Unemployment Insurance Fund
Annual financial statements
for the year ended 31 March 2009

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

General Information

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 is 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	94 Church Street Pretoria 0002
Business address	94 Church Street Pretoria 0002
Postal address	UIF Pretoria 0052
Auditors	The Auditor General
Accounting Authority	Acting Director-General Department of Labour: Mr. S. Morotoba

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

Index

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

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE UNEMPLOYMENT INSURANCE FUND FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Unemployment Insurance Fund which comprise the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 64-131

The 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 the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and section 11(3) of the Unemployment Insurance (UI) Act, No 63 of 2001 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.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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.

5. 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.

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

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the Unemployment Insurance Fund as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with basis of accounting determined by the National Treasury as set out in the accounting policy note 1 to the financial statements and in the manner required by the PFMA.

Without qualifying my audit opinion, I draw attention to the following matter:

8. Basis of accounting

   The public entity's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Key governance responsibilities

Governance framework

The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

9. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✔	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	✔	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✔	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 40/55 of the PFMA.	✔	
Availability of key officials during audit			

5.	Key officials were available throughout the audit process.	✔	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The public entity had an audit committee in operation throughout the financial year.	✔	
	• The audit committee operates in accordance with approved, written terms of reference.	✔	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10/27.1.8.	✔	
7.	Internal audit		
	• The public entity had an internal audit function in operation throughout the financial year.	✔	
	• The internal audit function operates in terms of an approved internal audit plan.	✔	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2/27.2.	✔	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✔	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✔	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✔	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 3.2/27.2.	✔	
12.	Duties and powers have been assigned, as set out in section 44/56 of the PFMA.	✔	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✔	
14.	SCOPA/Oversight resolutions have been substantially implemented.	**n/a**	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✔	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✔	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Unemployment Insurance Fund against its mandate, predetermined objectives, outputs, indicators and targets as per Treasury Regulation 29.1/30.1.	✔	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and	✔	

	approval by those charged with governance.		

The overall conclusion on the governance framework based on other key governance requirements is that the key governance responsibilities are achieved.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. I have reviewed the performance information as set out on pages 18-20

The accounting authority's responsibility for the performance information

11. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

The Auditor-General's responsibility

12. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

13. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

14. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Lack of effective, efficient and transparent systems and internal controls regarding performance management

15. The accounting authority did not ensure that the Unemployment Insurance Fund has and maintains an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the entity's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed as required in terms of section 51(1)(a)(i) of the PFMA.

Usefulness and reliability of reported performance information

16. The following criteria were used to assess the usefulness and reliability of the information on the entity's performance with respect to the objectives in its strategic plan:
    - Consistency: Has the entity reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan?
    - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
    - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Inconsistently reported performance information

17. The Unemployment Insurance Fund has not reported on its performance with regard to its objectives as per the approved strategic plan.

    There were certain inconsistencies between the performance related information contained in the strategic plan, annual work plan, quarterly reports and the performance information in the annual report.

Reported performance information not relevant

18. The following targets with regard to certain objectives were not:
    - specific in clearly identifying the nature and the required level of performance
    - measurable in identifying the required performance
    - time bound in specifying the time period

    In certain instances, there is no link between the output and the key service delivery indicators and targets on the strategic plan.

    Performance indicators reflected in the strategic plan do not always identify a specific measurable indicator.

APPRECIATION

19. The assistance rendered by the staff of the Unemployment Insurance Fund during the audit is sincerely appreciated.

Auditor-General

94 Church Street

31/07/2009

Accounting Authority's responsibilities and approval

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

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board, as the prescribed framework by National Treasury. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting authority acknowledges that the ultimate responsibility for the system of internal financial control established by the Fund 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. Operating risk 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.

The accounting authority has reviewed the Fund's cash flow forecast for the year to 31 March 2010 and, in the light of this review and the current financial position, Accounting Authority is satisfied that the Fund has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements set out on pages 64-131 which have been prepared on the going concern basis, were approved by the Unemployment Insurance Board on 26 May 2009 and was signed by the Accounting Authority on recommendation of the Unemployment Insurance Board.

Mr. S. Morotoba
Acting Director-General: Department of Labour

Date:

Accounting Authority's report

The accounting authority submits his report for the year ended 31 March 2009.

1. 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 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.

Net surplus of the Fund was R 9,219 billion (2008: surplus R 6,867 billion).

2. Post reporting date events

No material facts or circumstances have arisen after the reporting date which affects the financial position of the Fund as reflected in the financial statements.

The current global economic crisis caused large-scale deterioration in financial markets and underlying economic conditions combined created an extremely uncertain environment where job losses are predicted. The Fund expects an increase in unemployment insurance claims for the current year and a possible decrease in contribution revenue. The Fund's business model is based on a "Pay As You Go" system and despite the current downturn and heightened uncertainties there are at this stage limited risks to the financial sustainability of the Fund. The Fund is fully reserved and carries out regular actuarial valuations to determine future financial requirements. The Actuaries have concluded that the Fund is in a sound financial position to be able to meet the predicted increasing unemployment insurance claims.

The Unemployment Insurance Board recommended an increase in the Income Replacement Rate (IRR). The proposed increase in the IRR will substantially reduce the net surplus of the Fund as per the Actuarial report on expected impact. The amendment bill will follow the normal consultation process with stakeholders and the Parliamentary process going forward.

The South African Government is evaluating policy options for a Comprehensive Social Security and Retirement Reform System for South Africa. The UIF is represented and plays a vital role on the Inter Departmental Task Team (IDTT). During this process the utilisation of the UIF surpluses for improved Social Security/Unemployment Benefits will be investigated.

3. Accounting policies

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements as the prescribed framework by National Treasury.

4. 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 and accordingly the Department ensure information technology enablement of the two Funds, based on its

Public Private Partnership (PPP) agreement with Siemens IT Solutions and Services (Pty) Ltd, enabling the Funds to comply with the requirements of their respective legislation and improve service delivery.

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 is adjusted on an annual basis by the application of the CPIX adjustment and additional user's formula. Risk is shared by the IT Provider and the Department of Labour and ownership is retained by the Department of Labour. The Fund recognise 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 shall open 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:
- moneys 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 UIF and the Compensation Fund are entitled to credits emanating from additional services that should be allocated to the relevant entity's portion in the Reinvestment account.

The Reinvestment Fund was equally divided between the Department of Labour, the UIF 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".

5. Contribution revenue

Business processes and financial systems are continuously enhanced to improve debt collection and revenue recognition based on employer declaration. The U-Filing declaration and payment system that was implemented to assist in the collection of declaration data to enable invoicing of contributions payable is undergoing enhancements to make it more user friendly, improve the utilisation rate by employers and to enable direct integration with the financial system.

6. 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. Significant improvements were made by the UIF in implementing effective and efficient systems during the financial year under review.

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 Unemployment Insurance 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 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, 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. “Contribution Legal Claims” were accounted for based on its measurability and probability. Systems are under development to invoice revenue contributions payable from SARS registered employers and U-Filing registered employers based on employee/declaration information supplied by employers.

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 are reliant on receiving Employee Remuneration Information from employers. In various instances the information is captured manually. The Fund takes every precaution to ensure that that capturing errors are minimized 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. The following validations are executed on the SIYAYA operational system:

Basic validation on claim credit days

- Flag where credit days are equal to 238 days
- Flag claims where credit days paid do not equal or are less than the number of credit days accrued

Verification with UI19 (declaration information)

Ensure that:
- the start- and end dates as per SIYAYA agree to the UI19
- the hours worked as per SIYAYA agree to the UI19
- periods of non-contributor on SIYAYA agree to the UI19
- periods of non-declaration on SIYAYA agree to the UI19
- earnings per SIYAYA agree to the UI19
- the reason for termination per SIYAYA agrees to the UI19

The Fund validated the declarations on which the current year claims were based on before validating previous year’s claims due to the volume of declarations. Anomalies identified were rectified immediately. A Task Team was sent to the Provincial offices to assist staff with the validation of claims. Although some claims for the 2007/8 financial year had already been validated, the Fund managed to validate in excess of 281,000 (57%) claims registered during the 2008/9 financial year. The claims approval process was revised during the year to improve controls. Before a current claim is approved, the declaration/s on which the claim is based on was validated to ensure the completeness, accuracy and validity of the data in order to reduce the risk of fraudulent or incorrect payment of claims.

Control Measures

Apart from the system controls by way of the various business rules built into the SIYAYA application, the Fund implemented various other controls. Declarations received are screened by the Team Leaders in the Employee Declaration Section (EDS), the employer record is verified to ensure that the address 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 subjected to a random ten percent sampling by the supervisors in the section and errors identified are corrected.

Claimants ID numbers captured on SIYAYA operational system are verified against the population register as an additional control. Approximately 2 million declarations are monthly updated electronically on the system directly from extracts of auditable payrolls submitted by employers.

Updated employee information letters are sent to employers and all cases where employers subsequently question the update are referred to the Fund's Risk Management Unit for further investigation.

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

The Fund is dependent on 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. Erroneous payments are made to claiming beneficiaries 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)

An electronic adjudication functionality was introduced by the Fund to detect transactions or entries with discrepancies (possible under- or overpayments) based on the continuous updating of employee information as declared by employers. Exceptions Assessors investigations 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 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", that resulted in overpayments noted for the year under review to reduce in comparison to prior years.

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 the information impacts on the correctness of the 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 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.

7. Auditors

The annual financial statements have been audited by the Auditor-General, 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 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.

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

Statement of Financial Performance for the financial year ended 31 March 2009

(Illustrating the classification of expenses by nature)

	Note(s)	2009 R '000	2008 R '000
Revenue	3	10,324,507	9,164,632
Benefit payments	4	(3,847,236)	(2,921,460)
Changes in benefits payable	4	(60,008)	(306,344)
Gross surplus		**6,417,263**	**5,936,828**
Other income	5	2,335	1,949
Auditors remuneration	6	(8,566)	(7,315)
Administrative costs		(221,384)	(233,682)
Depreciation, amortisation and impairments	7	(3,183)	(4,786)
Employee costs		(349,014)	(335,110)
Other operating expenses		(175,358)	(158,410)
Operating surplus		**5,662,093**	**5,199,474**
Investment revenue	8	3,486,976	2,187,789
Fair value adjustments	9	70,255	(519,872)
Finance costs	10	(27)	(432)
Surplus for the year		**9,219,297**	**6,866,959**

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

Statement of Financial Position as at 31 March 2009

	Note(s)	2009 R '000	2008 R '000
Assets			
Non-Current Assets			
Investment property	11	1,990	6,843
Property, plant and equipment	12	60,123	48,760
Other financial assets	13	21,521,538	15,045,423
		21,583,651	**15,101,026**
Current Assets			
Other financial assets	13	14,706,631	11,818,765
Trade and other receivables	14	42,018	58,804
Derivative financial instruments	17	36,745	2,040
Cash and cash equivalents	15	689,480	843,165
		15,474,874	**12,722,774**
Total Assets		**37,058,525**	**27,823,800**
Equity and Liabilities			
Equity			
Technical reserves		11,053,000	9,911,180
Accumulated surplus		23,508,039	15,430,562
		34,561,039	**25,341,742**
Liabilities			
Non-Current Liabilities			
Provisions	18	19,594	20,011
Current Liabilities			
Trade and other payables	19	72,309	98,575
Benefits payable	21	2,405,572	2,344,017
Derivative financial instruments	17	-	19,443
Bank overdraft	15	11	12
		2,477,892	**2,462,047**
Total Liabilities		**2,497,486**	**2,482,058**
Total Equity and Liabilities		**37,058,525**	**27,823,800**

