



ANNUAL REPORT 2005 – 2006





The Road Accident Fund (“the RAF”) is a juristic person established by an Act of Parliament, Road Accident Fund Act, 1996 (Act No. 56 of 1996) as amended (“RAF Act”). It commenced its operations on 1 May 1997 following the closure of the Multilateral Motor Vehicle Accident Fund established through the Motor Vehicle Accident Fund Act, 1989 (Act No. 93 of 1989).

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To pay compensation for loss or damage wrongfully caused by the driving of motor vehicles in accordance with the Road Accident Fund Act, 1996 (Act No. 56 of 1996) as amended (Section 3 of the Act).





1. Vision, Mission and Core Values



Vision

To be a world class administrator of the system of compensation defined in the Road Accident Fund Act, 1996 (Act No. 56 of 1996).

Mission

To administer the system of compensation defined in the Road Accident Fund Act, 1996 (Act No. 56 of 1996) in a manner that is timeous, cost effective and appropriately delivers on our mandate.

Core Values

- We exhibit the highest levels of integrity and honesty in everything we do
- We are fair, objective, consistent, transparent and accountable in our actions
- We build positive relationships with our stakeholders and engender mutual trust and respect
- We live the principles of good corporate governance
- We render the highest standard of service
- We treat accident victims with respect and dignity

2. Nature of Business

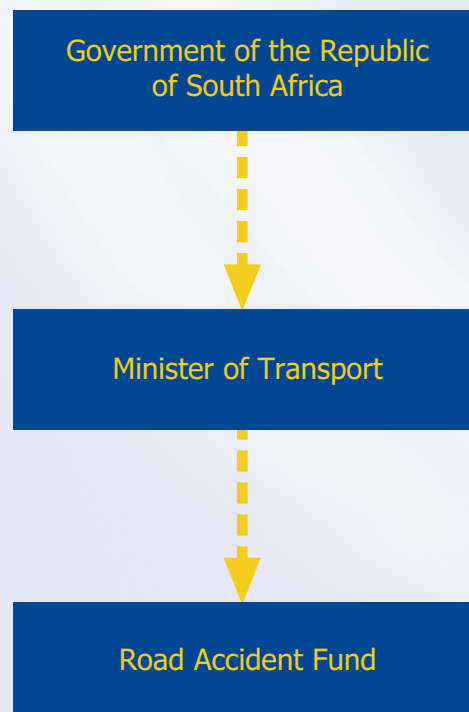
for the financial year ended 31 March 2006

2.1 Ownership structure

The Road Accident Fund ("the RAF") is a juristic person established by an Act of Parliament, Road Accident Fund Act, 1996 (Act No. 56 of 1996) as amended ("RAF Act"). It commenced its operations on 1 May 1997 following the closure of the Multilateral Motor Vehicle Accident Fund established through the Motor Vehicle Accident Fund Act, 1989 (Act No. 93 of 1989).

The Minister of Transport exercises an oversight role over the RAF on behalf of the Government of the Republic of South Africa.

The business of the RAF is conducted by the Board of Directors and the Chief Executive Officer appointed in terms of the RAF Act.



2.2 Mandate of the RAF

The RAF Act stipulates that its object shall be the payment of compensation in accordance with the RAF Act for loss or damage wrongfully caused by the driving of motor vehicles.

2.3 Liability of the RAF

2.3.1 Fault-based system

The system of compensation administered by the RAF is based on the establishment of fault. The RAF is only obliged, in terms of Section 17(1) of the RAF Act, to pay compensation if an injury or death is due to the negligence or other wrongful act of the driver or owner of a motor vehicle or of his or her employee in the performance of the employee's duties as an employee.

In establishing fault and liability, the common law rules of delict as developed and interpreted by the courts are applied.

2.3.2 Compensation for bodily injury only

The RAF pays compensation for loss or damage suffered as a result of bodily injury or death. It is not liable for any other losses or damages, such as damage to property (motor vehicles, goods conveyed in a vehicle, etc).

