



Department of Labour

Annual Report of the
Unemployment Insurance Fund
for the period 1 April 2003 to 31 March 2004





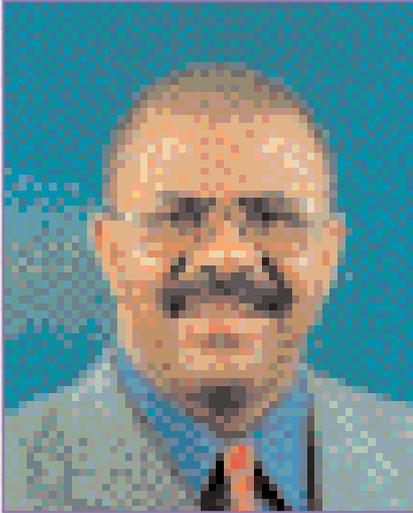


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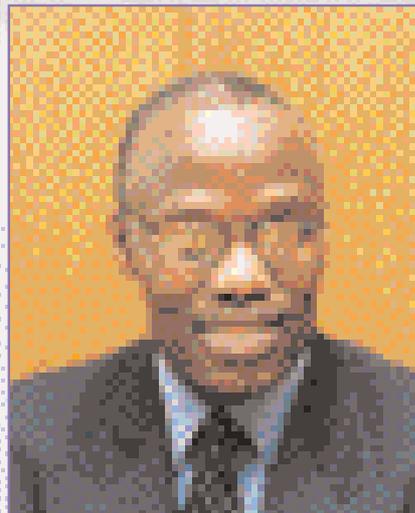
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*Minister MMS Mdladana, MP
Minister of Labour*

Minister of Labour

It is my privilege to submit to you the annual report on the activities of the Unemployment Insurance Fund (UIF) for the year 2003/04. As is required by section 11 (3) of the Unemployment Insurance Act, 2001, the report includes the balance sheet as well as the income and expenditure statements for the year ended 31 March 2004, as well as the Auditor-General's report in terms of the Public Finance Management Act, No 1 of 1999.



**Dr V M Mkosana
Acting Director-General of Labour
Pretoria**

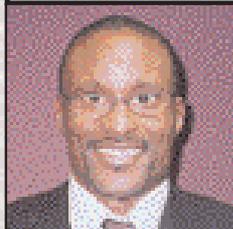
Dr V M Mkosana

**Department of Labour
Laboria House
Pretoria
23 August 2004**

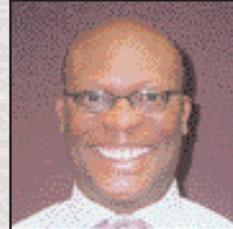
Organisational Structure of the Unemployment Insurance Fund

Unemployment Insurance Commissioner
S S Mkhonto


Operations
S Govender


Finance
B Mabifa


Chief Financial Officer
T B Seruwe


Chief Information Officer
I Modise


Administration
R F Chauke


Financial Administration
H A Aderibigbe


Employer Services
T C Buys


Board and Legal Services
D J Khumalo


Information Technology
C Mill


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Introduction

Mission statement

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

The following four aspects form the basis of the activities undertaken to fulfil this mission:

- Extending unemployment insurance coverage to all workers, also those that were previously excluded, such as domestic and farm workers
- Providing an equitable and affordable benefit structure
- Rendering an effective and accessible service to all stakeholders
- Contributing to discussions about the development of a comprehensive social security system in South Africa.



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

Legislative mandate

The Unemployment Insurance Fund (UIF) was established in terms of section 4(1) of the Unemployment Insurance Act, 2001 (Act 63 of 2001).

The Act commissions and empowers the UIF to register all businesses in South Africa and

to collect monthly contributions from both employers and workers of these businesses. These contributions are utilised to pay benefits and any other expenditure reasonably incurred relating to the application of this Act.

A non-executive Board was established by the Minister of Labour in terms of section 47 of the Unemployment Insurance Act, 2001 (Act 63 of 2001) to monitor the affairs of the Fund and to advise him on any matter concerning the Fund. The Deputy Director-General of Labour Policy and Labour Market Programmes who is appointed by the Minister, chairs this Board. The new Board comprises of three representatives from each constituency represented at NEDLAC (Organised Labour, Government, Organised Business and the Community Constituency). The Commissioner is responsible for the administrative and financial matters of the UIF. He is assisted by the UIF management committee, which comprises officials with the rank of assistant manager and higher and meets monthly to review the administration of the Fund.

The Fund endeavours to establish effective measures to insure contributors against loss of income resulting from unemployment, illness, pregnancy or the adoption of children, and to provide for lump-sum payments to the dependants of deceased contributors. The Act and the regulations serve as instruments for the achievement of this objective. Mainly the Director-General and the Unemployment Insurance Commissioner, in consultation with the Unemployment Insurance Board, determine the operational policy of the Fund.

Legislation

Legislative changes

The Unemployment Insurance Amendment Act, No. 32 of 2003 was promulgated on 14 November 2003 and came into effect on the same day.

Key changes

Application of the Act

When the new Act was implemented on 1 April 2002, it excluded all those who were in learnerships, irrespective of whether they were workers before they entered the learnership agreements. The targeted group was those who were under a contract of employment contemplated in section 18 (2) of the Skills Development Act, 1998 (Act 97 of 1998) and their employers. Furthermore, the Act excluded all employers and workers in the national and provincial spheres of government. The intention was to exclude those workers in the national and provincial spheres of government who are officers or workers as defined in section 1 (1) of the Public Service Act, 1994 (Proclamation No. 103 of 1994), and their employers. The Unemployment Insurance Amendment Act, 2003 (Act 32 of 2003) has addressed these anomalies and excluded both categories mentioned above.



The UIF utilises offices of the Department of Labour in all the main centres of the country.

Right to benefits

The Amendment Act makes provision for partial unemployment for domestic workers employed by more than one employer. A contributor who is employed as a domestic worker by more than one employer and whose employment is terminated by one or more employers is, despite still being employed, entitled to benefits in terms of this Act, if the contributor's total income falls below the benefit level that the contributor would have received if he or she had become wholly unemployed.

Calculation of benefits

The amendments further make provision for the payment of benefits to a contributor who is partially unemployed. For the purpose of calculating benefits for partial unemployment, the total income derived by a domestic worker from continued employment plus the amount of benefits calculated, may not exceed the benefits that would have been paid if the contributor had become wholly unemployed.

Right to unemployment benefits

In addition to the reasons for unemployment qualifying a contributor to unemployment benefits, an unemployed domestic worker is entitled to unemployment benefits for any period lasting 14 days or more if the reason for unemployment is the termination of the contributor's contract of employment by the death of the employer of that contributor.

Improvement of illness, maternity and adoption benefits

Sections 21 (1), 24 (2) and 27 (3) had the unintended effect of restricting the earnings of those on illness, maternity and adoption leave to a maximum of the benefit payable in terms of Schedule 3. The Amendment Act has deleted these sections thereby allowing beneficiaries to get a top-up to the earnings they would have earned had they not been on leave.

Regional Appeals Committees

In order to further decentralise the adjudication of claims, the Amendment Act makes provision for the establishment of Regional Appeals Committees. Any person who is entitled to benefits in terms of the Act may appeal to the Regional Appeals Committee if that person is aggrieved by the decision of the Commissioner to suspend such person's right to a benefit or a decision of the claims officer relating to the payment or non-payment of benefits.

National Appeals Committee

The Amendment Act makes provision for the establishment of a National Appeals Committee. A person who is dissatisfied with the decision of a regional appeals committee may refer the matter to the National Appeals Committee. A decision by the National Appeals Committee is final, subject to judicial review. Beneficiaries no longer have to take their appeals to the CCMA for arbitration. The time to deal with an appeal has been considerably reduced.

Overview

The three-person task team indicated the following in their final report in December 1996, "It is no secret that as regards vital knowledge of its contributors, the Fund is sadly deficient. It is also no secret that the manner in which contributions find their way from the employers whose duty it is to collect them, into the bank account of the UIF, is cumbersome, and costly (in terms of interest foregone)." Today, I am pleased to report that the Fund has 427 938 commercial employers and 5 742 942 commercial workers on its database. In as far as contribution collections are concerned, the Fund has partnered with SARS and this partnership has yielded positive results. In 2003/04, the Fund collected R5.9 billion.

The year 2003 saw, for the first time the introduction of coverage for domestic workers. More than 590 000 employers of domestic workers and 480 000 domestic workers were registered during 2003/04. More than 100 000 employers of domestic workers registered online on the Department's website. Furthermore, employers of domestic workers could and did register telephonically through the Fund's Call Centre. This Call Centre came into operation in April 2003 just in time for domestic employer registrations.

In line with its mission statement, the Fund paid R2.1 billion to 499 438 beneficiaries during 2003/04. It is worth noting that this figure includes 10 287 domestic workers that were paid benefits totalling R3.4 million.

The Actuaries have recommended that the Fund must set up an unearned premium reserve of R5 971 million in its annual financial statements. I am pleased to report that as at 31 March 2004 the Fund had R4 478 million in reserves which is 75% of the required reserve.

Commissioner's Report

The Unemployment Insurance Act (63 of 2001) was implemented with effect from 1 April 2002. This heralded in a new chapter in the history of the Unemployment Insurance Fund, as it attempts to address the systemic inefficiencies of the past.

During the 2003/04 financial year there were indications that the Act is starting to have the desired effect of improving the operations of the Unemployment Insurance Fund (UIF) and the collection of its revenue. The redefinition of earnings and the implementation of improved controls over benefits have resulted in the Fund significantly improving its financial position, compared to previous financial years.

The target of including domestic workers with effect from 1 April 2003 was also successfully achieved with more than 579 000 employers of domestic workers registering with the Fund. The key objective of the Fund from 2004–2007 is to maintain the employer and employee database, by actively marketing it and providing support to the users. Whilst great strides have been made in setting up the database, more work has to be done in fine tuning and protecting the integrity of the data.



Addressing a media conference; from-left, Commissioner S S Mkhonto, Deputy Director-General of Labour, L Kettlebas and Minister M M S Mdladlana.

Since 2002, the Fund has been through a major change in terms of its legislative framework, new partnerships with SARS and the Public Private Partnership (PPP) with Siemens Business Services. This change requires the appropriate institutional and human resources re-alignment. The Fund will also endeavour during 2004–2007 to bring about institutional reform and undertake the recruitment and re-skilling of appropriate resources to manage the new business environment.

Service delivery will be enhanced through the improvement of interfaces with the client, this includes both face-to-face interaction and through electronic channels like the Internet. The second actuarial valuation of the Fund in terms of the new legislation was completed at the end of March 2004 and the Actuary has concluded that the Fund is in a sound financial position on a cash flow basis. It is anticipated that by the end of the 2004/05 financial year the Fund would have fully provided for all its liabilities in terms of benefit payments. It was for the first time in many years that the Fund finds itself in an improved financial position and this can be directly contributed to the UIF's turnaround strategy.

