

The cover features a background of a grid of rounded squares in shades of orange, red, and yellow, resembling a honeycomb or brick pattern. A dark red, rounded rectangular box is centered on the page, containing the title and date. At the bottom, there is a white and red curved graphic element.

Annual Report of the
Compensation Fund

for the year ended
31 March 2009



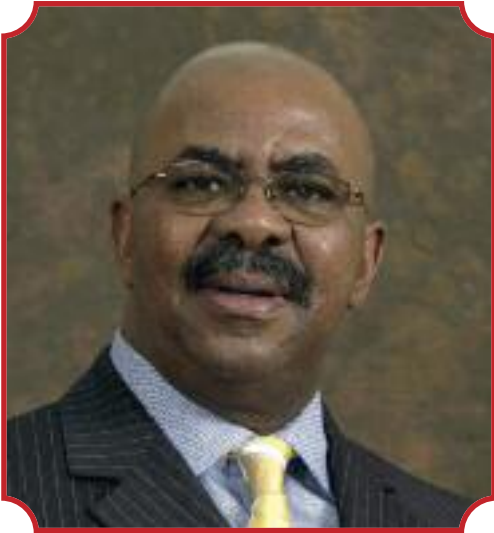
labour

Department:
Labour
REPUBLIC OF SOUTH AFRICA

Annual Report of the Compensation Fund for the year ended 31 March 2009

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**Compensation Fund
Pretoria
15 August 2009**



**Minister MMS Mdladlana, MP
Minister of Labour**

**It is my pleasure and privilege to present to you the Annual Report of the
Compensation Fund for the financial year ended
31 March 2009.**

**S Morotoba
Acting Director-General**



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Organisational Overview

Legislative Mandate

The Compensation Fund is a public entity of the Department of Labour. The Fund administers the Compensation for Occupational Injuries and Diseases Act (COIDA), No. 130 of 1993 as amended by COIDA No 61 of 1997. The main objective of the Act is to provide compensation for disablement caused by occupational injuries or diseases sustained or contracted by workers, or for death resulting from such injuries or diseases, and provide for matters connected therewith. The Fund is financed from levies paid by employers. The revenue of the Compensation Fund consists mainly of annual assessments paid by registered employers on a basis of a percentage or fixed rate of the annual earnings of their workers. The Act, however, makes provision for a minimum assessment to ensure that the assessment is not less than the administrative costs incurred.

Vision

To provide compensation for occupational injuries, diseases and rehabilitation to workers, and deliver continuous value to all our stakeholders.

Mission

To develop and implement solutions to provide quality and accessible services according to standards as set in consultation with our stakeholders, whilst maintaining the Fund's liquidity.

Strategic Objectives of the Fund

- Providing an efficient social safety net
- Effective management of finances and assets of the Fund
- Reform and restructure to enhance competence and performance
- Ensure qualitative and effective data and information management
- Ensure effective communication and stakeholder management.

Strategic Objectives for 2009-2012

Strategic goals	Strategic objectives
Providing an effective social safety net	<ul style="list-style-type: none"> • Do continuous review and updating of COIDA policies and regulations • Do annual review of tariffs, benefits and premiums • Improve claims/patient turn-around time • Do continuous review of business processes
Effective management of finances and assets of the Fund	<ul style="list-style-type: none"> • Ensure budgetary control and monitoring • Develop computerised systems for cash and asset management • Align procurement and acquisition systems in terms of Supply Chain Management Regulations • Develop and implement a new integrated financial management system (SAP) • Enhance revenue collection mechanisms • Strengthen financial management capacity • Continuously review the performance of investments to ensure alignment with the Fund's investment mandate • Roll-out the Risk Management Strategy and plans
Reform and restructure to enhance competence and performance	<ul style="list-style-type: none"> • Achieve a conducive working environment with appropriate roles and delegations at all levels • Rigorously implement a recruitment and retention strategy for key personnel • Develop and implement the Skills Development Plan and provide relevant and targeted training • Develop and implement a comprehensive human resources strategy and plan • Implement and maintain an effective performance management system
Enhance quality and access to COIDA services and information	<ul style="list-style-type: none"> • Ensure equity of access to COIDA services • Develop and implement a comprehensive package of services • Increase service channels through a CRM strategy • Ensure integrated service delivery • Strengthen partnerships with private and public health service provider institutions • Implement quality management systems
Ensure qualitative and effective data information management	<ul style="list-style-type: none"> • Develop and maintain an integrated and effective management information system • Develop an effective OHS information system for accident prevention • Develop and implement an actuarial database • Develop and manage Minimum Information Security Systems (MISS)
Ensure effective communication and stakeholder management	<ul style="list-style-type: none"> • Implement and monitor the communication policy and strategy • Develop an effective branding, marketing and promotion strategy and a uniform corporate image • Implement and monitor a media relations strategy • Implement a public interaction and mobilisation plan incorporating Izimbizo • Implement a public awareness, information and education campaign.

Stakeholder identification and expectation

Stakeholder	Expectation
Workers	<ul style="list-style-type: none"> • Improved service delivery, faster turn-around on the payment of claims • Information on the Fund and its services and easier access
Employers	<ul style="list-style-type: none"> • Improved service delivery, faster turnaround on the payments of claims • Easier access to information, online registration, assessment billing and payment
Medical service providers	<ul style="list-style-type: none"> • Improved service delivery, faster turnaround on the payment of accounts • Easier access to information, online billing and payment and electronic submission of information
Mutual associations	<ul style="list-style-type: none"> • Improved service delivery
Unemployment Insurance Fund (UIF)	<ul style="list-style-type: none"> • Labour centre involvement
Department of Labour	<ul style="list-style-type: none"> • Improved performance from the Fund
Compensation Board	<ul style="list-style-type: none"> • Improved performance from the Fund and reporting via the structures established
Compensation Fund staff	<ul style="list-style-type: none"> • Improved capability to deliver services • Certainty about the future strategic direction of the Fund • Continuous communication and feedback on progress and changes, and effective management and support during the change process.

Organisational Structure



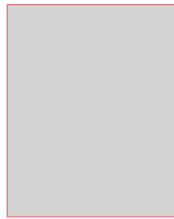
Compensation
Commissioner
Shadrack Mkhonto



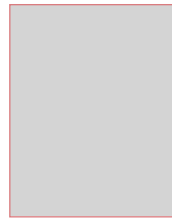
Chief Information
Officer
Vikash Sirkisson



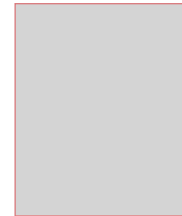
Chief Medical
Officer
Dr Aggrey Morake



Executive Manager
Internal Audit
Vacant



Chief Financial
Officer
Vacant



Executive Manager:
Supply Services
Vacant



Project Manager
Pule Tsatsi



Executive Manager:
Organisational
Effectiveness
Simon Nkhabelane



Executive Manager:
Income
Ella Ntshabele



Principal Legal
Admin Officer
Kate Thema



Assistant Manager:
Risk Management
Twana Makhubela



Executive Manager:
Financial Reporting
Pitsi Moloto



Executive Manager:
HRM
Thembi Moleko



Acting
Communication
Manager
Themba Mdluli



Acting Executive
Manager:
Compensation
Chokola Lengolo

Chapter One: Commissioner's Overview

Introduction

As we bring this challenging financial year 2008/9 to its conclusion, it is my pleasure to submit the annual report of the Compensation Fund.



*Shadrack Mkhonto
Compensation
Commissioner*

Highlights of the year

A total of 327 647 compensation benefits were paid, with the value amounting to R630 million

A total of 815 045 medical benefits were paid, with the value amounting to R1.5 billion

A total of R4.5 billion was raised and collected from assessments. This is 16% increase compare to 2007/08 financial year.

From the total of 203 711 registered claims, 139 302 were accepted, 620 repudiated and payments were made on 107 293 claims. Of the total claims registered, 48 970 did not qualify for any benefits. Which brings to a total of 76% (156 263) finalised.

A total amount of R3.1 billion was paid in benefits

Once again, 2008/09 has been a difficult year for the Fund. This is reflected in the overall performance of the organisation. Our assets have experienced a minimal growth from R18.3 billion 2007/08 to R21.6 billion 2008/09, a growth of 15%. This growth was as a result of increases in revenues collection and the average returns on our investment assets.

The fund continued the year without the Chief financial Officer and a full complement of its critical Finance managers necessary to manage an organisation of this magnitude. Once approval for the new organisational structure was granted in August last year, a recruitment process ensued and to date the fund was able to fill 70% senior executive management posts, and the rest of the middle management posts and including that of the Chief Financial Officer will filled in the new year.

Secondly, the current business processes and Information Technology systems are extremely inadequate and as a result contribute to the delays in the processing of claims and the overall poor performance of the fund. Other challenges experienced during the year are the following;

- Non submission and/delays in reporting of accidents
- Submission of incomplete information\documents by employers
- Delays in the submission of banking details by employees/beneficiaries
- Submission of inaccurate employer information on return of earnings.

Corrective action

- An audit response plan has been developed to address the findings of the Auditor-General.
- Fast-tracking the recruitment processes to fill all vacant posts at management level to address the capacity constraints
- The current business processes have been reviewed, re-engineered and benchmarked against best practices and the development and implementation of the new integrated claims and revenue generation system will be the focus in the new year
- The approval and implementation of the communications plan will lead to improved awareness and minimize some of the challenges raised above.
- Improved coordination and cooperation with Inspection and Enforcement services.

Financial viability of the Fund

Alexander Forbes Financial Actuaries performed the actuarial valuation of the Fund based Audited Management Accounts of the Compensation Fund as at 31 March 2009.

Summary of Actuarial Report

The Fund should hold an outstanding claims reserve of R4.3 billion as at 31 March 2009 (R3.0 billion: 31 March 2008). The liability to pensioners for the current year should be R9.6 billion (R8.8 billion: March 2008).

The Fund showed a surplus of R1.2 billion in 2008/9 financial year.

The Fund has accumulated surplus of R6.5 billion at 31 March 2009.

The Fund is therefore in a sound financial position at 31 March 2009.

Year ahead

A three strategic plan was put in place and is in the implementation phase. A process to finalise the funds establishment to address human resource challenges is currently underway and it includes amongst others the involvement of external partners to assist in addressing the current challenges.

Appreciation

I would like to extend my heartfelt tanks to the Minister of Labour for his active involvement, encouragement, clear direction and unwavering support. I am personally grateful for the unfailing support and wisdom of the Executive Management of the Department and the Compensation Fund management and staff members.



S.S Mkhonto
Commissioner

Chapter Two: Governance

Introduction

The Compensation Fund subscribes to the principle of good corporate governance and believes that it complies with the King Code of Corporate Governance Practice and Conduct.

In the period under review, the Compensation Board continued to work effectively as a team in tackling the substantive issues facing the Fund, while maintaining a constructive and collaborative relationship with the Compensation Commissioner.

2.1 Compensation Board

The Compensation Board is a statutory body of the Compensation Fund that advises the Minister of Labour on policy matters, annual benefit increases, appointment of assessors and amendments to the Compensation for Occupational Injuries and Diseases Act (COIDA). Representatives are from organised business, organised labour, government, mutual assurance companies related to the Fund and medical experts. It is expected that all representatives consult with their constituencies on all inputs they provide to the Fund.

Mandate of the Board

The Board was established in terms of section 10 of the Act and the members represent organised business, organised labour, government and the medical fraternity. Since its conception in 1993 the Board fulfilled this function and it has become custom to increase benefits and adjust existing pensions annually, normally on 1 March. The Board considers the recommendations from the Compensation Fund regarding the increases of benefits and the adjustments of existing pensions. It then makes its recommendation to the Minister in terms of section 12(1)(b). The Minister, on the recommendation of the Board and the Director-General, gives notice under section 50 of the Act to amend Schedule 2 and eventually publishes the amended benefits in the Government Gazette. Up to two years ago the Board made recommendations related to compensation benefits (TTD, PD and adjustments of pensions) only, however, it has since then also considered and made recommendations to the Director-General and Minister regarding the increases of fees for medical aid.

Board composition

The Board Members bring with them different ranges of skill, business acumen, independent judgement and experience on various issues, including strategy, performance and general leadership whilst Compensation Fund Executives bring in profound understanding of the business of the Fund.

The Compensation Board



Mr J Singh
RMA



Ms TT Pugh
FEMA



Prof. MS
Mokgokong
HPCSA



Dr RB Crouch
HPCSA



Mr T Szana
Department of
Labour (OHS)



Mr N Weltman
BUSA



MS S Nhlabatsi
BUSA



Mr M Majola
BUSA



Mr P Magane
COSATU



Dr L Ndelu
Department of
Health



Ms B Modise
NACTU



Mr M Mngqibisa
Department of
National Treasury



Mr S Tsiane
COSATU



Ms J Bodibe
COSATU



Mr S Motloun
FEDUSA

Table 2:1 Board Members

Name	Organisation	Principal Member	Alternative Member	Appointment date
Mr. J Singh *	RMA	√		18 Aug 2008
Mr. E Lefhugu **	RMA		√	18 Aug 2008
Ms TT Pugh *	FEMA	√		18 Aug 2008
Mr. G McIntosh *	FEMA		√	18 Aug 2008
Prof. MS Mokgokong *	HPCSA	√		18 Aug 2008
Dr R B Crouch **	HPCSA	√		18 Aug 2008
Mr. W Shisana **	HPCSA		√	18 Aug 2008
Brig F Meyer **	HPCSA		√	18 Aug 2008
Mr. N Weltman **	BUSA	√		22 Oct 2008
Ms S Nhlabatsi **	BUSA	√		18 Aug 2008
Mr. M Majola **	BUSA	√		18 Aug 2008
Mr. F Xaba **	BUSA		√	18 Aug 2008
Mr. S Deva **	BUSA		√	22 Oct 2008
Dr. L Ndelu *	Dept. of Health	√		18 Aug 2008
Mr. T Szana *	Dept. of Labour OHS	√		18 Aug 2008
Mr. M Mngqibisa **	Dept of National Treasury (GEPF)	√		18 Aug 2008
Mr. S Tsiane *	COSATU	√		18 Aug 2008
Mr. P Magane *	COSATU	√		18 Aug 2008
Ms J Bodibe *	COSATU	√		18 Aug 2008
Mr. S Motloung *	FEDUSA	√		18 Aug 2008
Ms. B Modise **	NACTU	√		18 Aug 2008

* = *Re-appointed*

** = *New appointments*

Board induction

Board induction takes place when a new member is appointed in order to familiarise them with Fund's operation, risk management procedures, strategy, governing framework and their responsibilities.

Delegation of authority

According to the Compensation for Occupational Injuries and Diseases Act (COIDA), the Director-General may designate the Compensation Commissioner or any other official of the Department of Labour to chair meetings of the Board. The Director-General appointed Mr S.S. Mkhonto to chair the Compensation Board meetings. The Acting Board Secretary is Ms N Mfene.