2.3.3 Accidents within South African borders

The RAF is liable for loss or damage caused by the driving of a motor vehicle at any place within the Republic of South Africa. It is not liable for losses or damage arising outside the borders of South Africa.

2.3.4 Losses and damages compensated

The compensation paid by the RAF, as determined by the RAF Act and the common law of delict, includes the following:

Special damages (pecuniary loss)

- Past and future hospital, medical and related expenses
- Past and future loss of earnings
- Past and future loss of support
- Funeral expenses

General damages (non-pecuniary loss)

- Loss of amenities of life, pain and suffering, disability and disfigurement.

2.3.5 Apportionment of damages

The amount of damages recoverable by a claimant can be reduced by the extent to which the claimant's fault contributed to his or her damages through the application of Section 1 and 2 of the Apportionment of Damages Act, 1956 (Act No. 34 of 1956).

2.3.6 Liability for legal expenses

The claimants are entitled, in terms of the RAF Act, to have their legal fees paid for by the RAF.

2.3.7 Exclusions of liability

The liability of the RAF for losses or damages is excluded, in terms of the RAF Act, under the following circumstances:

- A third party who at common law cannot hold the wrongdoer (usually the driver) liable for his damages;
- An employee (or his dependent), who is an employee in terms of the Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993) ("COIDA"), who is injured or killed by the exclusive negligence of his employer while in the course of his/her employment as well as any other circumstance where the wrongdoer is absolved from liability by a statute;
- A paying motorcycle passenger injured or killed by the exclusive negligence of the driver of the motorcycle;
- A child or spouse of the driver of a motor vehicle who is the head of their household while not being conveyed for reward, not in the course of business, not in the course of employment (the COIDA not being applicable) of the driver or owner, and not in terms of a lift club and who is injured or killed by the sole negligence of the said driver/head of the household of which they are members;
- Where the motor vehicle is driven by the dependent of a third party while not being conveyed for reward, not in the course of business, not in the course of employment (the COIDA not being applicable) of the

Nature of Business continued

driver or owner, and not in terms of a lift club and who is injured or killed by the sole negligence of the said driver/dependent;

- A third party who does not personally or through an admitted and practising attorney or other authorised person, institute a third party claim;
- A third party who enters into an agreement with an unauthorised person in terms of which such a person receives a portion of the compensation recovered or any amount for services rendered in respect of a third party claim if such services were not requested by authorised person;
- Third parties who unreasonably refuse or fail to submit to a medical examination by a medical practitioner appointed by the RAF on request of the RAF and at its cost; and
- Third parties who refuse or fail to:
 - Submit to the RAF at the latter's cost copies of all relevant medical reports in their possession,
 - Allow inspection in his medical records held by a medical practitioner or a hospital,
 - An affidavit setting out full particulars of the accident together with his claim form,
 - Supply within a reasonable time from obtaining possession thereof, copies of all relevant statements and documents in respect of the collision.

2.3.8 Limitation of liability

Generally there are four classes of restrictions provided for in Section 18 of the Act. They relate to:

- Passengers conveyed in vehicle under certain prescribed circumstances (i.e. passengers for reward, passengers conveyed in the course of the lawful business of the owner of that motor vehicle, passengers conveyed in the course of their employment where they are not employees in terms of COIDA, lift club passengers, and social passengers). The monetary limitation up to which the RAF is liable is R25 000;
- Employees (this refers to employees who are covered by the COIDA of 1993 and who are either injured or killed in the course of their employment while they were either in the employ of the owner or the driver of the motor vehicle concerned or otherwise employed);
- The claimant's common law damages suffered as a result of the accident stand to be reduced, by the RAF, in the sum that such a claimant is entitled to under the COIDA;
- Members of SANDF who have claims against the Minister of Defence in terms of the Defence Act, 1957 (Act No. 44 of 1957) (this refers to members of the SANDF who are at the time of the accident not rendering a military service or undergoing military training in terms of the Defence Act or any other Act governing the SANDF);

- The claimant's common law damages suffered as a result of the accident fall to be reduced, by the RAF, in the sum that such a claimant is entitled to under the Defence Act; and
- Funeral expenses (there is a restriction to the effect that the only recoverable damages in respect of funeral costs are those reasonable costs relating to internment and cremation).