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

Statement of Changes in Net Assets

	Technical reserves R '000	Accumulated surplus R '000	Total net assets R '000
Balance at 1 April 2007	**8,674,715**	**9,800,068**	**18,474,783**
Changes in net assets			
Surplus for the year	-	6,866,959	6,866,959
Transfers to technical reserves	1,236,465	(1,236,465)	-
Total changes	1,236,465	5,630,494	6,866,959
Balance at 1 April 2008	**9,911,180**	**15,430,562**	**25,341,742**
Changes in net assets			
Surplus for the year	-	9,219,297	9,219,297
Transfers to technical reserves	1,141,820	(1,141,820)	-
Total changes	1,141,820	8,077,477	9,219,297
Balance at 31 March 2009	**11,053,000**	**23,508,039**	**34,561,039**

Unemployment Insurance Fund

Annual Financial Statements for the year ended 31 March 2009

Cash Flow Statement

	Note(s)	2009 R '000	2008 R '000
Cash flows from operating activities			
Cash receipts from contributors and other sources		10,343,628	9,135,814
Cash paid to suppliers, employees and beneficiaries		(4,622,554)	(3,587,057)
Cash generated from operations	23	5,721,074	5,548,757
Investment revenue		3,486,976	2,187,789
Finance costs		(27)	(432)
Net cash from operating activities		**9,208,023**	**7,736,114**
Cash flows from investing activities			
Acquisition of property, plant and equipment	12	(13,833)	(4,396)
Purchase of financial assets		(31,639,485)	(24,835,016)
Sales of financial assets		23,869,214	18,400,970
Interest received		(1,458,268)	(910,634)
Dividends settled at premiums		44,503	5,547
Realised profit on equity		48,209	2,652
Realised loss market value adjustment		(212,047)	(55,111)
Net cash from investing activities		**(9,361,707)**	**(7,395,988)**
Net increase in cash and cash equivalents		**(153,684)**	**340,126**
Cash and cash equivalents at the beginning of the year		843,153	503,027
Cash and cash equivalents at end of the year	15	**689,469**	**843,153**

Accounting Policies

1. Basis of preparation

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

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board, replacing the equivalent GAAP statements as follow:

Standard of GRAP		Replaced Statement of SA GAAP	
GRAP1:	Presentation of financial statements	AC 101:	Presentation of financial statements
GRAP2:	Cash flow statements	AC 118:	Cash flow statements
GRAP3:	Accounting policies, changes in accounting estimates and errors	AC 103:	Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the annual financial statements. The implementation of GRAP 1, 2 and 3 have resulted in the following significant changes in the presentation of the annual financial statements:

1.1. Terminology differences:

Standard of GRAP	Replacement Statement of GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus / Deficit for the period	Profit / Loss for the period
Accumulated Surplus / Deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

1.2. The cash flow statement can only be prepared in accordance with the direct method.

1.3. The amount and nature of any restrictions on cash balances are required to be disclosed.

Paragraphs 11 to 15 of GRAP 1 have not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the annual financial statements, non-disclosure will not affect fair presentation.

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

AC141 - Insurance contracts

AC 141: Insurance contracts are not applicable to the business of the Fund.

Some AC141 principles were applied to enhance certain insurance related disclosures. This is consistent with those of the previous financial year.

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 permanently withdrawn from use 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

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 associated with the item will flow to the Fund; and
- the cost of the item can be measured reliably.

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

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 freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives.

Item	Years
Land/ Heritage	Indefinite
Buildings	50 years
• Air conditioning	15 - 20 years
• Lifts	12 - 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
Furniture and fixtures	6 - 10 years

1.2 Property, plant and equipment (continued)

Motor vehicles	5 - 10 years
Office equipment	6 - 10 years
IT equipment	3 - 5 years
Computer software	2 - 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 financial year end.

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

1.3 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 amount of the asset.

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

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable 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 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.

1.4 Comparatives information

Where applicable, comparative figures have been restated.

1.5 Financial assets and liabilities

The Fund has the following financial assets and liabilities which are within the scope of AC133: investments in equities, capital market instruments and derivatives which are classified as financial assets at fair value through surplus or deficit, cash and cash equivalents and trade and other receivables which are classified as loans and receivables, and trade and other payables.

Identifying financial instruments according to AC144:

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

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 received 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 AC144. The following items are accordingly excluded from AC144 requirements.
- Disallowances (Benefits paid in error)
- Transactions under investigation
- Benefit payments
- Legal claims - contributions

1.5.1 Policy framework

In terms of section 7(1) of the Unemployment Insurance Act, the Public Investment Corporation Limited (PIC) is appointed as the Fund's Investment Manager. The Fund transfer surplus cash to the PIC to invest according to the Fund's investment strategy and the investment policy of the PIC. All investments and deposits are registered by the PIC in the Fund's portfolio account.

1.5.2 Classification of financial assets and liabilities

The category of financial assets and financial liabilities at fair value through surplus or deficit comprises:

Financial instruments held-for-trading

These include equities, capital market instruments and options. All derivatives in a net receivable position (positive fair value) as well as options purchased are reported as financial assets held-for-trading. All derivatives in a net payable position (negative fair value) are reported as financial liabilities held-for-trading. 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.

Financial instruments designated at fair value through surplus or deficit upon initial recognition

These include financial assets that are not held-for-trading purposes and which may be sold. These are investments in money market instruments. Financial liabilities that are not classified at fair value through surplus or deficit include accounts payable. 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.

1.5 Financial assets and liabilities (continued)

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:
- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities 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 or investment strategy.

Specific instruments

Loans and receivables

Loans and receivables 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. Loans and receivables are carried at amortised cost 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 group bank accounts on which after trading hours transactions were processed and only cleared on the following banking date, which is after the reporting date.

Cash and cash equivalents are carried at amortised cost.

Trade and other receivables

Trade receivables are initially measured at fair value (transaction price), and are subsequently measured at amortised cost 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.

Trade and other payables

Trade payables are initially measured at fair value (transaction price) and are subsequently measured at amortised cost, 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.

1.5.3 Recognition

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

All regular way purchase and sales of financial assets are recognised on the trade date that the Fund commits to purchase or sell the asset. Any gains and losses arising from this date changes in fair value of the financial assets are recognised in the statement of financial performance.

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 AC133.

1.5 Financial assets and liabilities (continued)

1.5.4 Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through surplus of deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets carried at fair value through surplus or deficit are initially recognised at fair value and transaction costs are expensed in the statement of financial performance, while on other financial instruments they are capitalised.

1.5.5 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 market 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.

1.5.6 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.

1.5.7 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 cost or 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.

1.5 Financial assets and liabilities (continued)

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.

In the case of equity securities classified as held-for-trading investments are measured initially and subsequently at fair value, and gains and losses arising from changes in fair value are included in surplus or deficit of the statement of financial performance.

A provision for trade receivables impairment is made when there is objective evidence (such as 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.

1.5.8 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.

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.

1.5.9 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 Financial assets and liabilities (continued)

1.5.10 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”.

1.5.11 Expenses

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

1.6 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.

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 sequestrated or an estate of a deceased contributor has been lodged with the master of the Supreme Court. Recovery of the legal claims debtors is in terms of the Unemployment Insurance Act.

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

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

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

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.

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.

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 4 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

1.7 Unemployment insurance and liabilities (continued)

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.

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 - comprises of "unearned contribution revenue" (UCR), the "unexpired risk"
- Benefits payable - comprises of estimated benefits payable
  - Claims incurred but not reported (IBNR)
  - Approved reported benefits payable

Technical reserve for “unearned contribution revenue” (UCR)

The Technical Reserve represents that part of the current year's contributions that relates to risk periods that extend over the following four years. This is reflected as a technical reserve in the statement of financial position.

Based on actuarial valuation a portion of the net surplus is allocated to Technical Reserves on an annual basis as per the Statement of changes in Net Assets. The actuarial valuation is calculated at reporting date using a range of standard actuarial claim projection techniques. Based on empirical data, adjusted for wage inflation and current assumptions are taken into consideration, which may include a margin of adverse deviation.

Estimated reported benefits payable

Employees became unemployed claimants and started receiving payments during the period under consideration. Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled at the reporting date, less amounts already paid.

The estimated reported benefits payable is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin of adverse deviation. Adjustments to estimate reported benefits payable and the movement on reported benefits payable are recorded in the statement of financial performance at each reporting date.

The estimated reported benefits payable is calculated using the BCL-method (Basic Chain Ladder Method). The BCL-method involves projecting the total cumulative claim amounts. The liability is calculated by subtracting all amounts already paid to date. Claims handling expenses are taken into account. Actuarial calculations are not discounted for the time value of money.

The liability is derecognised when the beneficiaries' credit days are exhausted or the four year period lapse and a new credit cycle is started.

Claims incurred but not reported (IBNR)

Provision is also made for claims arising from insured events that occurred before the reporting date, but had not been reported by that date.

1.7 Unemployment insurance and liabilities (continued)

The estimated claims incurred but not reported (IBNR) is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin of adverse deviation. Adjustments to estimated, claims incurred but not reported (IBNR) and the movement is recorded in the statement of financial performance at each reporting date. Actuarial calculations are not discounted for the time value of money.

The liability is derecognised when the beneficiaries' credit days are exhausted or the four year period lapse and a new credit cycle is started.

1.7.1 Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the Technical Reserves and benefits payable. In determining the Technical Reserve (UCR), "this reserve is held when the contributions received (or part thereof) in a particular accounting period relate to future periods of unexpired cover", the actuaries consider the need to make an additional provision for unexpired risk (URR). It is the amount needed to cover future claims and expenses arising from credits earned as at the reporting date. If this reserve is greater than the UCR, additional unexpired risk reserves (AURR) would be included in the financial statements. The AURR is the difference between the URR and the UCR. If the resulting estimate of the URR is less than the UCR it is not necessary to hold an AURR.

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

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 can not 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.

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 current 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.**

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 so significant that if revenue is recognised on available information the financial position of the Fund will not be fairly represented.

1.10 Contribution revenue (continued)

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 U-Filing project started during the Financial Year 2006/07 and was planned to be concluded within a 36 month time frame.

The Fund collected R9,624,583 of contributions revenue during the 2008/09 financial year based on declarations received through U-Filing (2007/08: R5,914,382). Enhancements to the system are in an advance stage to make it more user friendly and to enable direct integration with the Financial System. The enhancements will ensure an improved utilisation rate that accordingly will provide additional employee information to improve measurability and probability to invoice contributions payable that will improve revenue and debt collection.

To improve measurability and probability revenue was classified according to revenue collection streams. The Fund is in the process of developing a debt collection- and financial system based on the revenue streams.

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)

The Fund is in the process of developing systems to invoice contributions payable from SARS registered employers and U-Filing collections on the same basis. Based on information currently being inaccurate and incomplete on SARS registered employers, U-Filing, EFT Bank Deposits and Cash and Cheques (UI 7) declaration and collections, measurability and probability can not be determined until the consideration has actually been received.

To mitigate the “employee remuneration information gap” on EFT Bank Deposits and Cash and Cheques revenue streams the Fund wants to migrate these employer groups to the enhanced U-Filing system.

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

Based on the above mentioned facts, the Unemployment Insurance Fund can not quantify the impact of using the Fund's revenue recognition policy versus the full accrual basis of accounting.

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 judgements, 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.

Technical Reserve for "unearned contribution revenue" and benefits payable

Estimates have to be made for the final cost of all claims that had not been settled at the reporting date, claims arising from insured events that occurred before the close of the accounting period, but had not

1.12 Significant judgements, estimates and assumptions (continued)

been reported by that date and the technical reserve. The ultimate cost of estimated reported benefits payable and claims incurred but not reported are estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder Methods.