There is a healthy cash flow with net contributions exceeding benefit payments on a monthly basis. The key challenge for the Fund now is to improve service delivery and sustain the gains it has made to ensure that the Fund can remain financially sound. This will involve recruitment and re-skilling of staff, especially in the financial area, as well as institutional reform to support the new business environment. During 2004 a new finance team will be appointed to strengthen financial management and corporate governance within the Fund.

Project Siyaya

The UIF has been operating a number of legacy solutions that provide support to the registration, declaration, claims management and case management processes. These solutions include LINC, RCMS and EMS and the AXSOne Financial Management suite. Due to the changes that the Fund has undergone in the last few years, these systems have had to be adapted on a regular basis that has resulted in a significant amount of IT-related maintenance efforts required to ensure alignment between business and these systems. In addition, the lack of real-time integration between these solutions, has presented the Fund with a serious challenge. The point has now been reached where it is no longer feasible to maintain these solutions cost-effectively, and a decision was made by the Fund as part of its turn-around strategy, to design and build a wide-ranging solution that will facilitate and support the processes and subprocesses of the UIF. The project that will coordinate this effort is named Project Siyaya. The programme consists of six subprojects, namely:

- **Administration Project.** The objective of this subproject is to design, build, test and implement the necessary functionality to support the following processes: registration, declaration, claims administration, and case management
- **Integration Project.** This subproject relates to the design, building, testing and implementation of the necessary functionality to integrate the solution built by the Administration Project and AXS One to internal systems (systems owned by the UIF) and to external systems (systems not owned by UIF)
- **Migration Project.** The objective of this subproject is to formulate a strategy, plan, and migrate the current legacy data resident within the relevant legacy systems in the UIF into the new system that would be the result of the Administration Project
- **Change Management Project.** The Fund will use this subproject as the vehicle to implement a change management strategy around the SIYAYA project so as to facilitate the business ownership and buy-in to the project and its various deliverables
- **Management Information Systems Project.** This subproject will deliver the necessary functionality to provide management information from the solution built in the Administration Project
- **Deployment project.** The objective of this subproject is to plan and implement the successful user deployment (i.e. roll-out) of the solution built in the Administration Project.

The new system will ensure that the Fund is able to:

- Provide an efficient, world class service delivery
- Ensure compliance with the UIF Act
- Provide clients with an instant “one-stop” service at the “front-end” using real-time information
- Eliminate risks presented by fraud
- Achieve information integrity (real time validation of ID numbers, salaries and

employment history)

- Ensure proper and secure information integration.

The new system uses Web-based technology that will enable users of the application to access the system from virtually any workstation. A client will be able to approach any service point and be provided with all the functionality and will no longer need to submit paper based proof of employment. In the case of a claim, the only document required will be the person's 13-digit bar-coded ID document. The ID number will be validated against the population register and if valid will call up the person's record from the Fund's database. The system will adjudicate the claim based on the information in the database and a payment will be processed immediately. If the claim is not approved, the applicant will be immediately provided with a refusal notice thus avoiding the need for the applicant to return to the office at a later stage. The new model adopted by the Fund is worker and event based and will allow the Fund to serve its clients effectively, quickly and transparently. Although many of the current functions have been automated in the new system, no staff will be retrenched but will rather be re-skilled in order to focus on getting the Fund's database populated with current and valid data. During the next year, this will form one of the key focus areas of the Fund.

The new system will also provide the Fund with accurate management information as the application is based on a single database. This will ensure that financial information is current and accurate and that the processing of this information can be done on a daily basis. The design and development of Siyaya is one more step in the Fund's journey that is directed at turning it around.



All provincial offices have established fraud prevention units to ensure that the strategy of zero tolerance for fraud is implemented throughout the provinces.

Fraud prevention unit

All provincial offices have established fraud prevention units to ensure that the strategy of zero tolerance for fraud is implemented throughout the provinces.

The fraud hotline number 0800 601 148 proved its necessity in 2003/04. It received 22 982 calls during the year showing an increase of 67.8% as compared to 2002/03. Although this toll-free number was intended for whistle-blowers, our clients use it for general enquiries. A total of 285 cases reported were fraud related.

The unit investigated 198 cases involving members of the public and finalised 102. The amount involved was R413 043.65 and R216 764.97 was recovered.

Working while drawing benefits ("work and draw")

"Work and draw" fraud occurs when beneficiaries who are receiving benefits return to work, but fail to inform the Fund about their new status and continue to draw benefits. Employers contribute to this problem because they fail to notify the Fund of all new appointments on time. The total overpayment resulting from work and draw in 2003/04 amounted to R38 million (R40 million in 2002/03). Of this amount, the Fund was able to recover R14.7 million.

Interception of cheques

The UIF has repeatedly indicated that it is not in favour of posting benefit cheques to beneficiaries. Unfortunately this method of payment is unavoidable in certain circumstances and 34 cheques were stolen. The total amount of cheques intercepted in the postal process during 2003/04 was R880 055.59 (R90 111.00 in 2002/03). The Fund is currently depositing benefit money directly into the accounts of beneficiaries for maternity, illness and adoption benefits. Ordinary unemployment benefits are paid mainly in cash to beneficiaries. In the areas where cash payments cannot be done, cheques are handed to beneficiaries and are not posted. Some beneficiaries on maternity, illness and adoption benefits still insist on their cheques to be posted.

Organisational measures

Inspectors enforce the Unemployment Insurance Act in all provinces. The Fund is administered by the Unemployment Insurance Commissioner, while the Director-General of the Department of Labour is the Accounting Officer and Trustee of the Fund. The UIF utilises offices of the Department of Labour in all the main centres of the country. Officials who have been appointed to consider claims, staff these offices. Contributors are therefore able to apply for benefits in any of the main centres.

Unemployment Insurance Board

The Minister appoints this Board for a period not exceeding three years. The Board's main functions are to:

- Advise the Minister on unemployment insurance policy, policies arising out of the implementation of this Act, policies for minimising unemployment and the creation of schemes to alleviate the effects of unemployment
- Make recommendations to the Minister on changes to legislation in so far as it impacts on policies with regard to unemployment or unemployment insurance
- Adjudicate appeals against the decisions of Claims Officers.

The Board has appointed several committees from among its ranks to monitor various matters in cooperation with staff of the Fund and to take appropriate steps timeously where problems occur. These matters include the financial monitoring of the Fund, the elimination and combating of fraud, backlogs in the payment of claims, appeals against the decisions of the claims officers and any other matters related to the application of the Act.

In 2003/04 the Board dealt with 17 161 appeals against decisions of claims officers (in comparison with 6 789 during 2002/03). Of these, 204 were upheld and 16 957 were dismissed.

Human resources management

The establishment of the UIF at Head Office consists of 430 posts. By the end of 31 March 2004, 53.8% of the UIF staff members were Africans (target is 73.5%), 1.6% were Indians (target is 2.2%), 4.6% were Coloureds and 39.0% were Whites (targets of 4.1% and 20.2% respectively). The changes in the profile of the workforce were made possible by implementation of the employment equity measures by the Fund. The staff turnover at the Fund in 2003/04 was 5.9 % due to death, resignations and retirement.

The Fund has 1.0% staff with disabilities on its establishment. Facilities in the building at UIF Head Office have been adapted to suit the requirements of staff with disabilities.

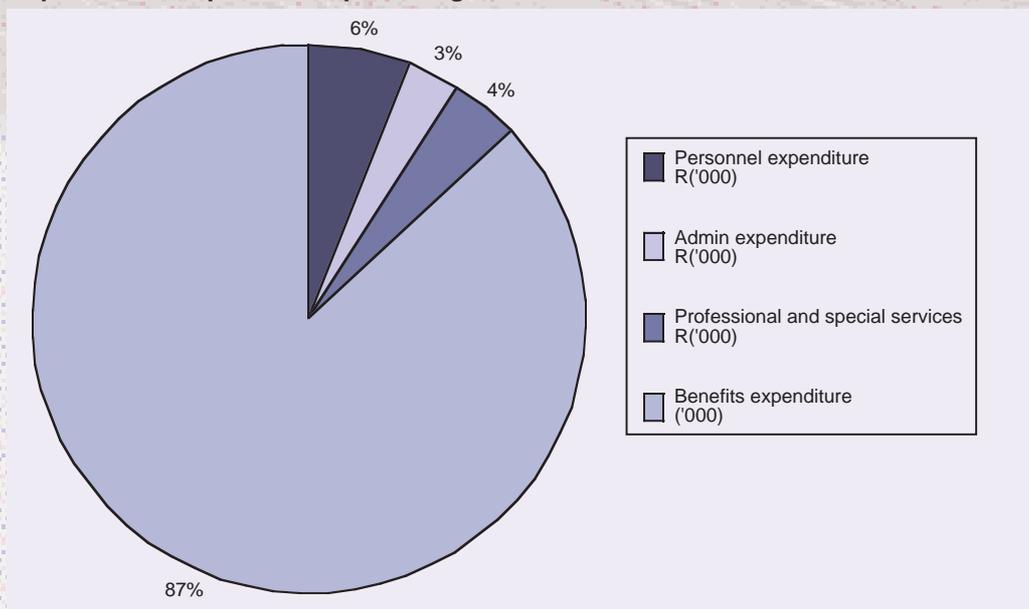
The Fund has established an HIV/AIDS Focal group to educate the staff about HIV/AIDS and to support those who are already infected with HIV/AIDS. The focal group operates within the guidelines of the Employment Equity Plan of the Fund and the HIV/AIDS Policy of the Department of Labour.

Summary of personnel costs and related information

Table 1
Personnel costs
2003/04

Total expenditure R ('000)	Personnel expenditure R ('000)	Admin expenditure R ('000)	Professional and special services R ('000)	Benefits expenditure R ('000)	Personnel cost as a % of total expenditure
3 805 461	241 993	116 973	164 625	3 281 870	6%

Figure A
Expenditures expressed in percentages



Personnel expenditure amounting to R 241 993 000 was utilised by 4 373 staff members who provide UIF services and other administrative services in the Department of Labour. Of the 4 373 staff members, 305 report directly to the Unemployment Insurance Commissioner.

