168
Over 6 months	689	4,424
	<b>1,271</b>	<b>4,675</b>

As of 31 March 2016, trade and other receivables - "sundry debtors" of R1,324,773 (2015: R1,154,089) were impaired. The amount provided for was R1,307,158 as of 31 March 2016 (2015: R1,030). The ageing of trade and other receivables - "sundry debtors" is as follows:

0 to 3 months	1,308	1,136
3 to 6 months	(1)	-
Over 6 months	18	18
	<b>1,325</b>	<b>1,154</b>

The carrying amount of trade and other receivables are denominated in the following currencies:

#### Statutory receivables

#### Funds held at National Treasury

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

National Treasury	149,879	199,942
Department of Labour	72,621	-
	<b>222,500</b>	<b>199,942</b>

### 17. Cash and cash equivalents

Cash on hand	10	10
Bank balances	3,812,865	1,492,126
Bank overdraft	(12)	(11)
	<b>3,812,863</b>	<b>1,492,125</b>
Current assets	3,812,875	1,492,136
Current liabilities	(12)	(11)
	<b>3,812,863</b>	<b>1,492,125</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 17. Cash and cash equivalents (continued)

#### Cash on hand and bank balances

Cash at banks earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents is R3,812,862,566 (2015: R1,492,600,683).

#### Bank overdraft

Bank overdrafts are due to bank accounts on which after trading hours transactions were processed and only cleared the following banking date that is after the reporting date. The Fund does not have approved overdraft facilities and accordingly there are not any unused bank overdraft facilities. None of the Funds assets have been pledged as collateral of any kind.

### 18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2016	Fair value (R'000)	Amortised Cost (R'000)	Non- financial assets (R'000)	Total (R'000)
Trade and other receivables	-	3,856	1,536	5,392
Statutory receivables	-	222,500	-	222,500
Investments - unit trusts	296,506	-	-	296,506
Investments - listed equity	30,259,914	-	-	30,259,914
Investments - unlisted shares	705,720	-	-	705,720
Commercial papers	156,422	-	-	156,422
Investments - bonds	74,930,879	-	-	74,930,879
Investments - bills, promissory notes and				
certificate of deposits	3,067,737	-	-	3,067,737
Fixed deposits	-	9,609,535	-	9,609,535
Investment income receivable	-	260,619	-	260,619
Cash and cash equivalents	-	3,812,875	-	3,812,875
Loans and receivables	-	1,153,662	-	1,153,662
Investment property	-	-	1,990	1,990
Property, plant and equipment	-	-	113,476	113,476
Intangible assets	-	-	101,962	101,962
	<b>109,417,178</b>	<b>15,063,047</b>	<b>220,423</b>	<b>124,700,648</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

			2016 R '000	2015 R '000
18. Financial assets by category (continued)				
2015	Fair value (R'000)	Amortised Cost (R'000)	Non- financial assets (R'000)	Total (R'000)
Trade and other receivables	-	7,093	3,131	10,224
Statutory receivables	-	199,942	-	199,942
Investments Unit Trusts	39,129	-	-	39,129
Investments - listed equity	27,974,710	-	-	27,974,710
Investments - bonds	73,647,807	-	-	73,647,807
Investments - bills, promissionary notes and certificate of deposits	2,302,818	-	-	2,302,818
Fixed deposits	-	7,625,481	-	7,625,481
Investment income receivable	-	133,032	-	133,032
Cash and cash equivalents	-	1,492,612	-	1,492,612
Loans and receivables	-	57,002	-	57,002
Investment property	-	-	1,990	1,990
Property, plant and equipment	-	-	64,000	64,000
Intangible assets	-	-	30,644	30,644
	103,964,464	9,515,162	99,765	113,579,391

### Fair values of financial assets by hierarchy level

The UIF adopted GRAP 104 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Fixed deposits and Loans and receivables are excluded from the table below since it is valued at amortised cost and not fair value.

### Financial assets measured at fair value

	Level 1	Level 2	Level 3
Bonds	37,630,111	36,865,680	-
Listed equities	30,259,912	-	-
Unlisted equities	-	-	816,001
Unit trusts	-	-	306,678
Bills	-	677,927	-
Promissory notes	-	1,662,809	-
Certificate of deposits	-	726,997	-
Commercial papers	-	156,422	-
	<b>67,890,023</b>	<b>40,089,835</b>	<b>1,122,679</b>



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>18. Financial assets by category (continued)</b>		
<b>Reconciliation of Level 3 values: Unit Trusts</b>		
Opening book value	47,515	-
Net capital movement in the period		
- Purchases	268,941	40,000
- Sales	(3,508)	-
- Management fees	28,350	7,515
<b>Closing book value before return on investment</b>	<b>341,298</b>	<b>47,515</b>
Closing book value	341,298	47,515
Plus:		
- Fair value adjustments (unrealised surplus and deficit)	(25,621)	(8,999)
Less:		
- Fair value adjustments (unrealised surplus and deficit)	25,621	8,999
<b>Closing book value after return on investment</b>	<b>341,298</b>	<b>47,515</b>
<b>Mark to market</b>		
Book value	341,298	47,515
Fair value adjustment	(34,620)	(8,386)
<b>Market value of investment</b>	<b>306,678</b>	<b>39,129</b>
<b>Reconciliation of Level 3 values: Unlisted equity</b>		
Opening book value	675,001	-
Net capital movement in the period		
- Purchases	1,155,001	-
- Sales	(480,000)	-
<b>Closing book value before return on investment</b>	<b>675,001</b>	<b>-</b>
Closing book value	675,001	-
Plus:		
- Fair value adjustments (unrealised surplus and deficit)	141,000	-
Less:		
- Fair value adjustments (unrealised surplus and deficit)	(141,000)	-
<b>Closing book value after return on investment</b>	<b>675,001</b>	<b>-</b>
<b>Mark to market</b>		
Book value	675,001	-
Fair value adjustment	141,000	-
<b>Market value of investment</b>	<b>816,001</b>	<b>-</b>

## 19. Derivative financial instruments

The Fund has adopted a conservative approach to investment in equities. To remove the risk of capital loss to the equity portfolio, the Fund uses Over-the-counter (OTC) equity options to hedge its exposure to changes in the fair value of its equity portfolio. The Fund also utilises zero-cost-fences to lock in acceptable levels of upside and downside movements on the equity portfolio.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 19. Derivative financial instruments (continued)

The structure comprises of bought and sold put options and bought call options at strike prices which provide a zero premium at inception of the structure. This protects the capital base of the equity portfolio.

The Fund had no open derivatives position as at 31 March 2016.

### 20. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance (R'000)	Utilised during the year (R'000)	Adjustment provision for the year (R'000)	Total (R'000)
Capped leave pay	26,099	(378)	96	25,817

#### Reconciliation of provisions - 2015

	Opening Balance (R'000)	Utilised during the year (R'000)	Adjustment provision for the year (R'000)	Total (R'000)
Capped leave pay	26,703	101	(705)	26,099

The Fund changed its leave policy in 2002 due to the new dispensation. The Fund capped all employees' unused leave from the previous years prior to June 2000, limiting employees to take such leave during their working life at the Fund under specific conditions. Capped leave is payable, based on the salary notch at the date of termination, which is only applicable if the termination of service is as a result of retirement, ill-health, death or specific leave conditions.

### 21. Trade and other payables

Trade payables	247,303	209,018
Salary accrual	27,651	27,561
Current leave pay accrual	32,430	31,638
Deposits received	6,207	5,745
	<b>313,591</b>	<b>273,962</b>

#### Trade payables

Trade payables are subject to normal trade credit terms and relatively short payment cycles.

#### Leave pay and service bonus

The current leave pay accrual and service bonus accrual are based on the liability for the current leave cycle not utilised and service bonuses payable.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 22. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2016	Amortised cost (R'000)	Fair value through surplus/deficit (R'000)	Non-financial liabilities (R'000)	Total (R'000)
Provisions	-	-	25,817	25,817
Trade and other payables	281,161	32,430	-	313,591
Bank overdraft	12	-	-	12
Benefits liability	-	-	4,234,928	4,234,928
	<b>281,173</b>	<b>32,430</b>	<b>4,260,745</b>	<b>4,574,348</b>

2015	Amortised cost (R'000)	Fair value (R'000)	Non-financial liabilities (R'000)	Total (R'000)
Provisions	-	-	26,099	26,099
Trade and other payables	242,324	31,638	-	273,962
Bank overdraft	11	-	-	11
Benefits liability	-	-	3,840,611	3,840,611
	<b>242,335</b>	<b>31,638</b>	<b>3,866,710</b>	<b>4,140,683</b>

### 23. Benefits liability

#### Benefits payable - Technical provision: estimated reported benefits payable and claims incurred but not reported (IBNR)

Opening balance	3,835,846	3,610,609
Net movement in estimate	392,212	225,237
Provision for benefit payments - current year	4,166,267	3,769,243
Revised ultimate claim amounts - prior years	605,025	132,509
Claims paid - prior years	(4,379,080)	(3,676,515)
	<b>4,228,058</b>	<b>3,835,846</b>

#### Benefits payable - approved

Opening balance	4,766	2,862
Claims approved	7,693,257	7,087,488
Payments made	(7,691,153)	(7,085,584)
	<b>6,870</b>	<b>4,766</b>

#### Total benefits liability

<b>4,234,927</b>	<b>3,840,611</b>
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# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 24. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Fund's financial instruments that are carried in the financial statements. The table does not include the fair value of non-financial assets and non-financial liabilities.

Financial assets	2016 Carrying value (R'000)	2016 Fair value (R'000)	2015 Carrying value (R'000)	2015 Fair value (R'000)
Fair value - unit trusts	296,506	296,506	39,129	39,129
Fair value - listed equity	30,259,914	30,259,914	27,974,710	27,974,710
Fair value - unlisted shares	705,720	705,720	-	-
Fair value - commercial papers	156,422	156,422	-	-
Fair value - bonds	74,930,879	74,930,879	73,647,807	73,647,807
Fair value - certificate of deposits, promissory notes and bills	3,067,737	3,067,737	2,302,818	2,302,818
* Amortised cost - loans and receivables	1,153,662	1,153,662	57,002	57,002
* Amortised cost - fixed deposits	9,609,535	9,609,535	7,625,481	7,625,481
* Amortised cost - investment income receivable	260,619	260,619	133,032	133,032
* Amortised cost - cash and cash equivalents	3,812,875	3,812,875	1,492,612	1,492,612
* Amortised cost - trade and other receivables				
- Rent receivable	1,025	1,025	4,444	4,444
- Sundry receivables	18	18	1,153	1,153
- PPP Reinvestment Fund	324	324	324	324
- Bank interest receivable	2,477	2,477	1,161	1,161
- Uncleared bank deposits	12	12	487	487
<b>Financial liabilities</b>				
	2016 Carrying value (R'000)	2016 Fair value (R'000)	2015 Carrying value (R'000)	2015 Fair value (R'000)
Fair value - derivative liability	-	-	-	-
Amortised cost - trade and other payables				
- Trade payables	274,954	274,954	209,018	209,018
- Salary accrual	32,430	32,430	27,561	27,561
- Deposits received	6,207	6,207	5,745	5,745
* Amortised cost - bank overdraft	12	12	11	11

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 24. Fair value of financial instruments (continued)

#### \* Assets and liabilities for which fair value approximates carrying value

Financial assets and financial liabilities that are liquid or have a short term maturity (less than three months) it is assumed that their carrying amounts approximate their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity (PPP Investment Account) and variable financial instruments.

#### Fixed rate financial instruments

Fixed interest bearing deposit carrying amounts are assumed to approximate to their fair value because the maturity of all the deposits are less than 12 months.

### 25. Cash generated from operations

Surplus for the year	10,686,137	19,024,338
<b>Adjustments for:</b>		
Depreciation and amortisation	15,707	8,468
Investment revenue	(7,746,161)	(6,511,429)
Finance costs	-	299
Fair value adjustments	4,233,877	(5,339,907)
Impairment reversals	-	(1,629)
Movements in provisions	(282)	(604)
<b>Changes in working capital:</b>		
Trade and other receivables	5,301	9,271
Statutory receivables	(22,558)	(30,484)
Loans and receivables	(127,587)	(109,262)
Trade and other payables	39,629	57,439
Benefits payable	2,104	1,904
Benefits payable - technical provision	392,212	225,237
	<b>7,478,379</b>	<b>7,333,642</b>

### 26. Contingencies

#### Labour Activation Programmes

#### Poverty alleviation schemes

Training Lay-off Scheme	66,685	54,746
Training of the unemployed	221,963	190,368
Social Plan Funding	220,860	29,250
	<b>509,508</b>	<b>274,364</b>

#### Litigation against the Fund

Two cases were lodged against the Fund during the 2015/2016 financial year with regards to the adjudication of benefit payments. The first case relates to an ex-mine worker who was paid during the 2014/2015 financial year, but took the Fund to the High Court, whereas the second case lodged against the Fund was for dependant benefits wherein the application was lodged outside of the prescribed period of six months.