The main assumption underlying these techniques is that the Fund's past claims development experience can be used to project future claims development and hence ultimate claims cost. In most cases no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead the assumptions used are those implicit in the historic claims development data on which the projections are based on.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all the uncertainties involved.

Assumptions made in determining the Technical Reserve, the estimated reported benefits payable, claims incurred but not reported (IBNR) and the unexpired risk liabilities are as follow:

Estimated reported benefits payable and claims incurred but not reported (IBNR)

For each incident month, both the number and amount of claims relating to each development month are constant proportions of the totals from that incident month.

Claim payment patterns were not distorted by large claims or claim aggregations.

The proportion of fraudulent claim numbers, invalid claim numbers and claims eventually settled at nil paid claims have not changed significantly over the period on which the claims projections are based.

No further significant claims arise from incident months occurring prior to April 2006; and Claim numbers and amounts runoff patterns are stable.

Technical Reserve for "unearned contribution revenue"

The number of days worked each month purchase credit days subject to a maximum of 238 credit days applicable in a 4-year period for each member. These credit days may be claimed if a member becomes unemployed and qualifies for unemployment benefits as defined under the Unemployment Insurance Act.

The best indicator of the number of days worked is the contribution received by the Fund for each member. The contributions received are used as a **proxy** to the number of days worked for purposes of calculating the Technical Reserve. Part of each contribution received is "unearned" in the sense that the credit days given to a member as a result of the number of days worked, may be used for future benefits. The contribution therefore is assumed to be earned over a 4-year period.

Unexpired risk liabilities

The average claim amount is currently approximately R2,000.

Claim expenses are approximately 5.79% of the value of a claim.

Approximately 7% of the workforce will claim their credits, earned as at the reporting date in the next four years.

The average salary of the claimants is R4,100.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

2. Changes in accounting policies and the application of new accounting standards

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board, replacing the equivalent GAAP statements issued by the Accounting Standards Board as the prescribed framework by National Treasury, effective from 2006.

The Accounting policies are consistent with those of the previous financial year except as follows:

Standards, amendments to standards and interpretations adopted in the 2009 annual financial statements:

The following standards, amendments to standards and interpretations which are relevant to the Fund, have been adopted in these financial statements:

The amendments to AC133 'Financial Instruments: Recognition and Measurement', issued in October 2008, in respect of the reclassification of financial instruments have been adopted in these financial statements. The amendments extend the ability of preparers to make reclassifications of financial instruments between AC133 categories in restricted circumstances. Under the revised reclassification rules an entity has the ability to reclassify financial instruments from the held-for-trading and available for sale financial instrument categories in certain specified rare circumstances. The Fund have not reclassified any of its financial instruments under this amendment.

The amendments to AC144 'Financial Instruments: Disclosures', issued in October 2008, in conjunction with the changes to AC133, in respect of the reclassification of financial instruments. The amendments require additional disclosures where reclassifications have been made in respect of the extended reclassifications provisions in AC133.

The Fund has not reclassified any of its financial instruments under the amendments to AC 133 and/or amendments to AC144.

Future standards, amendments to standards and interpretations not early adopted in the 2009 annual financial statements:

At the date of the authorisation of these financial statements the following standards, amendment to standards and interpretations, which are relevant to the Fund have been issued by the Accounting Standards Board and are effective for periods beginning on or after 1 April 2009:

- GRAP 13 "Leases" (replaces AC 105) – prescribe for lessees and lessor, the appropriate accounting policy and disclosure to apply in relation to finance and operating leases
- GRAP 14 "Events after the Reporting Date" (replaces AC 107) – prescribe when an entity should adjust its financial statements for events after the reporting date, disclosure about the date when the financial statements were authorised and events after reporting date
- GRAP 16 "Investment Property" (replaces AC 135) - prescribe the accounting treatment for investment property and related disclosure requirements
- GRAP 17 "Property, Plant and Equipment" (replaces AC 123) - prescribe the accounting treatment for property, plant and equipment - recognition of the asset, the determination of their carrying amount, the depreciation charges and impairment losses to be recognised in relation to them
- GRAP 19 "Provisions, Contingent Liabilities and Contingent Assets" (replaces AC 130) – define provisions, contingent liabilities and contingent assets, circumstances in which provisions should be recognised, how they should be measured and disclosed including disclosure of contingent liabilities and contingent assets

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

2. Changes in accounting policies and the application of new accounting standards (continued)

The implementation of the mentioned GRAP standards will not have a material effect on the financial position of the Fund since the standards of GRAP are closely aligned with SA GAAP.

Vouchers on hold

During the 2008 financial year, the Fund changed its accounting policy with respect to the treatment of unpaid benefit vouchers which had an effect on the financial performance and position of the Fund.

The procedure intends to formalise and define financial prescripts and procedures pertaining to the clearing of vouchers on hold to ensure effective control over unpaid benefit vouchers to improve compliance with the requirements of the PFMA, National Treasury Regulations and applicable standards.

Approved benefits which are on hold due to a lack of payment information or uncollected by the beneficiary for 60 (sixty) days are reversed in the financial system (liability cancelled). The credit days allocated in determining the benefit are credited to the claimants account in the operational system Siyaya. The benefit can be re-issued on demand from the claimant. The claim liability as at 31 March 2008 was provided for as part of the Actuarial Valuation. The Actuaries calculated the effect on the annual valuation of the "vouchers on hold" change in accounting policy for both the 2008 and prior year and it was found to be immaterial. Accordingly no restatement of prior year valuations was done.

The effect on other disclosures is as follows:

Statement of financial position

Benefits payable		
Previously stated	-	2,366,313
Adjustment - vouchers reversed	-	(22,296)
	-	**2,344,017**

Statement of financial performance

Benefit payments		
Previously stated	-	2,943,756
Adjustment - vouchers reversed	-	(22,296)
	-	**2,921,460**

3. Revenue

Contributions received	10,223,924	9,082,846
Penalties and interest received from contributors	100,583	81,786
	10,324,507	**9,164,632**

Revenue consists of Unemployment Insurance contributions, interest and penalties received from registered employers in terms of the Unemployment Insurance Contributions Act.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
4. Benefit payments		
Benefit payments to beneficiaries		
Benefit payments - Unemployment	2,834,157	2,030,877
Benefit payments - Illness	211,639	187,381
Benefit payments - Maternity	537,071	460,237
Benefit payments - Adoption	503	670
Benefit payments - Dependants	263,866	242,295
	3,847,236	**2,921,460**
Changes in benefits payable		
Changes in benefits payable	60,008	306,344
	3,907,244	**3,227,804**

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 ten percent 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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

4. Benefit payments (continued)

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

5. Other income

Rental income	2,015	1,801
Recoveries on overpayments written off	65	26
Recoveries on fraudulent transactions	-	(113)
Other recoveries	178	25
PPP Reinvestment Fund	68	163
Sales of waste paper and cartridges	9	47
	2,335	**1,949**

PPP Reinvestment Fund

In accordance with the PPP agreement, the contractor (Siemens) 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.

6. Auditors' remuneration

Audit 2004/05		
- Audit fees	-	3
- Expenses	-	-
Audit 2006/07		
- Audit fees	-	6,667
- Expenses	-	145
Audit 2007/08		
- Audit fees	7,337	481
- Expenses	165	19
Audit 2008/09		
- Audit fees	694	-
Forensic Audit Fees		
- Audit fees	344	-
- Expenses	26	-
	8,566	**7,315**

The budgeted audit fee for the financial year ending 31 March 2009 amounts to R7,710,192 excluding VAT.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
7. Depreciation, Amortisation and Impairments		
Depreciation		
Buildings	720	1,879
Furniture and fixtures	279	191
Motor vehicles	116	(4)
Office equipment	1,393	1,494
Other property, plant and equipment	733	846
Investment property	159	162
	3,400	**4,568**
Impairments loss/(reversal)		
Investment property	(217)	217
Depreciation	3,400	4,568
Impairments loss/(reversal)	(217)	217
	3,183	**4,786**

The 31 March 2008 impairment loss of R217,357 represents the write down of certain investment property, Erf 34, Randjespark, Extention 30, Midrand to its recoverable amount. This was recognised in the statement of financial performance in the line item "depreciation, amortisation and impairments". An independent valuation was obtained to determine the market (recoverable) amount which was based on the income capitalisation method together with market research in the direct vicinity of the property. The impairment loss was reversed in the reporting period ending 31 March 2009 based on a new valuation that was obtained as at 28 February 2009 on similar valuation methodology.

8. Investment revenue		
Interest - Financial assets	3,397,950	2,122,770
Dividends received	51,164	30,801
Interest - Bank (Commercial banks)	36,920	33,494
Other interest	942	724
	3,486,976	**2,187,789**
Investment revenue earned on financial assets by category		
Interest earned on financial assets at fair value through surplus or deficit - designated	363,158	509,369
Interest earned on financial assets at fair value through surplus or deficit - held for trading	1,991,681	1,188,496
Dividends earned on financial assets at fair value through surplus or deficit - held for trading	51,164	30,801
Loans and receivables	1,080,973	459,123
	3,486,976	**2,187,789**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

8. Investment revenue (continued)

Rates of interest		Effective interest rate Weighted average
Government bonds	Fixed rate	9.01%
Parastatal bonds	Fixed rate	10.68%
Corporate bonds		
- Manufacturing bonds	Fixed rate	10.65%
- Service bonds	Fixed rate	10.35%
- Financial bonds	Fixed rate	8.97%
- Agricultural bonds	Floating rate	12.06%
- Asset backed securitisation (SPV)	Floating rate	12.31%
Certificate of deposits	Fixed rate	10.55%
Promissionary notes	Fixed rate	10.75%
Bills	Fixed rate	11.33%
Fixed deposits	Fixed rate	11.62%
Cash and cash equivalents	Floating rate	8.81%

9. Fair value adjustments

Other financial assets		
• At fair value through surplus or deficit - designated	30,527	(8,554)
• At fair value through surplus or deficit - held for trading	39,728	(511,318)
	70,255	**(519,872)**

Financial instruments **designated** at fair value through surplus or deficit upon initial recognition are investments in money market instruments. (Certificate of deposits, Promissionary notes, Bills)

The assets and liabilities 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 or investment strategy.

Financial instruments **held-for-trading** include equities, capital market instruments and options, derivatives in a net receivable position (positive fair value) as well as options purchased.

10. Finance costs

Financial liabilities at amortised cost	27	432

11. Investment property

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	2,799	(809)	1,990	9,703	(2,860)	6,843

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

11. Investment property (continued)

Reconciliation of investment property - 2009

	Opening Balance	Reclassified to Property, Plant and Equipment	Depreciation	Impairments reversal	Closing Balance
Investment property	6,843	(4,911)	(159)	217	1,990

Reconciliation of investment property - 2008

	Opening Balance	Depreciation	Impairments	Closing Balance
Investment property	7,222	(162)	(217)	6,843

Details of property

Erf 895 (a portion of erf 252) Bisho

Purchase price: 2 February 1985	41	41
Additions since purchase	818	818
	859	**859**

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

Purchase price: 2 July 1991	1,940	1,940
Additions since purchase	-	-
	1,940	**1,940**

Details of valuation

Erf 895 (a portion of erf 252) Bisho

The effective date of the revaluation was 31 March 2009. The market valuation was performed by D.G.B. Boshoff, a professional registered valuer. D.G.B. Boshoff is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. D.G.B. Boshoff certified that the present day market value of the property was R3,100 000 as at 31 March 2009.