Table 2
UIF personnel cost per location

Location	Personnel expenditure R ('000)
Head Office	50 845
Gauteng North	14 999
Gauteng South	24 662
KwaZulu-Natal	36 711
Free State	13 944
Mpumalanga	13 257
North West	12 637
Limpopo	13 457
Eastern Cape	27 077
Western Cape	26 459
Northern Cape	7 945
Total	241 993

Figure B
Personnel expenditure per province

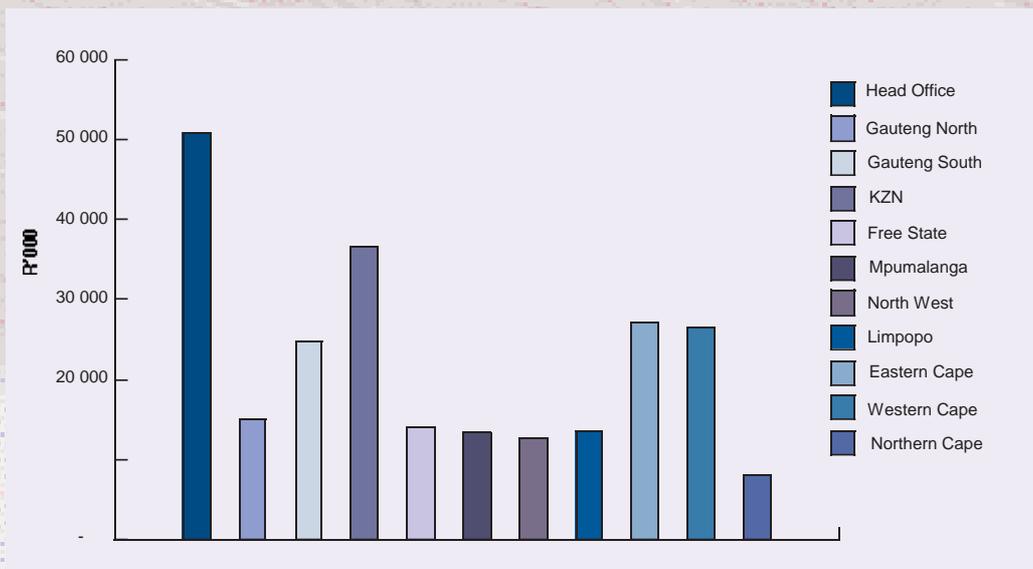


Table 3
Overtime, allowances and benefits by salary level
2003/04

Salary level	Overtime amount R ('000)	Allowances R ('000)	Benefits amount R ('000)
Total	2 321	17 836	76 555

Table 3 Illustrates the total overtime, allowances, benefits expenditure for all staff that renders UIF services in the Department of Labour.

Table 4
Approved establishment for UIF Head Office only

	Approved establishment		Medium-term establishment estimate	
	1 April 2003	31 March 2004	31 March 2005	31 March 2006
	425	430	430	430
Total	425	430	430	430

Table 4 shows the total establishment for the UIF Head Office which is under the control of the Unemployment Insurance Commissioner. However there are staff members who render UIF services who fall under the Provincial Offices establishment which is accounted for by the Provincial Executive Managers.

Table 5
Employment and vacancies by salary band
2003/04

Salary band	Establishment	Number of staff	Vacant posts	Additional to the establishment
Levels 1-2	43	26	17	
Levels 3-5	190	121	69	
Levels 6-8	169	143	26	
Levels 9-12	20	13	7	
Levels 13-14	8	2	6	
SMS				
Total	430	305	125	0

Table 5 shows the filled and vacant posts for the UIF establishment at Head Office.

Table 6
Appointments, promotions, and terminations
2003/04

Staff	Appointments and transfers	Promotions	Terminations and transfers
African			
Male	1	1	2
Female	0	4	6
Asian			
Male	0	0	0
Female	1	0	0
Coloured			
Male	0	0	0
Female	0	0	1
White			
Male	0	0	4
Female	1	0	5
Staff with a disability	0	0	0
Total	3	5	18

Table 7
Annual turnover rates by salary band

Salary band	Appointments and transfers	Terminations and transfers
Levels 1-2	1	4
Levels 3-5	1	5
Levels 6-8	1	7
Levels 9-12	0	1
Professionals (13-14)	0	1
SMS		
Total	3	18

Table 8
Annual turnover rates by critical occupations

Occupation	Appointments and transfers	Terminations and transfers	Turnover rate
Executive Manager Finance and Manager Information Technology	0	2	13.3%
Total	0	2	13.3%

Table 9
Reasons why staff are leaving the UIF

Termination type	Number
Death	2
Resignation	10
Expiry of contract	0
Dismissal—operational change	0
Dismissal – misconduct	1
Dismissal – inefficiency	0
Discharge due to ill health	0
Retirement	3
Other: transfer from the Fund	2

Table 10
Progress made with respect to affirmative action
2003/04

	Progress – 2003/04				
	Actual number at 1 April 2003	Target set for 31 March 2004	Actual number at 31 March 2004	% at 31 March 2004	% variance
African					
Male	63	39.6%	65	21.31%	18.29%
Female	103	33.9%	99	32.46%	1.44%
Asian					
Male	2	1.2%	2	0.66%	0.54%
Female	2	1%	3	0.98%	0.02%
Coloured					
Male	4	2%	4	1.31%	0.69%
Female	11	2.1%	9	2.95%	-0.85%
White					
Male	18	11.2%	15	4.92%	6.28%
Female	112	9%	105	34.43%	-25.43%
Staff with a disability	3	5	3	0.98%	4.02
Total	318		305		



Of the total approved applications for benefits, 78.9% is for unemployment, 4.0% is for illness, 12.6% is for maternity and 4.6% is for dependants benefits.

Table 11
Misconduct and discipline

Outcome of disciplinary hearings	Number	% of total
Verbal warning	0	0
Written warning	0	0
Final written warning	1	14.3
Not guilty	0	0
Case withdrawn	1	14.3
Dismissal	1	14.3
Degradation	1	14.3
Pending cases	3	42.8
Total	7	100.0

Table 12
Injury on duty
2003/04

Nature of injury on duty	Number	% of total
Required basic medical attention only	5	100
Temporary disablement	0	0
Permanent disablement	0	0
Fatal	0	0
Total	5	100

Programme performance

The UIF Act sets out clear rules for and guidelines on the financial management of the Fund. These rules and guidelines are in line with the Public Finance Management Act, 1999, and aim at ensuring sound financial management and addressing uncertainties about the financial viability of the Fund.

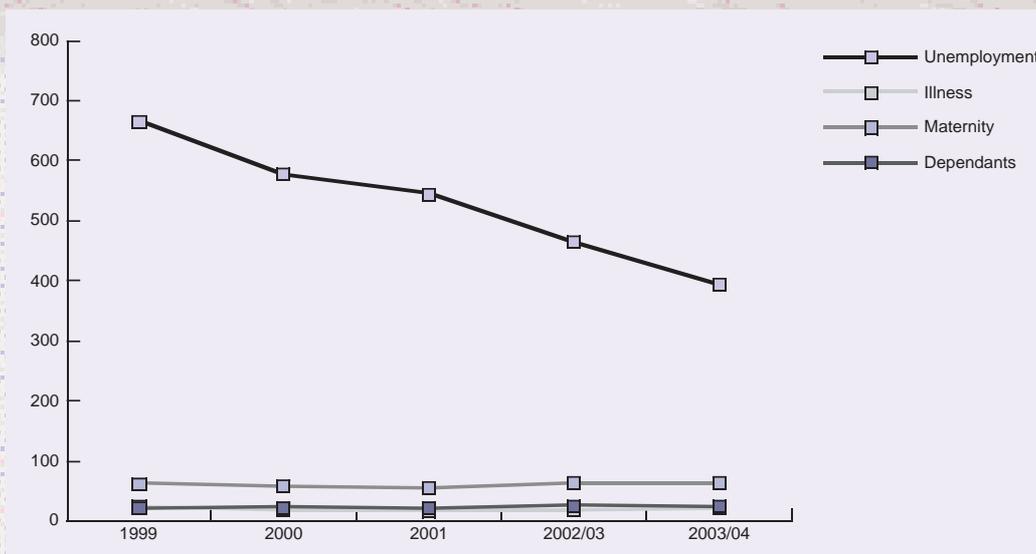
In addition, the Act prescribes an annual actuarial assessment of the UIF to determine the soundness of its finances and reserves. The assessments should ensure that the Fund is able to comply with its statutory commitments. The actuaries provided for unearned contributions, outstanding reported claims for benefits as well as those incurred but not reported claims for benefits. When required, assessment results should translate into advice to the Minister of Labour on available funding alternatives without having to approach the fiscus.

Payment of benefits

Table 13
Number of applications approved
1999-2004
('000)

Year	Unemployment	Illness	Maternity	Dependants	Total
1999	665	23	61	20	769
2000	577	18	57	22	674
2001	544	17	55	21	637
2002/03	463	18	63	25	569
2003/04	393	20	63	23	499

Figure C
Number of applications approved
1999-2004
('000)



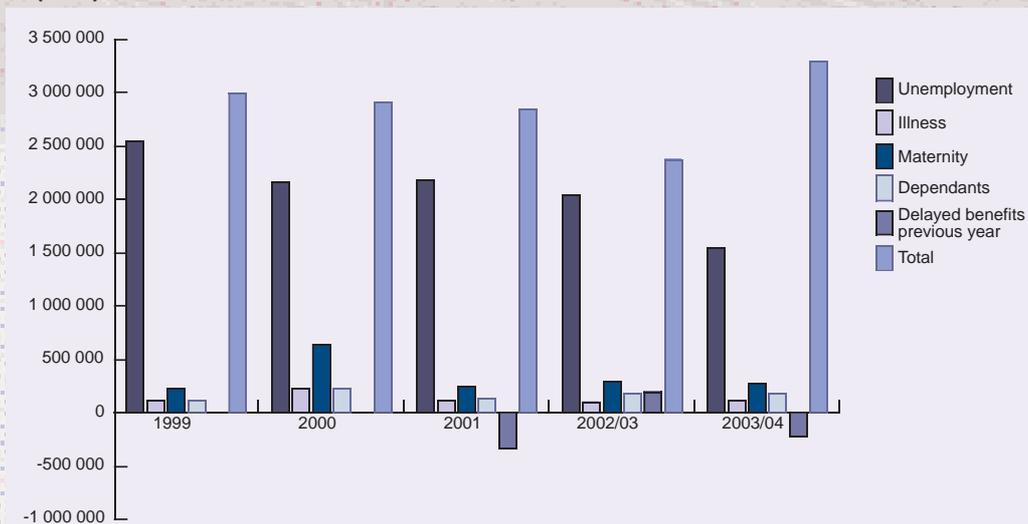
Compared to 2003, the number of approved applications for unemployment benefits decreased by 15.1%, those for illness increased by 11.1%, maternity stayed the same and approved dependants' benefit applications decreased by 8%. Of the total approved applications for benefits, 78.9% is for unemployment, 4.0% is for illness, 12.6% is for maternity and 4.6% is for dependants benefits.

The total approved applications fell by 35,1% compared to 1999 and the biggest contributor to this downward trend is the unemployment applications. These fell by 40,9% compared to 1999.