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>26. Contingencies (continued)</b>		
<b>High Court Legal Actions against the Fund - Xcel Engineering and Management (Pty) Ltd</b>		
Litigation against the Fund relating to a dispute with Xcel Engineering and Management (Pty) Ltd who claimed an amount of R11,756,563 with interest for additional IT related services rendered during the period May 1998 to April 2000 was finalised and the case closed. The dispute related to the agreement the Fund had with Star Award Micro Systems (Pty) Ltd, to which the plaintiff was subcontracted. Each party will be liable for paying its own cost, however the Fund has not received any bill of cost from the State Attorneys in this regard and the Fund does not anticipate receiving any invoice since there is no outstanding debt due by the Fund in this regard.		
<b>27. Commitments</b>		
<b>Authorised contractual expenditure</b>		
<b>IT Enablement</b>		
<b>Contracted for but not provided for</b>		
- Interfile: U-Filing	15,143	30,285
- Computron: Change requests and Service and Maintenance	-	216
- Accenture	69,426	135,614
<b>Insurance</b>		
<b>Contracted for but not provided for</b>		
- FirstRand	5,129	8,703
- Marsh Alexander Forbes Risk Services	331	-
<b>Actuarial Services</b>		
<b>Contracted but not provided for</b>		
- QED Actuaries and Consultants (Pty) Ltd (Previously AON)	75	539
<b>Investment Advisory Services</b>		
<b>Contracted for but not provided for</b>		
- Riscura Solutions	-	56
<b>Professional Services</b>		
<b>Contracted for but not provided for</b>		
- CQS Technology Holdings (Pty) Ltd	113	113
- PricewaterhouseCoopers Inc	904	456
- Sekela Consulting	2,265	7,131
- VPS Africa	893	1,974
- Vodacom Communications	56	280
- New Integrated Credit Solution	5,322	5,648
- IDI Technology	-	40
<b>Authorised but not contracted for</b>		
- XDS Solutions	62,238	64,485
<b>Other Commitments</b>		
<b>Contracted for but not provided for</b>		
- Sundry suppliers	15,485	-
	<b>177,380</b>	<b>255,540</b>

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>28. Emoluments</b>		
The Director-General of Labour is the Accounting Authority of the Unemployment Insurance Fund.		
<b>28.1. Directors (past and present) emoluments</b>		
<b>T.B. Seruwe (UI Commissioner)</b> <b>Appointed in position: 1 May 2007</b>		
- Salary	1,105	1,000
- Expense allowances	210	210
- State contribution: Pension Fund	108	100
- Performance Award	65	165
	<b>1,488</b>	<b>1,475</b>
<b>V. Mafata (Chief Financial Officer)</b> <b>Appointed in position: 1 December 2012</b> <b>Seconded to Compensation Fund: 1 June 2015</b>		
- Salary	125	745
- Expense allowances	30	181
- State contribution: Pension Fund	14	76
- Performance award	-	84
	<b>169</b>	<b>1,086</b>
<b>T.S. Maruping (Chief Director: Operations)</b> <b>Appointed in position: 1 June 2014</b>		
- Salary	948	688
- State contribution: Pension Fund	95	67
- Performance award	-	23
	<b>1,043</b>	<b>778</b>
<b>A.S C. Fourie (Director: Treasury, Investments and Actuarial Services)</b> <b>Appointed in position: 1 June 2014</b>		
- Salary	680	630
- Expense allowances	72	63
- State contribution: Pension Fund	79	71
- State contribution: Medical Aid	33	25
- Performance award	-	119
- Acting allowance	-	62
	<b>864</b>	<b>970</b>
<b>M.R. Makgamatho (Director: Compliance)</b> <b>Appointed in position: 1 November 2014</b>		
- Salary	747	642
- Expense allowances	30	13
- State contribution: Pension Fund	79	67
- State contribution: Medical Aid	16	16
- Performance award	-	32
	<b>872</b>	<b>770</b>



# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>28. Emoluments (continued)</b>		
<b>Z. Fololo (Director: Income and Accounts Receivable)</b>		
<b>Appointed in position: 1 December 2013</b>		
- Salary	669	635
- Expense allowances	99	99
- State contribution: Pension Fund	79	75
- State contribution: Medical Aid	17	17
- Arbitration award	-	77
- Acting allowance	-	52
	<b>864</b>	<b>955</b>
<b>G.M. Buthelezi (Director: Communications)</b>		
<b>Appointed: 1 June 2014</b>		
- Salary	708	564
- Expense allowances	72	60
- State contribution: Pension Fund	79	62
- State contribution: Medical Aid	5	4
- Performance award	-	62
	<b>864</b>	<b>752</b>
<b>N.L. Mahlangeni (Director: HRM)</b>		
<b>Resigned: 30 June 2015</b>		
- Salary	192	642
- Expense allowances	29	114
- State contribution: Pension Fund	16	65
- State contribution: Medical Aid	6	23
	<b>243</b>	<b>844</b>
<b>L.M. Molefe (Director: Organisational Effectiveness)</b>		
<b>Appointed in position: 1 September 2011</b>		
- Salary	809	756
- State contribution: Pension Fund	70	65
- State contribution: Medical Aid	23	23
	<b>902</b>	<b>844</b>
<b>S. Govender (Director: Operations)</b>		
<b>Promoted to the Department of Labour: 1 June 2014</b>		
- Salary	-	111
- Expense allowances	-	31
- State contribution: Pension Fund	-	14
	<b>-</b>	<b>156</b>
<b>L. Briedenhann (Director: Reporting)</b>		
<b>Appointed in position: 1 October 2008</b>		
- Salary	869	802
- State contribution: Pension Fund	74	67
	<b>943</b>	<b>869</b>

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>28. Emoluments (continued)</b>		
<b>H.A. Aderibigbe (Director: Budgets, Expenditure and Bank Recons)</b>		
<b>Appointed in position: 1 March 2005</b>		
- Salary	980	777
- Expense allowances	17	17
- State contribution: Pension Fund	73	68
- State contribution: Medical Aid	16	16
	<b>1,086</b>	<b>878</b>
<b>V. Mulindi (Director: Internal Audit)</b>		
<b>Appointed in position: 1 January 2014</b>		
- Salary	703	598
- Expense allowances	128	115
- State contribution: Pension Fund	77	75
- Performance award	41	-
	<b>949</b>	<b>788</b>
<b>J. Kumbi (Director: Operations)</b>		
<b>Appointed in position: 1 March 2012</b>		
- Salary	672	630
- Expense allowances	126	126
- State contribution: Pension Fund	70	65
- State contribution: Medical Aid	23	23
	<b>891</b>	<b>844</b>
<b>H.D. Mhlongo (Chief Director: Corporate Services)</b>		
<b>Appointed in position: 1 March 2013</b>		
- Salary	703	653
- Expense allowances	273	273
- State contribution: Pension Fund	83	77
- Performance award	-	84
	<b>1,059</b>	<b>1,087</b>
<b>T.S. Puzi (Chief Director: Risk Management)</b>		
<b>Transferred from the Compensation Fund: 1 April 2012</b>		
- Salary	859	778
- Expense allowances	156	156
- State contribution: Pension Fund	89	81
- State contribution: Medical Aid	34	34
	<b>1,138</b>	<b>1,049</b>
<b>X. Monakali (Chief Information Officer)</b>		
<b>Appointed: 1 August 2015</b>		
- Salary	496	-
- State contribution: Pension Fund	52	-
	<b>548</b>	<b>-</b>

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>28. Emoluments (continued)</b>		
<b>D.J. Khumalo (Director: Monitoring and Evaluation)</b>		
<b>Appointed in position: 1 November 2006</b>		
- Salary	727	672
- Expense allowances	111	111
- State contribution: Pension Fund	85	80
- State contribution: Medical Aid	21	21
	<b>944</b>	<b>884</b>
<b>M. Rasebopye (Director: SCM)</b>		
<b>Appointed in position: 1 October 2008</b>		
- Salary	712	680
- Expense allowances	112	80
- State contribution: Pension Fund	85	78
- State contribution: Medical Aid	29	30
	<b>938</b>	<b>868</b>
<b>L. van Wyk (Director: Office of the UIC)</b>		
<b>Transferred from the Compensation Fund: 1 September 2015</b>		
- Salary	358	-
- Expense allowances	100	-
- State contribution: Pension Fund	46	-
	<b>504</b>	<b>-</b>
<b>Advocate M.C. Phathela (Legal and Board Services)</b>		
<b>Appointed: 1 September 2009</b>		
- Salary	601	557
- Expense allowances	221	214
- State contribution: Pension Fund	70	65
- State contribution: Medical Aid	8	8
	<b>900</b>	<b>844</b>
<b>N.B. Mconywa (Chief Director: Labour Activation Programmes)</b>		
<b>Transferred from the Department of Labour: 1 March 2013</b>		
- Salary	957	903
- Expense allowances	69	113
- State contribution: Pension Fund	88	83
- State contribution: Medical Aid	9	9
- Acting allowance	-	32
	<b>1,123</b>	<b>1,140</b>
<b>Total Directors emoluments</b>	<b>18,332</b>	<b>17,881</b>

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

		2016 R '000	2015 R '000	
<b>28. Emoluments (continued)</b>				
<b>28.2.</b>	<b>Non-Executive Board members (past and present) fees</b>			
<b>2016</b>		<b>Fees for services</b>	<b>Expense allowances</b>	<b>Total</b>
<b>Board Members</b>				
G.H. Strauss	Re-appointed: 1 November 2014	85	63	148
N.M.W. Vermeulen*	Re-appointed: 1 November 2014	98	8	106
L. Kganyago*	Re-appointed: 1 November 2014	41	-	41
M.V. Macikama	Appointed: 1 November 2014	-	1	1
W.M. Nzimande	Re-appointed: 1 February 2016	25	1	26
A. Crawford	Appointed: 1 November 2014	28	6	34
A. Franks	Appointed: 1 November 2014	16	2	18
J. Mahlangu	Appointed: 1 November 2014	43	11	54
D. Mthlane	Appointed: 1 November 2014	30	8	38
S.N.R. Nwedo	Appointed: 1 November 2014	35	7	42
T. Tshefuta	Appointed: 1 November 2014	40	35	75
<b>Audit Committee</b>				
D. Hlatshwayo	Appointed: 5 March 2014	181	5	186
S. Makhubu	Term ended: 13 June 2016	15	1	16
D. Botha	Appointed: 22 January 2016	15	1	16
K. Reddy	Appointed: 4 June 2015	-	1	1
<b>Appeals Committee</b>				
L. Bale	Regional	-	-	-
L.E. Baloyi	Regional	6	1	7
A.P. Brandmuller	Regional	-	-	-
M. Crockett	Regional	6	5	11
K.C. Cotoza	Regional	6	-	6
S.H. Dlamini	Regional	-	-	-
J.V. Dliso	Regional	2	2	4
A.B. Gxoyiya	Regional	-	-	-
K. Hlonyana	Regional	4	2	6
K.K. Konopi	Regional	2	1	3
T. Mabuza	Regional	3	4	7
M. Majola	Regional	-	-	-
M.D. Makhafole	Regional	-	-	-
C.P. Maseko	Regional	3	-	3
M. Mazwi	Regional	(3)	-	(3)
R.B.T. Mcetywa	Regional	1	6	7
M. Molewe	Regional	2	4	6
M. Motsepe	Regional	4	2	6
P.G.F. Ndaba	Regional	10	8	18
G. Nduluka	Regional	-	-	-
P.M. Ntuli	Regional	1	4	5
J.D. Nzanzeka	Regional	6	-	6
T.M. Thebe	Regional	1	-	1

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

			2016 R '000	2015 R '000
<b>28. Emoluments (continued)</b>				
<b>Appeals Committee (continued)</b>		<b>Fees for services</b>	<b>Expense allowances</b>	<b>Total</b>
L.W. Palweni	Regional	1	-	1
S.M. Seabi	Regional	3	2	5
K.P. Timmal	Regional	2	-	2
J.J. Tshupe	Regional	3	2	5
J.G. van Graan	Regional	2	-	2
C.R. Waterson	Regional	6	-	6
F. Xaba	Regional	-	1	1
B.S. Zitha	Regional	3	-	3
O. Raleka	Regional	2	1	3
<b>Total</b>		<b>728</b>	<b>195</b>	<b>923</b>
<b>2015</b>				
<b>Board Members</b>				
W.J. Jacobs	Re-appointed: 1 November 2011	24	6	30
S. Gangca	Re-appointed: 1 November 2011	63	5	68
G.H. Strauss	Re-appointed: 1 November 2014	53	38	91
N.M.W. Vermeulen*	Re-appointed: 1 November 2014	53	8	61
M.P. Nkosi	Re-appointed: 1 November 2011	19	10	29
L.Kganyago*	Re-appointed: 1 November 2014	77	1	78
I. Frye	Appointed: 1 November 2011	10	-	10
B.K.M. Nhlapo	Appointed: 1 November 2011	58	10	68
W.M. Nzimande	Appointed: 29 January 2013	53	1	54
A. Crawford	Appointed: 1 November 2014	28	5	33
A. Franks	Appointed: 1 November 2014	10	2	12
J. Mahlangu	Appointed: 1 November 2014	17	3	20
D. Mthlane	Appointed: 1 November 2014	8	-	8
S.N.R. Nwedo	Appointed: 1 November 2014	5	1	6
T. Tshefuta	Appointed: 1 November 2014	16	18	34
<b>Audit Committee</b>				
D. Hlatshwayo	Appointed: 5 March 2014	191	6	197
S. Makhubu	Appointed: 5 March 2012	60	1	61
<b>Appeals Committee</b>				
L. Bale	Regional	-	-	-
L.E. Baloyi	Regional	4	1	5
A.P. Brandmuller	Regional	4	1	5
K.C. Cotoza	Regional	4	1	5
S.H. Dlamini	Regional	5	1	6
J.V. Dliso	Regional	-	-	-
M. Crockett	Regional	3	2	5
A.B. Gxoyiya	Regional	1	-	1

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

		2016 R '000	2015 R '000	
<b>28. Emoluments (continued)</b>				
<b>Appeals Committee (continued)</b>		<b>Fees for services</b>	<b>Expense allowances</b>	<b>Total</b>
K. Hlonyana	Regional	11	2	13
K.K. Konopi	Regional	5	2	7
T. Mabuza	Regional	3	4	7
M. Majola	Regional	3	-	3
M.D. Makhofola	Regional	-	-	-
C.P. Maseko	Regional	3	-	3
R.B.T. Mcetywa	Regional	1	5	6
M. Molewe	Regional	2	3	5
M. Motsepe	Regional	11	3	14
P.G.F. Ndaba	Regional	8	9	17
G. Nduluka	Regional	-	-	-
J.D. Nzanzeka	Regional	10	1	11
L.W. Palweni	Regional	1	-	1
S.M. Seabi	Regional	5	6	11
J.J. Tshupe	Regional	6	4	10
J.G. van Graan	Regional	1	-	1
C.R. Waterson	Regional	9	1	10
F. Xaba	Regional	5	2	7
B.S. Zitha	Regional	1	-	1
O. Raleka	Regional	5	1	6
		-	-	-
<b>Total</b>		<b>856</b>	<b>164</b>	<b>1,020</b>

\* Board Members who served on the Audit Committee.

## 29. Transactions under investigation

The Fund is vulnerable to fraudulent claims and is dependent on employee information supplied by employers via declarations and claimants' affidavits that they are unemployed. The Fund ensures that its systems and procedures are robust to detect and prevent payments made in error and/or fraudulent payments where possible.

Transactions under investigation are transactions when there is objective evidence requiring investigation by Risk Management such as intercepted payments, office errors, bank errors, unauthorised bank transactions, incorrect contribution refunds and all other transactions where objective evidence require investigation. Risk Management Transactions are categorised in Transactions under investigation and Actual Fraud Detected and form part of "Trade and other receivables" – non financial assets.

### Transactions under Investigation

Actual Fraud detected - Benefits	10,512	8,237
Actual Fraud detected - Non benefits	281	172
Transactions under Investigation	8	683
	<b>10,801</b>	<b>9,092</b>
Impairment	10,801	6,621

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 29. Transactions under investigation (continued)

Transactions under investigation are 100% impaired until evidence exist that measurable and probable economic benefits will flow to the Fund or there is no recovering probability and amounts are written off against the debtor's account. The portion not impaired for during the financial year under review are new transactions under investigation for which the recovering probability was not certain.

Recoveries of amounts previously written off are disclosed against "other income" in the statement of financial performance.

### 30. Write off of overpayments

#### Overpayments – Irrecoverable

The Overpayment Policy and Procedures of the Fund makes provision for write-off of debts that are deemed irrecoverable after all reasonable steps have been taken to recover the debt. These write-offs are in line with Section 11.4 of the Treasury Regulations and Section 76(1)(e) of the Public Finance Management Act.

Included in the "administrative expenses" is an amount of R49,797,664 (2015: R31,862,733) for irrecoverable overpayments which were written off during the financial year.