Erf 34, Randjespark, Extension 30, Midrand

Reclassified as property, plant and equipment. Refer to Note 12.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

11. Investment property (continued)

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

The effective date of the valuation was 31 March 2009. The market valuation was performed by D.G.B. Boshoff, a professional registered valuer. D.G.B. Boshoff is not connected to the Fund, and has recent experience in the location and category of the investment property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the investment property. D.G.B. Boshoff certified that as on 31 March 2009 the market value of the property was R4,700 000.

UIF became the owners of the Thohoyandou property with the amalgamation of the TBVC states Unemployment Insurance Funds. When the sub-division of the property was registered in the then Venda Deeds Registry no "Deed of Grant" for the original Erf 43 was registered. The UIF is experiencing difficulty in registering the property in the Funds name. The Pretoria Deeds Office insists that the original "Deed of Grant" that does not exist be lodged before registration of such sub-division will be processed. The Fund is in the process to approach the court to compel the Pretoria Deeds Office to register the property although a Deed of Grant in respect of the original site does not exist.

Erf 895 (a portion of erf 252) Bisho

The following income and expenditure are included in the surplus/deficit of the Fund:		
Rental income	604	570
Direct operational expenses	(310)	(53)
Depreciation	(16)	(16)
	278	**501**

Erf 34, Randjespark, Extension 30

The following income and expenditure are included in the surplus/deficit of the Fund:		
Rental income	-	-
Direct operational expenses	-	(277)
Depreciation	-	(110)
Impairment/impairment reversal	-	(217)
	-	**(604)**

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	597	435
Direct operational expenses	(339)	(329)
Depreciation	(36)	(36)
	222	**70**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

12. Property, plant and equipment

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land/ Heritage	9,519	-	9,519	7,875	-	7,875
Buildings	59,683	(18,899)	40,784	49,974	(17,732)	32,242
Furniture and fixtures	3,496	(790)	2,706	1,407	(511)	896
Motor vehicles	1,547	(508)	1,039	423	(391)	32
Office equipment	8,730	(3,198)	5,532	8,242	(1,803)	6,439
IT equipment	10,430	(10,430)	-	10,430	(10,430)	-
Other property, plant and equipment	6,330	(5,787)	543	6,330	(5,054)	1,276
Total	**99,735**	**(39,612)**	**60,123**	**84,681**	**(35,921)**	**48,760**

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Write off of fixed assets	Reclassified from Investment Property	Depreciation	Total
Land/ Heritage	7,875	-	-	1,644	-	9,519
Buildings	32,242	10,135	(4,140)	3,267	(720)	40,784
Furniture and fixtures	896	2,089	-	-	(279)	2,706
Motor vehicles	32	1,123	-	-	(116)	1,039
Office equipment	6,439	486	-	-	(1,393)	5,532
Other property, plant and equipment	1,276	-	-	-	(733)	543
	48,760	**13,833**	**(4,140)**	**4,911**	**(3,241)**	**60,123**

Included in the additions of Buildings and Furniture and fixtures are the amounts of R2,197,551 and R35,883 respectively for work-in-progress which was capitalised. The Fund is in the process of refurbishing the UIF Head Office Building. Materials in this regard have been procured but not assembled and installed as at 31 March 2009. No depreciation was calculated on the additions for the financial year under review.

Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Depreciation reversal	Depreciation	Total
Land/ Heritage	7,875	-	-	-	7,875
Buildings	34,121	-	-	(1,879)	32,242
Furniture and fixtures	938	149	-	(191)	896
Motor vehicles	28	-	4	-	32
Office equipment	3,686	4,247	-	(1,494)	6,439
Other property, plant and equipment	2,122	-	-	(846)	1,276
	48,770	**4,396**	**4**	**(4,410)**	**48,760**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

12. Property, plant and equipment (continued)

Equipment temporarily idle and equipment with a Rnil carrying value still in use

IT Equipment with a cost of R10,429,682 has been fully depreciated, has a Rnil carrying value, is not in use and has been identified for disposal.

Furniture and fixtures with a cost of R36,314 has been fully depreciated, has a Rnil carrying value, is still in use and has been identified for disposal.

Motor vehicles with a cost of R319,356 has been fully depreciated, has a Rnil carrying value, is still in use and has been identified for disposal.

Office equipment with a cost of R80,920 has been fully depreciated, has a Rnil carrying value, is in use and has been identified for disposal.

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 2009. The valuation was performed by D.G.B. Boshoff, a professional registered valuator. D.G.B. Boshoff is not connected to the Fund, and has recent experience in the location and category of the property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. D.G.B. Boshoff certified that as at 31 March 2009, a willing and informed buyer would pay R83,000 000 for the property.

Reclassification of investment property to Property, plant and equipment

During the current financial year, management has changed their intent with regards to the property owned in Midrand, consisting of a building on Erf 34, Randjiespark, Extention 30. The property has subsequently been reclassified from an investment property to an owner occupied property and utilised as such.

Erf 34, Randjespark, Extension 30, Midrand

Details of valuation:

The effective date of the valuation was 31 March 2009. The valuation was performed by D.G.B. Boshoff, a professional registered valuator. D.G.B. Boshoff is not connected to the Fund, and has recent experience in the location and category of the property being valued.

The valuation was based on the income capitalisation method together with market research in the direct vicinity of the property. D.G.B. Boshoff certified that as at 31 March 2009, a willing and informed buyer would pay R6,200 000 for the property.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
13. Other financial assets		
At fair value through surplus or deficit		
Listed equity	1,428,490	1,386,302
Bonds	21,621,405	15,338,228
Bills and Negotiable Certificates of Deposits	3,578,603	3,132,047
Promissory Notes	669,671	462,449
	27,298,169	**20,319,026**
Loans and receivables		
Fixed deposits	8,930,000	6,545,162
Total other financial assets	**36,228,169**	**26,864,188**
Non-current assets		
At fair value through surplus or deficit	21,521,538	15,045,423
Current assets		
At fair value through surplus or deficit	5,776,631	5,273,603
Loans and receivables	8,930,000	6,545,162
	14,706,631	**11,818,765**
	36,228,169	**26,864,188**
14. Trade and other receivables		
Trade and other receivables - financial assets		
Rent receivable	289	1,346
Provision for impairment of rental debtors	(86)	(50)
Sundry debtors	288	185
Provision for impairment of sundry debtors	(4)	-
PPP Reinvestment Fund	9,856	8,847
Investment income receivable	31,128	45,616
Uncleared bank deposits	192	155
	41,663	**56,099**
Trade and other receivables - non-financial assets		
Transactions under investigation debt	2,645	1,433
Provision for impairment of transactions under investigation debt	(2,645)	(778)
Disallowances and overpayments debt	112,252	96,278
Provision for impairment of disallowances/overpayments debt	(112,086)	(95,366)
Legal claims - contributions debt	1,003	828
Provision for impairment of legal claims debt	(963)	(737)
Prepayments	150	1,046
	355	**2,705**
	42,018	**58,804**

Disallowances/overpayments debt

Disallowances/overpayments debt balance increased by 17% from R96,278,463 in 2007/08 to R112,251,659 in 2008/09 as result of improved collections and implementation of the adjudication process to note/detect benefits paid in error. The overpayments raised in the year under review decreased by 14% from R57,076,604 in 2007/08 to R49,039,515 in 2008/09.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

14. Trade and other receivables (continued)

Risk of paying benefits in error

Inherent business risk of paying benefits in error with reference 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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

14. 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 for 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

In the 2007/08 financial year, the Fund collected R16,398,968; in set-offs R13,501,582 and bank deposits R2,897,386 for the financial year ending 31 March 2009 the Fund collected R22,241,431; in total set-offs R18,804,624 and bank deposits R3,436,807.

The Fund has engaged 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. Follow up of collection is planned through the Department of Labour's Inspection and Enforcement Services.

A bank account verification process has been developed and will be implemented with SIYAYA release 5 and 6. This will prevent overpayments raised due to incorrect bank details (capturing errors).

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

Opening balance	50	-
Provision for impairment	40	50
	90	**50**

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.

No provision for impairment was made for sundry recoveries, prepayments and the PPP Reinvestment Fund, due to the fact that these receivables originate from transactions entered into with other Government Departments and UIF staff.

The Fund has a service level agreement with the Public Investment Corporation Limited, its investment manager, who invests, manages and administers the Fund's investments. No provision for impairment was made on investment income receivable due to the fact that the Fund, through PIC, only invests in counterparties with a credit rating of at least "A".

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

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

14. Trade and other receivables (continued)

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

Provision for impairment of transactions under investigation debt		
Opening balance	778	627
Provision for impairment	1,867	151
	2,645	**778**
Provision for impairment of disallowances/overpayments debt		
Opening balance	95,366	57,982
Provision for impairment	16,720	37,384
	112,086	**95,366**
Provision of impairment of legal claims - contribution debt		
Opening balance	737	-
Provision for impairment	226	737
	963	**737**
	115,694	**96,881**

Credit quality of trade and other receivables

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 2009, R41,175,201 (2008: R 54,803,744) were less than 3 months past due but not impaired.

The amounts past due but not impaired are as follows:

Sundry debtors	-	185
PPP Reinvestment Fund	9,856	8,847
Investment income receivable	31,128	45,616
Uncleared bank deposits	192	155
	41,176	**54,803**

Trade and other receivables - financial assets, impaired

As of 31 March 2009, trade and other receivables - "rent receivable" of R289,183 (2008:R1,346,380) were impaired. The amount provided for was R86,381 as of 31 March 2009 (2008:R 49,926).

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

14. Trade and other receivables (continued)

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

0 to 3 months	187	230
3 to 6 months	102	162
Over 6 months	-	954
	289	**1,346**

As of 31 March 2009, trade and other receivables - "sundry debtors" of R287,530 (2008:Rnil) were impaired. The amount provided for was R3,800 as of 31 March 2009 (2008: Rnil).

The ageing of trade and other receivables - "sundry debtors" is as follows:

0 to 3 months	5	-
3 to 6 months	283	-
Over 6 months	-	-
	288	**-**

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4	4
Bank balances	639,485	800,495
Funds held at National Treasury	49,991	42,666
Bank overdraft	(11)	(12)
	689,469	**843,153**
Current assets	689,480	843,165
Current liabilities	(11)	(12)
	689,469	**843,153**

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 R689,479,656 (2008: R843,164,204).

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 does 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.

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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

16. Financial assets by category

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

2009	Loans and receivables	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Non-financial assets	Total
Trade and other receivables	41,663	-	-	355	42,018
Derivative financial instruments	-	36,745	-	-	36,745
Other financial assets - listed equity	-	1,428,490	-	-	1,428,490
Other financial assets - bonds	-	21,621,405	-	-	21,621,405
Other financial assets - bills, promissionary notes and certificate of deposits	-	-	4,248,274	-	4,248,274
Fixed deposits	8,930,000	-	-	-	8,930,000
Cash and cash equivalents	689,480	-	-	-	689,480
Investment property	-	-	-	1,990	1,990
Property, plant and equipment	-	-	-	60,123	60,123
	9,661,143	**23,086,640**	**4,248,274**	**62,468**	**37,058,525**

2008	Loans and receivables	Fair value through surplus or deficit - held for trading	Fair value through surplus or deficit - designated	Non-financial assets	Total
Trade and other receivables	56,099	-	-	2,705	58,804
Derivative financial instruments	-	2,040	-	-	2,040
Other financial assets - listed equity	-	1,386,302	-	-	1,386,302
Other financial assets - bonds	-	15,338,228	-	-	15,338,228
Other financial assets - bills, promissionary notes and certificate of deposits	-	-	3,594,496	-	3,594,496
Fixed deposits	6,545,162	-	-	-	6,545,162
Cash and cash equivalents	843,165	-	-	-	843,165
Investment property	-	-	-	6,843	6,843
Property, plant and equipment	-	-	-	48,760	48,760
	7,444,426	**16,726,570**	**3,594,496**	**58,308**	**27,823,800**

17. 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.