Table 2:2 Schedule of attendance at Board Meetings

Name	11 Sep 2008	19 Nov 2008	18 Feb 2009	10 Mar 2009
Mr.B Singh	√	√	√	A
Mr. E Lefhugu	A	-	√	A
Ms TT Pugh	A	√	√	A
Mr. G McIntosh	A	√	√	A
Prof. MS Mokgokong	√	√	√	A
Dr R B Crouch	√	√	√	-
Mr. W Shisana	√	√	√	√
Brig F Meyer	√	√	√	-
Mr. N Weltman	√	√	√	√
Ms S Nhlabatsi	√	√	A	A
Mr. M Majola	√	-	√	A
Mr. F Xaba	√	√	√	A
Mr. S Deva	√	√	√	A
Dr. L Ndelu	√	A	√	-
Mr. T Szana	A	√	√	A
Mr. M Mngqibisa	√	-	√	A
Mr. S Tsiane	√	√	√	√
Mr. P Magane	√	√	√	√
Ms J Bodibe	√	√	√	√
Mr. S Motloung	√	√	√	√
Ms. B Modise	√	√	A	-

Board committees

Consistent with the King II Report and best practice, the Board has established committees to assist in discharging its responsibilities. Each committee has a mandate outlining authority delegated to it by the Board. The mandate of each committee sets out the purpose, composition, terms of reference and reporting responsibilities. The Acting Board Secretary provides secretarial services to all committees. All committees are chaired by independent chairpersons. Minutes of the committee meetings are available to all members and are included in the Board Meeting documents. The Fund's Executive Committee attend committee meetings by invitation only.

A meeting of the Ad Hoc Committee is convened by the Chairperson as and when the need arises and decisions of Ad Hoc meetings are later endorsed by the Board.

The Board has established subcommittees on the following:

- Technical Committee on Occupational Diseases
- Assessment and Rating Committee
- Benefits Committee
- Reporting and Statistics Committee
- Communication, Education and Marketing Committee
- Strategic Operational Committee
- Finance and Investment Committee
- Audit Committee.

The following are key committees to assist the Board in exercising its authority:

- Audit Committee
- Benefits Committee
- Finance and Investment Committee.

2.2 Audit Committee

The Audit Committee was established in terms of the PFMA and Treasury Regulations to assist the Executive Authority in fulfilling its oversight responsibility in terms of these statutes. The duties of the committee are broadly defined in section 51(1)(a)(ii) of the PFMA and Treasury Regulations issued in March 2005.

Composition

- Section 77 of the Public Finance Management Act, 1999 (Act No 1 of 1999) regulates the membership of the Audit Committee
- The Audit Committee will comprise of at least four members, all of whom are not employed by the Compensation Commissioner and at least two members must be from outside the Public Service
- The Chairperson is appointed by the Director-General in consultation with the Executive Authority. At least once during the term of membership will the Audit Committee meet with the Executive Authority or the Minister in charge of the Department of Labour
- The Chairperson must not be in the employ of the Department of Labour
- Members will be appointed for a four-year term of office
- The Director- General has to concur with any termination of the services of a person serving on the Audit Committee
- A quorum for any meeting will be fifty percent plus one member.

Terms of reference

The terms of reference do not replace the responsibilities in terms of the above Act and Regulations, but complement and clarify the role of the Audit Committee in terms of their responsibilities regarding the financial reporting process, the system of internal control and management of risks, the audit process, and the monitoring of compliance with laws and regulations and the Compensation Fund's own code of business conduct. In performing its duties, the committee will maintain effective working relationships with management, the internal auditors and the external auditors. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the Fund's business, operations and risks.

Primarily the Audit Committee is established to assist the Board in discharging its duties relating to, among others:

- Safeguarding of assets
- Operation of adequate systems and controls
- Ensuring the preparation of accurate financial reporting and statements in compliance with all legal requirements and accounting standards
- Effective risk management
- Ensuring good corporate governance
- Ensuring the effectiveness of internal and external audit processes
- Ensuring that the Code of Ethics is appropriately implemented.

Table 2:3 Schedule of attendance at Audit Committee Meetings

Name	26 May 2008	29 May 2008	30 May 2008	30 Jun 2008	21 Jul 2008	24 July 2008	25 July 2008	29 Oct 2008	1 Dec 2008	17 Mar 2009
Mr K. Buthelezi *	√	√	√	√	√	√	√	√	√	√
Ms T. Pugh	A	A	A	√	A	-	-	√	A	√
Mr S. Makhubu	√	√	√	√	√	√	√	√	√	√
Mr S. Dondolo	A	A	A	√	A	-	-	•	-	-
Mr G. Nzalo [°]	-	-	-	-	-	-	-	-	√	√

* = Chairperson

√ = Present

A = Apology

• = Resigned with effect from July 2008

° = New appointment with effect from November 2008

2.3 Benefits Committee

Composition

The Committee will consist of six members:

- Three nominated by the Board from its own members, of which one should be representing the doctors respectively
- Three officials nominated by the Compensation Commissioner, consisting of the Chief Financial Officer (CFO), Medical Section and Claims Services
- Both the Board and the Compensation Commissioner will nominate alternative members to stand in for the permanent members
- The Committee will elect a coordinator who will act as chairperson during meetings of the Committee
- Members are nominated for a period of one year whereafter the Board and the Compensation Commissioner respectively will nominate new members. Members can serve more than one term provided it is confirmed by the Board and Compensation Commissioner
- The Committee will meet at least one month (30 days) before every quarterly scheduled meeting of the Board.

Mandate

The Committee will investigate all aspects of amendments of the following benefits payable in terms of the Act:

- Compensation payable in terms of section 47, 48, 49,54 and Schedule 4 of the Act
- Medical fees payable in terms of section 76 of the Act
- Any other benefits payable referred to the Committee by the Board for investigation
- The Committee, through the coordinator, will report to the Board on its functions and also make recommendations to the Board regarding any amendments to the above benefits
- The committee will have access to any records of the Compensation Fund that may assist them in the execution of its mandate.

Table 2:4 Schedule of attendance at Benefits Committee Meetings

Name	3 Jul 2008	30 Sep 2008	21 Oct 2008	25 Feb 2009
Mrs J Bodibe *	√	√	√	√
Mr P Stoop	√	√	√	√
Mr Motloung	-	√	-	√

* = Chairperson

√ = Present

A = Apology

2.4 Finance and Investment Committee

During the period under review the Finance and Investment Committee considered investments totalling approximately R19.9 billion.

The mandate of the Investment Committee encompasses the following key responsibilities, among others:

- Advise the Board on implementation of investment decisions
- Monitor performance of the investments on a regular basis
- Report quarterly to the Compensation Board on issues relating to the investment of funds under management
- Advise the Board on the criteria and process for the selection of external investment managers
- Review the risk management framework and policies in respect of investment management, including derivatives policy.

Table 2:5 Schedule of attendance at Investment Committee Meetings

Name	15 May 2008	24 July 2008	13 Nov 2008	30 Jan 2009	19 Mar 2009
Mr S. Tsiane *	√	√	√	√	√
Mr F. Xaba		A	A	√	√
Mr A. Uys	-	√	-	-	-
Mr F. Petersen	-	A	A		
Dr D. Matjila	√	√	A		
Mr I Malebye	√	√	A	√	√
Mr N Desai	√	√	√	√	√

* = Chairperson

√ = Present

A = Apology

Fraud Prevention Plan

As required by section 29.1.1 of the Treasury Regulations prescribed under the Public Finance Management Act, No1 of 1999, the Compensation Fund prepared a Fraud Prevention Plan for the financial year 2008/09 to effectively manage the fraud risk to which the Fund is exposed.

The Fraud Prevention Plan and strategy is in the process of implementation. The Audit Committee is ensuring that the Fraud Prevention Plan and strategy is implemented to minimise exposure to criminal acts, particularly fraud. The risk management department addresses these threats. Its work covers fraud prevention, detection, response and investigation.

Where serious fraud, corruption and irregularities are suspected, investigations are conducted to establish the facts to enable management to deal appropriately with the matter and prevent a recurrence.

During the period under review, forty five (45) allegations of misconduct have been reported. A number of these were received via toll-free crime line and from other sources. The toll-free crime line enables employees, suppliers and customers to report crime and irregularities anonymously.

Two Compensation Fund officials were dismissed and criminally charged for fraud committed within their area of responsibility. Eight suspected fraud syndicates were also arrested for colluding with internal staff as a result of altering banking details of the beneficiaries amounting to R975 939.96. All the beneficiaries affected have subsequently been refunded by the Compensation Fund.

Banking details to the amount of R53 980.48 were detected and prevented from altering before payments were processed.

One person was arrested after claiming pension payment using a fraudulently obtained identification (ID).

2.5 Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2009.

Audit Committee Members and attendance

The Audit Committee consists of the members listed hereunder and should meet twice per annum as per its approved terms of reference. During the current year 10 meetings were held.

Name of Member	Number of meetings attended
K Buthelezi (Chairperson)	10
T Pugh	3
S Makhubu	10
S Dondolo resigned 23 July 2008	1
G Nzalo appointed November 2008	2

Audit Committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 38(1)(a) of the Public Finance Management Act, No 1 of 1999 and Treasury Regulation 3.1. We further report that we conducted our affairs in compliance with this charter.

Effectiveness of internal control

The system of internal control was not entirely effective for the year under review. During the year under review, major deficiencies in the system of internal control and deviations therefrom were reported by the Auditor-General of South Africa. Furthermore Internal Audit only executed 10% of the approved Operational Plan for the year.

The Audit Committee has noted the issues raised in the Report of the Auditor-General with concern. The Audit Committee has tasked management to prepare a comprehensive plan to indicate how the Fund will address these issues and report progress regularly to the Audit Committee. Management has embarked on the process of addressing these issues with immediate effect.

The quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA

We are not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Authority of the Fund during the year under review. Required information was not provided to the Audit Committee when required. Management accounts would be submitted with incorrect figures or not submitted at all. The Audit Committee has tasked the Commissioner to attend to these issues with

immediate effect, more especially the capacity issue in the Finance Section.

Internal Audit

We are not satisfied that the Internal Audit function is operating effectively and that it has addressed the risks pertinent to the Fund in its audits. Due to the loss of Internal Audit staff, only one audit of the approved annual internal audit plan could be executed. This resulted in the execution of less than 10% of the Operational Plan.

We are still concerned regarding the lack of capacity to perform information technology and other disciplines audits, and the lack of staff capacity.

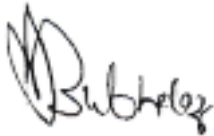
Risk management had a similar challenge regarding resources, and as a result risk management was not implemented to our satisfaction during the year.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed with the Auditor-General and Accounting Officer the audited Annual Financial Statements to be included in the annual report
- Reviewed the Auditor-General's management letter and management response.

The Committee concurs and accepts the conclusions of the Auditor-General on the Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the Report of the Auditor-General.



Chairperson of the Audit Committee
Date: 28/07/2009

Performance Information

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 1: Strengthening the social protection of the Compensation Fund					
1.1 Improving claims turn-around time	Q4	1.1.1 70% of new claims processed and finalised within 85 days of receipt of full documentation	Progress: achieved <ul style="list-style-type: none"> Total new claims registered for 2008/9 : 203 711 	System challenges for electronic workflow and identification of unfinalised claims or received documents	Systems improvement and development
			Accepted: 139 302		
			Repudiated: 620		
			Paid: 107 293		
			No payments: 48 970 (Accepted off-duty less than 3 days)	Limited capacity of the Kofax imaging system	IT is currently exploring the upgrade of the system
			Total finalised: 156 683 (76%)		
			Total claims registered from 1 April 2006 to 31 March 2009 : 626 782	Manual workflow processes	IT is currently developing the finalisation status on the E-Claims and FYI systems
			<ul style="list-style-type: none"> From the above registered claims, liability on 501 054 (80%) has been accepted and 3 604 repudiated 		The electronic submission of the claims project will alleviate the workflow problem
			<ul style="list-style-type: none"> From the above accepted claims, a total of 422 393 (84%) claims have been paid 		

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action																								
	Time	Indicators																											
KRA 1: Strengthening the social protection of the Compensation Fund																													
			<p>Compensation benefits: 2008/09</p> <ul style="list-style-type: none"> 327 647 benefits worth R630 708 449 on 320 826 claims were approved for payment. <table border="1"> <thead> <tr> <th>Year</th> <th>No of payments</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>331 672</td> <td>R655 000 000</td> </tr> <tr> <td>2007</td> <td>335 345</td> <td>R652 000 000</td> </tr> <tr> <td>2008</td> <td>327 647</td> <td>R630 708 449</td> </tr> </tbody> </table> <p>Medical benefits for 2008/09</p> <ul style="list-style-type: none"> 815 045 medical accounts worth R 1 540 340 were paid from April 2008 to March 2009. <table border="1"> <thead> <tr> <th>Year</th> <th>No of medical accounts</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2006/07</td> <td>886 511</td> <td>1 414 646</td> </tr> <tr> <td>2007/08</td> <td>777 320</td> <td>1 287 188</td> </tr> <tr> <td>2008/09</td> <td>815 045</td> <td>1 540 340</td> </tr> </tbody> </table>	Year	No of payments	Amount	2006	331 672	R655 000 000	2007	335 345	R652 000 000	2008	327 647	R630 708 449	Year	No of medical accounts	Amount	2006/07	886 511	1 414 646	2007/08	777 320	1 287 188	2008/09	815 045	1 540 340	Non-submission and/delays in reporting of accidents and submission of documents	COIDA awareness and educational campaigns to be launched in 2009/10. Regulation for increase of penalties for compliant employers. Inspection and enforcement services to execute the COIDA enforcement policy
Year	No of payments	Amount																											
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			<ul style="list-style-type: none"> 6 743 unscheduled Permanent Disablement (PD) determined Assessed 6 089 complex medical accounts referred from the medical payments sections 2 667 claims assessed for re-opening <table border="1"> <thead> <tr> <th>Approved</th> <th>Rejected</th> <th>More information requested</th> </tr> </thead> <tbody> <tr> <td>1 189</td> <td>916</td> <td>562</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 621 PTSD claims assessed <table border="1"> <thead> <tr> <th>Approved</th> <th>Rejected</th> <th>More information requested</th> </tr> </thead> <tbody> <tr> <td>162</td> <td>166</td> <td>293</td> </tr> </tbody> </table>	Approved	Rejected	More information requested	1 189	916	562	Approved	Rejected	More information requested	162	166	293	Lack of human resources capacity	Management processes are ongoing to recruit more staff												
Approved	Rejected	More information requested																											
1 189	916	562																											
Approved	Rejected	More information requested																											
162	166	293																											