Table 14
Benefits paid
1999-2003/04
R ('000)

Year	Unemployment	Illness	Maternity/ Adoption	Dependants	Delayed benefits previous year	Total
1999	2 536 000	108 000	223 000	117 000	-	2 984 000
2000	2 160 000	222 000	639 000	217 000	-333 000	2 905 000
2001	2 167 635	106 256	235 991	130 553	197 639	2 838 074
2002/03	2 030 205	97 388	284 832	168 738	-214 410	2 366 753
2003/04	1 536 013	109 442	266 012	182 104	1 188 000	3 281 570

Figure D
Benefits paid
1999-2003/04
R ('000)



Note: Adjustments for (R333) million in the year 2000 was delayed benefits for the previous year.

Benefits paid represent actual payments made per category before taking into account the effect of the reserves viz. Incurred But Not Reported claims (IBNR) and outstanding reported claims. A decrease of R 214 million in the outstanding claims reserves was

achieved in 2002/03. In 2003/04 the outstanding claims reserves increased by R1 188 billion. This was taken into account to arrive at the net benefits of R3,281 billion. (see Income Statement).

Total benefit payments for 2003/04 increased by 10% compared to those of 1999. The average benefit paid per beneficiary in 1999 was R3 880 as compared to R6 580 for 2003/04. This represents an increase of 82% due to a 41% decrease in the number of dependants from 1999 to 2004.

Table 15
Unemployment benefits approved

Year	Applications for unemployment benefits	Benefits paid out R ('000)
2000/03	462 748	R 2 030 205
2003/04	393 460	R 1 536 013
Decrease	69 288	R 494 192

Unemployment benefits

The average benefit paid per beneficiary in 2003/04 was R3 903.86 compared to R4 387.28 in the previous year, a decrease of 10.90%. The number of applications approved declined by 15.00%.

Table 16
Maternity benefits (including adoption benefits)

Year	Applications for maternity benefits	Benefits paid out R ('000)
2000/03	62 788	R 284 832
2003/04	62 610	R 266 012
Decrease	178	R 18 820

Maternity benefits

There was a decrease of 0.3% in the number of applications approved in 2003/04 as compared to the previous year and the average benefit was R 4 248.71 in 2003/04 as compared to R 4 536.41 in 2002/03.

Table 17
Illness benefits

Year	Applications for illness benefits	Benefits paid out R ('000)
2000/03	18 064	R 97 388
2003/04	20 583	R 109 442
Increase	2 519	R 12 054

Illness benefits

Almost 2 500 more beneficiaries were paid benefits in 2003/04 as compared to 2002/03. The average payment per beneficiary also decreased from R5 391.27 in 2002/03 to R5 317.11 in 2003/04.

Table 18
Payments to dependants of deceased contributors

Year	Applications for payment to dependants	Benefits paid out R ('000)
2000/03	25 000	R 168 738
2003/04	22 786	R 182 104
Increase	2 214	R 13 366

The number of dependant beneficiaries decreased by 2 214 as compared to 2002/03. The average benefit per beneficiary increased from R 6 749.52 in 2002/03 to R7 991.92 in 2003/04, an increase of 18.4%.



The Act commissions and empowers the UIF to register all businesses in South Africa and to collect monthly contributions from both employers and workers of these businesses. These contributions are utilised to pay benefits and any other expenditure reasonably incurred relating to the application of this Act.

Audit Committee Report

The Committee did not review terms of reference that were adopted in 2001. The revised terms of reference were tabled at the Audit Committee late during the financial year and could then not be approved and adopted. However, the Committee feels that its mandate, in terms of Treasury Regulation 3.1.10, has not significantly changed with the passage of time.

The Audit Committee consists of members listed hereunder and met 13 times in the 2003/04.

Name of member	Number of meetings attended
Dr G J Sandrock	13
Mr G H Strauss	13
Mr C H van der Merwe	9

Audit Committee responsibility

The Committee complied with its responsibilities arising from section 38 (1)(a) and Treasury Regulation 3.1.13 but did not review its terms of reference in compliance with Treasury Regulation 3.1.8 for 2003/04.

Effectiveness of internal controls

The Fund experienced serious challenges in setting up and maintaining internal controls. The management partner that was brought on board managed to produce monthly financials even though these were a month late. Part of the challenges in internal controls was the partial availability of the AxsOne financial system. This system could not be used to generate management reports and the Committee was not content with the soundness of information reported due to the non-functional system.

Human resources capacity at finance was also a major challenge that led to the creation of five senior finance positions to assist with financial management. The departure of the CFO and the time it took to replace him added to the weak internal controls. For the better part of the year the Fund had two senior officials who were overstretched and could not be effective.

The Committee, like the management and staff of the Fund, experienced considerable challenges with the Department in their attempt to create and implement the required human resource capability to manage the Fund effectively.

Weaknesses in internal controls led the Committee to request a Forensic Audit to determine the presence and extent of fraudulent activities. This audit will be finalised in the new financial year.

Quality of in-year management and monthly/quarterly reports submitted in terms of the Act

Monthly financial reports were done manually instead of directly from the system and this compromised the quality of the information and reports presented to the Committee. The internal audit made various recommendations but these could not be implemented due to capacity constraints.

Evaluation of annual financial statements of the Fund

The Audit Committee, besides the various challenges, has recommended that the Accounting Officer of the Fund approve the annual financial statements.

Dr G J Sandrock
Chairperson
26 July 2004

Summary of Actuarial Recommendations

The Actuaries made the following recommendations and conclusions:

- That the Fund set up an outstanding reported claims reserve of R876 million and an incurred but not reported claims reserve of R1 608 million, giving an outstanding claims reserve of R2 484 million, in its financial statements
- That the Fund also set up an unearned premium reserve of R4 478 million in its annual financial statements. It is expected that the required level of unearned premium reserve will have been set up by the end of the 2004/05 financial year
- That no other reserves be reflected in the annual financial statements
- After having set up the above reserves, the Fund shows an accumulated deficit of R113 million



The Fund extended unemployment insurance coverage to all workers, also to those that were previously excluded, such as domestic and farm workers.

- The current contribution rate is more than adequate to cover the expected claims and expenses as well as set up the required reserves over the next five years and would result in large surplus funds during this time. In fact a contribution rate of 1.4% would be adequate to sustain benefit payments, expenses and maintain appropriate levels of reserves based on their projections
- That the necessary resources be provided to get the contributor database updated to an acceptable level so that the appropriate risk premium contribution as well as the associated reserves can be calculated more accurately.

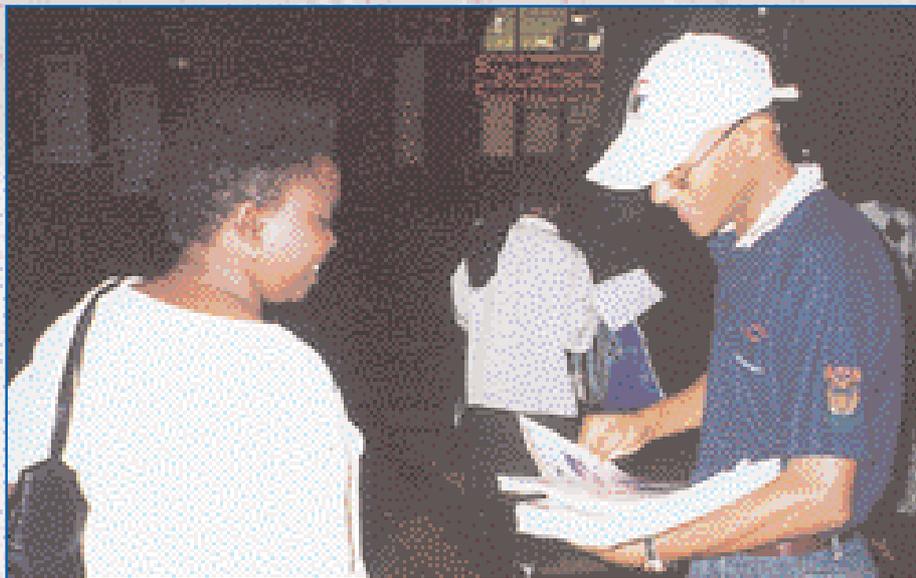
Provincial offices

The UIF does not have its own staff at provincial level. Instead it uses the infrastructure of the Department of Labour to render a service to the community. Departmental staff are appointed on an agency basis to accept and process applications, and to make benefit payments to unemployed contributors. All expenses incurred by the Department in this regard are reclaimed from the UIF on a monthly basis.

There are a number of labour centres in each province. These range from fully functional centres, which are staffed on a full-time basis, to satellite offices, which are only visited periodically. In total, benefits are paid out at more than 500 pay points throughout the country.

Table 19
Provincial offices, labour centres, satellite offices and visiting points

Province	Provincial offices	Labour centres	Satellite offices	Visiting points
Gauteng South	Johannesburg	14	1	3
Gauteng North	Pretoria	9	0	2
KwaZulu-Natal	Durban	15	6	44
Limpopo	Polokwane	11	3	33
North West	Mmabatho	10	0	30
Eastern Cape	East London	15	2	109
Free State	Bloemfontein	11	68	46
Western Cape	Cape Town	7	12	98
Mpumalanga	Witbank	16	1	25
Northern Cape	Kimberley	7	0	59



Departmental staff are appointed on an agency basis to accept and process applications, and to make benefit payments to unemployed contributors.

Table 20
Contact details of provincial offices

Provincial office	Province	Physical address	Postal address	Tel and Fax
Johannesburg	Gauteng South	Annuity House, 18 Rissik Street, Johannesburg, 2001	PO Box 4560, Johannesburg, 2000	Tel: 011 497-3000 Fax: 011 497-3293
Pretoria	Gauteng North	Concillium Building, cnr Andries and Skinner Streets, Pretoria, 0002	PO Box 393, Pretoria, 0001	Tel: 012 309-5000 Fax: 012 309 5139
Durban	KwaZulu-Natal	Masonic Grove Government Offices, Masonic Grove, Durban, 4001	PO Box 940, Durban, 4000	Tel: 031 336-1500 Fax: 031 307-6882
Polokwane	Limpopo	42A Schoeman Street, Polokwane, 0701	Private Bag X9368, Polokwane, 0700	Tel: 015-290 1744 Fax: 015-290 1694
Mmabatho	North West	Provident House, University Drive, SEBO Building, Mmabatho, 2735	Private Bag X2040, Mmabatho, 2735	Tel: 018 387-8100 Fax: 018 384 2658
East London	Eastern Cape	3 Hill Street, East London, 5200	Private Bag X9005, East London, 5200	Tel: 043-701 3000 Fax: 043-743 2047
Bloemfontein	Free State	National House, 43 Maitland Street, Bloemfontein, 9301	PO Box 522, Bloemfontein, 9300	Tel: 051-505 6200 Fax: 051-447 9353
Cape Town	Western Cape	Wesbank House, Corner Riebeeck and Long Streets, Cape Town, 8001	PO Box 872, Cape Town, 8000	Tel: 021-421 0802 Fax: 021-421 0282
Witbank	Mpumalanga	Corner Hofmeyer Avenue and Beatty Street, Witbank, 1034	Private Bag X7263, Witbank, 1035	Tel: 013-655 8700 Fax: 013-656 0233
Kimberley	Northern Cape	Laboria House, cnr Pniel and Compound Streets, Kimberley, 8301	Private Bag X5012, Kimberley, 8300	Tel: 053-838 1500 Fax: 053-838 1564

Financial results

In 2003, the financial year-end of the UIF was changed from 31 December to 31 March in line with the requirements of the PFMA, the Department of Labour and other government institutions. This change necessitated the extension of the trading period to a 15-months period. For comparison purposes, the results for 2002/03 were not changed.