The fair value of derivative financial instruments at reporting date is as follows:

Current

Equity/index contracts		
OTC Equity options - liability	-	(19,443)
OTC Equity options - asset	36,745	2,040
	36,745	**(17,403)**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

17. Derivative financial instruments (continued)

Notional amounts	1,428,846	1,848,591

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.

18. Provisions

Reconciliation of provisions - 2009

	Opening Balance (R'000)	Utilised during the year (R'000)	Reversed during the year (R'000)	Total (R'000)
Capped leave pay	20,011	(17)	(400)	19,594

Reconciliation of provisions - 2008

	Opening Balance (R'000)	Additions (R'000)	Utilised during the year (R'000)	Total (R'000)
Capped leave pay	16,623	3,486	(98)	20,011

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.

19. Trade and other payables

Trade payables	50,221	78,520
Bonus accrual	10,240	9,726
Current leave pay accrual	10,729	9,261
Deposits received	1,119	1,067
	72,309	**98,574**

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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

20. Financial liabilities by category

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

2009

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Non-financial liabilities	Total
Provisions	-	-	19,594	19,594
Trade and other payables	61,580	-	10,729	72,309
Bank overdraft	11	-	-	11
Benefits payable	-	-	2,405,572	2,405,572
	61,591	**-**	**2,435,895**	**2,497,486**

2008

	Financial liabilities at amortised cost	Fair value through surplus or deficit - held for trading	Non-financial liabilities	Total
Provisions	-	-	20,011	20,011
Derivative financial liability	-	19,443	-	19,443
Trade and other payables	89,314	-	9,261	98,575
Bank overdraft	12	-	-	12
Benefits payable	-	-	2,344,017	2,344,017
	89,326	**19,443**	**2,373,289**	**2,482,058**

21. Benefits payable

Estimated reported benefits payable and claims incurred but not reported (IBNR)		
Opening balance	2,341,171	2,034,828
Net movement in estimate	60,008	306,343
Add: Provision for benefit payments - current year	1,872,302	2,085,924
Less: Provision for benefit payments - prior years	(3,101)	(7,398)
Less: Change on revised ultimate claim amounts - prior years	(279,937)	(866,881)
Less: Change in claims paid - prior years	(1,793,722)	(1,018,938)
Add: Change in allowance for nil-paid claims	264,466	113,636
	2,401,179	**2,341,171**
Approved benefits payable		
Opening balance	2,846	147
Claims approved	3,847,236	2,921,460
Payments made	(3,845,689)	(2,918,761)
	4,393	**2,846**
Total benefits payable	**2,405,572**	**2,344,017**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

22. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair value 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	2009 Carrying value R'000	2009 Fair value R'000	2008 Carrying value R'000	2008 Fair value R'000
Fair value through surplus or deficit - held for trading (derivative asset)	36,745	36,745	2,040	2,040
Fair value through surplus or deficit - held for trading (listed equity)	1,428,490	1,428,490	1,386,302	1,386,302
Fair value through surplus or deficit - held for trading (bonds)	21,621,405	21,621,405	15,338,228	15,338,228
Fair value through surplus or deficit - designated (certificate of deposits, promissionary notes, bills)	4,248,274	4,248,274	3,594,496	3,594,496
* Loans and receivables (fixed deposits)	8,930,000	8,930,000	6,545,162	6,545,162
* Loans and receivables (cash and cash equivalents)	689,480	689,480	843,165	843,165
* Loans and receivables (trade and other receivables)				
- Rent receivable	203	203	1,296	1,296
- Sundry receivables	284	284	185	185
- PPP Reinvestment Fund	9,856	9,856	8,847	8,847
- Investment income receivable	31,128	31,128	45,616	45,616
- Uncleared bank deposits	192	192	155	155

Financial liabilities	2009 Carrying value R'000	2009 Fair value R'000	2008 Carrying value R'000	2008 Fair value R'000
Fair value through surplus or deficit - held for trading (derivative liability)	-	-	19,443	19,443
Financial liabilities at amortised cost (trade and other payables)				
- Trade payables	50,221	50,221	78,520	78,520
- Bonus accrual	10,240	10,240	9,726	9,726
- Deposits received	1,119	1,119	1,067	1,067
* Financial liabilities at amortised cost (bank overdraft)	11	11	12	12

*** 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 the carrying amounts approximate to 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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
23. Cash generated from operations		
Surplus for the year	9,219,297	6,866,959
Adjustments for:		
Depreciation and amortisation	3,400	4,568
Investment revenue	(3,486,976)	(2,187,789)
Finance costs	27	432
Fair value adjustments	(70,255)	519,872
Impairment	(217)	217
Movements in provisions	(417)	3,388
Write off of fixed assets	4,140	-
Changes in working capital:		
Trade and other receivables	16,786	(30,767)
Trade and other payables	(26,266)	62,835
Movement in benefits payable	61,555	309,042
	5,721,074	**5,548,757**

24. Contingencies

High Court Applications against the Fund

The Fund received fifteen High Court Applications for administrative decisions on the applications for benefits in terms of the Unemployment Insurance Act.

The amounts were not provided for due to the fact that they are immaterial.

High Court Legal Actions against the Fund

Xcel Engineering and Management (Pty) Ltd

Litigation is in the process against the Fund relating to a dispute with Xcel Engineering and Management (Pty) Ltd who claims an amount of R11,756,563 with interest for additional IT related services rendered during the period May 1998 to April 2000. The dispute relates to the agreement the Fund had with Star Award Micro Systems (Pty) Ltd, to which the plaintiff was subcontracted. The Fund's lawyers and management are of the view that there are prospects of success in defending this action. The matter is set down for trial by the High Court (Transvaal Provincial Division) on 8 November 2008, but was postponed without a date.

25. Commitments

Authorised capital expenditure

IT Enablement

Contracted for but not provided for		
- Siemens: Document Capture Bureau	-	2,531
- Interfile: U-Filing	2,367	12,586
- Computron: AxsOne Enhancement project	-	1,113
- Computron: AxsOne - Change requests and Debt collection system	3,200	-
- Department of Labour - PPP	194,861	267,934

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
25. Commitments (continued)		
Office Refurbishment		
Contracted for but not provided for		
- Regenesys Management (Pty) Ltd	500	-
- Spacio Office Designs CC	8,623	-
- Corporate and Export Solutions	3,433	-
Security Upgrade		
Contracted for but not provided for		
- Rentcorp Africa (Pty) Ltd	-	50
Insurance		
Contracted for but not provided for		
- Glenrand (Pty) Limited	335	273
Actuarial Services		
Contracted for but not provided for		
- NBC Holdings (Pty) Ltd	-	326
Authorised but not contracted for		
- NBC Holdings (Pty) Ltd	3,054	-
Internal Audit Services		
Contracted for but not provided for		
- SAB & T	3,228	-
- Ramathe Chartered Accountants	-	573
Professional Services		
Contracted for but not provided for		
- Objectivitii Solutions (Pty) Ltd	-	97
- Continuing Education at University of Pretoria	11	18
- Alexander Forbes	107	93
- Schindler Lifts SA (Pty) Ltd	-	183
- Ernst and Young	1,112	-
- Creditworx	33,133	-
Authorised but not contracted for		
- CQS Technology Holdings	-	27
- Digiata Technology (Pty) Ltd	-	15
Other Commitments		
Contracted for but not provided for		
- Sundry suppliers	560	307
	254,524	**286,126**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

25. Commitments (continued)

IT Enablement: Department of Labour - PPP

The Department of Labour entered into a Public Private Partnership Agreement ("PPP Agreement") with Siemens Business Services (Proprietary) Limited ("private partner"), effective from 1 December 2002, to provide information technology related, infrastructure, services and management support to the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund ("the Funds") for a period of 10 years.

The Department of Labour pays a fixed fee ("unitary fee"), which is subject to escalation with CPIX annually on 1 April. The Department of Labour makes all payments to the private partner in respect of the unitary fee element in terms of the PPP Agreement. The unitary fee element of the PPP Agreement is divided equally between the Department of Labour, the Unemployment Insurance Fund and the Compensation Fund, as agreed to in writing between the entities. The Unemployment Insurance Fund and Compensation Fund pay their applicable portion of the unitary fee to the Department of Labour.

The unitary fee for years subsequent to 31 March 2009 has not been adjusted for inflation after 31 March 2009 and has been assumed to be the planned expenditure as reflected in the current financial model. However, the PPP Agreement makes provision for an annual increase in the unitary fee by inflation. The additional service fee for subsequent years has been stated as R nil, as the value of future commitments regarding additional services will only be known in those future periods.

Operating leases – Fund as lessee

The Unemployment Insurance Fund entered into an open ended property lease agreement on 1 March 2005 for document storage. A notice letter was given to the service provider to terminate the contract at the end of March 2007. The Fund's Bid Committee has extended the contract until 30 June 2007. The terms of the lease agreement was taken into account in determining the future property lease commitments until the end of June 2007.

Equipment - Minimum lease payments due		
- within one year	633	442
- in second year but within five years	-	550
	633	**992**

Substantial lease agreements were included in the calculation of the equipment lease commitment. Based on the insignificance of the amounts, the equipment operating lease payments were not straight-lined. The Fund entered into new operating lease agreements for equipment during the financial year under review, after most of the operating lease agreements expired during the 2006/07 financial year.

26. Emoluments

The Director-General of Labour is the Accounting Authority of the Unemployment Insurance Fund.

26.1. Executive Managers (past and present) emoluments

T.B. Seruwe (UI Commissioner)