#### Overpayments written off

Irrecoverable overpayments	49,798	31,863
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#### Cancellation of Invalid Overpayments

##### Invalid overpayments

The Fund is regularly faced with cases where overpayment debts are disputed by clients or new evidence that comes to the Fund's attention that make the overpayment noted earlier invalid. In the cases where the dispute or new information is valid and the debts are found not to be valid, these debts need to be cancelled as invalid on the system. The reasons for the invalid overpayment cancellations are:

- New declaration lodged by the Employer and/or
- Credit days incorrectly calculated - the old overpayment is cancelled and new one created and/or
- Proof of prior payment in the LINC system and/or
- Overpayment erroneously created against an incorrect debtor

### 31. Irregular expenditure

Opening balance	20,710	-
Add: Irregular expenditure - current year	43,895	20,710
Less: Amounts condoned	(149)	-
	<b>64,456</b>	<b>20,710</b>

#### Irregular expenditure in respect of financial advisory services (condoned)

During August 2015, the Fund's Investment Committee requested that an Asset and Liability Modelling study (ALM) had to be performed by the Fund's actuaries, subsequent to which the Fund's investment advisor must be requested to analyse the ALM.

The request was made to the Fund's investment advisor, but based on the fact that they had to wait for the ALM to be completed before they could provide the Fund with a quotation, the Fund could not start the procurement process. During this period, the contract with the Fund's investment advisor came to an end, however they were still requested to proceed with the analysis on the ALM.



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 31. Irregular expenditure (continued)

The staff member who is also the service owner's behaviour was classified as incurring irregular expenditure resulting from non-adherence to an institution's supply chain management processes and delegations of authority since such delegations are issued in terms of sections 44 and 56 of the PFMA for departments/constitutional institutions and public entities respectively.

The Unemployment Insurance Commissioner condoned the expenditure of R148,827 and the service provider was paid.

#### Irregular expenditure in respect of IT services (current and prior year)

During the financial year under review, the Auditor General identified discrepancies/non-compliance with regards to the procurement processes involving five service providers with which the Fund had entered into contracts with which resulted in the expenditure classified as irregular expenditure.

Management is investigating the specific cases and will address the matters raised, including the related internal control deficiencies. A submission will be compiled during the 2016/2017 financial year to request the relevant authorities to condone the expenditure in line with the Fund's financial delegations after the investigations have been concluded.

### 32. Risk management

#### Introduction

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Fund's continuing sustainability and each individual within the Fund is accountable for the risk exposure relating to his or her responsibilities. The Fund is exposed to a variety of risks: operational risk, regulatory and legislative risk, litigation risk, insurance risk and financial risk including (market risk – price and interest rate risk- credit risk, and liquidity risk) as well as model/valuation risks, and concentration risk.

#### Risk management structure

The Accounting Authority is ultimately responsible for identifying and controlling risks however there are separate bodies and business units responsible for managing and monitoring risks, as per section 51(1)(a)(i) of the Public Finance Management Act (Act no. 1 of 1999).

#### Unemployment Insurance Board

The Fund's Board recommends the principles for overall risk strategy, as well as policies covering specific areas, such as operational risk, insurance risk, market risk (price and interest rate risk) liquidity risk and credit risk, use of derivative financial instruments, and investment of excess liquidity to Management and the Accounting Authority for approval. The Board appointed sub-committees such as the Financial and Risk Advisory Committee (previously Finance Advisory Committee) to oversee special areas of risk.

#### Investment Committee (Sub Committee of Unemployment Insurance Board)

The Investment Committee has the overall responsibility to monitor operational risk, insurance risk, market risk (price and interest rate risk) liquidity risk and credit risk, use of derivative financial instruments and investment of excess liquidity. The Committee provides an independent control process to ensure the maintaining of risk related procedures over the Asset Manager in line with the approved investment mandate that is based on an asset and liability modeling study.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 32. Risk management (continued)

#### Risk Management Unit

The Risk Management unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies including implementing and maintaining risk related procedures to ensure an independent control process. The Risk management strategy and policy of the Fund encompasses all significant business risks including financial, operation and compliance risks. The oversights of risk management processes in the Provinces are provided for by an Integrated Provincial Risk Management Committee under the control of the Provincial Executive Manager.

#### Internal Audit Unit

Risk management processes throughout the Fund are independently audited by the internal audit function that examines both the adequacy and efficiency of the risk management programmes of the Fund. Internal Audit discusses the results of assessments with management, and reports its findings and recommendations to the Fund's Audit Committee.

#### Investment and Treasury Unit

The Fund's Treasury Unit is responsible for managing the Fund's financial assets and liabilities and the overall financial structure. It is primarily responsible for the funding and liquidity risks of the Fund.

In terms of section 7 of the Unemployment Insurance Act the Public Investment Corporation Limited (PIC) invests funds on behalf of the Fund and acts as the Fund asset managers based on an approved mandate.

During the course of conducting its business, PIC and UIF could be exposed to a variety of risks that may arise for various reasons that are inherent to the investment management processes and business. A summary of major risks that are of particular significance to PIC's business to funds under management are presented below. These risks are managed in accordance with the UIF's investment mandate and established and approved risk management policies and procedures.

The PIC recognises that the most significant financial risks to invested assets are: market risk (price risk and interest rate risk) credit risk and liquidity risk. The PIC manages these risks by setting limits on individual assets, sector and asset classes taking into account relationships between assets and the benefits of diversifying investment risk.

The investment management objective is to achieve above market returns within acceptable risk parameters. The risk appetite is determined by the investment mandates in the form of risk parameters and limits. These parameters are customarily set very conservatively or at least lower than the market average. Risk management's more specific objective is to minimise potential losses without impeding excessively on the potential upside that some risky assets can produce.

#### PIC – Risk Parameters

Monitoring and controlling risks are primarily performed based on limits established by the Fund. These limits reflect the business strategy and market environment of the Fund as well as the level of risk that the Fund is willing to accept. In addition, the Fund monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from businesses units and the Asset Manager is examined and processed in order to analyse, control and identify early risks by Management and the Investment Committee. This information is presented and explained to the Unemployment Insurance Board that makes the necessary recommendations to the Accounting and Executive Authority. The PIC in addition executes their investment management processes according to their own risk management policy and procedures.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 32. Risk management (continued)

#### Capital Management

##### Approach to capital management

The Unemployment Insurance Fund seeks to optimize the structure and source of capital to ensure a sustainable organization that can meet its Unemployment Insurance obligations as per the Unemployment Insurance Act (Act no. 63 of 2001) and consistently strive to improve benefits to its stakeholders.

The Fund's approach to managing capital involves managing assets, liabilities and risks in a coordinated way.

##### Regulatory framework

Regulators are primarily interested in protecting the rights of registered Employers and Employees and monitor the Fund closely to ensure that Management is satisfactorily managing affairs for their benefit.

At the same time, regulators are also interested in ensuring that the Fund maintains an appropriate solvency position to meet liabilities arising from unemployment.

The Fund collects and receives contributions under the Unemployment Insurance Contributions Act (Act no. 4 of 2002).

In accordance with the Unemployment Insurance Act (Act no. 63 of 2001), contributions received is managed and unemployment insurance claims are paid.

Section 5 of the Unemployment Insurance Act (Act no. 63 of 2001) regulates the **Application of the Fund**.

The Fund must be used for the:

- payment of benefits in terms of this Act;
- reimbursement of excess contributions to employers;
- payment of remuneration and allowances to members of the Unemployment Insurance Board and its committees; and
- any other expenditure reasonably incurred and relating to the application of this Act.

Section 7 of the Unemployment Insurance Act (Act no. 63 of 2001) regulates the **Investment of money of the Fund**.

The money of the Fund, other than money required to meet the current expenditure of the Fund, may be deposited on behalf of the Fund by the Director-General with the Public Investment Corporation Limited (PIC) to be invested in terms of the Public Investment Corporations Act and the Funds Investment mandate.

Section 9 of the Unemployment Insurance Act regulates the **Appointment of an annual review by an actuary**.

The Director-General must appoint an actuary within two months after the end of each financial year. The actuary must review the financial soundness of the Fund for that financial year, and provide an actuarial valuation report to the Director-General.

The actuarial valuation report must contain at least a statement reflecting the actuarial value of the assets and liabilities of the Fund, the financial soundness of the Fund and recommendations for the maintenance or improvement of the financial soundness of the Fund (Technical Reserves, Claims incurred but not enough reported (IBNER) and Claims incurred but not reported (IBNR)).

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 32. Risk management (continued)

Section 10 of the Unemployment Insurance Act regulates the **Surplus and deficit in the Fund**.

The Director-General must report and make recommendations to the Minister if the difference between income and expenditure of the Fund is greater than is required to meet payments for benefits or insufficient or not increasing at a sufficient rate to meet payments for benefits that may reasonably be anticipated.

The Minister, after consultation with the Board, may utilise the surplus to give effect to the purposes of this Act, including improving the administrative efficiency and capacity of the Board and Fund and establishing a reserve fund.

The Minister may request the Minister of Finance to adjust the national budget in the manner contemplated in sections 16 and 30 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), in order to cover any deficit in the Fund.

Financial Management of the Fund is in accordance with the Public Finance Management Act (Act 1 of 1999) (PFMA) and relevant National Treasury Regulations.

#### Section 53 of the PFMA

The accounting authority must submit to the responsible executive authority, at least six months before the start of a financial year of the designated department, a budget of estimated revenue and expenditure for that financial year.

The Schedule 3 non-business public entities may not budget for a deficit or a surplus unless prior written approval of the National Treasury has been obtained.

Capital management objectives, policies and approach

The Fund's capital management objectives, policies and approach are based on the relevant legislation.

An annual business plan and budget recommended by the UI Board supported by the actuarial valuation report is submitted to the executive authority for approval.

The actuarial valuation report and recommendations for the maintenance or improvement of the financial soundness of the Fund is utilized annually to make provision for the required Technical Reserves and Provision for outstanding benefits which comprises of Claims incurred but not reported (IBNR) and Claims incurred but not enough reported (IBNER).

Written approval is annually obtained from the National Treasury to budget for a surplus.

The Fund has had no significant changes in its policies and processes to its capital structure during the past year from previous years.

The capital structure of the Fund consists of net debt (benefits payable as detailed in note 22 offset by cash and cash equivalents as detailed in note 16) and equity of the Fund (comprising the technical reserves and accumulated surplus).

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>32. Risk management (continued)</b>		
<b>The ratio at the end of the reporting period was as follows:</b>		
Benefits payable	4,234,927	3,840,611
Cash and cash equivalents	(3,812,863)	(1,492,601)
<b>Net benefits payable</b>	<b>422,064</b>	<b>2,348,010</b>
Technical reserves	21,621,408	19,145,892
Accumulated surplus	98,503,433	90,292,812
<b>Equity</b>	<b>120,124,841</b>	<b>109,438,704</b>
<b>Net benefits payable to equity ratio</b>	<b>0.35%</b>	<b>2.15%</b>

Benefits payable is set out in note 23 and excludes trade and other payables and derivative financial instruments.

### Asset Liability Management (ALM) framework

The main risk that the Fund faces is unemployment insurance claims as per the Unemployment Insurance Act (Act no. 63 of 2001) and financial risks due to the nature of its investments. The Fund manages these positions through an investment mandate with the PIC that is informed by Asset and Liability Modeling (ALM) studies. The Funds Investment Committee commission regular Asset and Liability Modeling studies to ensure an appropriate investment policy and mandate.

The principal technique of the Funds ALM is to match assets to the liabilities arising from administering the Unemployment Insurance Act (Act no. 63 of 2001). The Funds ALM is integrated with the management of the financial risks associated with the Funds assets and liabilities directly associated with unemployment insurance and form an integral part of the unemployment insurance risk management to ensure that in each period there is sufficient cash flow available to meet liabilities arising from unemployment insurance claims and administering the Unemployment Insurance Act (Act no. 63 of 2001).

### Operational risk

Operational risk is the risk of loss arising from system failure, human error or external events. When controls fail to perform; operational risk can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Unemployment Insurance Fund can not eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risk, the Unemployment Insurance Fund is able to manage the risk. Controls include effective segregation of duties, access control, authorisation and reconciliation procedures, staff education and assessment processes, including the use of a risk management section and internal audit that review the effectiveness of the control environment and external insurance policies. Business risk such as change in environment and technology are monitored through the Unemployment Insurance Fund's strategic planning process.

### Insurance risk

The Unemployment Insurance Fund provides unemployment-, illness-, maternity-, adoption- and dependant benefits as prescribed by the Unemployment Insurance Act (Act no. 63 of 2001) amended. For unemployment claims, the most significant risk arises from changes in the employment market. The insurance risk covers a four year period based on the fact that benefits accrue to a maximum of 238 days in the four year period immediately preceding the date of application for benefits.

# Unemployment Insurance Fund

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## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>32. Risk management (continued)</b>		
<p>The Unemployment Insurance Fund's risk is limited through the Unemployment Insurance Act (Act no. 63 of 2001) amended, that allows a maximum accrual of 238 days benefit in a four year period, calculating the benefit payable to a contributor, based on the daily rate of remuneration of the contributor, subject to the prescribed maximum. Further, strict claim review policies to assess all new and ongoing claims in the operational system, SIYAYA, that apply numerous controls based on external verification. Regular detail review of the claims handling procedures and ongoing investigation of possible fraudulent claims are some of the policies and procedures put in place to reduce the risk exposure of the Unemployment Insurance Fund.</p> <p>The Fund maintains a fully funded position to mitigate its insurance risk.</p>		
<b>Technical Reserve</b>		
"Unearned contribution revenue" (UCR) the "unexpired risk" - Statement of financial position	21,621,408	19,145,892
<b>Benefits payable</b>		
Claims incurred but not reported (IBNR) and approved reported benefits payable - Note 23	4,228,058	3,835,846
	<b>25,849,466</b>	<b>22,981,738</b>

### Market risk

Market risk is the potential loss due to an adverse movement in the market value of assets. The financial services industry is influenced by various unpredictable factors, that include economic conditions, monetary and fiscal policies, market liquidity, cost and availability of capital, political events, acts of terror and investor sentiment. Any change to these factors may result in volatility in interest rates, exchange rates, equity and commodity prices and credit spreads.

Exposure to market risk is formally managed through a diverse investment portfolio in accordance to the risk parameters and limits agreed with the PIC in a formal investment mandate. The following benchmarks are set out in the Fund's mandate and tracked by the PIC:

Asset class	Benchmark
Bonds	Besa All Bond Index (ALBI) and Besa Inflation Linked Bond Index (BSAGI)
Cash & Money Markets	Alexander Forbes STEFI Indexes
Equities	65% SWIX + 25% INDI + 10% FINI15

Risk parameters were set as follows:

### Total risk of the Fund

Maximum total risk (volatility or annualised standard deviation) of the Fund will be set at 2% above the average total risk of the benchmark measured over 24 months of monthly returns. The maximum tracking error will be 2% per annum measured over 24 months of monthly returns.

### Fixed Income

Modified duration of fixed income portfolio will not be more than 6. A combination of conventional bonds and inflation linked bonds will be used to achieve the target duration.