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action										
	Time	Indicators													
KRA 1: Strengthening the social protection of the Compensation Fund															
			<ul style="list-style-type: none"> 1 920 assistive devices requests <table border="1"> <tr> <td>Approved</td> <td>1 171</td> </tr> <tr> <td>Rejected</td> <td>333</td> </tr> <tr> <td>With outstanding information</td> <td>83</td> </tr> <tr> <td>Request for second quote</td> <td>61</td> </tr> <tr> <td>Orthotic accounts assessed</td> <td>272</td> </tr> </table>	Approved	1 171	Rejected	333	With outstanding information	83	Request for second quote	61	Orthotic accounts assessed	272		
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Rejected	333														
With outstanding information	83														
Request for second quote	61														
Orthotic accounts assessed	272														
Processing of all Occupational Disease claims according to COIDA Policies and clients' expectations	Q1-Q4	Finalise 400 claims with complete documentation within 30 working days	<p>Occupational diseases</p> <p>Of the 1 753 occupational diseases</p> <table border="1"> <thead> <tr> <th>Reviewed</th> <th>Accepted</th> <th>Repudiated</th> </tr> </thead> <tbody> <tr> <td>18</td> <td>1 691</td> <td>44</td> </tr> </tbody> </table>	Reviewed	Accepted	Repudiated	18	1 691	44	Submission of incomplete documentation					
Reviewed	Accepted	Repudiated													
18	1 691	44													
			<p>Monitoring exempted employers</p> <p>A total of 17 021 claims were registered from exempted employers for 2008/09 Accepted: 12 836 (75%) Repudiated: 438</p> <p>3 747 claims are still pending outstanding information for adjudication</p> <ul style="list-style-type: none"> New proposals on section 62 provisional settlements for Rand Mutual Assurance have been approved by the Director-General. <p>Unreported accidents</p> <ul style="list-style-type: none"> 1 748 penalties worth R874 000 were raised for non-reporting and late reporting of accidents 1 470 unreported cases were referred to various provincial offices and 193 were registered as permanent claims The COIDA enforcement policy has been approved by the Director-General and is being implemented 	<p>Influx of Post Traumatic Stress Disorder (PTSD) mainly from South African Police Services</p> <p>Late or non-reporting of accidents</p> <p>Poor enforcement of COIDA</p> <p>Non-existence of a case management system on unreported accidents</p>	<p>A draft PTSD regulation developed and is still to be discussed by the Compensation Fund Board</p> <p>Development of IES Case Management System and the integrated Claims and Revenue Management System.</p> <p>Implementation of the new COIDA enforcement policy approved in March 2009</p>										

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 1: Strengthening the social protection of the Compensation Fund					
			<ul style="list-style-type: none"> • Training on Department of Public Service and Administration (DPSA) guidelines on COIDA was conducted to the following government institutions: Department of Agriculture; South African Social Security Agency (SASSA) ; Eastern Cape Premier's Office and provincial departments; Limpopo Premier's Office; Gauteng Shared Services (representing all Gauteng provincial departments); National Prosecuting Authority (NPA), South African Defence Force (SANDF); Department of Water Affairs and Forestry (DWAF). 		
	Q4	1.1.2 100% of outstanding backlog (claims with complete documentation prior to 2004 processed and finalised.	<p>Progress: Achieved</p> <p>Reviewed 180 392 outstanding claims brought forward from the previous years. 46 000 were paid while 134 392 were closed without payments.</p>		
	Q4	1.1.3 Regional Medical Advisory Panels in compliance with legislation, in place by end March 2009	<p>Progress: Partially achieved</p> <p>Negotiations with all relevant health professional structures that would support the process through a Peer Review mechanism were completed. Procurement processes and procedures will be concluded by quarter one of 2009/10.</p>		The procurement process will be expedited
	Q4	1.1.4 All payments must be on Electronic Funds Transfer Payments in place by end of June 2009	<p>Progress: Achieved</p> <p>This was achieved in June 2008</p>		

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 1: Strengthening the social protection of the Compensation Fund					
	Q3	1.1.5 Decentralise claims processing to at least 4 provinces by December 2008	Progress: Not Achieved The business requirement analysis for the E-Claims system to register claims in the provinces was finalised. The enhancement will be developed during the first quarter of 2009/10. Limpopo will be the first to launch the office in July 2010	The constraints in this process are around scanning and indexing of documents at targeted sites	A solution is being explored with the service provider
	Q4	1.1.6 All policies and procedures compliant with legislation developed and implemented by end of March 2009	Progress: Achieved The following policies have been approved : <ul style="list-style-type: none"> • Reduction and loading of assessments • Regulation on letter of good standing • Registration of employers • Handling of manual and electronic estimation of employers • Cancellation of penalties and revision of assessments • Regulation on penalties for late reporting of an accident and late registration of an employer • Policy on the calculation of compensation on minimum earnings where earnings were not declared • Policy on assault • Policy on registration and handling of a claim of legal foreigners who sustained injuries or contracted occupational diseases at work inside the borders of the RSA 		

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 1: Strengthening the social protection of the Compensation Fund					
Chief Directorate of Finance and Administration					
Improving revenue collection		1.1.7 Increase annual revenue collection by 7% in comparison to 2007/08	Progress: Achieved R4.5 billion was collected during the 2008/9 financial year, which represent 16% increase from the previous year	Non-traceable employers	The implementation of the new business processes
		1.1.8 100% of all active employers on database assessed and invoiced within 180 working days of receipt of return of earnings	Progress: Not achieved Active employers = 380 244 Assessments raised = 253 668	Poor service rendered by the service provider appointed to send out the returns to the employers Insufficient/inaccurate information provided by employers	Additional / outstanding information requested from employers in order to finalise assessments
		1.1.9 Assessments backlog from previous years to be raised and invoiced by March 2009.	Progress: Not achieved 125 576 still outstanding	Insufficient information and incorrect addresses Manual filing system Delays from labour centres in providing information requested	A dedicated team has been established to address backlog
		1.1.10 Debt collection strategy in place and implemented by end March 2009	Progress: Partially achieved A collection method, based on age analysis, has been implemented. Debt collection will be outsourced to a specialist service provider – this is currently in the tender process	Delays in the supply chain processes prolonged the adjudication of the tender	Additional BEC and BAC committee panels were appointed to speed up the process
		1.1.11 The Fund's investment strategy was reviewed, implemented and monitored by end March 2009	Progress: Strategy in place and was implemented throughout the year		

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 1: Strengthening the social protection of the Compensation Fund					
Chief Directorate of Finance and Administration					
		1.1.12 Risk and security management strategy developed and implemented by end March 2009	Progress: Partially achieved The Risk Management Policy and Fraud Prevention strategy has been approved A tender for risk management services is under adjudication and the strategy and policy will be implemented on appointment of a service provider	Capacity challenges within the risk management environment	Appointment of a service provider to assist with risk management
	Q2	1.1.13 All GAAP and PFMA compliant policies and procedures developed and implemented by end March 2009	Progress: Achieved 20 financial policies and procedures developed and approved		

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 2: Strengthening the institutional capacity of the Compensation Fund					
Chief Directorate of Finance and Administration					
Refocus the Fund for efficient and improved service delivery	Q2	2.1.1 Develop, document to-be business processes by end Sept 2008	Progress: Achieved Optimised business processes were developed and documented Benchmarking sessions were also conducted		
	Q3	2.1.2 Implement technology roll-out by December 2009	Progress: In progress	Lack of adequate skills and resources by service provider	Escalated and addressed by Commissioner
	Q2	2.1.4 Change management strategy developed and implemented by Dec 2009	Progress: Not started	Lack of adequate skills and resources for change management	A change management strategy is currently being explored with the service provider
	Q4	2.2.1 Create multiple channels for service delivery to enhance accessibility for all client segments by December 2009 (CRM)	Progress: Not achieved This is largely dependant on the finalisation of the integrated claims management system	Appointment of a client services manager needs to be finalised	IT is currently exploring
	Q1-Q4	2.3.1 Develop and implement effective management information system (MIS) Project) by end December 2009	Progress: Not achieved This is largely dependant on the finalisation of the integrated claims management system	Lack of adequate skills and resources by service provider	Escalated and addressed by Commissioner
	Q1_Q4	2.3.2 Improve the existing electronic Document Management System by March 2009	Progress: Partially achieved Initiatives by the service provider to improve the document management system has been unsuccessful. The entire operations are being reviewed	Service provider does not have the requisite skills to address the problems in the area	Discussions with Siemens and consideration of penalties to be implemented
		2.3.3 Prioritised and identified IT change requests implement by March 2009	Progress: Not achieved 11 of the 20 priorities have been implemented	Lack of adequate skills and resources by service provider result in slow progress towards addressing the change requests	This has been escalated and being addressed by the service provider management

Key outputs/ outcomes	Measurable performance indicators		Actual progress/ results achieved	Constraints/ challenges	Corrective action
	Time	Indicators			
KRA 2: Strengthening the institutional capacity of the Compensation Fund					
Chief Directorate of Finance and Administration					
Addressing the human capacity	Q1-Q4	2.4.1 Develop and implement an interim HR capacity by end September 2008	Progress: Achieved An interim organisational structure was approved in August 2008, and seven critical posts were identified at executive level and five of them have been filled		
	Q1-Q4	2.4.2 Organisational Structure re-design implemented by March 2009	Progress: Not achieved	Lack of human resources capacity at organisational effectiveness	
	Q4	2.4.3 Implement and roll-out the communication strategy by December 2008	Progress : Partially achieved <ul style="list-style-type: none"> Information for the two educational campaigns on public servants and reporting of accidents was documented and is pending the appointment of a service provider Advocacy programmes implemented in other provincial offices 	Lack of structured communication plan.	Service provider to be appointed Advocacy programmes to be rolled out to other provinces Proper implementation of the Communication Plan

Chapter Three: Performance Overview

3.1 Service Delivery

Registration, adjudication and payment of claims

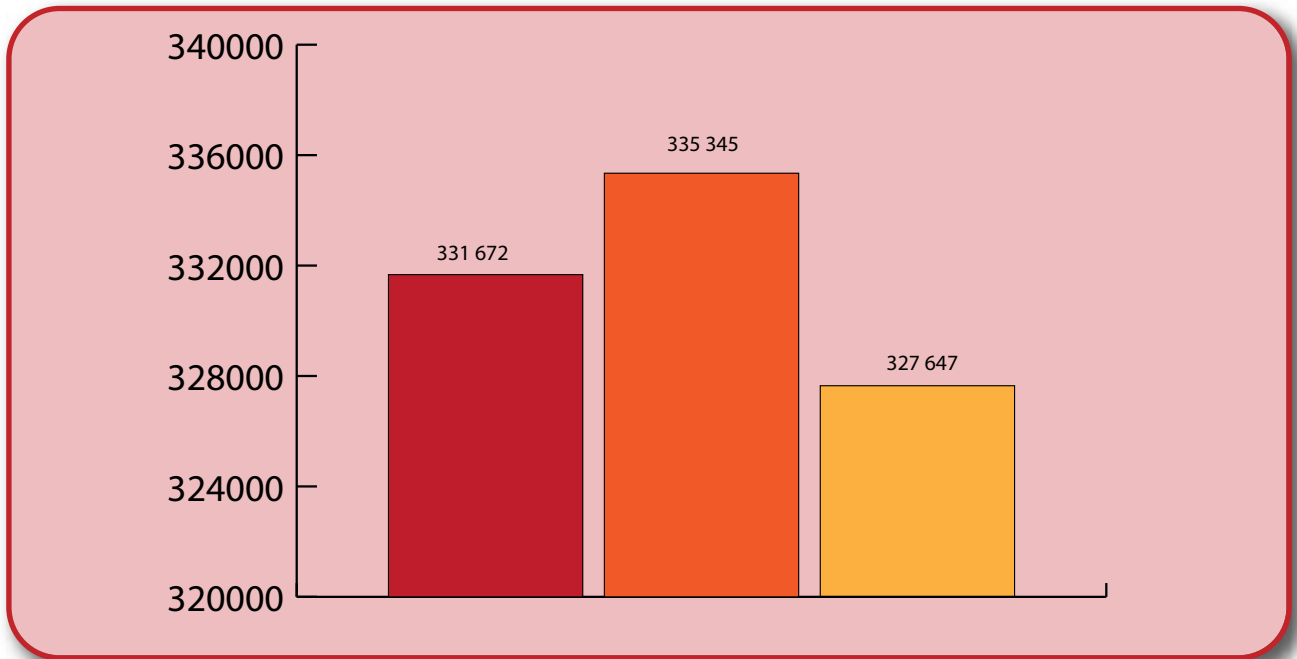
- The Fund registered a total of 203 711 claims during this financial year
- In the adjudication process, liability on 139 302 has been accepted while 620 claims were repudiated. This constitutes about 70% of total claims registered
- Of the accepted claims, a total of 107 293 have been paid while others are still pending the stabilisation of the employees' medical condition before final medical reports can be submitted to process payments
- For the past three years since 1 April 2006 to 31 March 2009, the Fund has registered a total of 626 782 claims
- Liability on 501 054 claims has been accepted which constitutes 80% of the total claims registered for the past three years
- A total of 422 393 claims have payments and constitute 84% of accepted claims with full documentation
- Claims that have no payments comprise the following:
 - Repudiated claims
 - Claims not yet accepted due to outstanding information
 - Claims where the employee's medical condition has not yet stabilised
 - Employee is off duty for 3 days and less (no benefits are payable)
- The backlog on claims registered from year 2000 to 2004 was finalised in quarter one of this financial year from the 180 392 claims brought forward from the previous years, a total of 46 000 were paid while 134 392 were closed without payments as there are no benefits payable.

3.1.1 Compensation benefits statistics

Table 3:1 Temporary Total Disablement, Permanent Disablement and Pension payments

Year	No of payments	Amount paid R
2006	331 672	R 655 000 000
2007	335 345	R 652 000 000
2008	327 647	R 630 708 449

Figure 3:1 Compensation benefits



3.2 Finance

The Finance Directorate has in the past years experienced serious challenges due to the inadequate management structure and in the last three years experienced further human resource loss resulting from voluntary severance packages as well as suspension of key personnel.

The Directorate consists of four Subdirectorates:

- Financial Control
- Financial Reporting
- Income (Employer Services)
- Support Services.

The Directorate is responsible to ensure, manage and maintain:

- Effective, efficient and transparent systems of financial and risk management and internal control
- Effective collection of revenue
- Prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the Fund
- Timeous submission of all reports, returns, notices and other information to the Accounting Authority.

Financial statements

Major revenue, expenses, assets and liabilities of the Compensation Fund:

● **Revenue**

The Fund generated revenue of R4.5 billion, most of which is from assessments of registered employers and interest and penalties from defaulting employers. The balance of revenue is from income on the surplus funds that are invested until they are required. The revenue increased with 16%

● **Expenses**

Claims incurred for the year amounted to 2.9 billion compared to 1.3 billion (2008), which amounts to an increase of 56%

- **Assets**

Total assets grew by 17% from the previous year. Investment formed 93% of total assets for the year. Other major assets income assessment debtors, cash and deposits with financial institutions.

- **Irregular Expenditure**

After completion of the audit for the year ended 31 March 2009, the Fund discovered an irregular expense to the amount of R3 662 820 which is currently under investigation by management.

- **Liabilities**

Current liabilities include provisions for outstanding claims, pensions and other trade and accounts payable.

- **Actuarial Report**

Alexander Forbes as the appointed Actuaries performed the Actuarial Evaluation based on the management accounts of the Compensation Fund. Provisions for pension and compensation are based on the Actuarial Report. The recommendation was as follows:

- The outstanding compensation claims payable before 31 March 2009: R1.5 billion
- The outstanding claims payable subsequent years R2.5 billion and further contingent reserve of R276 million
- The outstanding pension claims payable before 31 March 2009: R9,6 billion.