Appointed in position: 1 May 2007		
- Salary	490	427
- Expense allowances	279	237
- State contribution: Pension Fund	65	56
- Acting allowance	-	55
	834	**775**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
E.A.L. Ferreira (Chief Financial Officer)		
Appointed in position: 1 January 2008		
- Salary	406	321
- Expense allowances	206	170
- State contribution: Pension Fund	53	42
- State contribution: Medical Aid	12	8
	677	**541**
B. Mabifa (Executive Manager: SCM)		
Resigned: 6 March 2008		
- Salary	-	182
- Expense allowances	-	109
- State contribution: Pension Fund	-	27
	-	**318**
T.S. Puzi (Executive Manager: Cash Management)		
Transferred: 1 February 2009		
- Salary	321	312
- Expense allowances	153	151
- State contribution: Pension Fund	42	40
- State contribution: Medical Aid	20	17
- Prior year arrears	6	-
	542	**520**
S. Govender (Executive Manager: Operations)		
Appointed in position: 1 July 2000		
- Salary	346	312
- Expense allowances	173	152
- State contribution: Pension Fund	45	40
- State contribution: Medical Aid	13	16
- Prior year arrears	2	-
	579	**520**
L.T. Tshitaudzi (Executive Manager: Risk Management)		
Appointed in position: 1 June 2005		
- Salary	342	307
- Expense allowances	177	155
- State contribution: Pension Fund	45	40
- State contribution: Medical Aid	10	10
- Prior year arrears	2	-
	576	**512**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
H.A. Aderibigbe (Executive Manager: Accounts Receivable)		
Appointed in position: 1 March 2005		
- Salary	342	307
- Expense allowances	169	153
- State contribution: Pension Fund	45	40
- State contribution: Medical Aid	14	12
- Prior year arrears	1	-
	571	**512**
D.J. Khumalo (Executive Manager: Support Services)		
Appointed in position: 1 November 2006		
- Salary	339	307
- Expense allowances	161	146
- State contribution: Pension Fund	44	40
- State contribution: Medical Aid	20	19
	564	**512**
I.M. Modise (Chief Information Officer)		
Appointed in position: 1 July 2004		
- Salary	361	326
- Expense allowances	172	161
- State contribution: Pension Fund	47	42
- State contribution: Medical Aid	22	14
- Prior year arrears	2	-
	604	**543**
R.F. Chauke (Executive Manager: HRM)		
Appointed in position: 1 November 2006		
- Salary	336	307
- Expense allowances	183	165
- State contribution: Pension Fund	44	40
- State contribution: Medical Aid	2	-
	565	**512**
C.J. Mill (Executive Manager: Operations)		
Appointed in position: 1 March 2007		
- Salary	339	307
- Expense allowances	161	146
- State contribution: Pension Fund	44	40
- State contribution: Medical Aid	19	19
	563	**512**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
L. Briedenhann (Executive Manager: Reporting)		
Appointed in position: 1 October 2008		
- Salary	324	276
- Expense allowances	122	51
- State contribution: Pension Fund	42	36
- Overtime	27	-
- Merit award	27	-
	542	**363**
M. Rasebopye (Executive Manager: SCM and Budgets)		
Appointed in position: 1 October 2008		
- Salary	148	-
- Expense allowances	58	-
- State contribution: Pension Fund	19	-
- State contribution: Medical Aid	10	-
	235	**-**
Total Executive Managers emoluments	**6,852**	**6,140**
26.2. Non-Executive Board members (past and present) fees		
W.J. Jacobs (Appointed: 1 November 2008)		
- Fees for services	3	-
- Expense allowances	-	-
	3	**-**
S. Gangca (Re-appointed: 1 November 2008)		
- Fees for services	37	46
- Expense allowances	6	24
	43	**70**
K.S. Mbongo (Term ended: 31 August 2008)		
- Fees for services	23	52
- Expense allowances	10	47
	33	**99**
G.H. Strauss (Re-appointed: 1 November 2008)		
- Fees for services	41	102
- Expense allowances	78	100
	119	**202**
N.M.W. Vermeulen (Re-appointed: 1 November 2008)		
- Fees for services	18	27
- Expense allowances	6	17
	24	**44**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
M.P. Nkosi (Re-appointed: 1 November 2008)		
- Fees for services	11	12
- Expense allowances	9	10
	20	**22**
R. Beukman (Appointed: 1 November 2008)		
- Fees for services	11	-
- Expense allowances	-	-
	11	**-**
L. Kganyago (Appointed: 1 November 2008)		
- Fees for services	7	-
- Expense allowances	2	-
	9	**-**
J. Mahlangu (Appointed: 1 November 2008)		
- Fees for services	1	-
- Expense allowances	-	-
	1	**-**
S. Hlapolosa (Term ended: 31 August 2008)		
- Fees for services	2	10
- Expense allowances	1	3
	3	**13**
P.C. Maseko (Term ended: 31 August 2008)		
- Fees for services	10	17
- Expense allowances	17	25
	27	**42**
N.M. Mbongwe (Term ended: 31 August 2008)		
- Fees for services	3	5
- Expense allowances	1	2
	4	**7**
M.H. Zilimbola (Re-appointed: 1 November 2008)		
- Fees for services	9	7
- Expense allowances	3	3
	12	**10**
G.N. Spelman (Audit Committee)		
- Fees for services	-	6
- Expense allowances	-	-
	-	**6**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
C.F. Terhoeven (Audit Committee)		
- Fees for services	11	31
- Expense allowances	-	-
	11	**31**
N. Mlamla (Audit Committee)		
- Fees for services	39	112
- Expense allowances	5	7
	44	**119**
W. Shange (Regional Appeals Committee)		
- Fees for services	-	1
- Expense allowances	-	-
	-	**1**
T.M. Jona (Regional Appeals Committee)		
- Fees for services	-	1
- Expense allowances	-	1
	-	**2**
M. van Wyk (Regional Appeals Committee)		
- Fees for services	-	1
- Expense allowances	-	1
	-	**2**
A. Lane (Regional Appeals Committee)		
- Fees for services	5	-
- Expense allowances	2	-
	7	**-**
K. Shoba (Regional Appeals Committee)		
- Fees for services	-	1
- Expense allowances	-	1
	-	**2**
K. Marlow (Regional Appeals Committee)		
- Fees for services	5	3
- Expense allowances	4	-
	9	**3**
N. Hlope (Regional Appeals Committee)		
- Fees for services	7	2
- Expense allowances	-	-
	7	**2**

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000
26. Emoluments (continued)		
J.G. van Graan (Regional Appeals Committee)		
- Fees for services	-	2
- Expense allowances	-	-
	-	**2**
J. Walton (Regional Appeals Committee)		
- Fees for services	-	3
- Expense allowances	-	9
	-	**12**
A.P. Brandmuller (Regional Appeals Committee)		
- Fees for services	-	1
- Expense allowances	-	1
	-	**2**
L.C. Nyman (Regional Appeals Committee)		
- Fees for services	2	3
- Expense allowances	-	7
	2	**10**
J.D. Nzanzeka (Regional Appeals Committee)		
- Fees for services	5	-
- Expense allowances	3	-
	8	**-**
Non-Executive Board members - less than R1,000:		
- Fees for services	-	1
- Expense allowances	-	-
	-	**1**
Total - Non-executive Board members' emoluments	**397**	**704**

Fee adjustments

The following Non-Executive Board members (Regional Appeals Committee) were not included in the above tables since their fees were less than R1,000:

	R	R
M. Sikani	-	754
J.G. van Graan	264	-

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

27. 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	1,960	640
Actual Fraud detected - Non benefits	50	-
Transactions under Investigation	636	793
	2,646	**1,433**
Impairment	2,646	778

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.

Recoveries of amounts previously written off are disclosed against "other income" in the statement of financial performance.

28. 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 R3,505,028 for irrecoverable overpayments which were written off during the financial year.

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

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

28. Write off of overpayments (continued)

Overpayments written off		
Overpayments - Old age pension	-	12,699
Invalid overpayments	-	800
Irrecoverable overpayments	3,505	1,197
	3,505	**14,696**

29. 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 risk: 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. Provide an independent control process to ensure the maintaining of risk related procedures over the Asset Manager in line with the approved investment mandate that is based on an asset and liability modeling study.

Risk Management Unit

The Risk Management unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks and policies including implementing and maintaining risk related procedures to ensure an independent control process. The Risk management strategy and policy of the Fund encompasses all significant business risks including financial, operation and compliance risks. The oversights of risk management process in the Provinces are provided for by an Integrated Provincial Risk Management Committee under the control of the Provincial Executive Manager.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

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 Funds Audit Committee.

Investment and Treasury Unit

Bank Treasury 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.

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

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

assessment processes, including the use of a risk management section and internal audit that review the effectiveness of the control environment and external insurance policies. Business risk such as change in environment and technology are monitored through the Unemployment Insurance Fund's strategic planning process.

Insurance risk

The Unemployment Insurance Fund provides unemployment-, illness-, maternity-, adoption- and dependant benefits as prescribed by the Unemployment Insurance Act (Act no. 63 of 2001) amended. For unemployment claims, the most significant risk arises from changes in the employment market. The insurance risk covers a four year period based on the fact that benefits accrue to a maximum of 238 days in the four year period immediately preceding the date of application for benefits.

The Unemployment Insurance Fund's risk is limited through the Unemployment Insurance Act (Act no. 63 of 2001) amended, that allows a maximum accrual of 238 days benefit in a four year period, calculating the benefit payable to a contributor, based on the daily rate of remuneration of the contributor, subject to the prescribed maximum. Further, strict claim review policies to assess all new and ongoing claims in the operational system SIYAYA that apply numerous controls based on external verification. Regular detail review of the claims handling procedures and ongoing investigation of possible fraudulent claims are some of the policies and procedures put in place to reduce the risk exposure of the Unemployment Insurance Fund.

The Fund maintains a fully funded position to mitigate its insurance risk.

	2009 R '000	2008 R '000
Technical Reserve		
"Unearned contribution revenue" (UCR) the "unexpired risk" - Statement of financial position	11,053,000	9,911,180
Benefits payable		
Claims incurred but not reported (IBNR) and approved reported benefits payable - Note 21	2,401,179	2,341,171
	13,454,179	**12,252,351**

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

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

Risk parameters were set as follows:

Total risk of the Fund

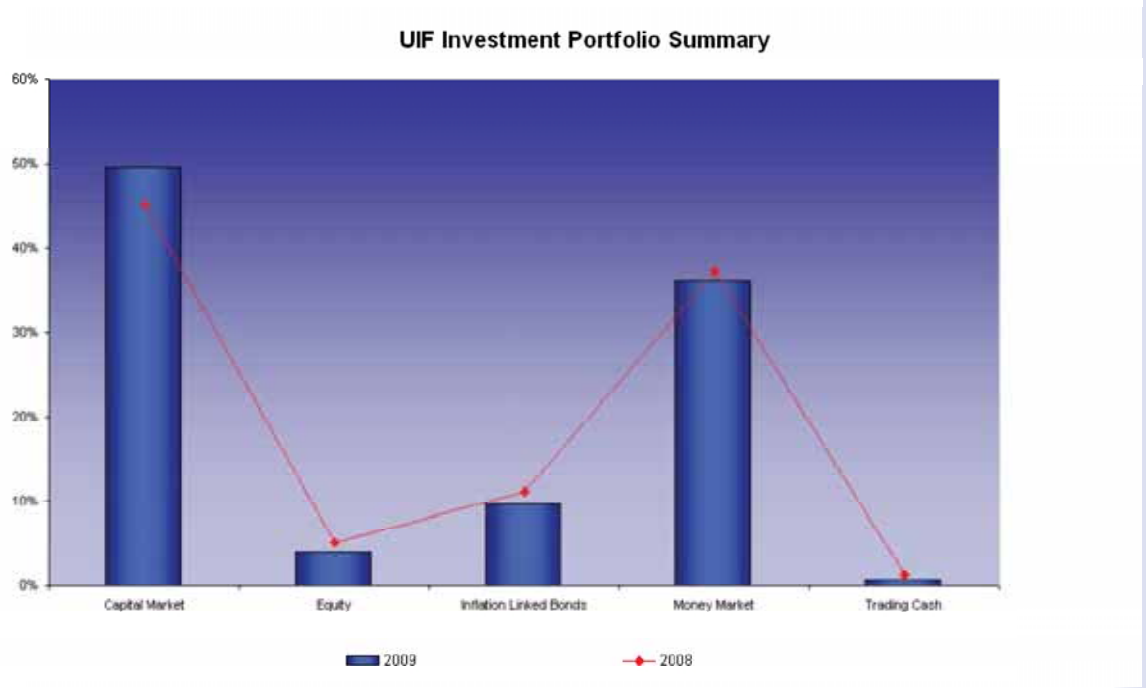
Maximum total risk (volatility or annualised standard deviation) of the Fund will be set at 2% above the average total risk of the benchmark measured over 24 months of monthly returns. The maximum tracking error will be 2% per annum measured over 24 months of monthly returns.

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.



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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

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.

Establishment of investment limits per investment instrument

Capital Markets

Government Bonds	Maximum 100%
Non-Government Bonds	Maximum 20%

Price risk

Equity price risk

Equity Portfolio value R1,428,489,659 (2008: R1,386,302,034)

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.