The audited results of the Fund for 2003/04 show a surplus of R3.637 billion from operations before taking into account the required reserves. Reserves of R3.357 billion (being an Unearned Premium Reserve (UPR) of R2.170 billion plus an additional R1.188 billion for claims reserves raised in prior years) were raised against the surplus to yield a net surplus of R279.9 million. The accumulated equity position, however, still reveals a R113 million accumulated deficit in comparison to the accumulated deficit of R394 million in 2003.

The Fund continues to raise reserves to meet its future financial obligations through a consistent build-up of such reserves from the surpluses generated from operations. NBC, the actuaries and advisors, performed an extensive exercise that revealed a need to raise reserves of R6.962 billion in total, comprising R1.608 billion for Incurred But Not Reported, R875 million outstanding reported claims and R4.478 billion for Unearned Premium Reserves (UPR). As to the UPR, a provision of R2.308 billion was already made in 2002/03 thus an additional provision of R2.170 billion was made in 2003/04. With regards to the provision for outstanding claims, the Actuaries advised that a provision of R1.188 billion be made in the 2003/04 financial year.

Income

Income consists mainly of the following:

Table 21
Income calculation

Contributors	2003/04 (R '000)	2002/03 (R '000)	Increases
Employers/Workers	5 798 000	5 286 000	9.7%
Less: UPR	2 170 000	1 457 000	48.9%
Net contributions	3 628 000	3 829 000	(5.2%)
Government grant/State contribution	7 000	327 000	(97.9%)
Total	3 635 000	4 156 000	(12.5%)

Increase in contributions of 9.7% is accounted for mainly by the widened base as well as improved compliance as a result of the use of SARS as a collection agent.

Unearned Premium Reserve (UPR) represents a reduction of that portion of premiums received but not yet earned.

Interest received from investments and cash balances

Due to improved net cash inflows, the Fund has excess funds, which are now managed in mainly the following ways:

- Investments with the PIC
- Cash in banks.

Income from investments for the current year totalled R448 million compared to prior year's R156.4 million. This improvement is largely attributable to the growth in the investment portfolio from R2.7 billion in 2002/2003 to R6.255 billion in 2003/2004.

Other income

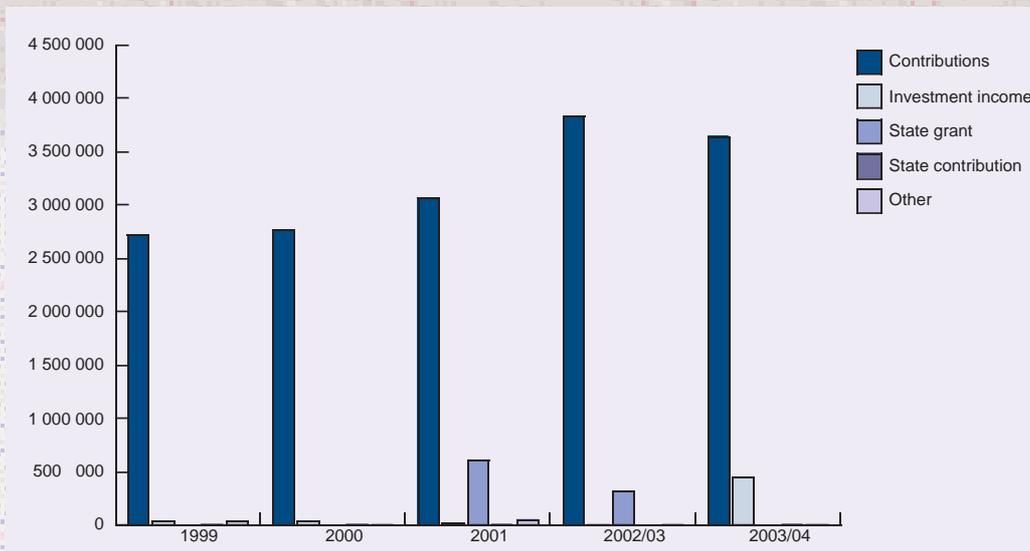
This amounted to R1.0 million in 2003/04, as compared to R1.4 million in 2002/03, a decrease of 28.5%.

Summary of Income

Table 22
Income
1999–2003/04
R ('000)

Year	Net contributions	Investment income	State grant	State contribution	Other	Total
1999	2 716 000	31 000	0	7 000	30 000	2 784 000
2000	2 758 000	24 000	0	7 000	2 000	2 791 000
2001	3 065 000	8 000	605 000	7 000	52 000	3 737 000
2002/03	3 830 000	156 000	320 000	7 000	2 000	4 313 000
2003/04	3 629 000	448 000	0	7 000	1 000	4 085 000

Figure E
Income
1999–2003/4
(R'000)



Expenditure

The total expenditure of the Fund comprises the following:

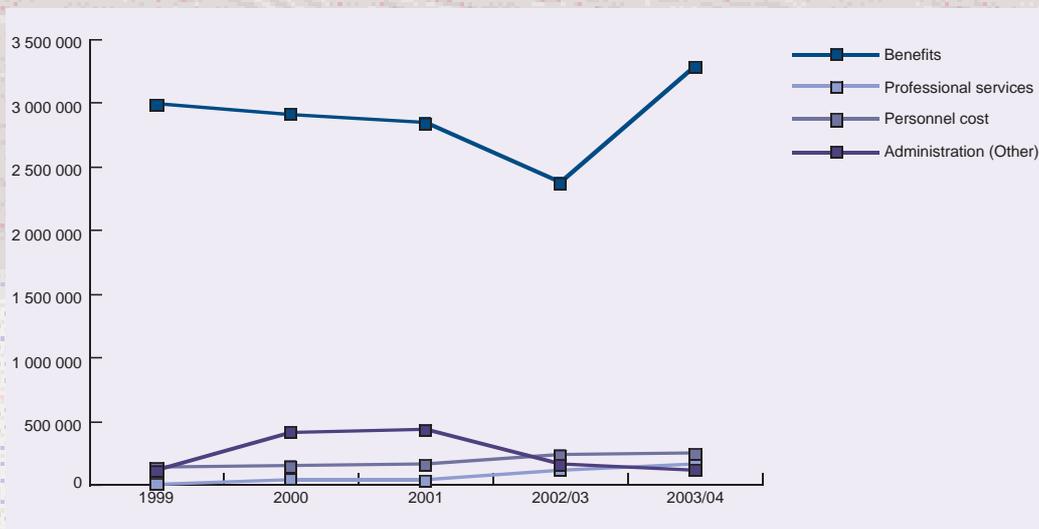
Benefit payments

Payments were made in terms of sections 17, 22, 25, 28 and 31 of the UI Act and amounted to R2.09 billion before adjusting for reserves of R1.18 billion resulting in a benefits paid balance of R3.28 billion.

Table 23
Expenditure
1999–2003/04
R ('000)

Year	Benefits	Professional services	Personnel cost	Administration (other)	Total
1999	2 984 000	3 000	130 000	106 000	3 223 000
2000	2 905 000	38 000	143 000	412 000	3 498 000
2001	2 838 000	31 000	158 000	429 000	3 456 000
2002/03	2 367 000	116 000	230 000	157 000	2 870 000
2003/04	3 282 000	164 000	242 000	117 000	3 805 000

Figure F
Expenditure
1999–2003/04
(R'000)



Investments and Cash in Bank

The Fund has placed excess funds with the Public Investment Commissioner (PIC) from which it earns a return. The balance of such excess funds is kept liquid in the form of cash in bank.

Table 24
Investments and cash in bank

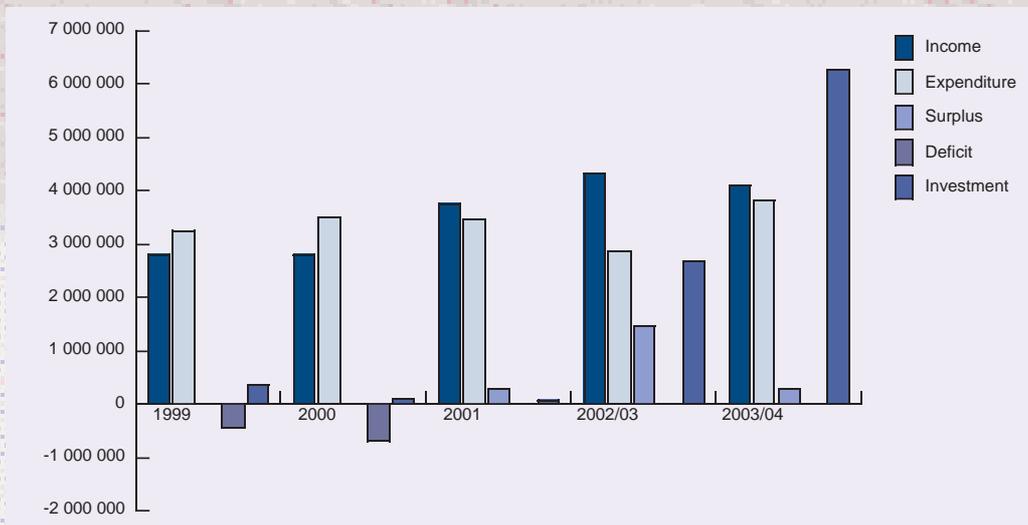
Type	Amount (R'000)	
	2003/04	2002/03
PIC	6 255 000	2 664 000
Bank	232 000	140 000
Total	6 486 000	2 804 000

Table 25
Financial summary
1999-2003/04*
R (000)

Year	Income	Expenditure	Surplus	Deficit	Investment
1999	2 784 000	3 223 000	-	-439 000	336 000
2000	2 791 000	3 498 000	-	-707 000	110 000
2001	3 737 000	3 456 000	281 000	-	48 000
2002/03	4 315 000	2 870 000	1 445 000	-	2 664 000
2003/04	4 085 000	3 805 000	280 000	-	6 255 000

* Figures adjusted in audited financial statements

Figure G
Financial summary
1999-2003/04
(R'000)



Financial Statements

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Approval of Financial Statements

The Accounting Authority is responsible for the preparation, integrity and fair presentation of the financial statements of the Unemployment Insurance Fund. The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and include amounts based on judgements and estimates made by management. The Accounting Authority prepared the other information included in the Annual Report.