2.4 Funding

2.4.1 Fuel levy

The RAF is funded by way of a fuel levy on fuel sold within the Republic of South Africa.

During the current financial year, the collection of the levy was administered by the Central Energy Fund in terms of the provisions of Section 1(2)(a)(ii) of the Central Energy Fund Act, 1977 (Act No. 38 of 1977).

Subsequent to year-end (with effect from 1 April 2006), the responsibility for the collection of the fuel levy has devolved to the South African Revenue Services ("SARS") through the application of an amendment to Section 47 of the Customs and Excise Act, 1964 (Act No. 91 of 1964) and Section 5 of the RAF Act.

The RAF plays no part whatsoever in the collection of its fuel levy income.

2.4.2 Diesel rebate

The fuel levy income received by the RAF is reduced by the fuel levy refunded by the

Commissioner of SARS in respect of diesel concession provided to certain sectors of the economy.

Diesel concessions are granted to certain sectors of the economy on the basis of the level of the off-road use by the diesel consumer in that sector. By way of illustration, the fishing, coastal shipping, offshore mining and rail freight sectors/industries make no use of the road network during their consumption of diesel. They therefore derive no benefits from the system of compulsory motor vehicle insurance that is administered by the RAF in terms of the RAF Act. These sectors are entitled to a 100% concession in respect of their diesel fuel consumption. The agriculture and forestry sector and the onshore mining sectors are assumed to utilise 20% of their diesel consumption while making use of the road network and are thus entitled to an 80% refund of the fuel levy. The payment of the 20% portion of the diesel levy affords these users cover by the RAF in respect of their on-road vehicle use.

The concessions have been granted as follows:

• Agriculture and forestry	80%
• Onshore mining	80%
• Fishing and coastal shipping	100%
• Offshore mining	100%
• Rail freight	100%