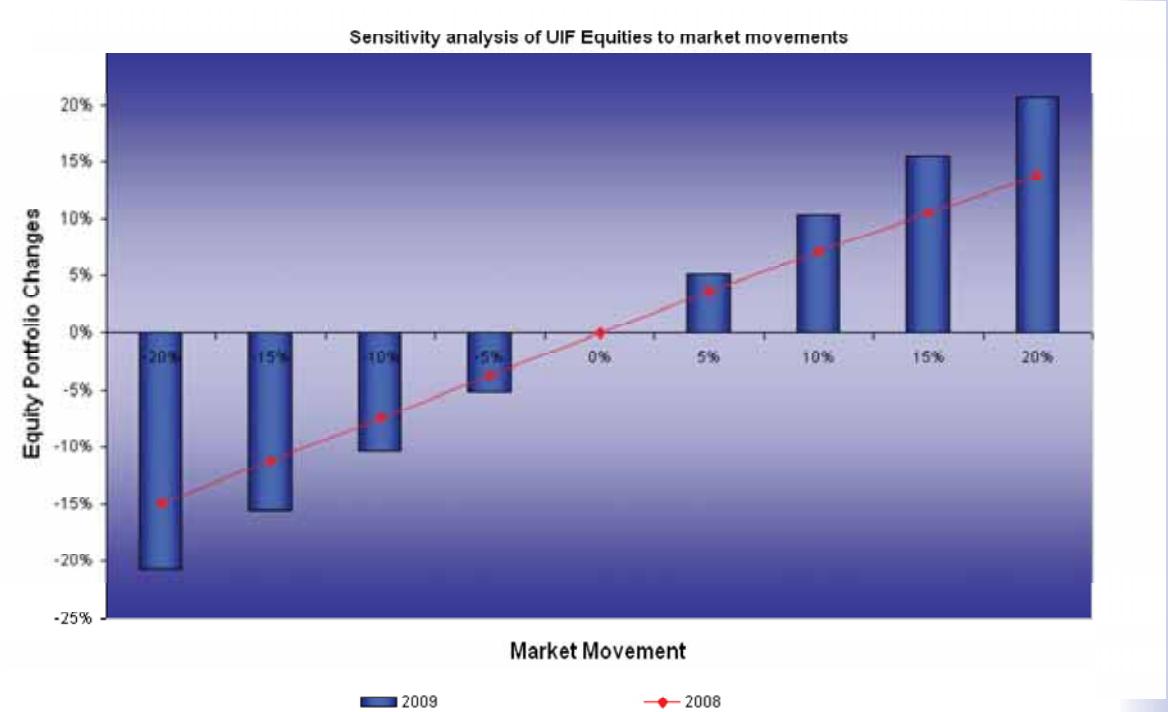
Equity market risk is managed by using a benchmark that is less volatile than the overall JSE All Share Index.

The sensitivity to equity market is measured by the beta of the equity exposure. Such beta is managed relative to an appropriate 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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. 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%
2008	1,232	1,283	1,334	1,386	1,436	1,485	1,532
2009	1,207	1,281	1,354	1,428	1,502	1,575	1,649

Effect on surplus/deficit

%	-15%	-10%	-5%	0%	5%	10%	15%
2008	-11.1%	-7.43%	-3.72%	0%	3.64%	7.13%	10.5%
2009	-15.4%	-10.3%	-5.15%	0%	5.15%	10.3%	15.45%

Interest rate risk

Bond Portfolio value R21,621,404,618 (2008: R15,338,228,515)
Bills, Promissory notes and Negotiated certificates of deposit Portfolio value R4,248,274,326 (2008: R3,594,496,131)
Fixed deposit Portfolio value R8,929,999,856 (2008: R6,545,161,671)

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

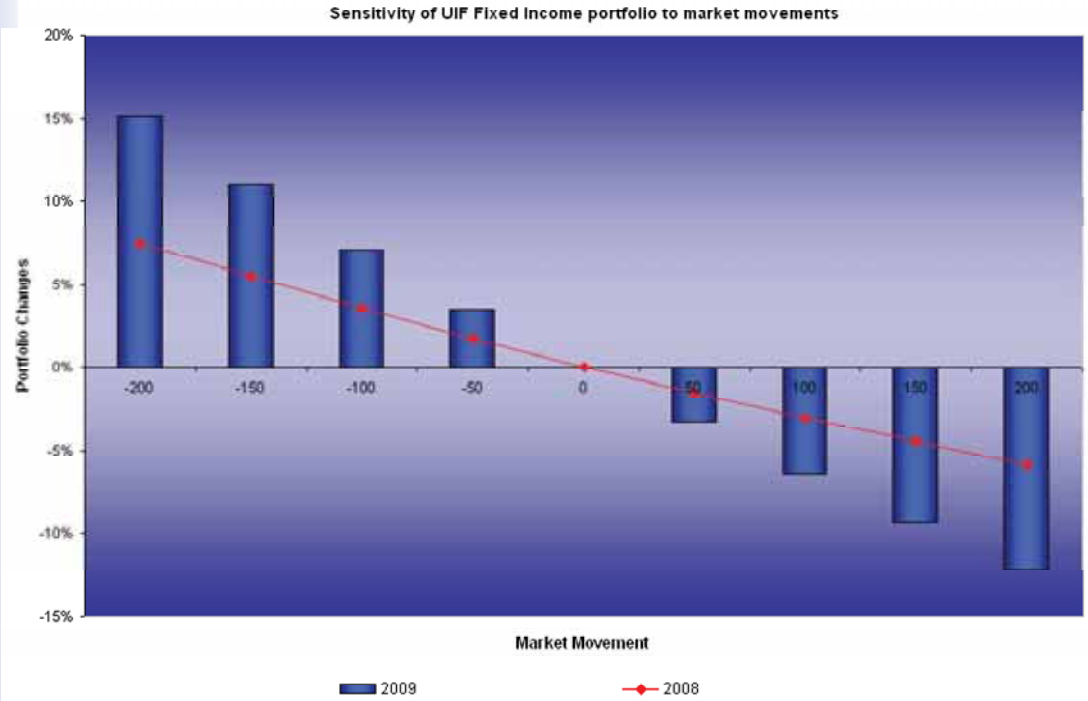
29. Risk management (continued)

This risk is the potential financial loss as a result of adverse movement in interest rates that affects the value of bonds and money market instruments. The Fund has exposure to interest rate risk through investments in money markets and bonds.

Nominal interest rate risk can be split into real interest rate risk and inflation risk. The inflation portion of the interest rate risk is minimised by investing a significant amount in inflation linked bonds.

The sensitivity to interest rate movements is managed by managing the duration of fixed interest exposure. Such duration is managed relative to an appropriate benchmark. To manage the duration PIC utilises a combination of instruments to get closer to the benchmark duration.

The fixed income asset class is not as volatile as the equity markets; an assumption of this sensitivity analysis is that the interest rates move by 50 basis points at a time.



Sensitivity of the UIF Asset Class Portfolios to different market movements

Bonds

Effect on value of bonds

R'billion	-150	-100	-50	0	50	100	150
2008	16,748	16,239	15,775	15,338	14,925	14,534	14,164
2009	23,999	23,163	22,371	21,621	20,912	20,237	19,599

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2008	9.20%	5.88%	2.85%	0%	-2.69%	-5.24%	-7.66%
2009	11.0%	7.13%	3.47%	0%	-3.28%	-6.40%	-9.35%

Money Markets (Excluding Fixed Deposits)

Effect on value of money markets (excluding fixed deposits)

R'billion	-150	-100	-50	0	50	100	150
2008	3,616	3,609	3,602	3,594	3,587	3,580	3,573
2009	4,270	4,263	4,426	4,248	4,241	4,233	4,226

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2008	0.60%	0.40%	0.20%	0%	-0.20%	-0.39%	-0.59%
2009	0.53%	0.36%	0.18%	0%	-0.17%	-0.36%	-0.52%

Money Markets (Including Fixed Deposits)

Effect on value of money markets (including fixed deposits)

R'billion	-150	-100	-50	0	50	100	150
2008	10,127	10,131	10,135	10,140	10,144	10,148	10,153
2009	13,154	13,162	13,170	13,178	13,186	13,192	13,202

Effect on surplus/deficit

%	-150	-100	-50	0	50	100	150
2008	-0.13%	-0.09%	-0.04%	0%	0.04%	0.09%	0.17%
2009	-0.18%	-0.11%	-0.06%	0%	0.06%	0.12%	0.18%

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 20% to maximum 60% 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.

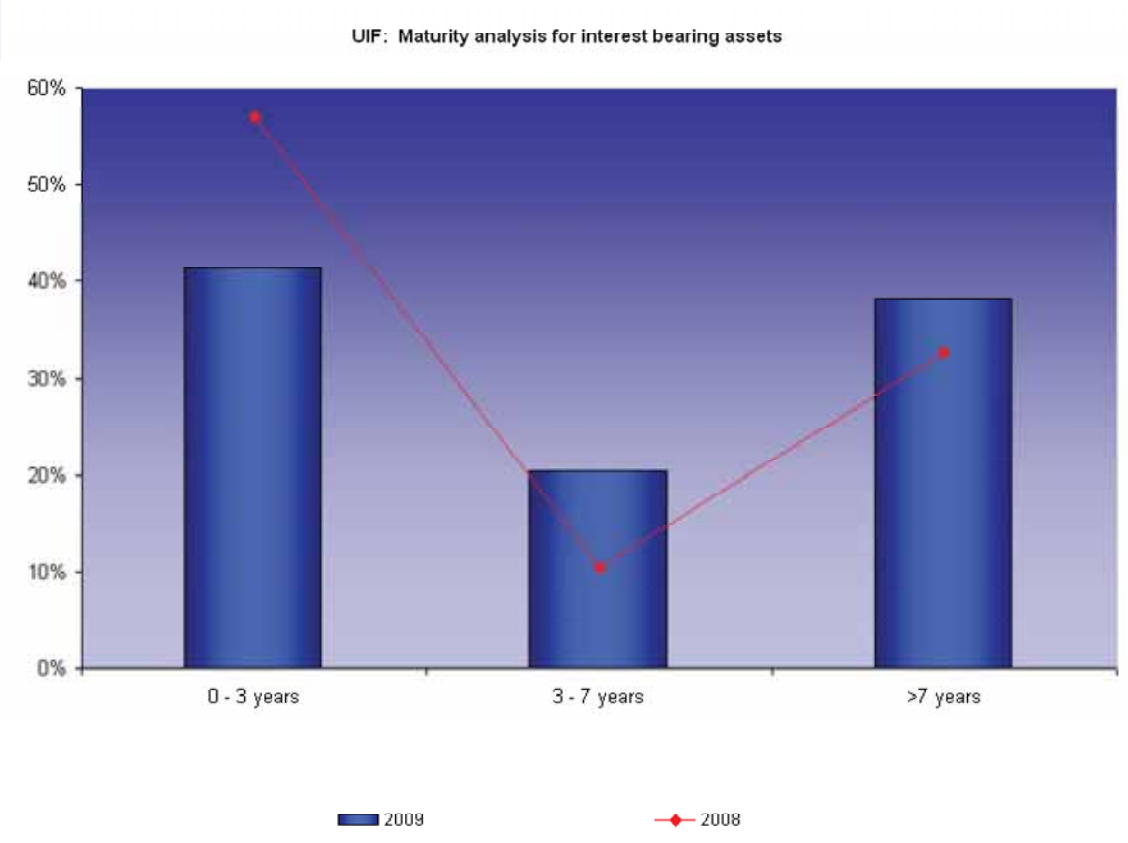
Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

Asset allocation ranges and attribution analysis on overall performance passive benchmark as per investment mandate.