The going concern basis has been adopted in preparing the financial statements. The Accounting Authority has no reason to believe that the Fund will not be a going concern in the foreseeable future. These financial statements support the viability of the Fund.

The financial statements has been audited by the Office of the Auditor-General which was given unrestricted access to all financial records and related data, including minutes of all meetings.

The Audit Committee believes that all representations made to the Office of the Auditor-General during the audit are valid and appropriate.

The financial statements were approved and signed by the Accounting Authority of the Unemployment Insurance Fund.

Dr V M Mkosana
Acting Director-General of Labour
Pretoria
28 May 2004

Report of the Auditor-General to Parliament on the Financial Statements of the Unemployment Insurance Fund for the year ended 31 March 2004



1. Audit Assignment

The financial statements as set out on pages 35 to 56, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995) and section 11(3) of the Unemployment Insurance Act, 2001, (Act No. 63 of 2001). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Nature and Scope

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. Qualification

3.1 Departure from South African Statements of Generally Accepted Accounting Practice (GAAP)

3.1.1 Revenue contributions collected by the Commissioner for the South African Revenue Service (SARS) and by the Unemployment Insurance Commissioner (UIC)

- (a) Sections 8 and 11 of the Unemployment Contributions Act, 2002 (Act No.4 of 2002) provides for the collection of contributions, interest and penalties by the Commissioner for the SARS.

- (b) Section 9 of the Unemployment Contributions Act, 2002 (Act No. 4 of 2002) provide for the collection of contributions, interest and penalties from non-SARS registered employers by the UIC.
- (c) However, the system implemented by the SARS and UIC does not provide for the mentioned income to be collected and accounted for on an accrual basis of income recognition. Revenue contributions, interest and penalties thus collected and disclosed in note 3 to the financial statements have been accounted for on a cash basis of accounting. The effect of the departure from GAAP is not determinable nor is it practicable to subject this matter to extended audit procedures.
- (d) The above mentioned departure from Statements of GAAP also results in non-compliance with section 55 (b) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and Treasury Regulation 28.1.6.

3.2 Material breakdown in internal control systems and procedures

As reported previously the Fund again experienced a fundamental breakdown in internal control systems and procedures with regard to the overall accounting process followed, the reconciling of bank balances, the administration of benefits payable and the management of fixed assets.

This general deterioration could have resulted in accounting errors not being detected. Due to the large volume of transactions and an inability to place reliance on internal control systems and procedures as a result of the breakdown referred to above it is not possible to:

- perform sufficient alternative auditing procedures, and
- obtain satisfaction that material accounting errors did not occur during the period.

3.2.1 Inadequate accounting process followed

- (a) Except for cashbook payments generated by the Fund, all the bank transactions for the whole of the financial year were recorded from January 2004 onwards and by using bank statements instead of accounting source records generated by the Fund. In my opinion and after taking into account the volume and magnitude of transactions, the above mentioned process can be regarded to be a fundamental departure from generally accepted accounting practice.
- (b) As a result of the above, various unknown net debit entries totalling R10,0 million were incorrectly accounted for as bank charges and debit entries totalling R4,1 million were incorrectly accounted for as contributions received.
- (c) The inadequate accounting process and the resulting ineffective bank reconciliation process resulted in a material number of fraudulent cheque transactions on the bank statements not being timeously identified by officials.

3.2.2 Reconciling of bank accounts

As a result of the general ledger not being updated on a weekly basis, the bank balances were only reconciled from January 2004 onwards, thereby resulting in reconciliations not being performed and reviewed on a weekly basis as required by the Treasury Regulations.

3.2.3 Benefit payments to contributors

- (a) Internal controls at regional offices: Internal controls at regional offices were again found to be materially inadequate. The completeness, accuracy and validity of benefits paid at regional offices could not be confirmed.
- (b) Benefits paid in error: Benefits paid in error, amounting to R44,7 million, have been written off as uncollectable without the approval of the Director-General as required by section 58 of the Unemployment Insurance Act, 2001 (Act No 63 of 2001).

3.2.4 Services rendered by the Department of Labour

Personnel, administration and rental expenses: As reported previously it has been established that the allocation of the value of services rendered to the Fund by the Department of Labour is not scientifically calculated but on approximations in October 1999 by officials at different regions. Consequently, an audit to determine the reasonableness of this expense of R321,1 million (2003: R309,2 million) could not be carried out. It is also not possible to verify the correctness thereof since no written agreement between the Fund and the Department of Labour covering the arrangements could be presented for audit purposes.

3.2.5 Fixed assets

I was unable to verify the existence of a large number of the movable fixed assets of the Fund as a result of an incomplete and inaccurate fixed asset register.

3.2.6 General computer controls

A follow-up review of the weaknesses identified in information technology general computer control environment was performed. Progress had been made in resolving weaknesses identified but significant weaknesses in the general computer control environment of the Fund still exist in respect of:

- Programme change controls
- Security administration and monitoring
- Logical access security.

4. Disclaimer of Audit Opinion

Because of the significance of the matters referred to in the above paragraphs, I do not express an opinion on the financial statements.

5. Emphasis of Matter

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

5.1 Non compliance with laws and regulations

In addition to the areas reported above various sections of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and Treasury Regulations, the Unemployment Insurance Act, 2001 (Act No. 63 of 2001) and the Unemployment Insurance Contributions

Act, 2002 (Act No. 4 of 2002) have not been complied with. The extent of non-compliance with these legislations is of severe concern.

(a) Public Finance Management Act:

- Sec 50 (1)(a) – Not exercising duty of utmost care to ensure reasonable protection of assets
- Sec 51(1)(a)(i) – Effective and efficient systems of financial and risk management and internal control not implemented
- Sec 51 (1)(a)(iii) – Policies of the procurement and provisioning systems not always adhered to
- Sec 51 (1)(b)(i) – Effective steps to collect all revenue due not taken
- Sec 55(1)(b) – Non compliance with GAAP.

(b) Treasury Regulations

- Par 28.1.5 – A materiality and significant framework not adopted yet
- Par 26.1.1 – Information on revenue and expenditure not submitted as required
- Par 26.1.2 – Quarterly report on statutory compliance not submitted
- Par 30.1.3 – Business plan not compiled in accordance with the Treasury Regulations
- Par 31.1.2(j) – Bank reconciliations not performed on a weekly basis
- Par 31.1.2(a) – Non-collecting of revenue when due
- Par 31.1.2(e) – Non pursuance of debtors with appropriate sensitivity and rigour.

(c) Unemployment Insurance Act

- Sec 50 – The constitution of the Board not approved by the Minister of Labour
- Sec 58 – Uncollectable write-offs not approved by the Director-General.

(d) Unemployment Insurance Contributions Act

- Sec 12 – Non-levying of interest on non-SARS late payments
- Sec 13 – Non-levying of penalties on non-SARS late payments.

6. Appreciation

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

S A Fakie
Auditor-General
Pretoria
15 July 2004

Unemployment Insurance Fund

**Income Statement
for the year ended 31 March 2004**

	Notes	12 Months 2003/04 R'000	15 Months 2002/03 R'000
Revenue contributions	3	5,805,613	5,293,435
Change in gross provision for unearned contributions		(2,169,562)	(1,456,796)
Benefit payments to contributors	4	(2,093,870)	(2,581,163)
Change in gross outstanding claims for benefits		(1,188,000)	214,410
Surplus revenue contributions over benefit payments		354,180	1,469,886
Investment income and other revenue	5	449,306	157,905
Finance costs		(2,059)	(1,508)
Other expenditure	6	(521,532)	(500,902)
Net surplus for the year		279,895	1,125,380
Non-recurring write-offs and transfers to reserves		-	320 000
Government grant	7	-	320 000
Net surplus for the year		279,895	1,445,380

Unemployment Insurance Fund

Balance Sheet as at 31 March 2004

	Notes	2003/04 R'000	2002/03 R'000
Assets			
Non-current assets			
		204,037	87,430
Property, plant and equipment	8	31,805	36,709
Investment properties	9	6,667	6,699
Investment in securities	10	165,564	44,022
Current assets			
		6,827,412	3,267,536
Debtors and other receivables	11	500,592	499,816
Current portion of investment in securities	10	6,089,369	2,620,052
Accrued interest		5,265	6,782
Bank balances and cash	12	232,185	140,886
Total assets		<u>7,031,449</u>	<u>3,354,966</u>
Equity and Liabilities			
Accumulated deficit		(113,126)	(393,782)
Technical provisions			
		6,962,000	3,604,438
Gross outstanding claims for benefits		2,484,000	1,296,000
Outstanding reported claims for benefits		875,726	791,000
Incurred but not reported claims for benefits		1,608,274	505,000
Gross provision for unearned contributions		4,478,000	2,308,438
Non-current liabilities			
Finance lease obligations	13	1,723	5,087
Current liabilities			
		180,852	139,222
Creditors and provisions	14	176,596	135,965
Current portion of finance lease obligations	13	4,256	3,256
Total equity and liabilities		<u>7,031,449</u>	<u>3,354,966</u>

Unemployment Insurance Fund

**Statement of Changes in Accumulated Deficit
for the year ended 31 March 2004**

	Notes	2003/04 R'000	2002/03 R'000
Accumulated Deficit			
Balance at beginning of period (1 April 2003 /1 January 2002)		(393,782)	(1,839,162)
Change in accounting policy	21	760	
Restated balance at the beginning of the period		(393,022)	(1,839,162)
Net surplus for the year		279 895	1,445,380
Deficit at the end of the year		(113,126)	(393,782)

Unemployment Insurance Fund

Cash Flow Statement for the year ended 31 March 2004

	Notes	12 Months 2003/04 R'000	15 Months 2002/03 R'000
Cash flow from operating activities		3,324,055	2,629,739
Cash generated from activities	17	3,241,462	2,542,630
Cash receipts from employers and workers		5,800,802	5,175,412
Cash payments to suppliers, contributors and workers		(2,559,340)	(2,632,782)
Income from investments		84,652	88,617
Interest paid		(2,059)	(1,508)
Cash flow from investment activities		(2,964,953)	(1,978,114)
Net increase in investments		(2,959,451)	(1,951,083)
Purchases of investments		(9,681,912)	-
Sale of investments		6,722,461	-
Additions to fixed assets	18	(5,654)	(27,082)
Proceeds from disposal of fixed assets	19	152	51
Cash flow from financing activities		(2,364)	5,061
(Decrease)/Increase in lease liability		(2,364)	5,061
Increase in cash and cash equivalents		356,737	656,686
Cash and cash equivalents at beginning of period	20	741,476	84,790
Cash and cash equivalents at end of period	20	1,098,214	741,476

**Notes to the Financial Statements
for the year ended 31 March 2004**

1. Legislation

The Fund was established under section 4 of the Unemployment Insurance Act, 2001 (Act No. 63 of 2001), hereinafter referred to as "the Act" and is governed by the Director of General of Labour.