Table 3:2 Three-year financial performance

	2006/07 R' million	2007/08 R' million	2008/09 R' million
Assessment revenue	3 269	3 889	4 513
Investment revenue	889	1 349	2 073
Other revenue	38	16	21
Medical expenditure	1 415	1 287	1 540
Administrative expenditure	565	401	443
Surplus/(deficit) for year	808	(714)	1 171
Administrative expenditure as a % of total expenditure	21.4%	-41%	12%
Long-term liabilities against pensioners	6 567	8 838	9 604
Investments	15 142	16 656	19 959
Accumulated funds	6 057	5 386	6 533
Total assets	16 731	18 303	21 564

3.3. Policy development

The Compensation Fund reviewed its policy and control framework and identified nine additional COIDA policies that were required. The following policies were drafted, noted by the Compensation Board and adopted by the Fund for implementation in quarter one of 2009/10:

- Reduction and Loading of Assessments
- Regulation on Letter of Good Standing
- Registration of Employers
- Handling of Manual and Electronic Estimation of Employers
- Cancellation of Penalties and Revision of Assessments
- Regulation on Penalties for Late Reporting of an Accident and Late Registration of an Employer
- Policy on the Calculation of Compensation on Minimum Earnings where the Employee's Earnings were not Declared
- Policy on Registration and Handling of a claim with or without an ID or Passport.

3.4. Compliance with COIDA

Background

The Director-General is empowered by the COID Act to monitor compliance by employers who are individually liable to pay compensation and medical expenses to their injured employees. Such employers are exempted from paying annual contributions to the Fund in terms of section 84 of the COID Act.

Within this category of employers, there are two mutual associations who are granted licenses by the Minister of Labour to provide insurance cover for employees in the mines and the building industry as provided by section 30 of the Act. In order to monitor the application of policy by these employers, the Director-General determines which claims and how such claims must be settled provisionally in terms of section 62 of the Act.

Other categories are government institutions which fall within the jurisdiction of the Department of Public Service and Administration (DPSA). Such employers must apply the DPSA guidelines on COIDA as agreed with the Department of Labour. The Compensation Fund has therefore a responsibility to train these institutions from time to time.

3.4.1 Monitoring of exempted employers

- The new licenses for the two mutual associations, Federated Employers Mutual Assurance and Rand Mutual Assurance, were approved for a period of three years
- New provisional settlements with additional powers for Rand Mutual Assurance were approved
- Training on DPSA guidelines on COIDA was conducted to the following government institutions:

Department of Agriculture; South African Social Security Agency (SASSA); Eastern Cape Premier's Office and provincial departments; Limpopo Premier's Office; Gauteng Shared Services (representing all Gauteng provincial departments); National Prosecuting Authority (NPA), South African Defence Force (SANDF); Department of Water Affairs and Forestry (DWAF).

3.4.2 Investigation of unreported accidents

In the event of an employer failing to report an accident/disease, the Compensation Fund has to conduct a preliminary investigation to persuade the employer to report the accident. If the employer does not cooperate, such claims are referred to the provinces for further investigation by the Inspection and Enforcement Services (IES). In the process, the Fund levies a penalty for late reporting and non-reporting by the employer.

- The Fund levied 1 748 penalties worth R874 000 for the late reporting or non-reporting of accidents to various employers
- A total of 1 470 cases of unreported accidents were received, investigated and referred to provinces for further investigation by Inspection and Enforcement Services.

3.5 Business process re-engineering

In moving towards streamlining and optimising its operations and efficiencies, new business processes for the organisation were developed. This followed the review of the existing business processes, identification of challenges and gaps, and steps for improvement. The completed processes were benchmarked and adopted, and these were provided to the IT service provider to begin with the process automation.

3.6 Medical Benefits

- A total of 413 541 current claims were registered from 2007-2009, with 388 266 (93.8%) accepted and 3 796 repudiated
- Total claims with payments for 2008-09 are 662 575
- For the financial year 2008/09, 815 045 medical payments were processed
- The value of these medical payments was R1 544 970 689.55 compared to R1.2 billion paid in the 2007/08 financial year.

3.6.1 Medical services

The Compensation Fund employs medical officers and professional nurses whose function it is to advise the Compensation Commissioner on medical matters pertaining to claims of employees who are injured or who have contracted diseases during the course of their employment.

During the financial year, the following performance was noted:

Table 3:3 Claims referred for medical assessment

Claim type	Total	Approved	Rejected	Additional information required
Re-openings	2 667	1 189	916	562
PTSD	621	162	166	293

A total of 20 lectures and presentations were provided to various service groups for advocacy purposes:

- Medical service providers in Bloemfontein and Nelspruit
- GP refresher course in Medunsa
- Lecture to students at Wits and Potchefstroom University
- Presentations in four Provinces in collaboration with the Department of Health
- A presentation at a stakeholder conference in Bloemfontein.

3.6.2 Tariffs for medical aid expenses

The COIDA medical tariffs are revised on an annual basis after consulting with health care provider associations.

For 2008/09, the tariff increase approved by the Compensation Board is 10.5% for hospitals, 13.6% pharmaceutical increase and 10% for other medical professionals.

Assistive devices

A total of 1 920 orthotic and prosthetic claims for devices were submitted.

Table 3:4

Claim type	Approved	Rejected	Additional information required	Requests for a second quote	Accounts assessed
Assistive devices	1 171	333	83	61	272

Occupational diseases

Table 3:5 Occupational diseases claims finalised

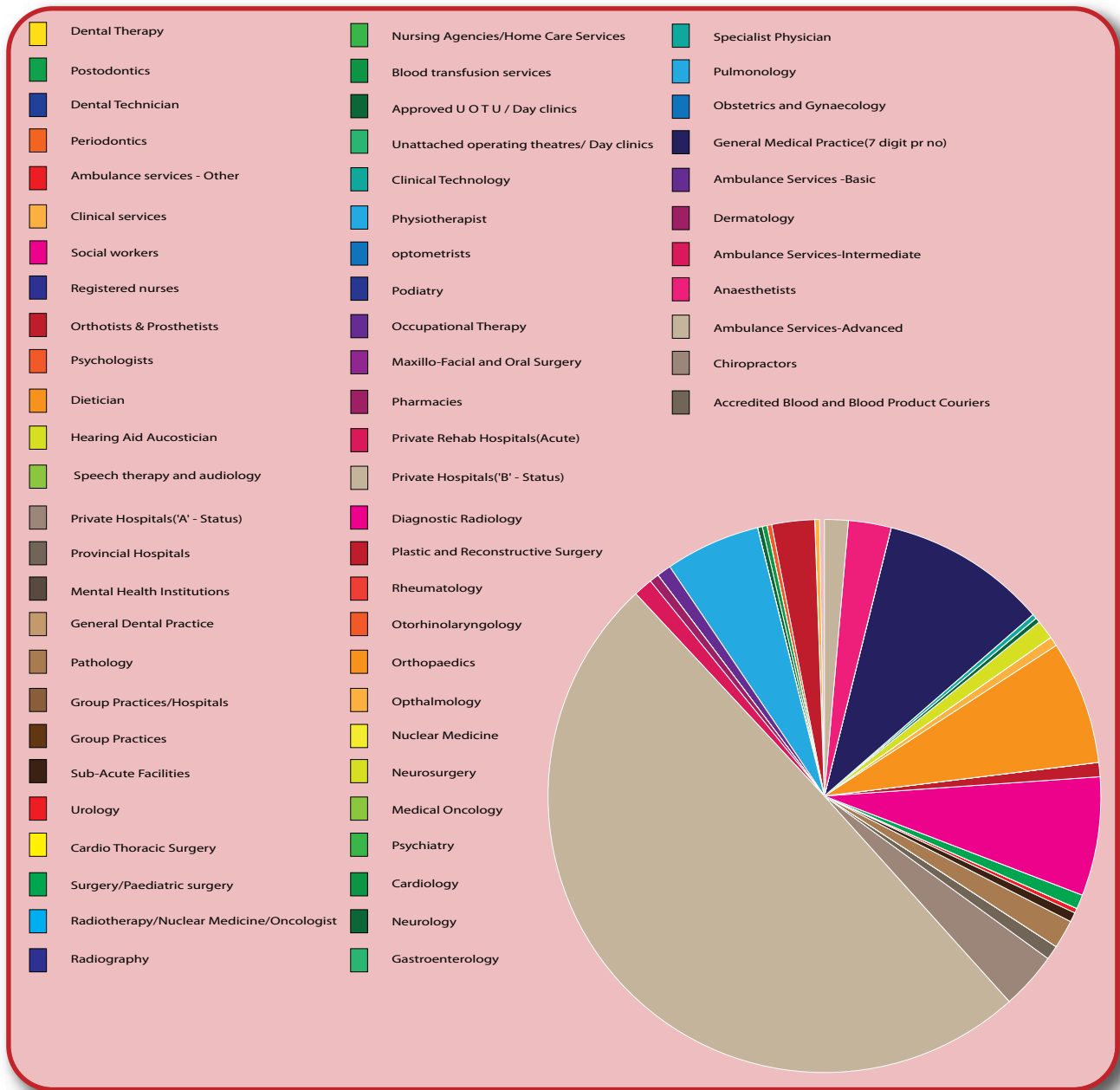
Type	2006/07	2007/08	2008/09
Noise induced hearing loss	2 644	785	1 123
Tuberculosis of the lung	69	54	223
Pneumoconiosis	172	102	87
Occupational asthma	109	80	59
Occupational skin disease	142	92	45
Irritant induced asthma	6	39	33
Repetitive strain injuries	32	30	61
Mesothelioma	29	22	12
Lung cancer	9	5	3
Chronic obstructive airway diseases	10	15	12
Diseases caused by chemical agents	323	105	98
Diseases caused by physical agents, excluding noise	10	27	31
Diseases caused by biological agents	144	75	63
Others	21	12	45
Total	3 720	1 443	1 895

3.6.3 Medical payments

In terms of medical claims submitted for the 2008/09 financial year, the current service provider ratio is as follows:

- General Practitioners 27%
- Private Hospitals 21%
- Diagnostic Radiology 18%
- Physiotherapist 7%
- Orthopaedics 6%
- Pathology 5%

Figure 3:2 Claims' ratio/service provider



Year	Number of payments	Rand value R
2006/07	886 511	R 1 540 340
2007/08	777 320	R 1 287 188
2008/09	815 045	R 1 414 646

The following represents medical payments:

Figure 3:3 *Number of medical accounts paid*

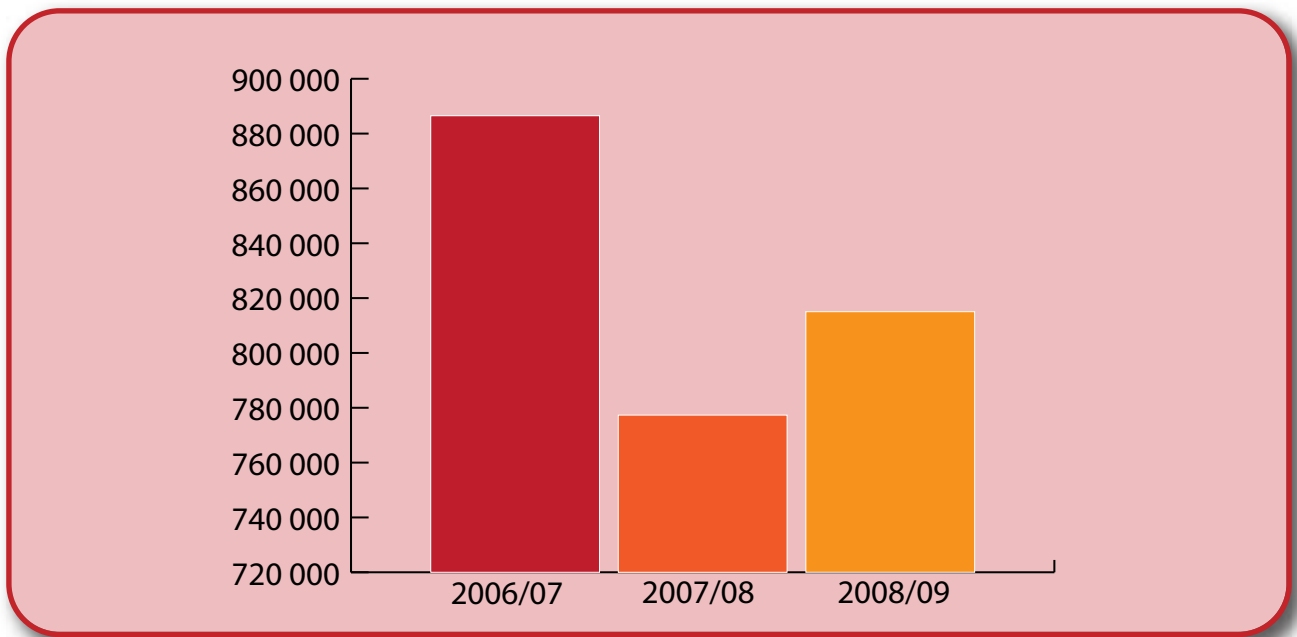


Figure 3:4 *Value of claims paid*

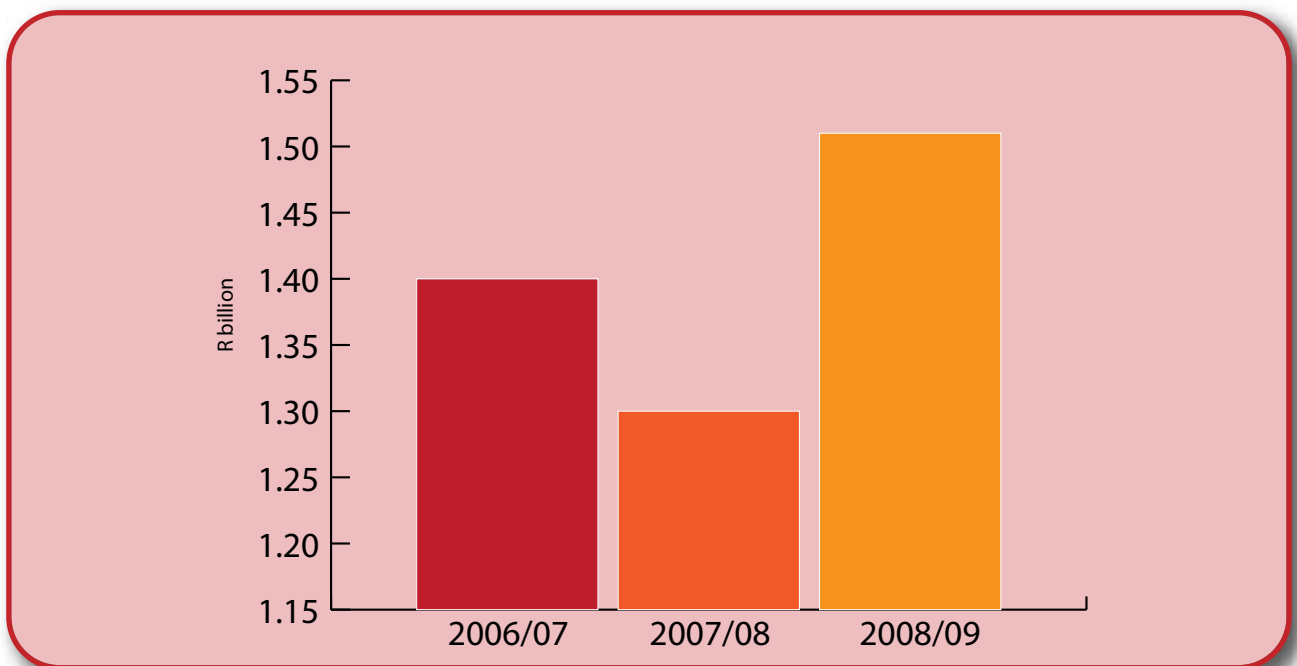
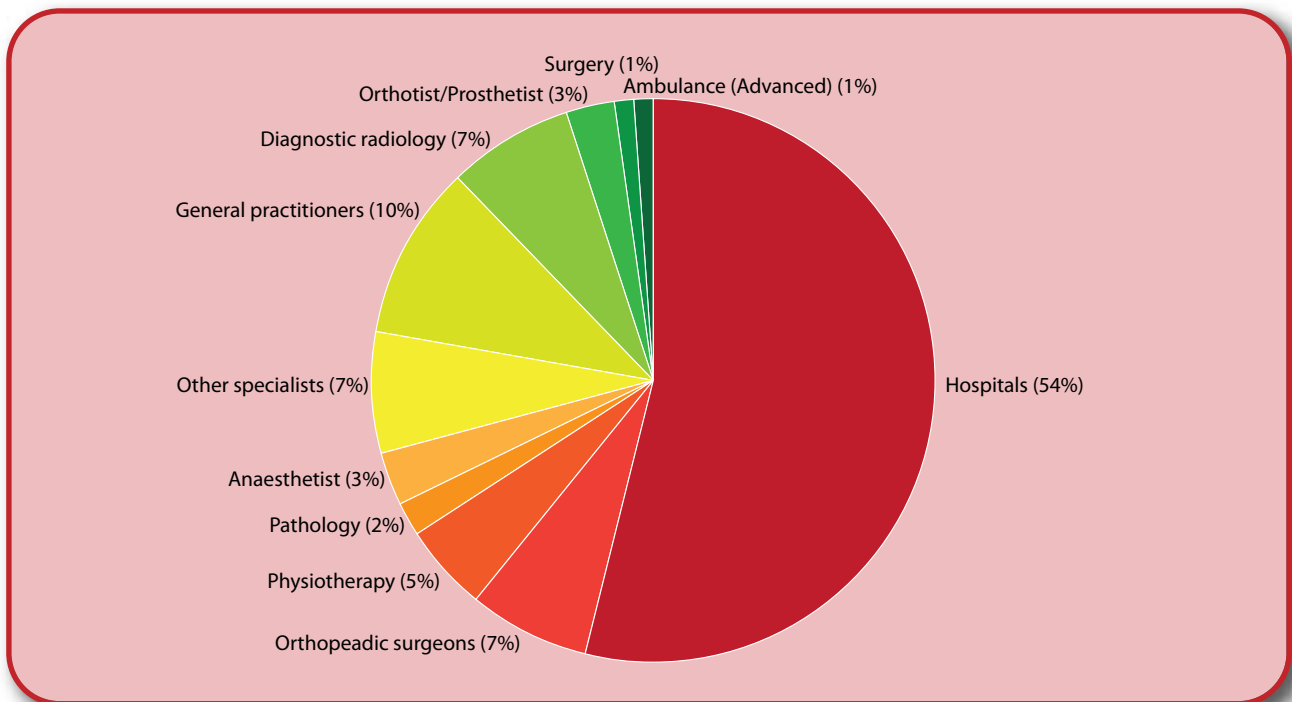


Figure 3.5 Medical payment type



Turn-around time

In the 2007/08 financial year the turn-around time on medical payments was 61 days averaged on 176 541 claims. Of these, 148 741 claims were paid within 18 days.

In the 2008/09 financial year, the turn-around time on medical payments was 38 days averaged on 172 656 claims.

This translates into a 62% improvement in turn-around in medical payments in comparison to the previous year. However, there is still room for improvement once the processes, capacity and systems have been addressed.

3.7 Legal

Objectives

- To minimise litigation against the Fund
- Ensure finalisation of objections and applications for increased compensation
- To recover money from the Road Accident Fund
- To issue final awards.

Third Party Claims (2008/09)

The Third Party Section recovers moneys from the third parties where an employee was involved in a motor vehicle accident whilst on duty. If liability is accepted, the Fund will pay compensation and recover what it has paid from the Road Accident Fund. The section is also responsible for the issuing of final awards in respect of payments made to the employees, to the affected third parties. (Claims recovered from third parties eg. Road Accident Fund)

- 1 514 third party claims finalised and R972 432.10 recovered
- State Attorney's Office instructed to collect payment of R395 055.24 from the Road Accident Fund
- 145 claims were lodged amounting to R16 086 953
- An offer of R1 759 844.50 from Road Accident Fund was accepted –payment awaited.

Challenges

- Procedural delays in recovery of third party claims
- No electronic link between Compensation Fund and the Road Accident Fund.

Hearings

The Hearings Section administers the objections in terms of section 91 – employees are entitled to object against the decision of the Director-General. Applications for additional compensation in terms of section 56 – employees may claim for additional compensation in the event where an accident was caused by the negligence of the employer or a person deemed to be a supervisor/manager. The Compensation Commissioner makes decisions of an administrative nature, which affect the employees and the employers in the most significant way and any of the parties affected by such decision of the Commissioner has a right to lodge an objection.

- Employee objections
 - 1 384 received
 - 543 finalised
 - 841 outstanding due to the following reasons:
 1. Lack of panel members.
 2. Unavailability of expert witnesses and legal representatives of the injured employees.
- Section 56 applications
 - o 73 received
 - o 17 finalised
 - o 56 outstanding due to the following reasons:
 1. Lack of panel members
 2. Outstanding PTSD cases – need to review current procedures
 3. Outdated hearing system.
- Standards and procedures have been developed for section 91 objections and section 56 applications
- 1 394 payments amounting to R5 004 377.40 million processed and paid to panel members, witnesses, recording firms, etc.
- Presiding officers, assessors and interpreters appointed in certain areas
- Appointment of a legal project manager, practicing advocates and attorneys was approved by the Director-General to facilitate the elimination of outstanding work.

Chapter Four: Human Resource Management

Senior management appointments

In its endeavour to address the capacity challenges at senior management level, the Fund has appointed five Executive Managers, as of March 2009, after the structure was approved by the Minister of Labour in August 2008.

Table 4:1 Staff establishment

Number of posts	Number of posts filled	Vacancy	Number of posts filled additional to the establishment (contract)
707	584	123	286

Table 4:2 Employment and vacancies by salary band

Salary band	Number of posts	Number of posts filled	Vacancy rate	Number of posts (contract posts)
Senior management (Levels 13-16)	12	7	41.6%	1
Highly skilled supervision (Levels 9-12)	25	19	24%	1
Highly skilled production (Levels 6-8)	226	179	20.8%	14
Skilled (Levels 3-5)	444	379	14.64%	270
Total	707	584	17.4%	286

Figure 4:1 Employment and vacancies by salary range

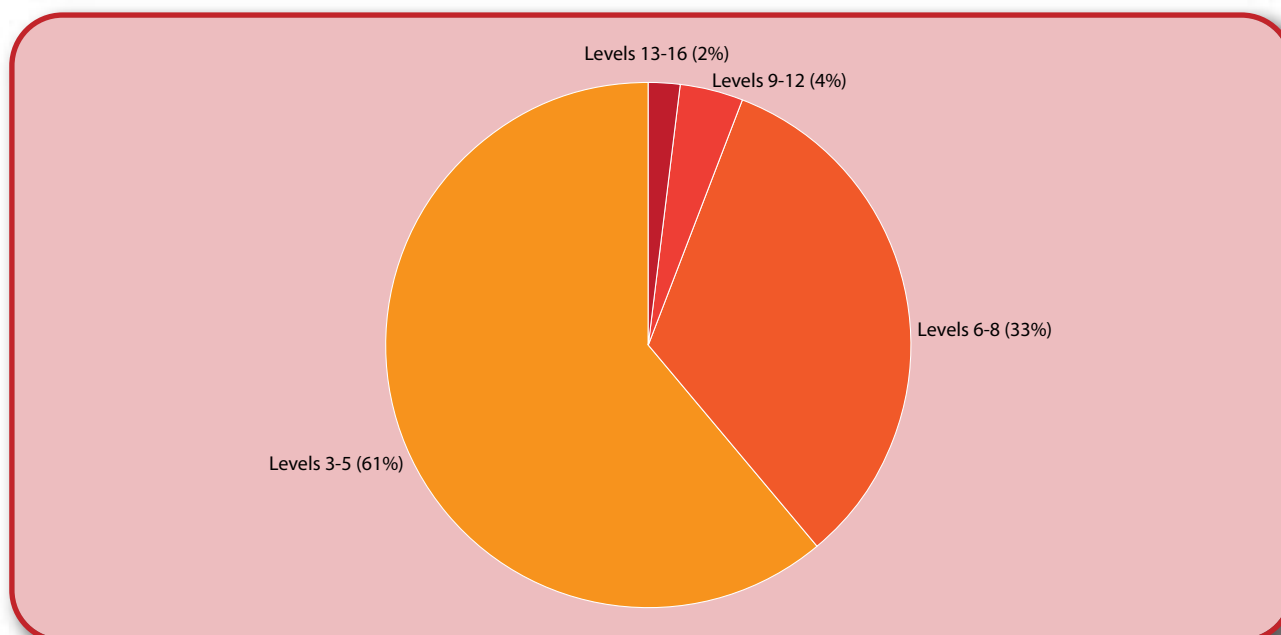


Table 4:3 Staff turnover

Salary band	Number of employees per band as from 1 April 2008	Appointments and transfers into the Department	Terminations and transfers out of the Department	Turnover rate %
Senior management service (Levels 13 above)	7	4	2	28.6
Highly skilled supervision (Levels 9-12)	19	0	4	21
Highly skilled production (Levels 6-8)	179	1	34	19
Skilled (Levels 3-5)	379	27	20	4.8
Total	584	32	60	10

Table 4:4 Reasons for termination/transfers

Termination type	Number	% of total
Death	2	3
Resignation	16	25
Dismissal – misconduct	2	3
Retirement	2	3
Transfers to other Public Service departments	8	13
Severance package	30	47
Total number of employees who left as a % of the total employment	60	10

Table 4:5 Appointments and promotions

Salary band	Appointments	Promotions	Contract appointments
Senior management (Levels 13-16)	4	0	1
Highly skilled supervision (Levels 9-12)	0	0	2
Highly skilled production (Levels 6-8)	1	24	14
Skilled (Levels 3-5)	27	0	269
Total	32	24	286

Table 4:6 Employment equity

Occupational band	Male				Female			
	A	C	I	W	A	C	I	W
Top management	1							
Senior management SR 13-14	1				3			
Professionally qualified and experienced specialists and mid-management SR 9-12	7			4	6			2
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents SR 5 - 8	46	2		5	52	16	2	56
Semi-skilled and discretionary decision making SR 1- 4	157	7	1	3	174	19	1	16
Total	212	9	1	12	235	35	3	74

A = African; C = Coloured; I = Indian; W = White

Table 4:7 Leave utilisation

1 January 2008 to 31 December 2008				
Salary band	Total days	No of employees using sick leave	% of total employees using sick leave	Average days per employee
Skilled (Levels 3-5)	5 192	624	12.1	8.32
Highly skilled production (Levels 6-8)	1 287	197	15.3	6.53
Highly skilled supervision (Levels 9-12)	128	23	18	5.56
Senior management (Levels 13-16)	33	8	24.3	4.12
Total	6 640	852	12.9	7.79

Table 4:8 Incapacity leave (temporary and permanent)

Salary band	Total days taken	% days with medical certificate	Number of employees using disability leave	% of total employees using disability leave	Average days per employee
Skilled (Levels 3-5)	641	100	16	2.5	40
Highly skilled production (Levels 6-8)	308	100	3	0.97	102
Highly skilled supervision (Levels 9-12)	14	100	1	7.1	14
Senior management (Levels 13-16)	0	0	0	0	0
Total	963	100	20	2.07	48.2

Table 4:9 Annual leave

Salary bands	Total days taken	Average per employee
Skilled (Levels 3-5)	12 352	19.85
Highly skilled production (Levels 6-8)	4 182	21.22
Highly skilled supervision (Levels 9-12)	424	18.43
Senior management (Levels 13-16)	98	12.25
Total	17 056	18.00

Table 4:10 Employment relations

Collective agreements are handled on a national basis by the Department of Labour.

Outcomes of disciplinary hearings	Number	% of total
Verbal warning	1	11.2
Written warning	3	33.4
Final written warning	1	11.2
Suspended with pay	1	11.2
Demotion	1	11.2
Dismissal	2	22.3
Total	9	16.8

Table 4:11 Grievances lodged

Grievances	Number
Lodged	12
Resolved	7
In progress	5

Table 4:12 Bursaries and studies at State expense

Gender		Race				Salary level	Field of study
Male	Female	A	I	C	W		
1		1				SR 5	ND Admin Management
	1	1				SR 5	BA
3	1	4				SR 5	B Com.
2	4	6				SR 5	ND Pub.Management
1		1				SR5	B Tech Pub.Management
	1			1		SR 5	ND Information Technology
1		1				SR 5	Advanced Diploma in Management Accounting
1		1				SR5	LLB
5	1	6				SR 3	ABET Programme
2	1	3				SR 5,7 & 6	Certificate in HRM
1		1				SR 7	ND Labour Law
	3	3				SR5	Certificate in Business Management
1		1				SR 5	Certificate Programme in Law
	2				2	SR 7	Advance Programme : Sourcing & SCM
1	1	1	1			SR 5	Public Procurement & SCM
1		1				SR5	ND: Office Management & Technology
1	1	2				SR 5	ND HRM
	2	2				SR 5	Certificate In Financial Management
1		1				SR 8	Programme in Project Management
	1	1				SR 7	Fundamental Management Programme
1		1				SR 5	ND Public Relations Management
23	19	38	1	1	2		

A = African; C = Coloured; I = Indian; W = White

Chapter Five: Information and Communication Technology

Introduction

The documentation and mapping of the Fund's current processes was completed in November 2009. This is the first step towards process optimisation and automation which will aim to improve efficiency and effectiveness of processes to increase productivity and in turn, service delivery.

The delay in the business process optimization until November 2009 resulted in further delays in the implementation of an integrated claims and revenue management system for the organisation. This leaves the Fund still working on legacy applications which do not allow for full integration and having to make functional changes to systems, to accommodate the business requirements.

ICT Function

The core functions of the directorate are to:

- Manage the ICT environment
- To provide ICT services to achieve CF strategic objectives
- To provide and automate systems to support CF business functionality
- To manage outsourced IT services
- To provide ICT policies, guidelines and standards.

Public Private Partnership

The Compensation Fund's information technology requirements are addressed through a ten-year Public Private Partnership (PPP) for IT related services that the Department of Labour has with Siemens.

Completed initiatives

Workplans and service level agreements

The development of the IT workplans for the 2008/09 financial year ensured that all initiatives were properly managed and supported the strategic objectives of the Fund. Service level agreements were managed to ensure minimum service levels, performance and availability of systems/resources, and the inclusion of penalties for non-performance.

System enhancements and additional functionality

Requirements for system enhancements were consolidated and prioritised and 11 change requests for additional functionality/enhancements were developed and implemented.