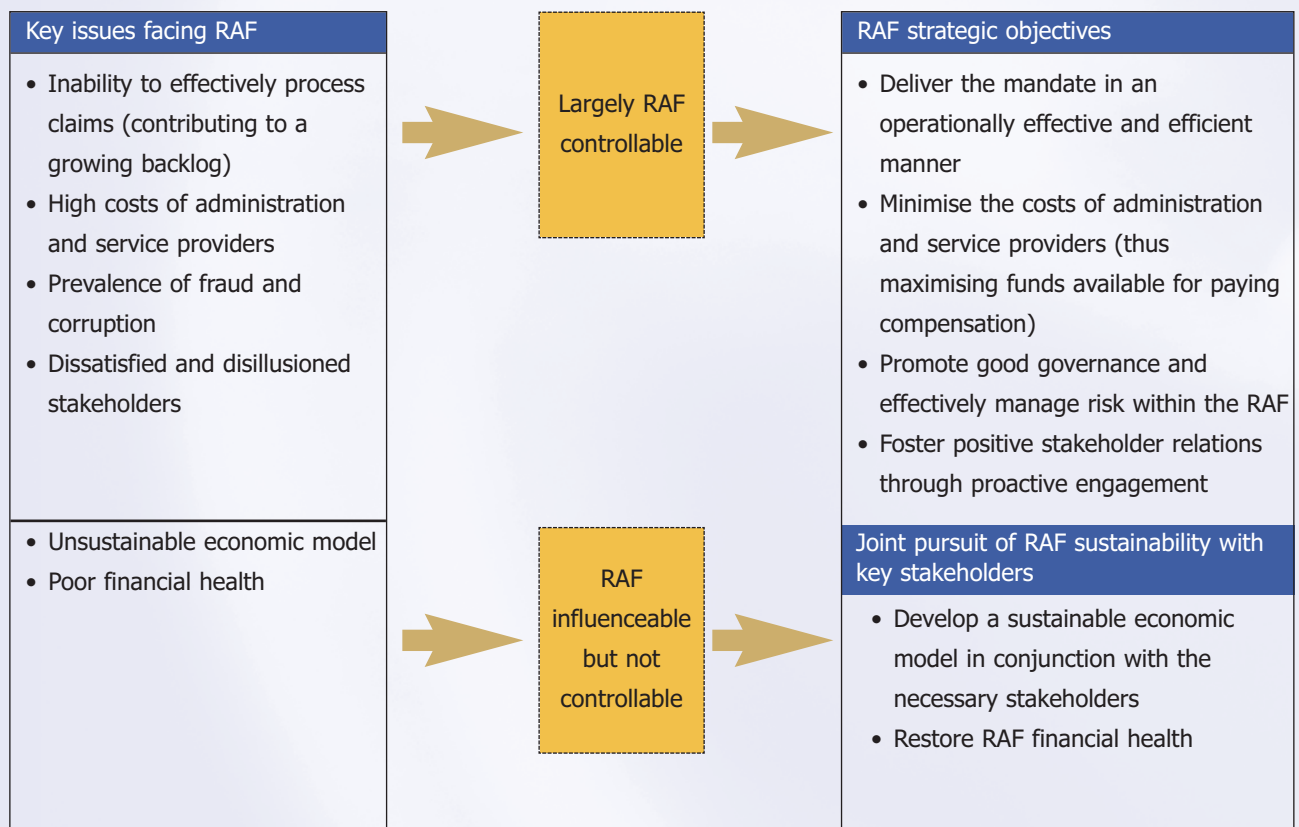
2.4.3 Borrowings

The RAF Act allows funding to also be procured by way of the raising of loans. This option has not been used to date.