2. Accounting Policies

Basis of presentation:

The principal accounting policies adopted in the preparation of these financial statements are set out below and are, except for the recognition of revenue contributions and the recognition and measurement of financial instruments, consistent with those of the previous year. The financial statements are prepared in accordance with and comply with South African Statements of Generally Accepted Accounting Practice. The financial statements are prepared under the historical cost convention.

2.1 Recognition of income

Revenue contributions are recognised on a cash basis (previously on an accrual basis). Income mainly consists of contributions received from registered employers and workers in terms of the Unemployment Insurance Contributions Act, 2002 (Act No 4 of 2002). Investment income is recognised on an accrual basis.

2.2 State contribution

State contributions are accounted for in the period to which they relate.

2.3 Provision for unearned contributions

The actuarially calculated provision for unearned contributions represents the proportion of contributions received in the year that relate to future periods in line with the accrual of benefits over a four-year period.

2.4 Gross outstanding claims for benefits

Gross outstanding claims for benefits incurred comprise claims paid during the period and changes in the actuarially calculated provision for outstanding claims, including provisions for claims incurred but not reported, together with any other adjustments to claims from previous years. Claims outstanding represent the ultimate cost of settling all claims arising from events that have occurred up to the balance sheet date, including the provision for claims incurred but not yet reported, less any amounts paid in respect of those claims.

2.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost.

Unemployment Insurance Fund Notes (continued)

Assets are written off on the straight line method to their residual values over their estimated useful lives at the following rates:

- Land at 0% per annum
- Buildings and investment properties at 2% per annum
- Furniture and equipment at 16.67% per annum
- Telephone exchange at 20% per annum
- Motor vehicles at 20% per annum
- Computer equipment:
 - Mainframe and mainframe peripherals at 20% per annum
 - Software at 50% per annum
 - PC's, printers, converters and network equipment at 33.33% per annum
- Leased equipment over the term of the lease.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is impaired immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining the surplus/deficit of other revenue over expenditure.

2.6 Leases of equipment

Leases of equipment where the Fund assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligation, net of finance charges, are included in long-term liabilities. The interest element of finance charges is charged to the income statement over the lease period by using the effective interest rate-method. The equipment acquired under finance leasing contracts is depreciated over the term of the lease.

2.7 Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the Fund are recognised as an asset. Associated costs include staff costs of the development team and an appropriate portion of relevant overheads. Expenditure which enhances and extends the benefits of computer software programmes beyond their original specification and lives are recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of three years.

2.8 Financial instruments

Recognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Assets are derecognised when the entity loses control of contractual rights that comprise the assets and liabilities when the obligation is extinguished.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs.

Purchases and sales of investments are recognised on the settlement date, which is the date that the asset is transferred to or by the enterprise.

Subsequent to initial recognition these instruments are measured as set out below.

2.8.1 Investments

Investments are classified in the following categories: held-for-trading, available-for-sale, loans and receivables originated by the entity and held-to-maturity.

Held-for-trading

Financial assets that are designated as held-for-trading upon initial recognition represent investments held-for-trading and are included in current assets.

These investments are subsequently carried at fair value, which is calculated by reference to exchange quoted closing prices at the close of business on the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise.

Available-for-sale

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity, are classified as available-for-sale. They are included in non-current assets unless the investment will be held for less than 12 months after the balance sheet date, in which case they are included in current assets.

These investments are subsequently carried at fair value, which is calculated by reference to exchange quoted closing prices at the close of business on the

Unemployment Insurance Fund Notes (continued)

balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

Loans and receivables originated by the entity

Investments created by the entity by providing money directly to counterparties, are classified as loans originated by the entity. These investments are included in non-current assets unless the investment will be held for less than 12 months after the balance sheet date, in which case they are included in current assets.

These investments are subsequently carried at amortised cost using the effective interest rate method.

Held-to-maturity

Investments with a fixed maturity and fixed or determinable payments that an entity has the positive intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for those assets with maturities within 12 months from the balance sheet date, which are classified as current assets. These investments are subsequently carried at amortised cost using the effective interest rate method.

2.8.2 Debtors and other receivables

Debtors and other receivables originated by the entity are stated at cost less impairment. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

2.8.3 Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and the Public Investment Commissioner, and bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

2.8.4 Trade and other payables

Trade payables are measured at amortised cost.

2.9 Investment properties

Investment properties are treated as long-term investments and carried at cost and are held to earn rental income. Investment properties (buildings only) are depreciated over their useful lives estimated at 50 years.

**Unemployment Insurance Fund
Notes (continued)**

2.10 Provisions

Provisions are recognised when the Fund has a present legal obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

	12 Months 2003/04 R'000	15 Months 2002/03 R'000
3. Revenue Contributions	5,805,613	5,293,435
3.1 Earned revenue contributions	5,798,613	5,286,435
- Contributions by employers and workers	5,734,937	5,286,435
- Interest on late contributions	20,224	n/a
- Penalties on late contributions	43,452	n/a
- State contribution	7,000	7,000

To achieve fair presentation, revenue has been classified into contributions, interest and penalties. Comparatives for interest and penalties received are not available for disclosure.

Revenue is further categorised.

	5,805,613	5,293,435
Revenue collected by the South African Revenue Service	5,496,907	
- Contributions	5,433,231	
- Interest on late contributions	20,224	
- Penalties on late contributions	43,452	
Revenue collected by the Unemployment Insurance Fund	301,706	n/a
- Contributions in respect of domestic workers	41,302	
- Other contributions	260,404	
- State contribution	7,000	

3.2 In terms of section 29(2) of the repealed Unemployment Insurance Act, 1966 (Act No. 63 of 1966), the Minister shall contribute to the Fund monies appropriated by Parliament equal to 25% of contributions by employers, but limited to R7,0 million in any financial year.

**Unemployment Insurance Fund
Notes (continued)**

	12 Months 2003/04 R'000	15 Months 2002/03 R'000
4. Benefit Payments to Contributors	2,093,870	2,581,163
Unemployment benefits	1,536,013	2,030,205
Illness benefits	109,442	97,388
Maternity benefits	266,012	282,471
Adoption benefits	299	2,361
Payments to dependants of deceased contributors	182,104	168,738
5. Investment Income and Other Revenue	449,306	157,905
Investment income	451,537	156,431
- Interest earned	451,537	125,141
- Amortised discount	-	31,290
Fair value adjustments	(3,284)	-
- Available for sale	(1,773)	-
Realised	3	-
Unrealised	(1,777)	-
- Held for trading	(1,510)	-
Profit on realisation of assets	50	24
Income from investment properties	1,002	1,297
- Rental received	1,117	1,506
- Maintenance costs	(115)	(209)
Miscellaneous revenue	-	152

**Unemployment Insurance Fund
Notes (continued)**

	12 Months 2003/04 R'000	15 Months 2002/03 R'000
6. Other Expenditure	521,532	500,902
Depreciation	10,486	9,994
-Owned assets	6,871	6,222
-Investment properties	153	1,162
-Equipment assets under finance lease	3,462	2,609
Impairment loss - Investment properties	-	378
Reversal of impairment loss on buildings and investment properties	-	(8,217)
Impairment charge for bad and doubtful debts	(4,676)	4,518
Administrative expenses	255,664	243,680
-Advertising and promotion	19	3,915
-Allowances : Board committee members	280	292
-Bank charges	15,499	27,579
-Insurance	738	350
-Internal audit fees	2,102	2,460
-Maintenance and repairs	4,409	6,211
-Miscellaneous expenses	472	-
-Municipal services	1,378	1,602
-Postage and telephone expenses	29,602	9,410
-Printing	1,107	2,614
-Professional services	81,729	56,175
-Regional Services Council levies	650	88
-SARS collection fees	82,897	59,521
-Staff fringe benefits	187	495
-Stationery	5,335	4,010
-Sundry administrative expenses - Department of Labour (refer note 6.1)	-	64,427
-Training	3,669	1,828
-Travelling expenses	25,591	2,704
Rental payments recovered by Department of Labour	13,831	14,754
Staff costs recovered by Department of Labour	241,993	230,062
Audit fees	4,234	5,733
-Current year	4,234	4,000
-Previous years	-	1,733

Note 6.1: During the current year, the sundry expenses recovered by the Department of Labour were allocated between the different administration expense accounts. Comparatives have not been re-grouped as the information is not available.

**Unemployment Insurance Fund
Notes (continued)**

**12 Months 15 Months
2003/04 2002/03
R'000 R'000**

7. Non Recurring Government Grant

- 320,000

The grant is as a consequence of section 10(4) of the Unemployment Insurance Act, 2001 (Act No. 63 of 2001) in terms of which the Minister may request the Minister of Finance to adjust the National budget in order to cover any deficit of the Fund.

8. Propert, Plant and Equipment

	Cost	Additions	Disposals	Cost	Accumulated	Accumulated	Book
	Opening		and Write	Closing	depreciation	impairment	value
	balance		offs	balance	Closing	loss	Closing
	R'000	R'000	R'000	R'000	balance	Closing	balance
					R'000	balance	R'000
						R'000	
2003/04:	110,377	5,553	813	115,097	44,724	38,568	31,805
Land and buildings	57,794	3,043	-	60,837	4,325	38,568	17,944
Computer systems	37,654	92	-	37,746	32,870	-	4,876
Telephone exchange	3,411	1,819	418	4,812	956	-	3,856
Furniture and equipment	642	490	285	847	230	-	617
Motor vehicles	447	89	110	426	225	-	201
Capitalised finance lease - Equipment	10,429	-	-	10,429	6,118	-	4,311
2002/03:	83,335	27,072	29	110,377	35,101	38,568	36,709
Land and buildings	57,281	513	-	57,794	3,294	38,568	15,933
Computer systems	24,267	13,413	26	37,654	27,899	-	9,755
Telephone exchange	834	2,577	-	3,411	733	-	2,678
Furniture and equipment	448	197	3	642	262	-	381
Motor vehicles	429	18	-	447	258	-	189
Capitalised finance lease - Equipment	76	10,353	-	10,429	2,655	-	7,774

Unemployment Insurance Fund Notes (continued)

The 94 Church Street site was purchased in 1991 and the building was completed in 1994. It is situated on lots 2737 and 3384, Schubart Street, Pretoria.

Note:

8.1 A valuation was performed on land and buildings by an independent property valuator during March 2003. The income capitalisation method was used to determine the market value of R27,3 million. No valuation was done in the current year.

8.2 The market value, as determined in note 8.1 was adjusted to reflect the current occupancy level. The building is currently 58% occupied using a norm of 15m² per worker.