IT policies

IT policies by the Director-General were implemented and enforced during the financial year. Policies implemented include an Acceptable Use Policy, Email and Internet Policy and Mobile Computing Policy. Violation of policies was escalated to Human Resource Management for possible disciplinary action.

Disaster recovery

A disaster recovery plan was finalised and approved by the Director-General. The implementation of the disaster recovery plan is currently under review.

Risk assessment

A risk assessment and risk exposure exercise was undertaken in collaboration with the Office of the CIO of the Department of Labour and their Risk Manager to determine, mitigate and manage risks within the IT environment and to ensure that should any of the risks realise, the impact could be contained or minimised.

Telecommunications environment

Additional functionality and improvements were implemented within this environment to reduce costs and to maximise this as a business resource.

User training

Users were trained in utilising enhancements to current applications.

Chapter Six: Financial Statements

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Compensation Fund

Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Compensation 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 51 to 76 .

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 Auditor-General audit circular 1 of 2007 and for such internal control as the accounting authority determines 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) the Compensation for Occupational Injuries and Diseases Act, 1993 (Act no.130 of 1993) (COIDA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Revenue contributions and Assessment debtors

4. Various materially incorrect assessments have been recorded by the Fund in the year under review and in previous years. Inadequate monitoring of controls over overdue assessment debtors resulted in the accumulation of incorrect provisional assessments and materially incorrect debtors with credit balances. The lack of a proper management framework for the continuous review of the ageing of assessment debtors has resulted in an unreliable ageing of assessment debtors being applied for purposes of determining the provision for credit losses. Various supporting documentation were not available for inspection and this did not allow the performance of sufficient alternative audit procedures to confirm the completeness, accuracy, valuation and allocation of related revenue and debtor balances. Consequently, I am unable to express an opinion on:
 - a) the completeness and accuracy of revenue contributions totaling R4,5 billion (2008: R3,9 billion)
 - b) the valuation of assessment debtors totaling R4,1 billion (2008: R3,5 billion)
 - c) the valuation and allocation of assessment debtors with credit balances totaling R183,5 million (2008: R115,8 million)
 - d) the valuation and allocation of the provision for credit losses totaling R3,4 billion (2008: R2,6 billion).

Bank reconciliation suspense accounts

5. The Fund transferred the unreconciled differences from its compensation and pensions bank reconciliations to a suspense account. At year end, unreconciled differences in the suspense account amounted to R 86,4 million. At the date of this report, management had not reconciled the bank

Compensation Fund

Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

balances with the general ledger and had not cleared the suspense account. The volume of records in the bank reconciliation suspense account did not permit the I was unable to perform sufficient audit procedures to verify the completeness, existence and valuation of balances affected as a result of any possible adjusting transactions resulting from clearing the unreconciled differences. Consequently, I am unable to express an opinion on the completeness, existence and valuation of balances included in the statement of financial position; and the occurrence, completeness, accuracy, cut-off and classification of transactions recorded in the statement of financial performance, cash flow statement and notes to the financial statements.

Claims incurred

6. A backlog in the scanning of documentation on to the Fund's electronic document management system and inadequate management of supporting documentation for claims incurred have resulted in the inability of the Fund to retrieve appropriate documentation in support of claims incurred. In addition, there is an unexplained difference amounting to R81.6 million between the total claims approved per the claims system and the general ledger. As a result of the large volume of claims recorded I was not able to perform sufficient alternative audit procedures to confirm the completeness, accuracy and occurrence of claims incurred amounting to R3.1 billion (2008: 1.6 billion).

Accounts payable

7. The Fund did not submit creditor reconciliations and/or appropriate detailed listings of creditors totaling R89.6 million at year end for audit. In addition the Fund did not accrue for interest on unclaimed monies due to beneficiaries. The Fund's records did permit the performance of sufficient alternative audit procedures for accounts payable. Consequently I was unable to obtain sufficient audit evidence as to the completeness, valuation and accuracy of accounts payable totaling R89.6 million.

Property, plant and equipment

8. The Fund revalued its Compensation House Property as at 31 March 2009, however the value of the property disclosed in the financial statements differs by R55.9 million from the valuation amount. In addition IAS16: Property, plant and equipment requires that if a category of assets is revalued, all the assets in that category should be revalued. The Fund did not obtain a valuation of its property in Bisho. The Fund's records did permit the performance of sufficient alternative audit procedures for property, plant and equipment. Consequently, I am unable to express an opinion over the completeness, accuracy and valuation of property, plant and equipment totaling R127 million.

IFRS 7 disclosures not made

9. The Fund did not disclose the following in respect of its financial instruments as required by Statement of Generally Accepted Accounting Practice, IFRS7 (AC 144) Financial Instruments: Disclosure:
 - a) the classification of financial assets and liabilities into the required categories.
 - b) the maximum exposure to credit risk on trade and other receivables
 - c) a reconciliation of movements in the provisions for credit losses
 - d) a comparison of the carrying amount and fair value for each class of financial asset and liabilities
 - e) the methods and assumptions applied for valuing financial assets and liabilities
 - f) for each type of risk arising from financial instruments, quantitative data about its exposure to that risk.
 - g) a sensitivity analysis for each type of market risk to which the Fund is exposed.

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Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

Disclaimer of opinion

10. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Basis of accounting

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

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements.

Non-compliance with applicable legislation Public Finance Management Act

12. The nature and magnitude of the matters disclosed in the management report indicate that effective, efficient and transparent functioning systems of financial and risk management and internal control, as required by section 53(1)(a)(ii) of the PFMA, did not exist during the year under review.

Compensation for Occupational Injuries and Diseases Act

13. As reported previously, the Fund did not make payments during the year under review of merit rebates to employers with good claims history as envisaged in section 83(5) of the COIDA Act. A provision totalling R578,7 million, already classified as a current liability at the conclusion of the 2006 and 2007 financial years has not yet been paid to qualifying employers. Based on past practice and industry norms, the Fund has a constructive liability to pay merit rebates to qualifying employers, and is therefore non-compliant with the COIDA Act.

National Treasury Regulations

14. In terms of Section 31.1.1 of the National Treasury Regulations, bank reconciliations must be completed at least on a weekly basis and must be reviewed, by an independent senior official. The Fund did prepare bank account reconciliations for its main bank accounts on a weekly basis during the year under review.

Governance framework

15. 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 the executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

16. Section 51(1)(a)(i) of the PFMA states that the accounting authority must ensure that the Fund has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be

Compensation Fund

Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	Root causes				
		CE	RA	CA	IC	M
4	Accuracy of revenue contributions and valuation of assessment debtors	1, 2, 5, 7	1, 5	4, 5	1, 2	1, 3
5	Bank reconciliation suspense accounts not cleared	1, 2, 5, 7	1, 5	4, 5	1, 2, 3	1, 3
6	Completeness, accuracy and occurrence of claims incurred	1, 2, 5, 7	1, 5	4, 5, 6	1, 2	1, 3
7	Completeness, accuracy and valuation of creditors	1, 2, 5, 7	1, 5	4, 5, 6	1, 2	1, 3
8	Completeness, accuracy and valuation of property, plant and equipment	1, 2, 5, 7	1, 5	4, 5	1, 2	1, 3
9	IFRS 7 disclosures not made	1, 2, 5, 7	1, 5	4, 5	1, 2	1, 3

17. The number of disclaimers of opinions are characterised by the inadequate organisational structure resulting in significant risk not being identified to enhance the achievement of financial reporting objectives. The accounting authority does not exercise oversight responsibility over financial reporting and internal control. The entity does not have individuals competent in financial reporting and related matters. Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of the internal control over financial reporting.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2

Compensation Fund

Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communication does not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

18. 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 in 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 Fund 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 27.1.8		√

Compensation Fund

Report of the Auditor-General to Parliament on the Financial Statements and Performance Information of the Compensation Fund for the year ended 31 March 2009

7.	Internal audit		
	• The Fund 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 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.	Delegations of responsibilities are in place, 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 resolutions have been substantially implemented.		√
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 Fund against its mandate, predetermined objectives, outputs, indicators and targets Treasury Regulations 5.1, 5.2 and 6.1	√	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	√	

19. Significant deficiencies were noted in the design and implementation of internal control in respect of financial and risk management; this resulted in prior year audit findings and SCOPA resolutions not being substantially implemented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

20. I have reviewed the performance information as set out on pages 16 to 42.

The accounting authority's responsibility for the performance information

21. 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

22. 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.

23. 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.
24. 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

Usefulness and reliability of reported performance information

25. The following criteria were used to assess the usefulness and reliability of the information on the Fund's performance with respect to the objectives in its strategic plan:
- Consistency: Has the Fund 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:

Reported performance information not relevant

26. The following targets with regard to the improving turnaround time were not:
- specific in clearly identifying the nature and the required level of performance; and
 - measurable in identifying the required performance.

Measure/indicator per output	Target per output	Finding
Regional Medical Advisory Panels in compliance with the legislation, and in place by end March 2009.	100% implementation by March 2009.	The measurement of this objective may not be possible. Furthermore the indicator is not well defined.
All payments must be on Electronic Funds Transfer Payment in place by end of June 2009.	100% implementation by June 2009.	This objective will only be achieved after year end and falls outside the period of the financial year end of the Fund. Thus it will not be possible to measure the target.
Decentralised claims management processes to at least 4 provinces by end December 2008.	100% implementation by December 2008.	The measurement of this objective may not be possible. Furthermore the indicator is not well defined.

APPRECIATION

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

Auditor - General

Pretoria

2 August 2009



Approval of Financial Statements

I hereby acknowledge that the annual financial statements of the Department of Labour: Compensation Fund, have been submitted to the Auditor-General for auditing in terms of the PFMA.

I acknowledge my responsibility for the accuracy of the accounting records and the fair presentation of the financial statements and confirm, to the best of my knowledge and belief, the following:

1. The financial statements have been prepared in accordance with GRAP as prescribed in the treasury Regulation and the PFMA and relevant guidelines specified/issued by the National Treasury.
2. The annual report is complete and accurate.
3. All amounts appearing on the annual report and information in the annual report are consistent with the financial statements submitted to the Auditor-General for audit purposes.
4. The annual report is free of any omissions.

Yours faithfully



Acting Director-General
Date: 31/07/2009

Compensation Fund

Statement of Financial Position for the year ended 31 March 2009

		2008/09	2007/08
Assets	Notes	R'000	R'000
Non-current assets		15 757 889	12 342 397
Property plant and equipment	10	127 112	128 777
Investments	11	15 630 777	12 213 620
Current assets		5 805 965	5 960 666
Investments	11	4 328 558	4 441 805
Trade and other receivables from exchange transactions	12	818 461	923 738
Accrued interest		3 451	5 125
Cash and cash equivalents	17	655 495	589 998
Total assets		21 563 854	18 303 063
Funds and liabilities			
Non-current liabilities		12 379 687	11 560 573
Provision for outstanding claims	13	2 761 000	1 863 000
Capitalised value of pensions	14	9 604 000	8 838 000
Provisions and accruals	15	14 687	859 573
Accumulated funds		6 532 805	5 385 924
Current liabilities		2 651 362	1 356 566
Provisions and accruals	15	848 838	4 220
Provision for outstanding claims	13	1 512 000	1 171 000
Trade and other payables from exchange transactions	16	290 524	181 346
Total funds and liabilities		21 563 854	18 303 063

Compensation Fund

Statement of Financial Performance for the year ended 31 March 2009

		2008/09	2007/08
	Notes	R'000	R'000
Revenue		4 534 948	3 905 632
Revenue contributions	2	4 513 720	3 889 963
Other income	3	21 228	15 669
Benefits paid		(3 196 972)	(1 573 738)
Claims incurred	4	(2 929 473)	(1 298 419)
Actuarially calculated capitalised value of pensions	5	(267 499)	(275 319)
Income before administrative expenses		1 337 975	2 331 894
Administrative expenses		(433 565)	(401 430)
Surplus from operations	6	904 410	1 930 464
Increase in calculated value of pensions	14	(1 024 572)	(2 544 474)
Increase in provision for credit losses	7	(781 725)	(1 097 994)
Increase in provision for merit rebates	15	-	(204 776)
Unexplained net charge on investments and cash and cash equivalents		-	(147 451)
Deficit before investment income		(901 886)	(2 064 231)
Investment income	8	2 073 004	1 349 815
Surplus / (deficit) for the year	9	1 171 118	(714 416)

Compensation Fund

Statement of Changes in Net Assets for the year ended 31 March 2009

Nature of transactions	Compensation R'000	Revaluation reserve R'000	Pension reserve R'000	Total R'000
Opening balance on 1 April 2007	4 589 550	78 106	1 388 844	6 056 500
Unclaimed moneys transferred to reserves	26 192		-	26 192
Increase of assets revalued		17 646		17 646
Deficit for the year	(714 415)	-	-	(714 415)
Capitalised value of pensions transferred from pension reserve	2 544 474	-	(2 544 474)	-
Investment income transferred to pension reserve	(610 999)	-	610 999	-
Shortfall transferred from compensation reserve	(544 630)	-	544 630	-
Closing balance 31 March 2008	5 290 171	95 752	-	5 385 923

	R'000	R'000	R'000	R'000
Opening balance on 1 April 2008	5 290 171	95 752	-	5 385 923
Unclaimed moneys transferred to compensation reserves	(25 368)	-	-	(25 368)
Capitalised value of pensions transferred from Pension reserve	1 024 572	-	(1 024 572)	-
Investment income transferred to Pension reserve	(983 712)	-	983 712	-
Shortfall transferred from compensation reserve	(40 860)	-	40 860	-
Increase of assets revalued	-	1 132	-	1 132
Surplus for the year	1 171 118	-	-	1 171 118
Closing balance 31 March 2009	6 435 921	96 884	-	6 532 805

Compensation Fund

Cash Flow Statement for the year ended 31 March 2009

		2008/09	2007/08
		R'000	R'000
Cash flow from operating activities	Notes	3 629 913	2 154 921
Cash generated by operating activities	17	1 946 830	756 517
Contributions received		4 640 225	3 138 105
Cash payments in respect of claims, employees and other expenditure		(2 693 396)	(2 381 588)
Investment income		1 683 081	1 398 403
Dividends received		22 427	22
Interest received		1 666 450	1 403 147
Interest paid		(47)	-
Investment management fees		(5 749)	(4 766)
Cash flow from investing activities		(3 305 844)	(1 579 954)
Revaluation of assets		1 132	(17 110)
Purchases of property and equipment		(3 064)	(1 052)
Increase in investments		(3 303 912)	(1 561 792)
Cash flow from financing activities		(258 572)	(273 474)
(Decrease)/increase in pensions		(258 572)	(273 474)
Increase in cash and cash equivalents		65 497	301 492
Cash and cash equivalents at beginning of year		589 998	288 505
Cash and cash equivalents at end of year	18	655 495	589 998

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

1. Accounting Policies

The financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of land and buildings, financial assets and financial liabilities at fair value through profit and loss, which are carried at fair value. The policies as set out below have been consistently applied to all the years presented.