### Equities

The volatility of the equity portion of the Fund will not be more than 2% above the benchmark volatility. Tracking error maximum of 1.5% ensures that the Fund does not take excessive risk relative to the benchmark.

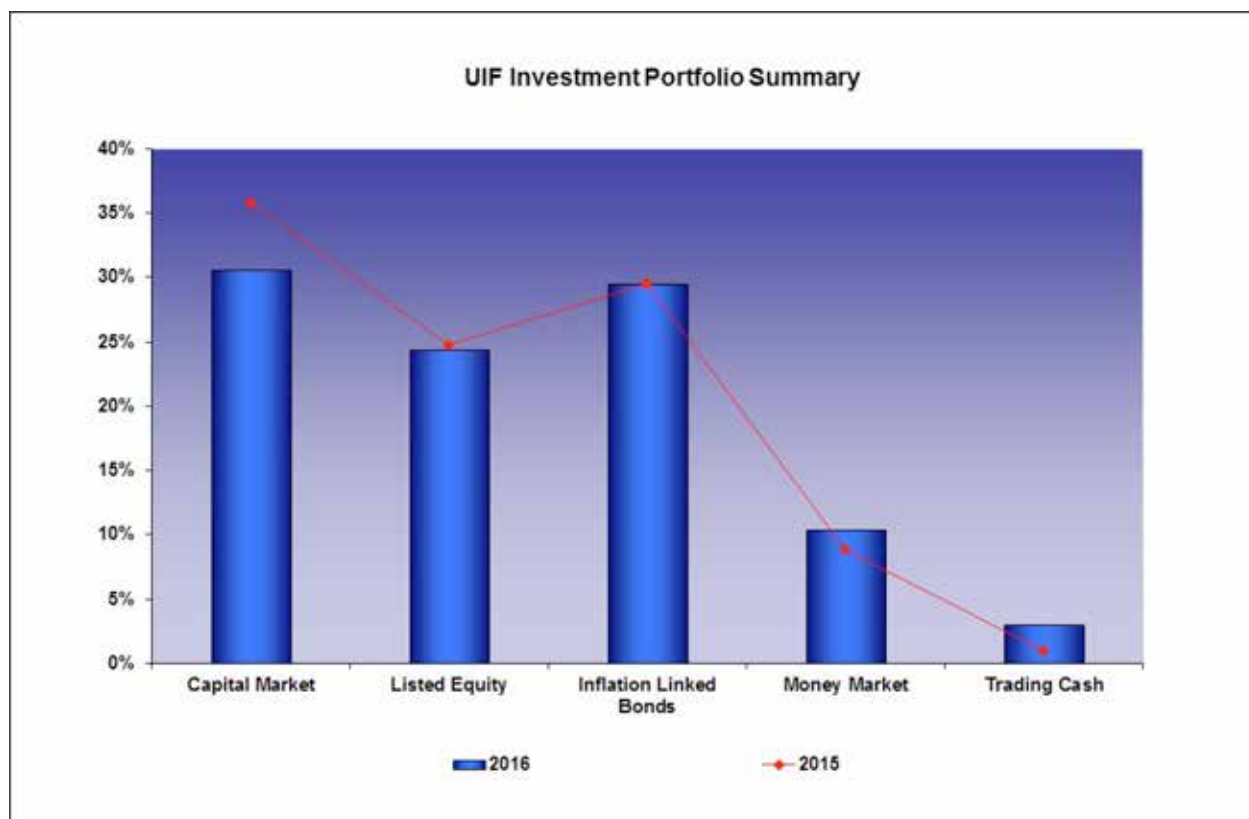
# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016 R '000	2015 R '000
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### 32. Risk management (continued)



#### Concentration Risk

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentration in a particular or correlated asset class, sector, issuer, term structure or financial instrument type can result in undesirable risk exposures. PIC manages this risk in accordance with the investment mandate, which dictates the level of concentration.

#### Establishment of investment limits per counterparty

##### Capital Market

RSA Government Bonds	Maximum 100%
Explicit RSA Government Guaranteed	Maximum 40%
AA rated or better	Maximum 20%
A rated or better	Maximum 10%

##### Money Market and Cash

Money market investments are spread across the Top Five South African Banks in order to diversify the Clients exposure. Limits are set utilizing the DI900 information supplied to the South African Reserve Bank.



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 32. Risk management (continued)

#### Establishment of investment limits per investment instrument

##### Capital Markets

Government Bonds	Maximum 100%
Non-Government Bonds	Maximum 20%

In order to avoid excessive concentration of risk, the Fund's policies and procedures include the above mentioned specific guidelines that focus on maintaining a diversified portfolio.

#### Concentration and Movement Risk per asset class

Asset Class	2016	2015	Movement
<b>Total cash and money market</b>	<b>13.71%</b>	<b>9.77%</b>	<b>3.94%</b>
Cash (Settlement Accounts)			
Standard Bank	18.51%	9.89%	8.63%
Money Markets (Term investments)			
ABSA	12.33%	15.83%	-3.50%
First Rand	19.06%	17.17%	1.89%
Nedbank	12.90%	14.84%	-1.93%
Standard Bank	12.89%	17.72%	-4.83%
Investec	4.93%	3.66%	1.27%
Landbank	9.39%	13.19%	-3.80%
Eskom	4.07%	3.56%	0.51%
Development Bank of South Africa	4.37%	4.15%	0.22%
Macquarie Group	0.60%	0.00%	0.60%
Commercial paper	0.94%	0.00%	0.94%
<b>Capital Markets</b>	<b>61.36%</b>	<b>65.33%</b>	<b>-3.96%</b>
Government bonds	33.04%	34.29%	-1.25%
Parastatals/SOE	15.05%	18.58%	-3.53%
Asset backed securitisation	0.00%	0.00%	0.00%
Corporate bonds	2.75%	1.95%	0.80%
Inflation linked bonds	49.51%	45.17%	3.98%
Social responsible investments		0.00%	
<b>Equity holding</b>	<b>24.93%</b>	<b>24.81%</b>	<b>0.11%</b>
FTSE-JSE Indices: Top 40	100%	100.00%	0.00%

The Funds change in exposure to Liquidity-, Credit-, Concentration- and Market Risk is directly related to the changes in allocation of the investment portfolio to the various approved asset classes. The Fund increased its Equity holding with 0.11%, increased its holding on Money Markets with 3.94% and decreased its holding on Capital Markets with 3.96%.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016 R '000	2015 R '000
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### 32. Risk management (continued)

#### Price risk

#### Equity price risk

Equity Portfolio value R30,259,911,691 (2015: R27,974,709,769)

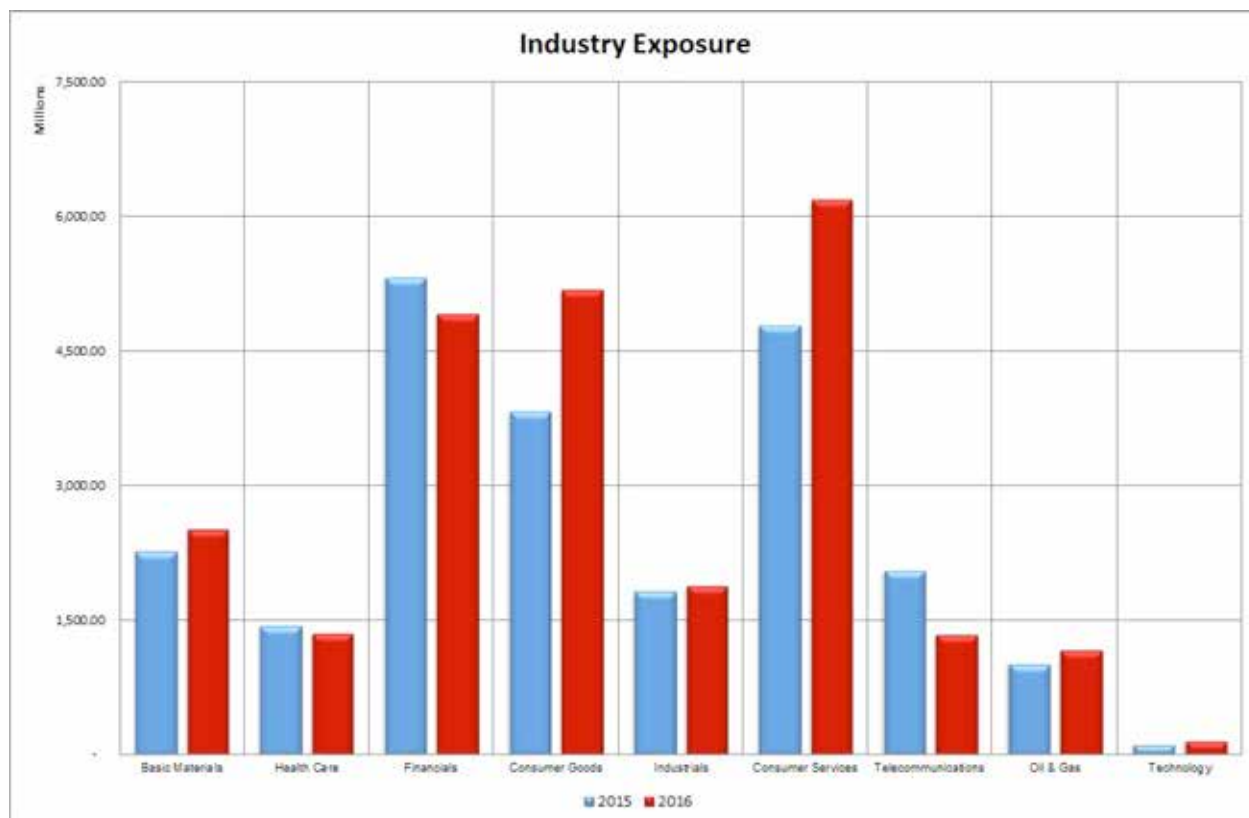
This risk is the potential financial loss as a result of movements in the level or volatility of equity prices, which affects the value of equity and equity derivative instruments. UIF has exposure to equity price risk as a result of its investments in equity instruments and equity derivatives.

Equity market risk is managed by using a benchmark that is less volatile than the overall JSE All Share Index.

The sensitivity to equity market is measured by the beta of the equity exposure. Such beta is managed relative to the industry classification benchmark. The equity exposure is closely tracking the index and has more or less the same beta as the benchmark. Derivatives are used to hedge the equity exposure at all times and therefore help minimise the downside risk.

Stress testing is a risk management technique to evaluate the potential effects on an institution's financial condition, of a set of specified changes in risk factors (particularly market risk), corresponding to exceptional but plausible events. Stress testing includes scenario testing and sensitivity testing.

To perform stress testing listed equity needs to be grouped using industry classification benchmark.



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

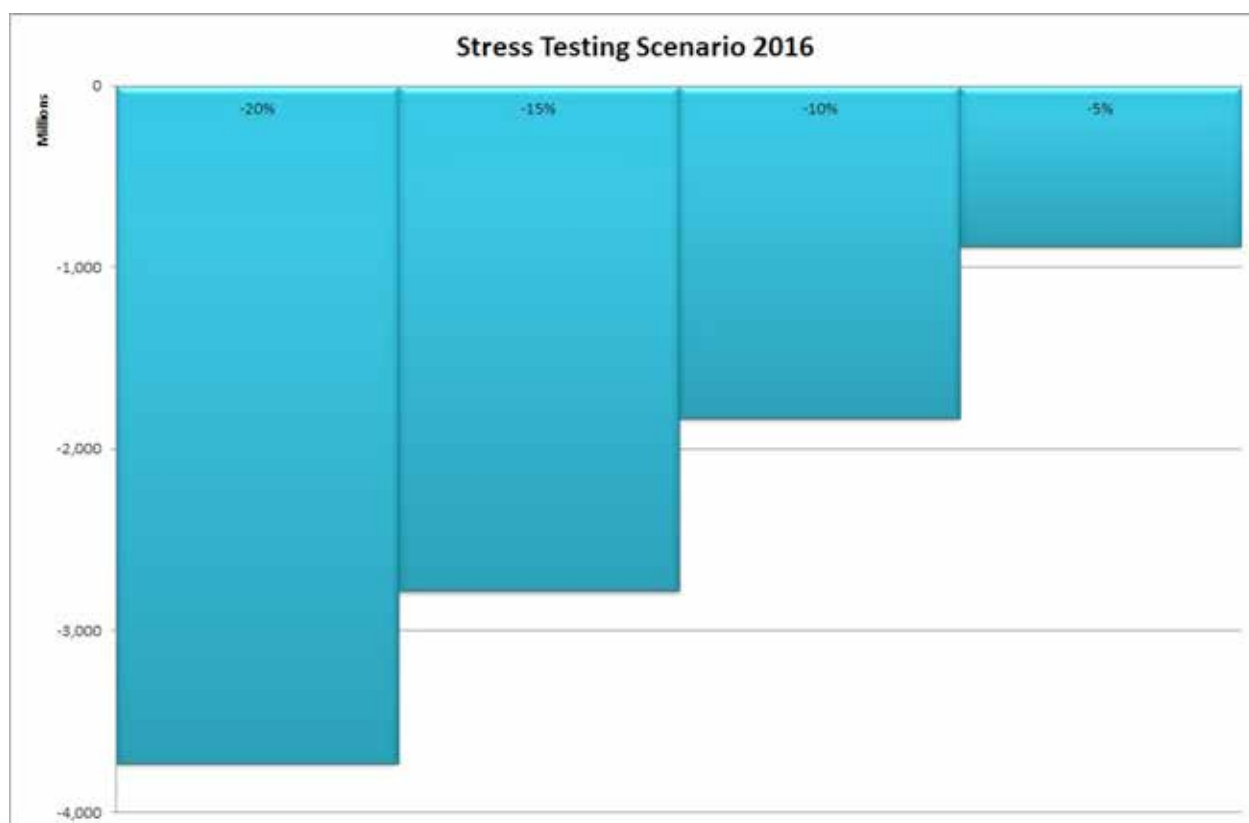
### 32. Risk management (continued)

Portfolio sensitivity testing highlights the key risks or touch points of the portfolio to the market. In this case, sensitivity testing of the UIF portfolio were performed to the equity indices.

Sensitivity testing typically involves an incremental change in a risk factor (or a limited number of risk factors). Analysis over a shorter time horizon were conducted to simulate an instantaneous shock.

Using a historical beta, for any instantaneous shock on our risk factor determined the impact on the portfolio.

Below the portfolio sensitivities of a -1% move to the PICB\*.