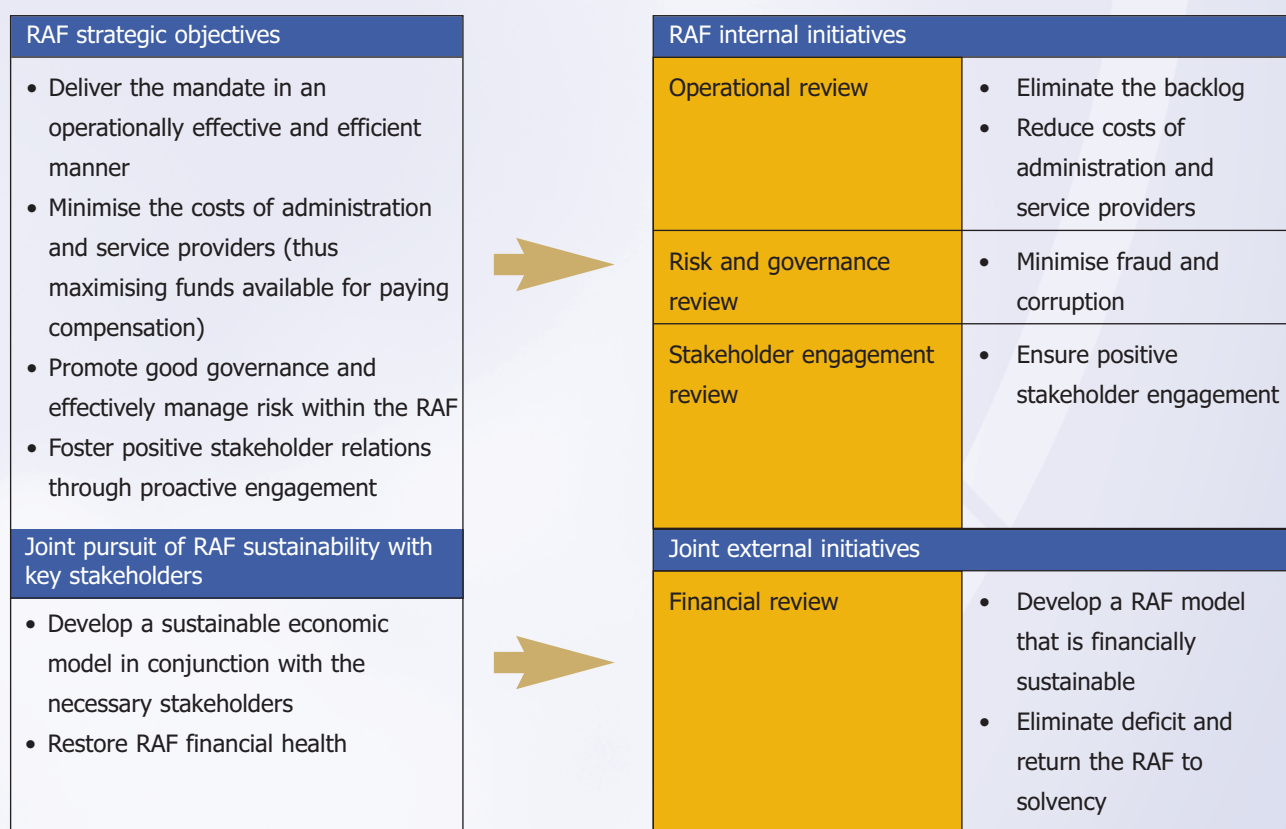
3. Key Strategic Objectives

for the financial year ended 31 March 2006

The key strategic objectives of the RAF have been developed to address challenges facing the RAF as follows:



These have been translated into RAF initiatives as follows:



4. Highlights



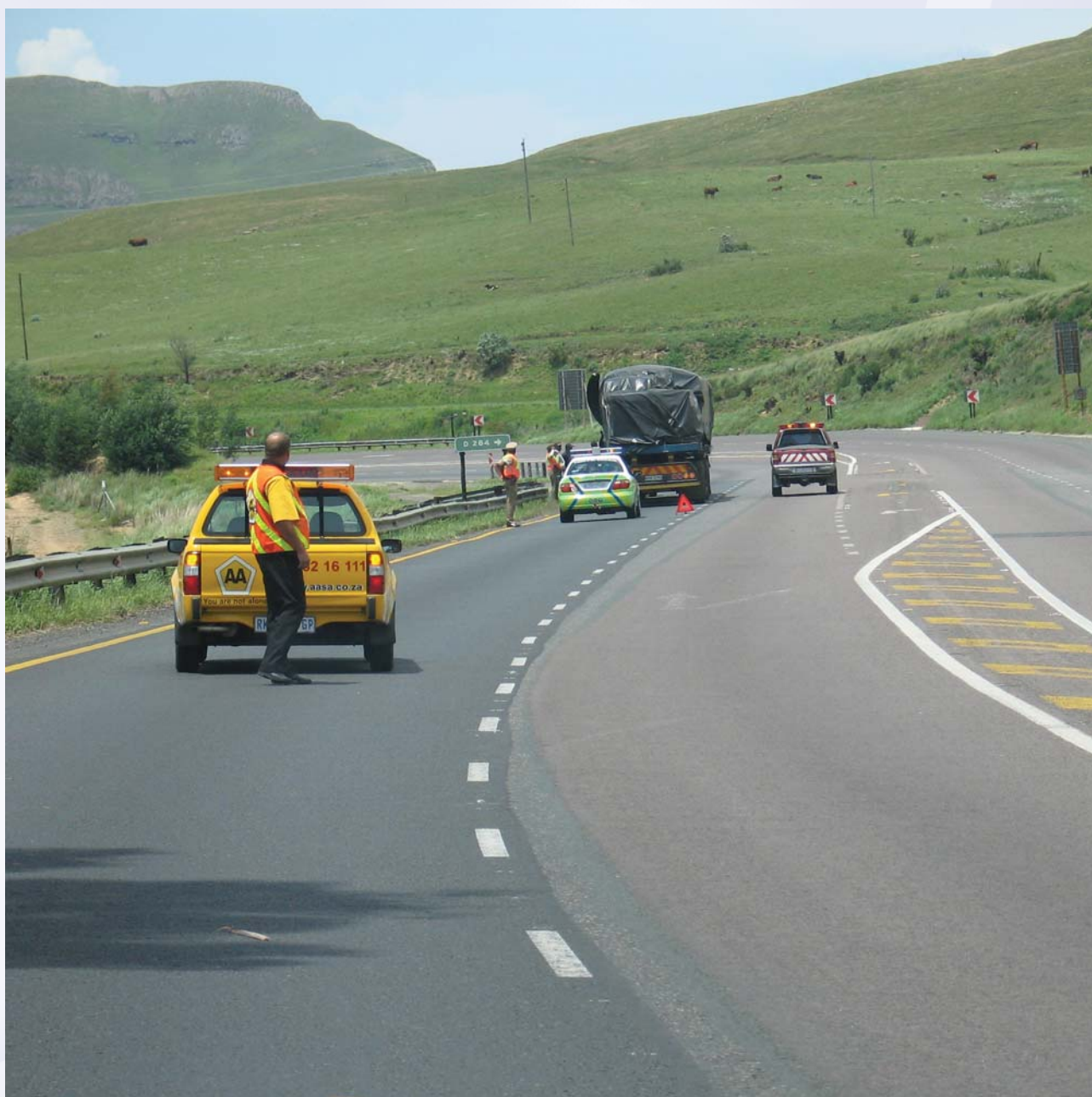
4.1 Operational highlights

- New Board and CEO appointed during the year
- Rescue Plan agreed with the Minister of Transport
- RAF Amendment Act passed into law by the President of the Republic of South Africa
 - awaiting publication of regulations
- RAF Business Diagnostic Process completed
- Number of claims processed increased from 90 116 to 188 185

4.2 Financial highlights

- Claims paid increase from R3,105 billion to R5,131 billion
- Liquidity constraints alleviated by a R2,7 billion cash injection from National Treasury
- Structured payments discontinued at the end of the financial year
- Outstanding diesel rebate reduced by R584 million

Our strategic objectives aim to effectively deliver on the mandate by minimising our costs of administration and service providers as well as managing overall risks within the RAF.



5. Chairperson's Review

for the financial year ended 31 March 2006



Dr Danisa E Baloyi

The RAF supports the Government's goal of halving poverty and unemployment by 2014 as well as addressing the severe inequalities that continue to plague our country.

5.1 Introduction

On behalf of the Board of Directors ("the Board") of the Road Accident Fund ("the RAF"), I have the pleasure in presenting the annual report and the annual financial statements of the RAF for the year ending 31 March 2006.

These financial statements cover the period during which the Board has been in office for only a part of the year. The Minister of Transport terminated the services of the previous Board and the Chief Executive Officer ("CEO") on 17 May 2005 and 8 June 2005 respectively. The current Board and CEO commenced their duties on 9 June 2005.

5.2 The RAF and ASGISA

The Board is taking office at a time when the RAF is facing enormous challenges. Some of these challenges fit in squarely within the "binding constraints" described in the Government's Accelerated and Shared Growth Initiative South Africa ("ASGISA") programme, as country specific challenges that stand in the way of the Government achieving its social and economic objectives.