Presentation of the Financial Statements

1.1 Basis of preparation

The Financial Statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement as follows:

Standard of GRAP

GRAP 1: Presentation of Financial Statements
GRAP 2: Cash Flow Statements
GRAP 3: Accounting policies, changes in accounting estimates and errors

Replaced Statement of GAAP

AC101: Presentation of Financial Statements
AC118: Cash flow statements
AC103: Accounting policies, changes in accounting estimates and errors

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

Terminology differences:

Standard of GRAP

Statement of Comprehensive Income Performance
Statement of financial position
Statement of changes in net assets
Net assets
Surplus/deficit for the period
Accumulated surplus/deficit
Contributions from owners
Distributions to owners
Reporting date

Replaced Statement of SA GAAP

Income statement
Balance sheet
Statement of changes in equity
Equity
Profit/loss for the period
Retained earnings
Share capital
Dividends
Balance sheet date

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

- a The Cash Flow Statement can only be prepared in accordance with the direct method.
- b Specific information such as:
 - (1) Receivables from non-exchange transactions, including taxes and transfers
 - (2) Taxes and transfers payable
 - (3) Trade and other payables from non-exchange transactions must be presented separately on the Statement of Financial Position.
- c . The amount and nature of any restrictions on cash balances is required to be disclosed
- d Paragraph 11 – 15 of GRAP 1 has 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 Financial Statements, non-disclosure will not affect fair presentation.

1.2 Presentation currency

All amounts have been presented in the currency of the South African Rand (ZAR), which is also the functional currency of the Fund.

1.3 Rounding

Unless otherwise stated, all financial figures have been rounded to the nearest One Thousand Rand (R'000).

1.4 Critical accounting estimates and judgements

The preparation of the Financial Statements in conformity with SA GAAP requires the use of certain critical accounting estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, rarely equate the related equal results. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements, are disclosed below:

1.4.1 Impairment of trade and other receivables

The entity follows the guidance of IAS 39(AC133): Financial Instruments: Recognition and Measurements, to determine when trade and other receivable are impaired. This determination requires significant judgement. In making this judgement, the entity evaluates, among other factors, significant financial difficulties for the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, debtors whose outstanding interest are 'in duplum' and default or delinquency in payments. The Compensation Commissioner may write off trade and other receivables if in his option they cannot be recovered (section 4(1) (m)). When a trade receivable is uncollectible it is referred to the Compensation Commissioner for write-off. If the Compensation Commissioner agrees to the write-offs it is then written-off in the Statement of Financial Performance.

1.5 Recognition of revenue contributions

Revenue contributions are recognised on the accrual basis of accounting at the fair value of the consideration receivable and consist mainly of assessments issued to registered employers in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 Of 1993) .

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

1.6 Claims incurred

Claims incurred comprise the total estimated cost of claims that have occurred in the year and for which the Fund is responsible, whether or not reported by the end of the year. Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation. The Fund does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are calculated based on an estimated average cost per claim for each underwriting year. The incurred but not reported claims ("IBNR") are based on estimated unreported claims. The average cost per claim is based on the actual claims paid and awards made, and estimated outstanding costs (based on the latest and most reliable information available), and the number of claims registered.

1.7 Employee benefits

The Fund is liable for benefits, to which the employees become entitled to at death, retirement or medical boarding. These benefits include accumulated leave, service and performance (merit) bonuses and service bonus (13th cheque). The Fund accounts for employee benefits on an accrual basis.

1.8 Liability adequacy test in respect of claims and benefits

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future cash flows and administration expenses, as well as investment income, are used. Any deficiency is included in the surplus for the year. This is done based on actuarial valuations.

1.9 Capitalised value of pensions

Pensions are paid to claimants with disabilities and widows and children of deceased claimants from work-related accidents. The capitalised value of pensions ("CVP") is the present value of future liabilities. The liability is based on assumptions as to future pension increases, mortality, management expenses and investment income, which are reviewed by management on an annual basis for reasonableness. This liability is recalculated at each reporting date, using the assumptions above. Independent actuarial valuations of the CVP are carried out annually and adjusted for any changes in the assumptions. Adjustments to the CVP are included in the surplus for the year.

1.10 Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

1.11 Provision for credit losses

Financial assets carried at amortised costs are assessed for impairment at each reporting date. A financial asset is impaired if its carrying value is greater than its estimated recoverable amount. When the asset is not collectable, it is written off in the Statement of Financial Performance. Subsequent recoveries are credited to the Statement of Financial Performance in the period in which it occurred. Assessments are written off based on recommendations by inspectors of the Department of Labour or the appointed private debt collector. If the amount of the impairment subsequently decreases due to an event occurring after the initial impairment, the reversal is reflected in the Statement of Financial Performance in the period in which it occurred. The Fund creates impairment when there is objective evidence that it will not be able to collect all amounts due.

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

The amount of such impairment is the difference between the carrying amount and the recoverable amount.

1.12 Property and equipment

Land and buildings comprise mainly offices. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property and equipment is stated at historical cost less depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in accumulated funds. Decreases that offset previous increases of the same asset are charged against other reserves directly in accumulated funds all other decreases are charged to the Statement of Financial Performance. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Financial Performance and depreciation based on the asset's original cost is transferred from revaluation reserves to accumulated funds.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	50 years
Vehicles	5 years
Furniture and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Financial Performance.

When revalued assets are sold, the amounts included in revaluation reserves are transferred to accumulated funds.

1.13 Recognition of investment income

Interest income is recognised on a time proportion basis, by reference to the nominal value and the effective interest rate over the period to maturity. Dividend income is recognised when the shareholders' rights to receive payment have been established. Realised and unrealised gains and losses arising from changes in the fair value of instruments traded in an active market are included in the Statement of Financial Performance in the period in which they arise.

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

1.14 Financial instruments

1.14.1 Financial assets

The Fund's financial assets can be split into two categories – investments and trade and other receivables from exchange transactions.

1.14.2 Investments

Investments are classified as "held-for-trading" or "originated by entity" financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this at each reporting date. Investments held with the Public Investment Corporation (PIC) are classified according to the directives of the PIC. Short term investments are other short term highly liquid investments and comprise money market unit trusts. These investments are classified as "Deposits originated by the entity" or "bills and securities originated by the entity" and are disclosed under investments in the Statement of Financial Position.

1.14.3 Held-for-trading assets

Recognition and measurement

A financial asset is classified as held-for-trading if acquired principally for the purpose of settling in the short-term and comprise equity and debt security.

These investments are initially recognised at cost, including transaction costs, and are subsequently carried at fair value. The fair values of quoted equities are based on current bid prices and quoted bonds are based on market value. Unrealised gains and losses arising from changes in the fair value are recognised in the Statement of Financial Performance. When these investments are sold or impaired, the fair value adjustments are included in the Statement of Financial Performance as net realised gains / losses on financial assets.

1.14.4 Originated by entity assets

Recognition and measurement

Originated by entity assets 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. Originated by entity assets are classified as "Deposits originated by the entity" and "Bills and securities originated by the entity" respectively and are disclosed as investments. These investments are initially recognised at cost, including transaction costs and subsequently carried at amortised cost using the effective interest method. Investments are derecognised when the rights to receive cash flows from investments have ceased or where they have been transferred and the Fund has also transferred substantially all risks and rewards of ownership.

The Fund assesses, at each reporting date, whether there is objective evidence that a receivable or group of receivables is impaired. Such receivables are impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the assets ("loss event") and that loss event/s has an impact on the estimated future cash flows of the asset, that can be reliably estimated. Objective evidence that such an asset(s) is impaired includes observable data that comes to the attention of the Fund.

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

The assets may be impaired individually or assessed as a group of assets. If there is objective evidence that an impairment loss has been incurred, and impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The carrying amount is reduced through an allowance account and the loss is recognised in the Statement of Financial Performance.

1.15 Trade and other receivables from exchange transactions

Trade and other receivables are presented net of allowance for credit losses, estimated by the Fund's management based on prior experience and the current environment. The credit risk with respect to accounts receivable is limited due to the large number of employers and their dispensation across different industries and geographical areas.

1.16 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities consist of trade and other payables from exchange transactions and are stated at their nominal value.

1.17 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits held at call with banks, which includes petty cash and the operational bank account.

1.18 Offsetting financial instruments

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

1.19 Management of risk

The Fund is exposed to financial risk through its financial assets and liabilities. The main components of financial risk are :

- **Interest rate risk**

The Fund holds more than 50% of its financial assets in debt securities (Government bonds and Public Utility Bonds) and substantial investments in cash and cash equivalents and money market unit trusts. The return on these instruments, and the market value of debts securities are affected by fluctuations in interest rates.

Excluding the movement in the pensions liability and rebates provision, which is discretionary, the Fund currently covers all claims and benefits from operational cash, and therefore is not dependent on investment income to sustain its operations. The pensions liability is actuarially valued on an annual basis, which is impacted by the future anticipated interest return. Changes in interest rates are managed on behalf of the Fund by the PIC.

- **Credit risk**

The Fund has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Their key area of exposure is amounts due from employers. Assessments raised are distributed nationally across varying employers in terms of an industrial classification approved by the Director-General as supported by the Compensation for Occupational Injuries and Diseases Act,

Compensation Fund

Summary of significant Account Policies for the year ended 31 March 2009

(Act no. 130 of 1993).

- **Liquidity risk**

The Fund is exposed to a daily call on its available cash resources, mainly from short term claims. Liquidity risk is the risk that cash resources are not available to pay claims when due. The Fund ensures that adequate levels of cash are available immediately without incurring penalties.

- **Equity price risk**

This is the risk that the Fund will not realise the value of its equity securities, which may impact the Fund's ability to meet liabilities. The Fund manages this risk by investing in low-risk / no-risk instruments.

1.20 Provisions

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

1.21.1 Leave pay, performance bonus and service bonus

Employees' entitlement to annual leave is recognised when it accrues to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

1.21.2 Rebates

Rebates are paid to employers with low claims experiences, specifically to recognise and reward health and safety. Rebates are paid on a three-year period. The amount paid is based primarily on the employers claims experience in respect of that underwriting year. In each underwriting year a provision for rebates, to be paid in three years, is made. The provision is calculated after deducting claims incurred and provided, third party claims lodged, 25% admin fee and nett assessments written-off or re-instated from the nett assessment income raised in the current year. The annual provision is limited to available reserves. The provisions will be pro-rated per year and will be based on actuarial evaluation.

1.22 Related party transactions

Related parties are departments that control or significantly influence entities in making financial and operating decisions. Specific information with regard to related party transactions is included in the Disclosure Notes.

1.23 Key management personnel

Key management personnel are those people who have the authority and responsibility for planning, directing and controlling the activities of the Compensation Fund. Compensation paid to key management personnel, including their family members, where relevant, is included in the Disclosure Notes.

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

	2008/09	2007/08
	R'000	R'000
Note 2 Revenue contributions		
Contributions by employers	4 035 398	3 556 263
Interest and penalties on the late payment of contributions	478 322	333 699
	4 513 720	3 889 962
Note 3 Other incomes		
Administrative contribution by employers (section 88)	21 211	2 219
Miscellaneous revenue	17	13 450
	21 228	15 669
Note 4 Claims Incurred		
Compensation for permanent disability	73 840	124 297
Compensation for temporary disability	91 434	105 941
Increase in provision for outstanding claims	1 239 000	(202 000)
Medical claims	1 540 340	1 287 188
Third party recoveries	(15 141)	(17 007)
	2 929 473	1 298 419
Note 5 Pensions capitalised during the year		
Pensions capitalised during the year	267 499	275 319
Opening balance 2008	(4 006 430)	(3 731 111)
Closing balance 2009	4 273 929	4 006 430

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 6	2008/09	2007/08
The following items have charged to in arriving at surplus / (deficit) for the year	R'000	R'000
Audit fees	6 371	4 688
Audit fees quality	5 843	4 688
Audit fees statutory	529	-
Credit losses	18 742	66 257
Written-off	19 133	67 914
Reinstated	(391)	(1 657)
Compensation related expenses	4 997	6 060
Board Member fees (Note 6.1)	108	82
Depreciation	4 571	447
Building	2 281	-
Office furniture and equipment	2 067	63
Motor vehicles	223	384
Fees for professional services	19 772	7 994
Operating lease payments	12 955	12 342
Buildings	11 118	10 733
Office equipment	1 837	1 609
Reimbursement to government departments	82 485	59 534
Repairs and maintenance of property and equipment	3 116	2 597
Staff cost	131 051	148 643
Remuneration	104 583	140 162
Executive remuneration excluding Director-General (Note 6.2)	2 644	2 323
Contributions to define contribution plan	23 824	6 158
Subsidies for accident prevention	2 444	1 148
Service fee towards public private partnership	74 072	54 258
Note 6.1 Board Member fees		
Fees and travel expenses	108	82

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 6.2 Executive Remuneration

Details	2008/09				
	Basic salary	Related payments	Allowances	Medical aid	Total
	R'000	R'000	R'000	R'000	R'000
Acting Director - General	470	39	245	-	754
Paid by the Department of Labour	470	39	245	-	754
Paid by the Fund	1 655	95	890	4	2 644
Compensation Commissioner	498	39	205	-	742
Chief Medical Officer	368	29	304	-	701
Executive Manager: Projects	354	-	208	-	562
Executive Manager: Claims	165	27	69	-	261
Executive Manager Finance	165	-	77	1	242
Executive Manager Income	31	-	22	-	53
Executive Manager Human Resources	30	-	2	-	32
Executive Manager Organisational Effectives	21	-	1	4	26
Principal Legal Administration Officer	24	-	3	-	27
Grand Total	2 125	134	1 135	4	3 398

Details	2007/08				
	Basic Salary	Related Payments	Allowances	Medical aid	Total
	R'000	R'000	R'000	R'000	R'000
Acting Director - General	470	39	245	-	754
Paid by the Department of Labour	470	39	245	-	754
Paid by the Fund	1 532	121	671	-	2 324
Compensation Commissioner	462	39	189	-	691
Chief of Operations	87	0	51	-	139
Business Executive	329	27	154	-	511
Chief Financial Officer	329	27	134	-	490
Chief Information Office	324	27	142	-	493
Grand total	2 002	160	916	-	3 078

Related party transactions

All national departments of Government and State-controlled entities are regarded as related parties in accordance with Circular 4 of 2005: Guidance on the term 'State-controlled entities' in the context of IAS 24 (AC 126) - Related Parties, issued by the South African Institute of Chartered Accountants. The Fund is a public entity of the Department of Labour. Salaries of the Commissioner, and the officers and employees are remunerated out of the National Revenue Fund, which is reimbursed out of the Fund for the expenditure concerned in terms of section 2 of the Compensation for Occupational Injuries and Diseases Act (COIDA). Expenditure in respect of COIDA related services rendered to the Fund by provincial offices and labour centres of the Department are also reimbursed to the Department. The following transactions and balances were recorded relating to transactions with related parties as defined.

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

	2008/09	2007/08
	R'000	R'000
Purchases of goods and services		
Salaries and related benefits of employees to Department of Labour	131 051	148 643
Services rendered by provincial offices and labour centres to Department of Labour	82 485	59 534
Service fee towards public private partnership to Department of Labour	74 072	54 258
Year-end balances		
Medical expenditure in respect of injured employees of national departments are recovered from the Department of Labour	372	372

The Unemployment Insurance Fund is also an entity of the Department of Labour and the employers registered with the Compensation Fund is also registered with the Unemployment Insurance Fund. There are however no related transactions between the two Funds.