Price change (%)	Profit/Loss (Rand)	% Change profit/loss	Market value fund (Rands)
-1.00%	(189,797,480)	-1.00%	24,593,712,218
0.00%	-	0.00%	24,783,509,698
1.00%	189,797,480	1.00%	24,973,307,178

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

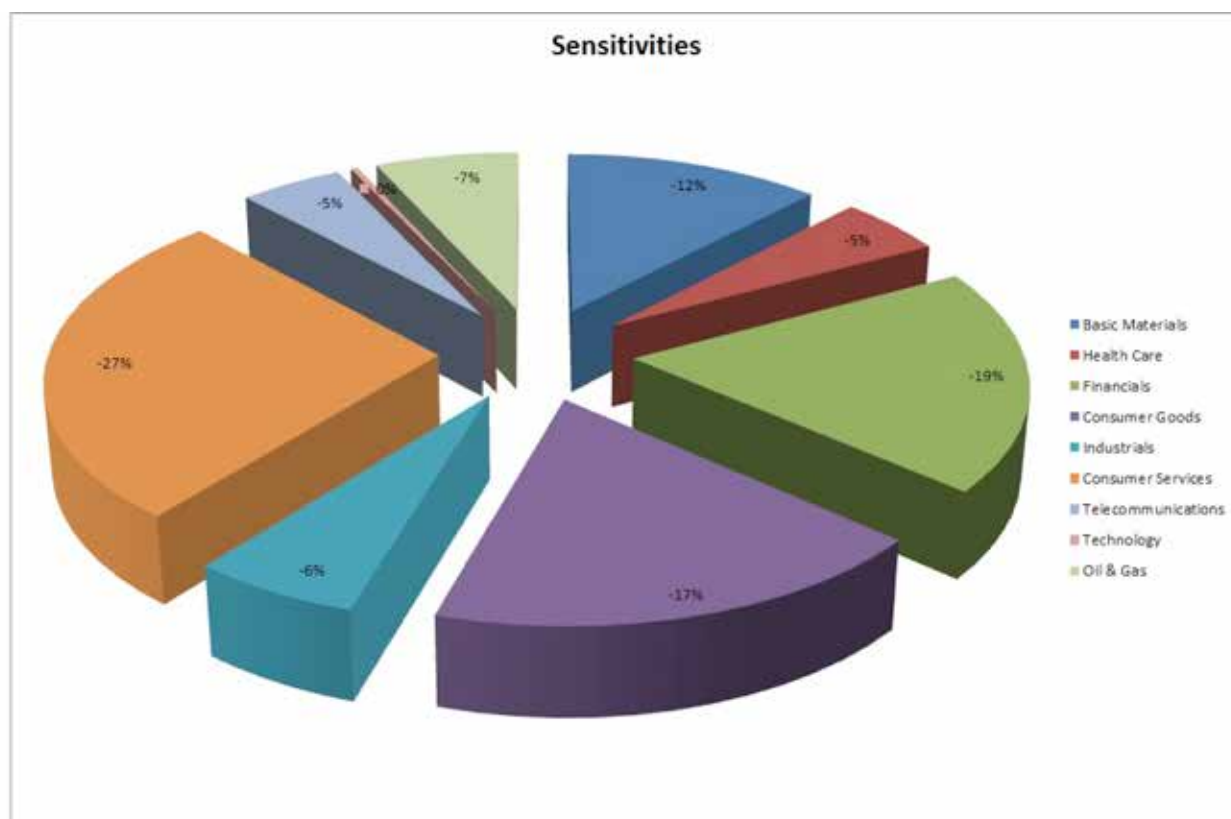
2016  
R '000

2015  
R '000

### 32. Risk management (continued)

The table below shows the top 10 high beta or highly sensitive stocks - listed equity.

Security name	Betas	Sensitivity (Rands)
ANGLO AMERICAN	1.82	(4,664,990)
SANLAM	1.51	(5,316,263)
MTN GROUP	1.47	(10,468,690)
KUMBA-IO	1.44	(407,096)
NASPERS-N	1.41	(49,899,008)
BHP BIL	1.35	(4,864,358)
FIRSTRAND	1.35	(6,863,658)
SASOL	1.29	(16,697,535)
STANBANK	1.27	(5,914,074)
REMGRO	1.22	(6,237,981)



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

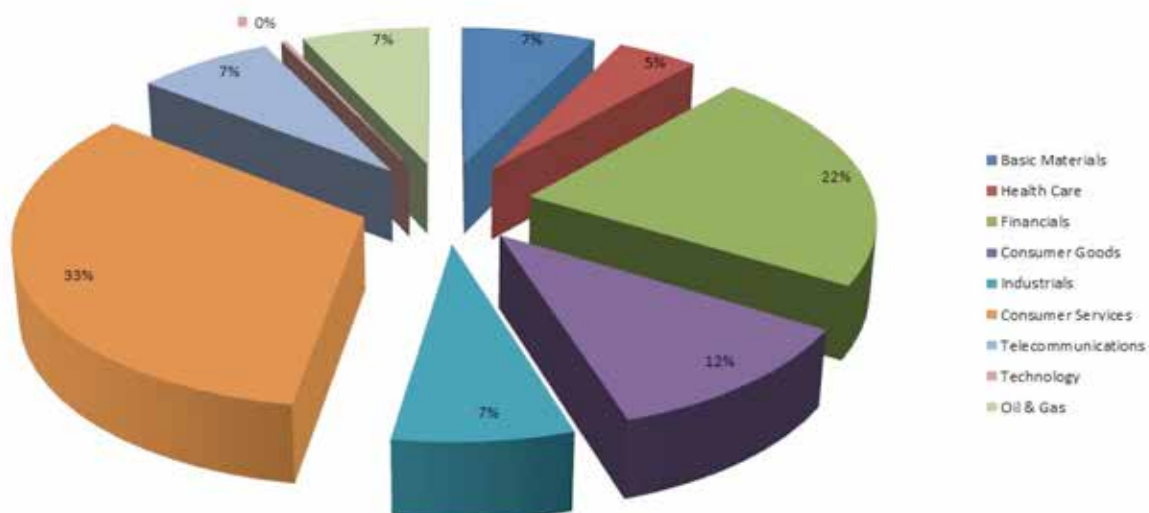
2016	2015
R '000	R '000

### 32. Risk management (continued)

The table below shows the bottom 10 betas or defensive stocks - listed equity.

Security name	Betas	Risk
HARMONY	-0.73	(325,305)
GFIELDS	-0.41	(659,578)
ANGLOGOLD ASHANTI	-0.35	(2,980,282)
SIBANYE GOLD	-0.32	(1,339,603)
LONMIN	-0.11	(348,876)
TRANSACTION CAPITAL	-0.01	(31,704)
AQUARIUS	-0.01	(60,248)
ALLIED ELEC CORP N	0.00	(40,986)
CURRO HOLDINGS LTD	0.01	(60,085)
ALEXANDER FORBES GRP	0.01	(361,791)

Beta Adjusted Exposure



# Unemployment Insurance Fund

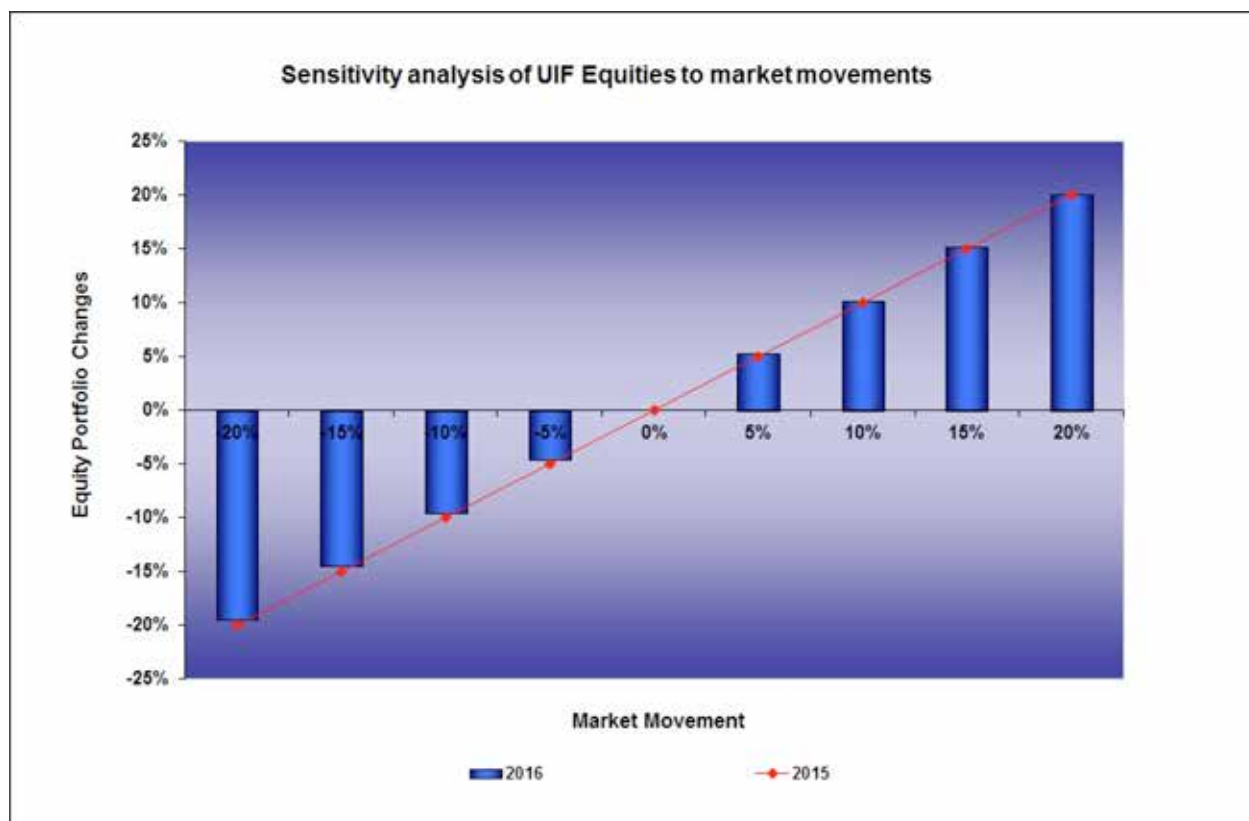
Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)



The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.

#### Equities

Effect on value of equities

R'billion	-15%	-10%	-5%	0%	5%	10%	15%
2015	19,325	20,462	21,599	22,736	23,873	25,010	26,146
2016	21,068	22,287	23,507	24,640	25,946	27,164	28,383

Effect on surplus/deficit

%	-15%	-10%	-5%	0%	5%	10%	15%
2015	-15.00%	-10.00%	-5.00%	0%	5.00%	10.00%	15.00%
2016	-14.50%	-9.55%	-4.60%	0%	5.30%	10.24%	15.19%

# Unemployment Insurance Fund

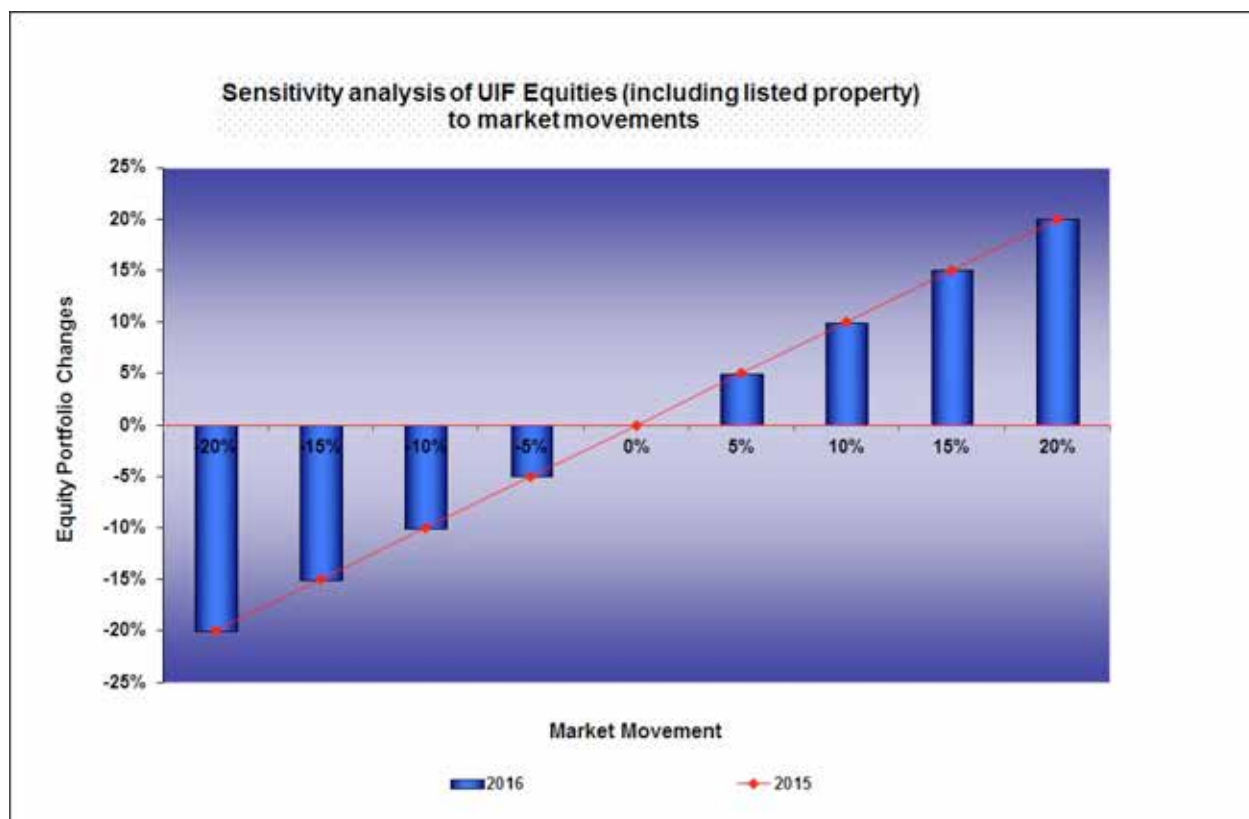
Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)



The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.

#### Equities (including listed property) excluding equity options

Effect on value of listed property

R'billion	-15%	-10%	-5%	0%	5%	10%	15%
2015	23,779	25,177	26,576	27,975	29,373	30,772	32,171
2016	25,721	28,234	28,747	30,260	31,773	33,285	34,799

Effect on surplus/deficit

%	-15%	-10%	-5%	0%	5%	10%	15%
2015	-15.00%	-10.00%	-5.00%	0%	5.00%	10.00%	15.00%
2016	-15.00%	-10.00%	-5.00%	0%	5.00%	10.00%	15.00%

The equity markets are very volatile, the sensitivity was done assuming the market moves up or down by 5% at a time.



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)

#### Listed property

Effect on value of listed property

R'billion	-15%	-10%	-5%	0%	5%	10%	15%
2015	4,453	4,715	4,977	5,239	5,448	5,763	6,024
2016	4,833	5,095	5,357	5,619	5,882	6,144	6,406

Effect on surplus/deficit

%	-15%	-10%	-5%	0%	5%	10%	15%
2015	-15.00%	-10.00%	-5.00%	0.00%	5.00%	10.00%	15.00%
2016	-14.00%	-9.33%	-4.67%	0.00%	4.67%	9.33%	14.00%

Below is the portfolio sensitivities of a -1% move to the SA property Index (J253)\*.