8.3 Capitalised finance lease equipment is encumbered as reflected in note 13 below.

8.4 Accumulated depreciation and accumulated impairment loss is reconciled as follows:

	Accumulated depreciation Opening balance R'000	Disposal R'000	Depreciation R'000	Accumulated depreciation Closing balance R'000
Accumulated depreciation 2003/04:	35,101	711	10,334	44,724
Land and buildings	3,294	-	1,031	4,325
Computer systems	27,899	-	4,971	32,870
Telephone exchange	733	418	641	956
Furniture and equipment	262	183	151	230
Motor vehicles	258	110	77	225
Capitalised finance lease - Equipment	2,656	-	3,462	6,118
2002/03:	26,273	3	8,831	35,101
Land and buildings	3,286	-	8	3,294
Computer systems	22,069	2	5,832	27,899
Telephone exchange	559	-	174	733
Furniture and equipment	155	1	108	262
Motor vehicles	158	-	100	258
Capitalised finance lease - Equipment	46	-	2,609	2,655

**Unemployment Insurance Fund
Notes (continued)**

	Accumulated impairment loss Opening balance R'000	impairment R'000	Reversal R'000	Accumulated impairment loss Closing balance R'000
Accumulated depreciation				
2003/04:	38,568	-	-	38,568
Land and buildings	38,568	-	-	38,568
2002/03:	46,554	-	7,986	38,568
Land and buildings	46,554	-	7,986	38,568

9. Investment Properties

	Cost Opening balance R'000	Additions R'000	Disposals R'000	Cost Closing balance R'000	Accumulated depreciation Closing balance R'000	Accumulated impairment loss Closing balance R'000	Book value Closing balance R'000
Investment properties: Cost							
2003/04:	8,239	121	-	8,360	1,315	378	6,667
Midrand	5,440	121	-	5,561	896	-	4,665
Bisho	859	-	-	859	118	-	741
Thohoyandou	1,940	-	-	1,940	301	378	1,261
2002/03:	8,229	10	-	8,283	1,162	378	6,699
Midrand	5,431	10	-	5,440	798	-	4,642
Bisho	859	-	-	859	102	-	757
Thohoyandou	1,940	-	-	1,940	262	378	1,300

**Unemployment Insurance Fund
Notes (continued)**

	Accumulated depreciation Opening balance R'000	Disposal R'000	Depreciation R'000	Accumulated depreciation Closing balance R'000
Investment properties - Accumulated depreciation 2003/04:	1,162	-	153	1,315
Midrand	798	-	98	898
Bisho	102	-	16	118
Thohoyandou	262	-	39	301
2002/03:	-	-	1,162	1,162
Midrand	-	-	798	798
Bisho	-	-	102	102
Thohoyandou	-	-	262	262
	Accumulated impairment loss Opening balance R'000	Reversal R'000	impairment R'000	Accumulated impairment loss Closing balance R'000
Investment properties : Accumulated impairment loss 2003/04:	378	-	-	378
Thohoyandou	378	-	-	378
2002/03:	231	231	378	378
Midrand	231	231	-	-
Thohoyandou	-	-	378	378

9.1 Investment properties comprise the following:

Midrand building and site purchased in 1988 and situated on Lot 34 Randjiespark, Extension 30, Midrand. (Market value at 31 March 2003: R5.5 million).

- Bisho building and site purchased in 1986/1987 and situated on Lot 895, Bisho. (Market value 31 March 2003: R0.83 million).

- Thohoyandou building and site purchased in 1988/1989 and situated at portion 5 (portion 4) on Lot 43, Thohoyandou. (Market value 31 March 2003 : R1.3 million).

9.2 Investment properties were valued on an income capitalisation method by an independent valuator at 31 March 2003.

**Unemployment Insurance Fund
Notes (continued)**

**2003/04
R'000** **2002/03
R'000**

10. Investment in Securities

Non-current	165,564	44,023
Available-for-sale	164,345	40,365
RSA Stock	164,345	40,365
- Cost	-	40,365
- Premium	-	(262)
Held-to-Maturity	1,220	2,659
RSA Stock	1,220	2,265
- Cost	-	2,356
- Discount earned	-	303
Originated by the entity	-	999
- Endowment policy	-	999
Current	6,089,369	2,620,052
Available-for-sale	278,319	-
RSA Stock	278,319	-
Held-to-Maturity	1,486	-
RSA Stock	1,486	-
The market value is estimated at R 1 506 000 (2003: R 1 552 165)		
Originated by the entity	1,021	-
- Endowment policy	1,021	-
The market value is estimated at R 1 559 788 (2003: R 1 292 000)		
Held-for-trading	5,808,542	2,620,052
Public Investment Commissioner current account	866,029	600,590
Promissory notes, NCD's and fixed deposits	4,942,513	2,019,462
- Cost	-	1,950,567
- Discount earned	-	24,661
- Interest earned	-	38,234

**Unemployment Insurance Fund
Notes (continued)**

	2003/04 R'000	2002/03 R'000
11. Debtors and Other Receivables	500,592	499,816
Sundry debtors	1,583	1,665
Debtors	1,260	6,082
Outstanding deposits/disputes with the bank	323	323
Unexplained differences on bank balances	21,746	11,372
Irrecoverable amounts outstanding	(21,746)	(16,611)
Matured investment receivable	-	500
Benefits paid in error	-	-
Benefits paid in error	-	61,459
Irrecoverable provision	-	(61,459)
Provisions	499,009	498,150
State contribution receivable	-	87,000
Contributions receivable	499,009	1,121,436
Receipts not yet allocated to specific contributors	-	(710,286)
12. Bank Balances and Cash		
Bank balances and cash	232,185	140,886

**Unemployment Insurance Fund
Notes (continued)**

**2003/04
R'000** **2002/03
R'000**

13. Interest Bearing Borrowings

Lease liability

Current	4,256	3,256
Non-current	1,723	5,087
Reconciliation of minimum lease payments:		
Present value of finance lease liabilities payable:	5,979	8,343
With 1 year	5,452	4,670
Between 2 and 5 years	1,874	5,808
Future finance charges on finance leases	(1,347)	(2,135)

A lease liability was entered into during July 2002. The lease liability is repayable over a period of 3 years (36 monthly payments commencing on 1 August 2002 of R387 243 each). The lease liability is subject to an escalation clause of 10% per annum and bears effective interest at 24.24% per annum. The lease liability is secured by leased equipment with a carrying value of R 4 311 000 (2003: R 7 774 000) as reflected in note 8.

14. Creditors and Provisions

	176,596	135,965
Sundry creditors	122,483	72,921
Creditors	30,198	31,240
Unexplained differences on bank balances	38,076	19,016
Leave pay provision	24,500	-
Current account : Department of Labour	29,710	22,665
Provisions	54,113	63,044
Cheques not presented for payment	49,879	59,044
Audit fees	4,234	4,000

15. Financial Risk Management

Credit risk

Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of cash and cash equivalents, investments and contributions receivable. The Fund's investment operations are managed by the Public Investment Commissioner (PIC) on behalf of the Fund. The Fund can only invest in government stock, parastatal and local government stock, cash, call accounts and short term money market instruments. An endowment policy with Old Mutual was inherited from the previous TBVC states, which is currently being managed by the PIC.

Liquidity risk

The Fund manages liquidity risk through the compilation and monitoring of cash flow forecasts. Liquidity risk is also managed by investing Funds in short term investments that mature within three months as well as on demand instruments.

Interest rate risk

The Fund is exposed to the effects of the future changes in the prevailing level of market interest rates, due to the concentration of the Fund's investments in fixed rate monetary instruments.

Foreign exchange risk

The Fund is not exposed to the effects of the future fluctuations in foreign exchange rates, due to the fact that the Fund does not have any foreign currency exposures.

31 March 2003/04 R'000	31 March 2002/03 R'000
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16. Contractual Obligations

Payable within the next 12 months	59,411	75,658
Commitments in respect of other administration contracts	1,038	9,035
Commitments in respect of contracts placed with Siemens	43,235	48,154
Commitments in respect of contracts placed with African Legend Solutions	5,425	7,251
Commitments in respect of contracts placed with SITA	9,713	11,218

**Unemployment Insurance Fund
Notes (continued)**

	12 Months 2003/04 R'000	15 Months 2002/03 R'000
17. Reconciliation between Net Surplus and Cash Applied in Activities		
Net surplus	279,895	1,230,970
Adjusted for	2,916,125	861,112
Income from investments	(451,537)	(156,431)
Fair value adjustments	3,284	-
Interest paid	2,059	1,508
Depreciation	10,486	2,155
Income from investment properties	(1,002)	-
Profit on realisation of assets	(50)	(24)
Impairment charge for bad and doubtful receipts.	(4,676)	4,518
Non recurring government grant	-	(233,000)
Changes in technical reserves	3,357,562	1,242,386
Net surplus before movement in working capital	3,196,021	2,092,082
Movement in working capital	45,441	236,138
Decrease in debtors	4,811	212,535
Increase in creditors	40,631	23,603
	3,241,462	2,328,220

**Unemployment Insurance Fund
Notes (continued)**

12 Months 2003/04 R'000	15 Months 2002/03 R'000
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18. Additions to Fixed Assets

Land and buildings	3,043	523
Computer systems	92	13,414
Telephone exchange	1,819	2,577
Furniture and equipment	490	197
Motor vehicles	89	18
Leased equipment	-	10,353
Investment property	121	-
	5,654	27,082

**19. Proceeds from Disposal
of Fixed Assets**

Book value of assets sold	102	27
Profit on realisation of fixed assets	50	24
	152	51

**20. Cash and Cash Equivalents
Consists of:**

Beginning of the year	741,476	84,790
Money market deposits	600,590	3,429
Bank balances and cash	140,886	81,361
End of the year	1,098,214	471,476
Money market deposits	866,029	600,590
Bank balances and cash	232,185	140,886

Unemployment Insurance Fund Notes (continued)

21. Changes in Accounting Policy

- 21.1 AC133: Financial instruments: Recognition and measurement was adopted in the current financial year. Financial assets and liabilities to be carried at fair value and amortised cost were identified and appropriately remeasured at the start of the current financial year. The re-measurement had the following effect on the results of the Fund:

Fair value adjustment	329	-
Amortised cost adjustment	431	-
Adjustment to retained earnings opening balance - 1 April 2003	<u>760</u>	<u>-</u>

As the statement does not require restatement of prior year figures, the comparatives have not been restated.

- 21.2 The legal framework in light of which revenue contributions are collected caused the Fund to change its accounting policy from an accrual basis of accounting to a cash basis of accounting. The effect of the change on the results of the operations of the Fund for the current and prior years is not determinable.

22. Public Private Partnership

A Public Private Partnership was established in response to identified needs in respect of the information technology (IT) infrastructure and service requirements within the Department of Labour, the Compensation Fund and the Unemployment Insurance Fund.

The Department of Labour appointed an IT partner to provide the information technology related infrastructure, services and management support to the Department of Labour, the Compensation Fund and the Unemployment Insurance Fund, on the terms and conditions set forth in the Public Private Partnership agreement.

The annual fee payable will be adjusted on an annual basis by the application of the CPIX Adjustment Formula.