Category	Asset allocation Ranges (%)	Attribution analysis on overall performance passive benchmark (%)
Cash	0% - 10%	5%
Money Market	20% - 50%	40%
Capital Market	40% - 70%	55%
Domestic Equity	0% - 10%	0%



	2009 R '000	2008 R '000

29. Risk management (continued)

Maturity profile on financial assets

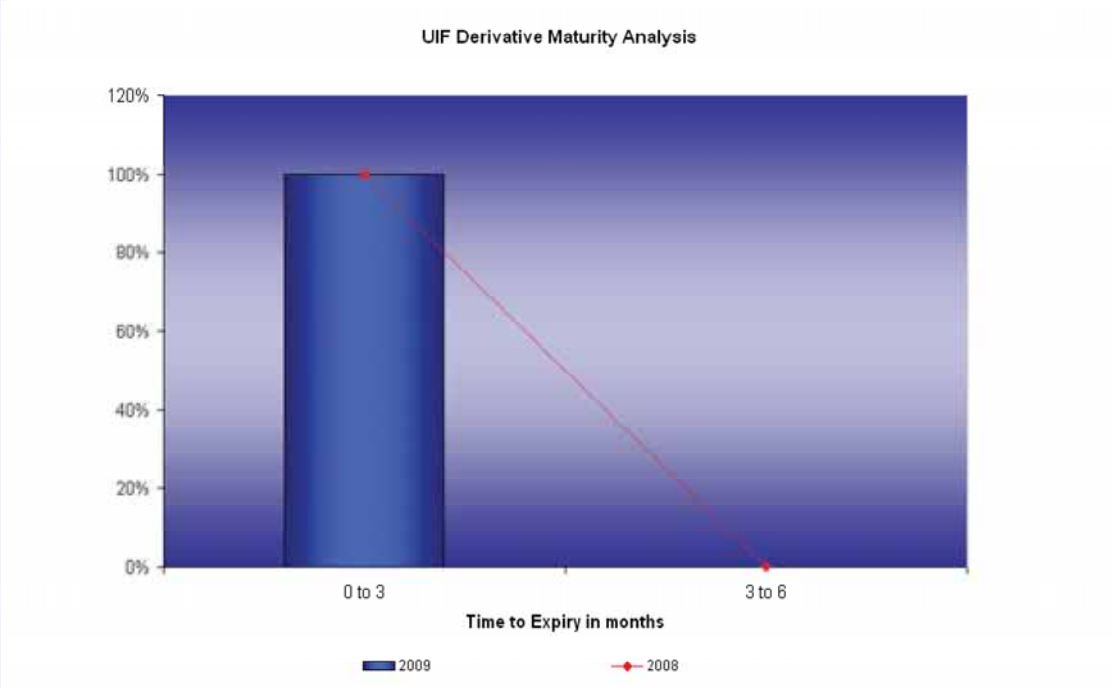
2009	Receivable on demand R'000	0 - 12 months R'000	1 - 3 years R'000	3 - 7 years R'000	> 7 years R'000	Total R'000
Money Market	-	13,178,274	-	-	-	13,178,274
Capital Market	-	174,273	1,046,745	7,096,707	13,303,680	21,621,405
Cash and cash equivalents	689,480	-	-	-	-	689,480
Listed equity	1,428,490	-	-	-	-	1,428,490
Trade and other receivables	9,856	31,807	-	-	-	41,663
Derivative financial instrument	-	36,745	-	-	-	36,745
	2,127,826	13,421,099	1,046,745	7,096,707	13,303,680	36,996,057

2008	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	-	10,139,658	-	-	-	10,139,658
Capital Market	-	318,431	4,045,161	2,674,863	8,299,773	15,338,228
Cash and cash equivalents	843,165	-	-	-	-	843,165
Listed equity	1,386,302	-	-	-	-	1,386,302
Trade and other receivables	8,847	47,252	-	-	-	56,099
Derivative financial instrument	-	2,040	-	-	-	2,040
	2,238,314	10,507,381	4,045,161	2,674,863	8,299,773	27,765,492

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)



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 3 months equal their carrying balances as the impact of discounting is not significant.

Maturity analysis on financial liabilities

2009	Payable on demand R'000	Within 1 month R'000	Within 3 months R'000	Within 12 months R'000	Total
Trade and other payables	-	50,221	-	-	50,221
Derivative financial instruments	-	-	-	-	-
Bonus accrual	-	1,480	2,595	6,165	10,240
Deposits received	1,119	-	-	-	1,119
Bank overdraft	-	11	-	-	11
	1,119	51,712	2,595	6,165	61,591

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. Risk management (continued)

2008	Payable on demand R'000	Within 1 month R'000	Within 3 months R'000	Within 12 months R'000	Total
Trade and other payables	-	78,520	-	-	78,520
Derivative financial instruments	-	-	19,443	-	19,443
Bonus accrual	-	1,398	2,458	5,870	9,726
Deposits received	1,067	-	-	-	1,067
Bank overdraft	-	12	-	-	12
	1,067	79,930	21,901	5,870	108,768

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:

2009	Rated R'000	Non-rated R'000	Total R'000
At fair value through surplus or deficit - designated	4,248,274	-	4,248,274
At fair value through surplus or deficit - held for trading	21,658,150	1,428,490	23,086,640
Loans and receivables	9,619,480	41,663	9,661,143

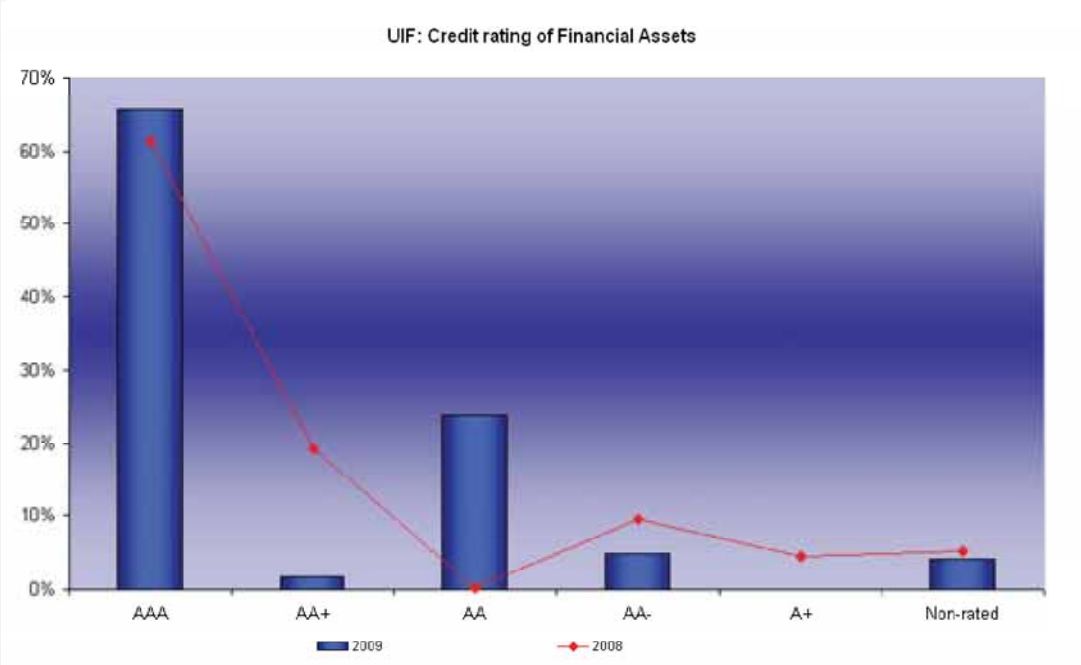
	2009 R '000	2008 R '000

29. Risk management (continued)

2008	Rated R'000	Non-rated R'000	Total R'000
At fair value through surplus or deficit - designated	3,594,496	-	3,594,496
At fair value through surplus or deficit - held for trading	15,338,228	1,388,342	16,726,570
Loans and receivables	7,388,327	56,099	7,444,426

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 2009:

UIF: Credit rating of Financial Assets



Collateral Risk

This is regarded as integral to credit risk; no collateral was held on the Fund for the period under review, which is consistent with previous periods.

Other financial risks

Model/Valuation risk

This risk arises from the dependence on systems, models, algorithms and assumptions used to price instruments and structures. The PIC utilises Bloombergs, Reuters and INet, as well as internally developed models. This risk is managed by ensuring that only models from credible sources are used. Audits are done on models to ensure that they are accurate and reliable. Models developed by PIC output are benchmarked against external sources to ensure accuracy and reliability.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

29. 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 denominated in foreign currency were held at reporting date, 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.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

30. Related parties

Related party transactions

The following transactions pertaining to the major related parties to the Unemployment Insurance Fund are disclosed:

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	343,920	294,120
Administrative expenses	137,919	77,363
Other operating expenses	8,999	37,663
	490,838	**409,146**

Included in "administrative expenses" are the following payments made to the Department of Labour with regards to the PPP agreement with Siemens IT Solutions and Services (Pty) Ltd:

- Unitary fee R77,039,641 (2008: R64,967,121)
- Additional Services R17,615,296 (2008: R11,170,681)

Year-end balance arising from the above transactions included in "Trade and other payables" - R14,384,009 (2008:R23,155,719).

The following transactions were carried out with the Department of Labour

Rental income		
Rental of offices and diginet lines	710	711

Year-end balances arising from the above transactions are included in "Trade and other receivables" - R103,174 (2008: R473,405).

South African Revenue Service

Unemployment Insurance Contributions is regulated by the Unemployment Insurance Contributions Act, sections 8 and 9, which are administered by the SARS Commissioner.

The relationship between the South African Revenue Service and the Unemployment Insurance Fund is strictly regulated by the Unemployment Insurance Contributions Act, 2002. Collection costs are charged to the Unemployment Insurance Fund on a monthly basis equal to one and a half percent of the total amount of the contributions collected.

Notes to the Annual Financial Statements

	2009 R '000	2008 R '000

30. Related parties (continued)

The following transactions were carried out with the South African Revenue Service:

Contributions collected		
- Contributions collected - received	10,006,710	8,880,465
- Penalties	59,911	52,651
- Interest	39,582	28,853
	10,106,203	**8,961,969**
Collection costs charged		
- Collection fees	151,453	134,376

Year-end balance arising from the above transactions is included in "Cash and cash equivalents" - R49,991,308 (2008: R42,665,667) and "Trade and other payables" - R25,864,229 (2008: R23,325,522).

Public Investment Corporation Limited (PIC)

In terms of the Unemployment Insurance Act (Act no. 63 of 2001), as amended, the Unemployment Insurance Fund appointed the Public Investment Corporation Limited as its Investment Manager to invest, manage and administer investments for the Unemployment Insurance Fund on the terms and conditions of an agreed mandate.

The following transactions were carried out with PIC:

Transfers		
- Net contributions transferred to PIC for investments	5,850,000	5,450,000
Paid		
- Management fees paid to PIC	9,065	6,708
- Equity transaction cost	2,511	672
	11,576	**7,380**

Year end balances arising from the above transactions:

- R274,297,642 (2008: R346,403,330) - PIC UIF bank account (funds not invested in instruments), included in "Cash and Cash Equivalents". PIC manages this account on behalf of the Fund.
- R878,555 (2008: R652,205) - Management fees payable to PIC, included in "Trade and Other Payables".
- R36,264,913,408 (2008: R26,846,786,173) - Financial assets managed by PIC on behalf of the Fund.