Price change (%)	Profit/loss (Rands)	% Change profit/loss	Market value fund (Rands)
-1.00%	(56,194,267)	-1.00%	5,563,232,486
0.00%	-	0.00%	5,619,426,753
1.00%	54,194,267	1.00%	5,675,621,021

The table below shows the top 10 high beta or highly sensitive stocks.

Stocks	Betas	Risk (Rands)
HYPROP	1.46	(6,866,613)
REDEFINE	1.26	(9,965,911)
GROWPNT	1.20	(11,954,287)
RESILIENT REIT LTD	1.19	(6,963,323)
EMIRA	1.09	(1,123,208)
VUKILE	1.08	(1,776,503)
FORTRESS INCOME FUND	1.07	(2,078,517)
FORTRESS INCOME FUND	0.99	(3,898,091)
SA-CORP	0.98	(1,956,146)
ATTACQ LTD	0.97	(1,649,793)

The table below shows the bottom 10 betas or defensive stocks.

Stocks	Betas	Risk (Rands)
MAS PLC	-0.12	3,761
CAPITAL COUNTIES	-0.01	8,730
THE PIVOTAL FUND	0.00	(831)
INTU PROPERTIES PLC	0.01	(12,587)
TRADEHOLD LTD	0.04	(6,468)
STENPROP	0.12	(56,577)
INVESTEC PROP FUND	0.22	(119,531)
NEW EUROPE PROP INV	0.26	(1,746,363)
REBOSIS PROP FUND	0.31	(231,734)
ACCELERATE PROP FUND	0.33	(137,548)

# Unemployment Insurance Fund

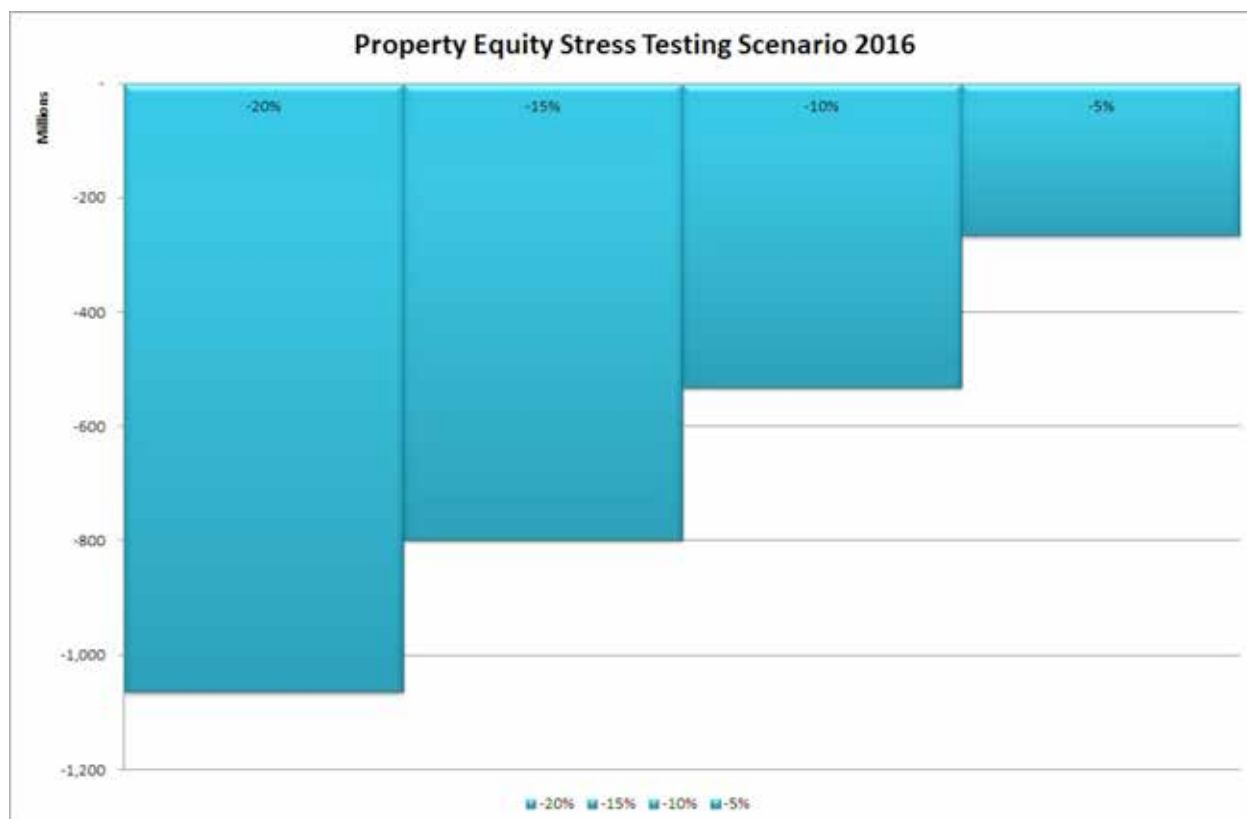
Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)



#### Interest rate risk

Bond Portfolio value R74,495,790,272 (2015: R73,647,807,304)

Bills, Promissory notes and Negotiated certificates of deposit Portfolio value R3,067,733,175 (2015: R2,302,818,077)

Fixed deposit Portfolio value R9,609,535,410 (2015: R7,625,480,685)

Social Responsible Investments value R2,590,972,734 (2015: R96,131,045)

This risk is the potential financial loss as a result of adverse movement in interest rates that affects the value of bonds and money market instruments. The Fund has exposure to interest rate risk through investments in money markets and bonds.

Nominal interest rate risk can be split into real interest rate risk and inflation risk. The inflation portion of the interest rate risk is minimised by investing a significant amount in inflation linked bonds.

The sensitivity to interest rate movements is managed by managing the duration of fixed interest exposure. Such duration is managed relative to an appropriate benchmark. To manage the duration PIC utilises a combination of instruments to get closer to the benchmark duration.

The fixed income asset class is not as volatile as the equity markets; an assumption of this sensitivity analysis is that the interest rates move by 50 basis points at a time.

# Unemployment Insurance Fund

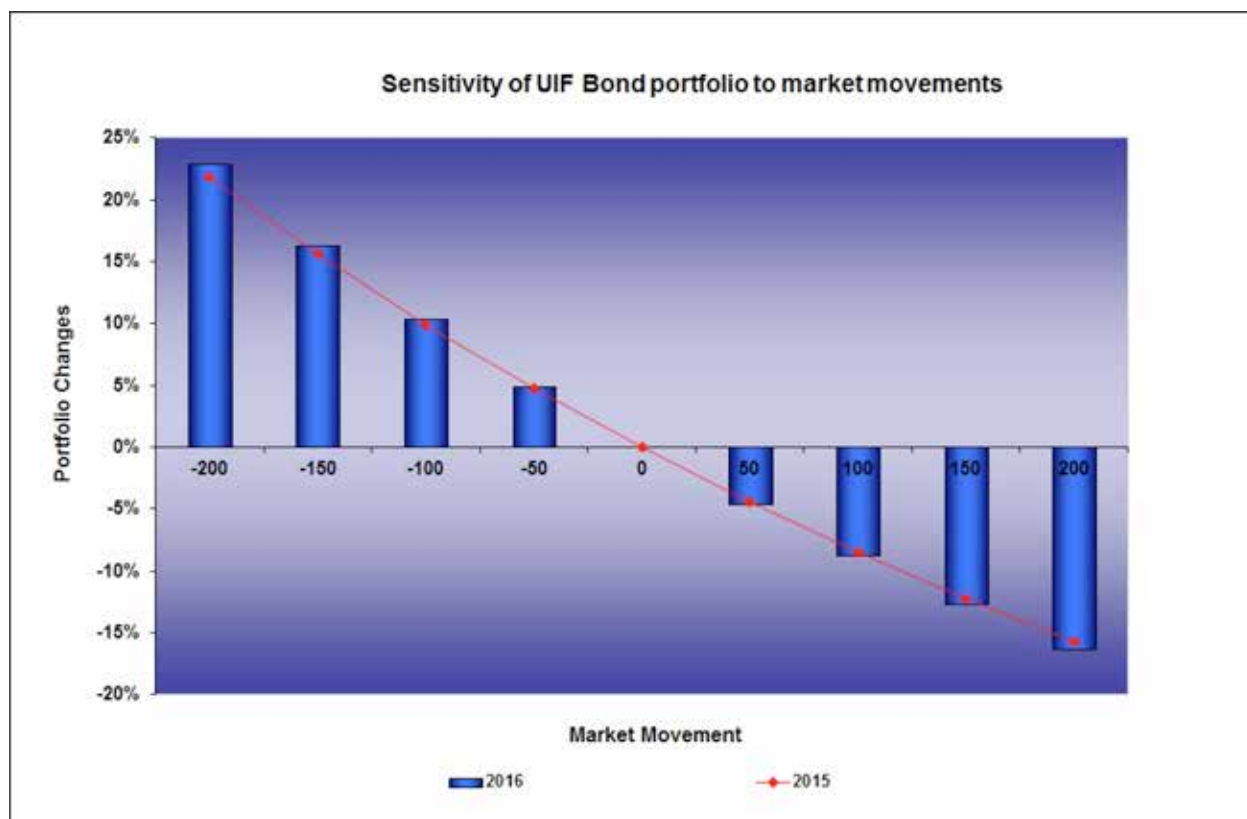
Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)



#### Sensitivity of the UIF Asset Class Portfolios to different market movements

The investment portfolio sensitivity is evaluated through stress testing the portfolio using the following methodology:

The portfolio is separated into its instruments type's viz. money market, bonds, equity, options. The stress test is a point in time estimate.

The Money market instruments are stressed via shifting the curve and hence its yield by the specified quantum and then revaluing the instruments (present valued at the effective yield). The aggregate value of all the instruments represents the money market portfolio value and the difference with the base value i.e. the current value, represents the gain or loss. For the bonds the yields to maturity is moved by the specified quantum and the bond re-valued (bond pricing formula). The aggregate value of all the instruments represents the bond portfolio value and the difference with the base value i.e. the current value represents the gain or loss. The Equity prices are moved by the specified percentage and the instruments is then re-valued (price multiplied by holdings) at the new price. The aggregate value of all the equity instruments represents the equity portfolio value and the difference with the base value i.e. the current value represents the gain or loss.

Similarly for the option the underlying index value is moved by the specified percentage and the options re-valued (Black-Scholes formula). The aggregate value of all the option instruments represents the option portfolio value and the difference with the base value i.e. the current value represents the gain or loss. The addition of the stressed values of the equity and option portfolios represents the stressed values of the hedged equity portfolio.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016  
R '000

2015  
R '000

### 32. Risk management (continued)

#### Bonds

Effect on value of bonds

R'billion	-150	-100	-50	0	50	100	150
2015	85,169	80,995	77,167	73,648	70,404	67,406	64,631
2016	75,052	75,008	74,968	74,931	74,897	74,865	74,836

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2015	15.64%	9.98%	4.78%	0%	-4.40%	-8.47%	-12.24%
2016	16.24%	10.36%	4.96%	0%	-4.57%	-8.79%	-12.69%

#### Money Markets (Excluding Fixed Deposits)

Effect on value of money markets (excluding fixed deposits)

R'billion	-150	-100	-50	0	50	100	150
2015	2,317	2,312	2,307	2,303	2,298	2,294	2,289
2016	3,245	3,238	3,231	3,224	3,217	3,210	3,204

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2015	0.61%	0.41%	0.20%	0%	-0.20%	-0.40%	-0.60%
2016	0.65%	0.43%	0.21%	0%	-0.21%	-0.42%	-0.64%

#### Money Markets (Including Fixed Deposits)

Effect on value of money markets (including fixed deposits)

R'billion	-150	-100	-50	0	50	100	150
2015	9,983	9,965	9,946	9,928	9,910	9,892	9,874
2016	12,905	12,882	12,858	12,834	12,809	12,786	12,761

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2015	0.55%	0.37%	0.18%	0%	-0.18%	-0.36%	-0.54%
2016	0.56%	0.38%	0.19%	0%	-0.19%	-0.37%	-0.56%

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016 R '000	2015 R '000
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### 32. Risk management (continued)

#### Liquidity risk

Liquidity risk arises when there are insufficient liquid assets (cash and readily convertible securities) available to meet financial obligations.

The UIF's investment mandate stipulates the strategic asset allocation percentage of the total holdings that must comprise of liquid assets (Cash and Money markets). A significant portion of assets is held in cash and near-cash (money market).

The Fund's strategic asset allocation stipulates that minimum 10% to maximum 30% of the total holdings must comprise of liquid assets.

Liquidity risk is also managed by investing a large portion of assets in instruments (money market, bonds and equities) that trade actively in efficient and liquid markets.

Asset allocation ranges and attribution analysis on overall performance passive benchmark as per investment mandate.

Category	Asset allocation Ranges (%)	Strategic asset allocation (%)
Cash and Money Market	5% - 20%	10.50%
Capital Market: Nominal Bonds	20% - 40%	30.00%
Capital Market: CPI Linked Bonds	20% - 40%	30.00%
Domestic Equity	10% - 30%	21.00%
Listed Property	0% - 5%	2.50%
African Investments	0% - 5%	2.00%
Foreign Investments	0% - 10%	4.00%

#### Social Responsible Investment

Social Responsible Investments was not modelled as a separate asset class since it is a theme across other asset classes and could be listed or un-listed instruments. The decision to invest in Social Responsible Investments is a tactical decision made on a case-by-case basis. The maximum strategic asset allocation for Social Responsible Investments is capped at 10% with a permitted range of 0%-20%.

The above investment mandate was amended and implemented on 1 February 2016, applying a phased-in approach best suited for the Fund, allowing the Fund to still capture opportunities in the market, but ensuring a transition to the new mandate is achieved at minimal cost and with minimal realised losses.

The new investment mandate is structured as follows:

Category	Asset allocation Ranges (%)	Strategic asset allocation (%)
Cash and Money Market	1% - 10%	5.00%
Capital Market: Nominal Bonds	20% - 40%	27.50%
Capital Market: CPI Linked Bonds	20% - 40%	30.00%
Domestic Equity	10% - 30%	24.00%
Listed Property	0% - 5%	2.50%
African Investments	0% - 5%	2.00%
Foreign Investments	0% - 10%	4.00%
Unlisted Property	1% - 7%	5.00%

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016 R '000	2015 R '000
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### 32. Risk management (continued)

Social Responsible Investments was not modelled as a separate asset class since it is a theme across other asset classes and could be listed or un-listed instruments. The decision to invest in Social Responsible Investments is a tactical decision made on a case-by-case basis. The maximum strategic asset allocation for Social Responsible Investments was increased and will be capped at 20% with a permitted range of 10%-30%.