Note 7 Increase in provision for credit losses

Assessment debtors	776 059	1 052 021
Third party recoveries	21 819	14 286
Other receivables	(16 153)	31 687
	781 725	1 097 994

Assumptions: 7.1

The methodology used to calculate the provision is aged based. The method requires the outstanding accounts receivable to be aged and then the future recoveries to be estimated for each balance. The payments and write-offs were allocated to the earliest outstanding balance, on a first-in-first-out basis. Once an assessment had been paid in full or written off, it is deemed finalised and further payments are then allocated to the next assessment.

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

	2008/09	2007/08
	R'000	R'000
Note 8 Net investment income		
Compensation	1 089 339	741 456
Interest received	916 444	750 289
Dividend income	9 070	22
(Loss)/profit on disposal of investments	(42)	(17)
Investment management fees	(2 710)	(2 124)
Fair value gains	166 577	(6 714)
Pensions	983 712	608 358
Interest received	750 006	652 858
Fair value gained	223 388	(41 858)
Dividend income	13 357	-
Investment management fees	(3 039)	(2 642)
Finance cost	(47)	-
	2 073 004	1 349 814

Note 9 Taxation

The Fund is exempted from normal income tax in terms of section 21 of the Compensation for Occupational Injuries and Diseases Act, 1993. (Act No 130 of 1993).

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 10	Buildings	Land	Motor vehicles	Furniture and equipment	Total
Property Plant and Equipment	R'000	R'000	R'000	R'000	R'000
Narration					
Year ended 31 March 2009					
Opening carrying value	113 690	10 560	873	3 654	128 777
Additions	-	-	-	3 064	3 064
Disposals	-	-	(158)	-	(158)
Revaluation Increase/(Decrease)	-	-	-	-	-
Depreciation charges	(2 281)		(223)	(2 067)	(4 571)
Closing carrying value	111 409	10 560	492	4 651	127 112
At 31 March 2009					
Cost	113 690	10 560	2 334	12 194	138 778
Accumulated depreciation	(2 281)		(1 842)	(7 543)	(11 666)
Carrying amount	111 409	10 560	492	4 651	127 112
Property Plant and Equipment					
Narration					
Year ended 31 March 2008					
Opening carrying value	98 569	8 571	1 256	2 665	111 061
Additions	-	-	-	1 052	1 052
Disposals	-	-	-	-	-
Revaluation Increase/(Decrease)	15 121	1 989	-	-	17 110
Depreciation charges	-	-	(383)	(63)	(446)
Closing carrying value	113 690	10 560	873	3 654	128 777
At 31 March 2008					
Cost	113 690	10 560	2 769	9 130	136 149
Accumulated depreciation	-	-	(1 896)	(5 476)	(7 372)
Carrying amount	113 690	10 560	873	3 654	128 777

Land and buildings

Land and buildings were valued as at 31 March 2008 by independent valuers on an open market basis and revaluation surplus is included in the Statement of Changes in Net Assets.

Buildings comprise

Compensation House on Lot 70, 66/R, Prinshof, No 349, JR, Pretoria (Market value - R110 million. Building on remainder of Lot no. 252, Phalo Road, Bisho. (Market value - R3,69 million)

Computer equipment included in Public Private Partnership (PPP) Contract

Financial lease agreement methodology applied on PPP contract implied that all computer equipment are accounted for in the Department of Labour's asset register at fair value at the end of the reporting year. All computer equipment of the Fund included in the PPP contract were taken out of the asset register of the Fund and transferred to the asset register of the Department of Labour.

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 11	2008/09			2007/08		
	Compensation	Pension	Total	Compensation	Pension	Total
Investments	R'000	R'000	R'000	R'000	R'000	R'000
Summary						
Bonds - Held for trading	6 155 088	8 531 405	14 686 493	5 116 963	7 096 657	12 213 620
Opening balance	5 116 963	7 096 657	12 213 620	4 036 935	6 409 644	10 446 579
Additions	2 480 530	2 428 469	4 908 999	2 164 391	2 229 581	4 393 972
Disposals	(1 840 409)	(1 428 234)	(3 268 643)	(875 799)	(1 390 465)	(2 266 264)
Movement in accrued interest	19 381	23 459	42 840	-	-	-
Fair value adjustment	378 623	411 054	789 677	(208 564)	(152 103)	(360 667)
Equities - Held for trading	224 187	331 199	555 386	303 410	453 613	757 023
Opening balance	303 410	453 613	757 023	289 157	417 209	706 366
Additions	100 503	136 206	236 709	152 382	82 643	235 025
Disposals	(113 399)	(155 366)	(268 765)	(124 059)	(64 806)	(188 865)
Fair value adjustment	(66 327)	(103 254)	(169 581)	(14 070)	18 567	4 497
Property - Held for trading	2 845	4 201	7 047	-	-	-
Opening balance	-	-	-	-	-	-
Additions	3 373	4 980	8 354	-	-	-
Disposals	(45)	(66)	(111)	-	-	-
Fair value adjustment	(483)	(713)	(1 196)	-	-	-
Deposits originated by the entity	3 042 502	1 667 907	4 710 409	2 483 003	1 201 779	3 684 782
Opening net book amount	2 483 003	1 201 779	3 684 782	2 814 372	1 174 905	3 989 277
Additions	3 679 287	2 213 811	5 893 098	4 095 784	1 435 000	5 530 784
Matured	-	-	-	(3 869 193)	(966 482)	(4 835 675)
Accrued interest	57 831	45 042	102 873	-	-	-
Fair value adjustment	4 334	1 403	5 737	108 167	71 380	179 547
Disposals	(3 290 727)	(1 816 089)	(5 106 816)	(666 127)	(513 024)	(1 179 151)
Cash movements	108 774	21 961	130 735	-	-	-
At end of year	9 424 622	10 534 713	19 959 335	7 903 376	8 752 049	16 655 425
Current investments	2 829 169	1 499 389	4 328 558	2 786 413	1 655 392	4 441 805
Non - current investments	6 595 453	9 035 324	15 630 777	5 116 963	7 096 657	12 213 620

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Contractual maturity schedule

Cash movements	0 to 3 months	3 to 12 months	1 to 3 years	3 to 7 years	7 to 12 years	12 years +	No maturity date	Total
Compensation								
Money Market	758 096	1 880 589	-	-	-	-	-	2 638 685
Capital Market		8 084	336 547	2 465 279	2 406 622	1 165 667	-	6 382 199
Derivatives	5 695	-	-	-	-	-	-	5 695
Equities	-	-	-	-	-	-	218 492	218 492
Property	-	-	-	-	-	-	2 846	2 846
Trading Cash	176 705	-	-	-	-	-	-	176 705
	940 496	1 888 673	336 547	2 465 279	2 406 622	1 165 667	221 338	9 424 622
Compensation non and current investment								
Pension								
Money Market	343 388	944 648	-	-	-	-	-	1 288 036
Capital Market	20 233	5 659	306 496	3 158 125	2 275 954	2 968 456	-	8 734 923
Derivatives	9 107	-	-	-	-	-	-	9 107
Equities	-	-	-	-	-	-	322 092	322 092
Property	-	-	-	-	-	-	4 201	4 201
Trading Cash	176 354	-	-	-	-	-	-	176 354
	549 082	950 307	306 496	3 158 125	2 275 954	2 968 456	326 293	10 534 713
Total at end of the year 2009	1 489 578	2 838 980	643 043	5 623 404	4 682 576	4 134 123	547 631	19 959 335

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 12

Trade and other receivables from exchange transactions	2008/09	2007/08
	R'000	R'000
Assessments raised	794 840	906 671
Outstanding balances	4 165 897	3 501 669
Provision for credit losses	(3 371 057)	(2 594 998)
Third party claims	2 053	9 150
Outstanding balance	90 874	76 151
Provision for credit losses	(88 821)	(67 001)
Other receivables	(21 568)	7 917
Advances	602	4 267
Recoverable medical expenses	785	372
Other receivables	50 421	49 671
Provision for credit losses	(30 240)	(46 393)
Total trade and other receivables	818 461	923 738

Note 13

Provision for outstanding claims

Actuarially calculated opening balance	3 034 000	3 236 000
Transfer from Income Statement	1 204 000	(202 000)
Actuarially calculated closing balance	4 273 000	3 034 000
Transfer to current liabilities	(1 512 000)	(1 171 000)
Total provision for outstanding claims	2 761 000	1 863 000

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Actuarial assumptions

In order to estimate the compensation claims liability, claims paid in each of the previous 10 financial years are grouped into a table according to the year of accident or diagnosis of disease (accident year) and the number of years until a payment is made (development year).

Using these claim payments, "development factors" are derived. These development factors must then be adjusted to allow for the recent increase in annual claim payments. The adjustments are necessary since there are still uncertainty as to whether such large annual claim payments will continue in future, and therefore, as in the last two financial years it may be too conservative.

Specific assumption criteria:

Compensation claims

- Future inflation of claims paid was assumed to be 7.9% per annum (previously 6.1% per annum)
- No discounting was applied to future compensation claims estimates
- A contingency reserve equal to 25% was applied

Medical claims

- Future medical claims inflation was assumed to be 10% per annum
- No discounting was applied to future medical claims estimates.

The adjusted factors, together with an allowance for expected future claims inflation, are then used to project the likely occurrence of future claim payments.

Note 14	2008/09	2007/08
Capitalised value pensions	R'000	R'000
Actuarially calculated opening balance	8 838 001	6 567 000
Increase in capitalised value of pensions	(258 572)	(273 473)
Pensions capitalised during the year	267 499	275 319
Payments and adjustments	(526 071)	(548 792)
Actuarial adjustment note 13(a)	1 024 572	2 544 474
Actuarial closing balance	9 604 000	8 838 001

Capitalised value pensions

Independent actuarial valuations of the capitalised value of pensions (CVP) liability are carried out every year. The most recent valuation was done at 31 March 2009. The principal actuarial assumptions utilised in the calculation of the liability are as follows:

Pensions liability assumptions

	2008/09	2007/08
Investment return	8.69%	9.37%
Annual pension increases	4.73%	5.21%
Real discount rate	3.78%	3.95%

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

The effect on the pension liabilities of a change in the main valuation assumptions, compared with the main valuation results can be summarised as follows:

	2008/09	2007/08
	R'000	R'000
Main valuation liability	7 608	6 683
Contingency for possible adverse experience variations	2 525	2 147
Expense margin	10	8

We assumed that, on average, a husband will be five years older than his wife. It is also assumed that 90% of pensioners are married.

In the case of pensioners, other dependants and spouses, it was assumed that pensions would be payable for life. In addition, it was assumed that 30% of pensioners would die as a result of a qualifying injury or disease resulting in contingent dependants' liability.

The spouse's reversion has been set at 75%, which is based on an average percentage disability of worker pensioners of 65% and includes an allowance for pensions payable to eligible children.

In the case of children, a date on which the pension is expected to cease is provided. Each child pension is then valued as an annuity certain (i.e. no allowance is made for child mortality) until that date. Furthermore we assume that 15% of the children provided will have their pensions extended for 5 years to age 23.

It is important to note that, other than the mortality assumptions and the change in the spouse's reversion from 50% to 75%, these are the same assumptions as those used in the valuation of the Fund as at 31 March 2008.

The mortality of people in receipt of pensions payable is assumed to be in accordance with the SA 79/ 81 mortality tables, with the age taken as 3 years more than the actual age.

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 15 Provisions and accruals	2008/09	2007/08
Note 15.1 Provision for merit rebates	R'000	R'000
Opening balance - non-current	844 259	60 998
Movement	113	-
Included in the surplus for the year	-	204 776
Transfer to/from current	(844 372)	578 485
Closing balance - non-current	-	844 259
Opening balance - current	-	578 733
Utilised during the year	-	(248)
Transfer from non-current/ to non-current	844 372	(578 485)
Closing balance - current	844 372	-
Note 15.2 Employee benefits accruals		
Accumulated leave		
Opening balance - non-current	15 314	13 510
Included in the surplus for the year	(627)	1 804
Closing balance - non-current	14 687	15 341
Service bonus		
Opening balance - current	4 220	3 753
Included in the surplus for the year	246	467
Closing balance - current	4 466	4 220
Note 15 Total		
Closing balance- non current	14 687	859 573
Closing balance- current	848 838	4 220
Note 16		
Trade and other payables from exchange transactions		
Debtors with credit balances	183 552	115 811
Other payables	170 587	61 855
Suspense accounts	(86 434)	-
Procurement creditors	22 820	3 680
	290 524	181 346

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

	2008/09	2007/08
Note 17 Reconciliation of cash generated by activities	R'000	R'000
Surplus for the year	1 171 118	(714 416)
Adjusted for:	559 965	1 241 453
Provision for unreported claims	1 239 000	(202 000)
Increase for provision for merit rebates	113	204 509
Investment income	(1 683 081)	(1 349 815)
Transfer to unclaimed moneys	(25 368)	26 192
Fair value adjustment on investments	-	17 646
Actuarial adjustment	1 024 572	2 544 474
Depreciation	4 571	447
Loss on motor vehicles written off	158	-
Operating surplus before working capital changes	1 731 082	527 037
Working capital changes	215 748	229 480
Decrease in receivables	105 277	264 210
Increase/(decrease) in accruals for accumulated leave and service bonus	382	2 290
Increase/(decrease) in payables	109 178	(33 382)
(Increase)/decrease in accrued interest	1 674	(3 638)
Cash generated by operating activities	1 946 830	756 517

Compensation Fund

Explanatory Notes to the Financial Statements for the year ended 31 March 2009

Note 18 Cash and Cash Equivalents	2008/09 R'000	2007/08 R'000
Cash and cash equivalents consist of cash on hand and bank balances.		
Cash and cash equivalents comprise the following:		
Current accounts	81 289	44 419
Call accounts	394 574	381 945
Cash equivalent investments accounts	179 632	163 634
	655 495	589 998

Note 19 Lease Commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	13 464	12 357
Later than 1 year and not later than 5 years	15 631	13 464
Later than 5 years	-	-
	29 095	25 821

Note 20 Actuarial Valuation

Section 17(1) of the Act requires an actuarial valuation of the Fund at least every three years. The actuarial valuation as at 31 March 2009 has indicated that the Fund is in a sound financial position.

Note 21 Contingent Liabilities

Licences in terms of the S30 of COIDA to carry out the business of the Fund in certain industries have been issued by the Minister of Labour to two mutual associations (RMA and FEMA). These mutual associations must deposit securities with the Fund to cover its liabilities. Furthermore certain local authorities have been granted exemption from paying the annual Assessments and are liable to pay compensation to their injured employees in the workplace. In term of the S30 of the Act, these exempted employers are required to deposit with the Commissioner securities, which are equivalent top the capitalises pension to their employees.

If mutual associations or exempted employer fails to meet in full its liabilities, in terms of the Act the Accounting Authority may apply such securities to pay its liabilities, and the balance of the liabilities and future liabilities of the employer will have to be paid from the reserves. The securities thus controlled by the Fund amounts to 10.9 billion (2008: 10.7 billion).

The Fund has approximately 60 notices of motions and summons and as a result thereof is financially exposed to approximately R85.8 million (2008:46.2 million) excluding legal costs.