The Social Responsible Investments will be allocated as follow:

Category	Asset allocation Ranges (%)	Strategic asset allocation (%)
Equity	4% - 10%	7.50%
Capital Market: Nominal Bonds	4% - 10%	7.50%
Capital Market: CPI Linked Bonds	2% - 10%	5.00%

The portfolio asset allocation as at 31 March 2016 was as follow:

Category	Value (R'000)	Actual asset allocation (%)	Difference (%)
Cash and Money Market	16,645,629	13.71%	-3.21%
Capital Market: Nominal Bonds	37,828,933	31.16%	-1.16%
Capital Market: CPI Linked Bonds	36,616,740	30.16%	-0.16%
Domestic Equity	24,640,485	20.30%	0.70%
Listed Property	5,619,427	4.63%	-2.13%
African Investments	50,117	0.04%	1.96%
Foreign Investments	-	0.00%	4.00%
<b>Total</b>	<b>121,401,331</b>	<b>100.00%</b>	<b>0.00%</b>
Social Responsible Investments	2,590,973	2.13%	Excluding SRI commitments and deals in the pipeline
<b>Total</b>	<b>123,992,303</b>	<b>Total value of the Fund's portfolio including SRI's</b>	

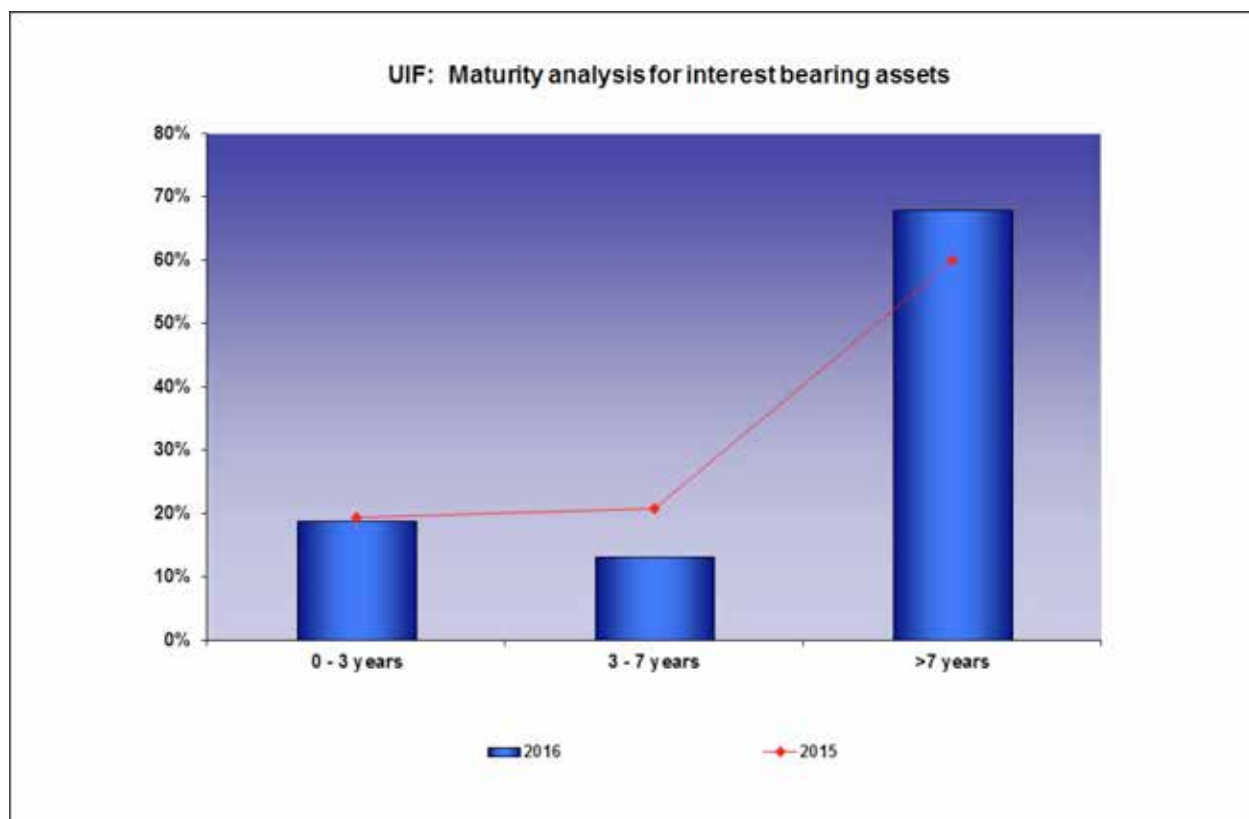
# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016	2015
R '000	R '000

### 32. Risk management (continued)



### Maturity profile on financial assets

2016	Receivable on demand (R'000)	0 - 12 months (R'000)	1 - 3 years (R'000)	3 - 7 years (R'000)	> 7 years (R'000)	Total (R'000)
Money Market	-	12,833,691	-	-	-	12,833,691
Capital Market	-	666,364	3,007,052	11,462,672	59,359,702	74,495,790
Cash and cash equivalents	3,812,865	-	-	-	-	3,812,865
Listed equity	-	30,259,912	-	-	-	30,259,912
Trade and other receivables	324	3,532	-	-	-	3,856
Investment income receivable	-	260,779	-	-	-	260,779
SRI	-	-	-	-	2,590,973	2,590,973
	3,813,189	44,024,278	3,007,052	11,462,672	61,950,675	124,257,866



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

						2016 R '000	2015 R '000
<b>32. Risk management (continued)</b>							
2015	Receivable on demand (R'000)	0 - 12 months (R'000)	1 - 3 years (R'000)	3 - 7 years (R'000)	7 > years (R'000)	Total (R'000)	
Money Market	-	9,928,299	-	-	-	9,928,299	
Capital Market	-	2,514,947	3,667,750	17,359,561	50,105,549	73,647,807	
Cash and cash equivalents	1,492,612	-	-	-	-	1,492,612	
Listed equity	-	27,974,710	-	-	-	27,974,710	
Trade and other receivables	324	-	7,245	-	-	7,569	
Investment income receivable	-	133,032	-	-	-	133,032	
SRI	-	-	-	-	96,131	96,131	
	1,492,936	40,550,988	3,674,995	17,359,561	50,201,680	113,280,160	

The following table analyses the Fund's financial liabilities which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 6 to 12 months equal their carrying balances as the impact of discounting is not significant.

### Maturity analysis on financial liabilities

2016	Payable on demand (R'000)	Within 1 month (R'000)	Within 3 months (R'000)	Within 12 months (R'000)	Total (R'000)
Trade and other payables	-	247,303	-	-	247,303
Salary accrual	-	4,281	10,215	13,155	27,651
Deposits received	6,207	-	-	-	6,207
Bank overdraft	12	-	-	-	12
	6,219	255,865	20,430	26,310	281,173

2015	Payable on demand (R'000)	Within 1 month (R'000)	Within 3 months (R'000)	Within 12 months (R'000)	Total (R'000)
Trade and other payables	-	209,018	-	-	209,018
Salary accrual	-	4,022	10,899	12,640	27,561
Deposits received	5,745	-	-	-	5,745
Bank overdraft	11	-	-	-	11
	5,756	217,062	21,798	25,280	242,335

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

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	2016 R '000	2015 R '000
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### 32. Risk management (continued)

#### Credit risk

This risk represents the risk that a counterparty or issuer fails to meet an obligation when it falls due.

The exposures may arise, for instance, from a deterioration in a counterparty's financial position, from a reduction in the value of securities held as collateral and from entering into contracts under which counterparties have long term obligations to repay.

Factors that influence PIC's credit decisions include credit rating agencies assessments of the general operating environment, the competitive market position of a counterparty or issuer, reputation, deal tenor as longer dated deals increases uncertainty of repayment, the level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The Credit Risk policy is the primary tool used to communicate credit limits and exposures by constraining the magnitude and tenor of exposures to counterparties and issuers. A credit risk policy has been approved by the Fund, which is a standard inclusion in the investment mandates. The current investment policy states that listed investments will be done with issuers that have a credit rating of at least "A" from one of the recognised domestic and /or International credit rating agencies.

Credit risk limits incorporate measures of both current and potential exposures and are set and monitored by broad risk type, product type and maturity. Credit mitigation techniques include, where appropriate, the right to be furnished with collateral or an equity injection by counterparties in unlisted investments, mitigation techniques are deal dependent.

UIF's mandate only allows investments in listed instruments that are rated and listed on an approved exchange. The use of PIC developed models, the DI900 as a guide on limit setting for Banks, as well as the rating of external credit rating agencies are used to manage credit risk further. The mandate permits investment in the following asset classes, cash, money markets, capital markets and domestic equities.

The Fund's maximum exposure to credit risk is equal to the total value of the following financial assets:

	<b>Rated (R'000)</b>	<b>Non-rated (R'000)</b>	<b>Total (R'000)</b>
<b>2016</b>			
At fair value	78,295,122	30,259,914	108,555,036
At amortised cost	12,576,072	1,126,617	13,702,689
	<u>77,664,920</u>	<u>46,327,543</u>	<u>123,992,463</u>

	<b>Rated (R'000)</b>	<b>Non-rated (R'000)</b>	<b>Total (R'000)</b>
<b>2015</b>			
At fair value	75,989,754	27,974,710	103,964,464
At amortised cost	9,175,095	140,601	9,315,696
	<u>85,364,315</u>	<u>28,115,311</u>	<u>113,479,626</u>

# Unemployment Insurance Fund

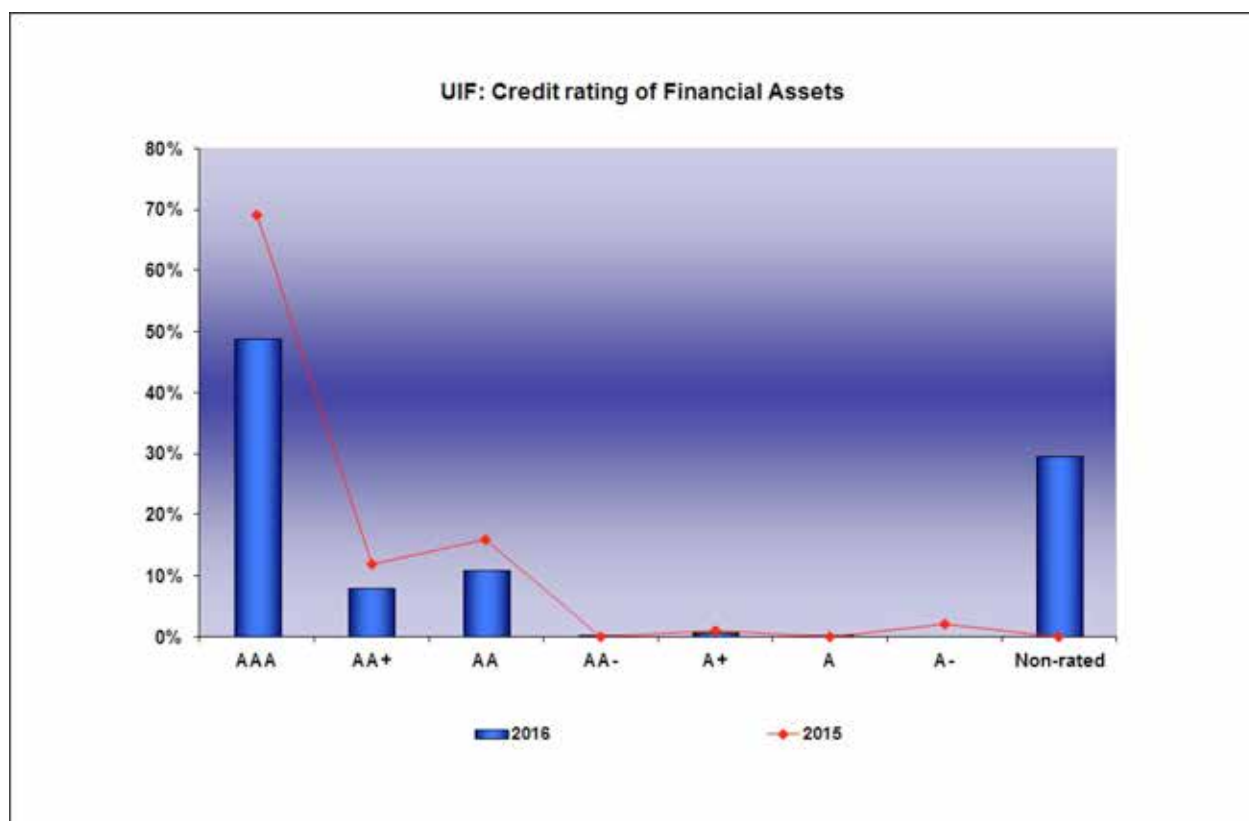
Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

2016 R '000	2015 R '000
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### 32. Risk management (continued)

The following graph shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, with external credit ratings as at 31 March 2016:



#### Collateral Risk

This is regarded as integral to credit risk; no collateral was held on the Fund for the period under review, which is consistent with previous periods.

#### Other financial risks

##### Model/Valuation risk

This risk arises from the dependence on systems, models, algorithms and assumptions used to price instruments and structures. The PIC utilises Bloombergs, Reuters and INet, as well as internally developed models. This risk is managed by ensuring that only models from credible sources are used. Audits are done on models to ensure that they are accurate and reliable. Models developed by PIC output are benchmarked against external sources to ensure accuracy and reliability.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 32. Risk management (continued)

#### Sovereign risk

The Fund is invested in domestic assets only and has no direct sovereign exposure.

#### Commodity price risk

No funds under management have direct or derivative exposure to commodities. Indirect exposure through equities is well diversified and managed using equity risk limits.

#### Currency risk

Currency risk is the potential financial loss or adverse cash flow resulting from unanticipated movement in exchange rates. No foreign assets or denomination in foreign currency were held during the financial year under review, therefore there was no exposure to currency risk.

#### Regulatory and Legal Risk

"Regulatory risk is the risk arising from a change in regulations in any legal (legal risk being the risk that the company will be exposed to contractual obligations which have not been provided for), taxation and accounting pronouncements or specific industry regulations that pertain to the business of the Fund" hence financial instruments are exposed to these risks.

In accordance with chapter 6, paragraph 48 of the Public Finance Management Act (Act no. 1 of 1999), the Fund is classified as a Schedule 3 "National Public Entity".

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

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

The Unemployment Insurance Fund is accordingly exposed to any changes in legislation and accounting pronouncements. The Fund is exceptionally vulnerable to the interpretation of legislation. In an attempt to mitigate the risk management exercises a proactive approach where possible, with reference to the Unemployment Insurance Act (Act no. 63 of 2001) the Fund issues regulations in an effort to mitigate the risk of interpretation and complies with regulations issued regarding other applicable legislation.

The Funds Internal Audit and Risk Management sections undertake frequent reviews to ensure compliance where the Fund has interests.

#### Litigation Risk

Legal proceeding could adversely impact the Fund's operating results and financial position for a particular period. The Fund has a well established Legal Services team to deal with risks that may arise. Legal Services instruct the State Attorney's Office to either settle or defend litigation against the Fund depending on the circumstances of the case and external lawyers are involved when required.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

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### 33. Related parties

#### Related party transactions

The UIF operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of Corporate Executives up to the Board of Directors are regarded as key management.

Close family members of key management are considered to be those family members who may be expected to influence, or be influenced by key management individuals or other parties related to the entity.

The following transactions pertaining to the major related parties to the Unemployment Insurance Fund are disclosed:

#### Unemployment alleviation schemes

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

The Minister of Labour approved in principle projects to provide funding to "Poverty Alleviation Schemes" including up-skilling/training to the unemployed and Social Plan funding. The up-skilling/training and Social Plan funding are to be executed in close relationship with the National Skills Fund (NSF), the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives.

#### Productivity South Africa

The Social Plan is implemented through Productivity South Africa. Productivity South Africa implements Turnaround Solutions to companies that want to improve their productivity. This services has also been extended to companies that are in distress through UIF funding.

There were no year-end balance arising from the above transactions included in "Trade and other payables" for the current and previous financial years.

The contractual commitment as at 31 March 2016 amounted to R220,860,000 (2015: R56,450,000).

#### National Skills Fund (NSF) and various Sector Education Training Authorities (SETA's)

The Training of the Unemployed is executed in close relationship with the National Skills Fund (NSF), the various Sector Education Training Authorities (SETA's) and other Government Departments engaged in poverty/unemployment alleviation initiatives. Skilling of the unemployed in general and the UIF unemployment beneficiaries is needed in order to improve their chances to be reintegrated back into the employment environment.

Year-end balance arising from the above transactions included in "Trade and other payables" - R16,945,387 (2015: R18,623,628) comprising of MERSETA R7,599,375 (2015: Rnil), MQA R470,000 (2015: R6,960,000), MICTSETA 78 Rnil (2015: R8,531,323) and EWSETA 78 R3,621,750 (2015: R3,132,305), TETA R4,174,263 (2015: Rnil) and Sekhukhune TVET College R1,080,000 (2015: Rnil).

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 33. Related parties (continued)

The contractual commitments as at 31 March 2016 amounted to R221,963,123 (2015: R190,367,768) comprising of MQA R9,185,000 (2015: R28,565,000), MERSETA R50,630,625 (2015: R71,533,125), MictSETA R57,280,073 (2015: R65,811,396), EWSETA R90,750 (2015: R9,900,000) and TETA R48,631,075 (2015: R62,948,125). Contractual commitments with TVET Colleges amounted to R57,945,600 (2015: Rnil).

#### Training Lay-off Scheme

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

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

The various Sector Education Training Authorities (SETA's) facilitate the training interventions.

Applications to participate in the project include the design elements as agreed by the social partners announced by the President on 5 August 2009 and go through a strict process that includes the Commission for Conciliation, Mediation and Arbitration (CCMA) and a Project Evaluation Committee (PEC) convened by the UIF.

The year-end balance arising from the above transactions included in "Trade and other payables" - R13,247,971 (2015: 9,501,537) comprising of MERSETA R13,247,971 (2015: R9,501,537)

The contractual commitments as at 31 March 2016 amounted to R66,684,646 (2015: R54,746,246) comprising of MERSETA R66,354,777 (2015: R73,160,810) and FP and M SETA R329,867 (2015: R663,032).

#### Department of Labour

The Director-General of the Department of Labour is the Accounting Authority of the Unemployment Insurance Fund that forms part of the Department's Programme 5: Social Insurance.

The Unemployment Insurance Fund shares various resources with the Department of Labour. Cost incurred by the Department of Labour on behalf of the Unemployment Insurance Fund in executing its mandate in accordance with the Unemployment Insurance Act (Act no. 63 of 2001) is recovered from the Fund in accordance with agreements between the Department and the Fund.

The following costs were incurred by Department of Labour on behalf of the Fund:

Employee cost	937,706	874,043
Administrative expenses	220,234	185,359
Other operating expenses	2,914	5,290
	<b>1,160,854</b>	<b>1,064,692</b>

Year-end balance arising from the above transactions included in "Trade and other payables" - R34,265,994 (2015: R16,722,547).

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>33. Related parties (continued)</b>		
The following transactions were carried out with the Department of Labour		
<b>Rental income</b>		
Rental of offices and diginet lines	478	520
Year-end balances arising from the above transactions are included in "Trade and other receivables, Sundry Debtors" - R70,599 (2015: R28,094).		
<b>South African Revenue Service</b>		
Unemployment Insurance Contributions is regulated by the Unemployment Insurance Contributions Act, sections 8 and 9, which are administered by the SARS Commissioner.		
The relationship between the South African Revenue Service and the Unemployment Insurance Fund is strictly regulated by the Unemployment Insurance Contributions Act, 2002. Collection costs are charged to the Unemployment Insurance Fund on a monthly basis equal to one and a half percent of the total amount of the contributions collected.		
The following transactions were carried out with the South African Revenue Service:		
<b>Contributions collected</b>		
- Contributions collected - received	16,335,795	15,417,485
- Penalties	240,033	223,659
- Interest	175,237	166,839
	<b>16,751,065</b>	<b>15,807,983</b>
<b>Collection costs charged</b>		
- Collection fees	251,266	237,120
Year-end balance arising from the above transactions is included in "Statutory Receivables" - R222,500,280 (2015: R199,941,727) and "Trade and other payables" - R44,690,983.91 (2015: R22,349,857.40).		
<b>Public Investment Corporation Limited (PIC)</b>		
In terms of the Unemployment Insurance Act (Act no. 63 of 2001), as amended, the Unemployment Insurance Fund appointed the Public Investment Corporation Limited as its Investment Manager to invest, manage and administer investments for the Unemployment Insurance Fund on the terms and conditions of an agreed mandate.		
The following transactions were carried out with PIC:		
<b>Transfers</b>		
- Net contributions transferred to PIC for investments	7,300,000	7,200,000
<b>Paid</b>		
- Management fees paid to PIC	120,593	83,259
- Equity transaction cost	39,166	18,401
	<b>159,759</b>	<b>101,660</b>



# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 33. Related parties (continued)

Year end balances arising from the above transactions:

- R3,081,783,267 (2015: R1,089,107,239) - PIC UIF bank account (funds not invested in instruments), included in "Cash and Cash Equivalents". PIC manages this account on behalf of the Fund.
- R38,170,552 (2015: R37,736,947) - Management fees payable to PIC, included in "Trade and Other Payables".
- R31,091,131 (2015: R79,661,614) - Investment expenditure payable to PIC, included in "Trade and Other Payables".
- R119,680,867,568 (2015: R111,296,946,881) - Financial assets managed by PIC on behalf of the Fund.

### 34. Budget information

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

The Unemployment Insurance Fund presents its approved budget on a zero basis and the financial statements on the accrual basis. The budget is approved on a zero basis by classification of expenditure by nature and covers the fiscal period 1 April 2015 to 31 March 2016.

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

The Fund is mandated to operate on the basis of a surplus i.e. that current revenue exceeds current expenditure. The medium term budget is based on an approach ensuring that revenue exceeds the planned expenditure and potential liabilities.

The Unemployment Insurance Fund does not receive a budget allocation (Vote) from National Treasury and the surplus as at reporting date is due to contribution collected exceeding claims and expenditure paid for the period under review. The Unemployment Insurance Fund however carries the liability of future claims based on the contribution received.

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

#### Changes from the approved Original Budget to the approved Revised Budget

Operating items such as contributions, investment income and benefit expenditure were reviewed based on latest trends and activity levels and updated actuarial valuation reports.

Contribution revenue were revised up based on a revenue indicator measure model which is linked to a number of economic variables in the setting of assumptions for revenue on an annual basis. Contribution revenue for budget purposes is based on the relationship between actual past revenue, CPI and GDP.

The increase in investment income was based on the expected growth of the Fund's investment portfolio with the revised estimated surplus as per the actuarial valuation report of 2015.

The Funds Actuarial valuation of 31 March 2015 required higher reserving based on the claims experience together at that stage with expectations of subdued recovery of the economic conditions were the main reasons behind the increase in technical reserving.

In addition to reserving, the Fund utilises the actuarial report to budget for benefit payments.

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
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### 34. Budget information (continued)

#### Comparison of budget and actual amounts

#### 34.1 Reconciliation of budget surplus with the surplus in the Statement of Financial Performance

	2016 Actual (R'000)	2016 Budget (R'000)	2016 Variance (R'000)
<b>Net surplus according to the Statement of Financial Performance</b>			<b>8,210,621</b>
Revenue	17,120,381	16,866,962	(253,419)
Benefit payments	(7,691,153)	(8,536,592)	(845,439)
Change in benefit payments	(392,211)	(344,345)	47,866
Unemployment alleviation schemes	(80,571)	(1,627,200)	(1,546,629)
Other income	6,147	6,418	271
Auditors remuneration	(4,456)	(11,000)	(6,544)
Administrative cost	(434,093)	(496,826)	(62,734)
Depreciation and impairment	(15,707)	(93,657)	(77,950)
Employee cost	(941,945)	(1,030,742)	(88,797)
Other operating expenditure	(392,539)	(439,184)	(46,645)
Investment revenue	7,746,161	9,372,595	1,626,434
Fair value adjustments	(4,233,877)	-	4,233,877
Finance cost	-	(6)	(6)
Unearned premium reserve	(2,475,516)	(1,166,995)	1,308,521
<b>Net surplus per approved budget</b>			<b>12,499,428</b>

#### Budget surplus

Budget surplus as approved by the Minister	12,236,476
Plus: Capital and virements	262,952
	<b>12,499,428</b>

The main variances between actual expenditure and income and the revised budget can be attributed to the following :

<b>The main variances between actual expenditure and income and the revised budget can be attributed to the following :</b>	<b>2016 Variance R'000</b>
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#### 34.2 Revenue

1.50% more revenue collected than the budgeted amount. The budget for revenue is based on a revenue indicator developed for the Fund, which utilises a combination projected CPI and GDP to determine the likely rate of growth in the revenue of the Fund. Based on this revenue indicator, revenue projected was slightly lower than the actual amount collected during the 2015/16 financial year.

253,419

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>34. Budget information (continued)</b>		
		<b>2016 Variance R'000</b>
<b>34.3 Benefit payments</b>		
9.90% paid out less in benefits than the budget amount. The budget was compiled based on the economic conditions and constant rise in unemployment in South Africa during the previous financial year. Due to the declining economic conditions, in addition to the projected amounts based on the actuarial valuation report of the Fund for 31 March 2015, the Fund adjusted the budget for benefit payments based on the run-rate of benefit payments for the period 1 April 2015 to 31 August 2015 during the budget preparation period.		845,439
<b>34.4 Unemployment alleviation schemes</b>		
During the financial year under review two amendments were proposed to the Training Lay-off Scheme which had budget implications for the Fund. The first proposed amendment was that the Training Lay-off Scheme be linked to the earning threshold published by the Minister of Labour in terms of Section 6(3) of the Basic Conditions of Employment Act - the earnings threshold was set at R205,433.20 in July 2014 and has remained unchanged in 2015. The second proposed amendment was that the period for payment of training allowances be increased from six to twelve months. The implication of these proposals were that the maximum monthly allowance payable to any employee participating in the Training Lay-off Scheme will be R17,120.00 and that the rule that allowances be set at 75% of an employee's basic salary remained unchanged. A large scale of retrenchments had commenced. The under expenditure is attributed to the slow take up in the Training Lay off Scheme.		1,546,629
<b>34.5 Auditors fees</b>		
59.49% less than budget. The budget for audit fees is based on the budget of the audit for the financial year under review. As at the end of the financial year, the Fund had paid invoices relating to the finalisation of the 2014/2015 financial year in addition to audit fees for the 2015/2016 audit, however, the 2015/2016 audit was not yet concluded as at 31 March 2016 due to timelines set by the PFMA for submission of the Fund's annual financial statements within two months after the Fund's year-end for external audit purposes.		6,544

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>34. Budget information (continued)</b>		
		<b>2016 Variance R'000</b>
<b>34.6 Administrative cost</b>		
Savings incurred by the Fund on various budget items as a result of cost containment measures that were implemented in order to comply with the cost containment measures as imposed by the National Treasury. 12.63% was saved against the following main budget items:		
Stationery and Printing		6,988
Venues and Facilities		4,637
Training and Development - the budget was revised upwards to make provision for training on the ERP system that the Fund is in the process of implementing. The project was not finalised as anticipated which had an impact on the planned budgeted training.		5,261
Entertainment/Catering		3,087
Advertising: due to the non-timely finalisation of television, print media and SABC radio advertising material between the Fund's Head Office and its Gauteng Provincial Office, a scheduled UIF Seminar in Gauteng could not be held. In addition, the Fund's national campaign on Community Radio through GCIS was placed on hold due to the non-compliance of certain media owners dealing with community mediums from GCIS.		4,154
External IT services: SITA services and software licenses expenditure were less than the amount budgeted for.		9,680
SARS contribution commission: Over budget based on higher than expected contribution revenue		18,041
<b>34.7 Depreciation and impairment</b>		
Depreciation is 83.23% less than the budget amount due to the capital projects which did not realise/were not finalised during the financial year under review, with specific reference to the implementation of the Fund's ERP system and the re-location of the data centre. The Fund re-assesses the useful life of assets on an annual basis in line with GRAP 17 which resulted in a negative depreciation adjustment due to assets which useful lives were extended. No depreciation was calculated on the investment properties and the Fund's Head Office building during the current year since the residual values of the properties increased to amounts greater than the carrying amounts. The depreciation charge on investment properties and the Fund's Head Office building will remain zero until the property's residual value subsequently decreases to an amount below its carrying amount. In addition the impairment loss on the Midrand building was reversed during the financial year under review based on the new valuation for which no budget provision was made.		77,950
<b>34.8 Employee cost</b>		
Employee cost is 8.61% underspent in comparison to the budget. The Fund anticipated to have implemented the new organisational structure by the end of the financial year under review, however delays in finalising the structure and the immigration of staff members into the new structure impacted expenditure on employee cost.		88,797

# Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2016

## Notes to the Annual Financial Statements

	2016 R '000	2015 R '000
<b>34. Budget information (continued)</b>		
		<b>2016 Variance R'000</b>
<b>34.9 Operating expenses</b>		
Operating expenditure 10.62% saving/under-expenditure against the following main budgeted items:		
Travel and Subsistence: cost containment measures to comply with the circular issued by National Treasury.		19,923
Consumables: cost containment measures to comply with the circular issued by National Treasury.		1,725
Communications: cost containment measures to comply with the circular issued by National Treasury.		14,669
<b>34.10 Investment revenue</b>		
17.38% less investment income received than budgeted for due to the deteriorating economic conditions in the country. The budget was conservatively calculated based on uncertain economic conditions in the investment market during the budget period.		1,626,434
<b>34.11 Fair value adjustments</b>		
The Fund does not budget for fair value adjustments as it reflects market movements on investment instruments. Due to the current economic condition in the country, the Fund's fair value adjustment profit reflected in the 2014/2015 financial year, moved to a net fair value adjustment loss as reflected in the statement of financial performance.		4,233,877
<b>34.12 Unearned premium reserve</b>		
Unearned premium reserve is budgeted for but disclosed in the Statement of Changes in Net Assets and not in the Statement of Financial Performance		2,475,516
<b>34.13 Capital</b>		
50.77% under expenditure is due to the change in the Fund's decision to renovate its building at 94 WF Nkomo street, in addition to IT capital projects which were not finalised.		133,498



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