Of particular application to the RAF is the constraint described in ASGISA as "Deficiencies in State Organisation, Capacity and Leadership" which is fuelled by "insufficiently decisive leadership in policy development and implementation". The fault-based system of compensation

enshrined in the RAF Act is unaffordable to the South African society, and has inherent deficiencies that make it wasteful in that it results in the cost of administration being very high in relation to the benefits that are being paid, and places enormous limitations on the ability of the organisation to deliver a service to society. Decisive leadership in policy development, which should include bold legislative intervention, will be required if the RAF is to reduce its drain to the South African economy.

In addition, the RAF directly contributes to “the cost, efficiency and capacity of the national logistic system” constraint described in ASGISA because it is funded through a levy on fuel. The benefits that are being paid in terms of the RAF Act are very generous. In addition, the organisation is sitting with an unfunded liability with a present value in excess of R21 billion (R31,8 billion in nominal terms) relating to claims arising out of motor vehicle accidents that occurred during the period up to 31 March 2006. To process these claims, funds will be required either from the Government or the public through increased fuel prices which will add to the cost of the national logistics system. Urgent action will be required to stem the outflow through legislative intervention that will limit the benefits to a level that the South African society can afford and will contribute to the Government’s social and economic objectives set out in ASGISA.

The RAF supports the Government’s goal of halving poverty and unemployment by 2014,

as well as addressing the severe inequalities that continue to plague our country. The system of compensation enshrined in the RAF Act, unless amended, will hamper the efforts to achieve these objectives and will continue to perpetuate the severe inequalities in our society where benefits paid to the rich are out of proportion with benefits paid to the poor; where disparities between urban and rural, employed and unemployed are accentuated – and access to the system is difficult by those less privileged in society.

5.3 Transport sector strategy

The RAF is pleased to note that the transport sector has progressively begun to increase in importance within plans developed by the Government. As a feeder to economic growth, investment in infrastructure (including transport infrastructure) has been noted as one of the key interventions in the Government’s ASGISA programme.

The RAF supports the Government’s aim to develop “safe, reliable and fully integrated transport operations and infrastructure”. We note the efforts made in ensuring that the transport sector is able to meet the demands placed upon it by accelerated economic growth and delivery through, among others, plans to transform the current commuter system into an integrated public transport system by 2014.

Chairperson's Review continued

Some of the key focus areas, with particular application to the RAF, in the Department of Transport's ("DoT") action plans include the taxi recapitalisation and preparations for the 2010 World Cup. We believe that the RAF can play an important role in assisting the Minister of Transport to fulfil the goals he has set in this regard. A substantial number of victims of road accidents are passengers in public transport systems (taxis and busses). The RAF is best placed to meet the needs of these passengers with regard to safety and compensation.

The pressing challenges facing the RAF need to be addressed by legislative and business model changes, failing which the cost to the economy of events such as the 2010 World Cup will be felt in the payouts made by the RAF years after these events are declared as successful by direct participants.

5.4 Cost of economic development

The growth enjoyed by the South African economy in the past few years has brought with it an increase in the number of commuters using our roads as well as an unprecedented growth in the vehicle population in the country. Statistics produced by the Road Traffic Management Corporation ("RTMC") indicates that the number of registered vehicles in South Africa has grown by 6,95% from last year while the fuel usage increased by only 2,32%.

With this growth in economic activity, however, comes one of the most negative consequences of economic development to society – the increase in the number of vehicle accidents. Vehicle accidents with injuries and fatalities have increased substantially in recent years. This increase, coupled with the increases in income levels, has resulted in a substantial increase in the level of claims received by the RAF, and the levels of compensation being paid out. In the current financial year alone, compensation and related costs paid in cash has increased by 65% from R3,105 billion to R5,131 billion last year.

To attain a balanced growth espoused in ASGISA, the activities of the RAF will be directed towards reducing this cost and balancing the benefits provided to the road users.

5.5 RAF Amendment Act

The RAF welcomes the approval by the President of the Republic of South Africa of the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) ("Amendment Act") in December 2005. The Amendment Act goes some way towards addressing certain of the challenges faced by the RAF. The Amendment Act, however, does not address the fundamental problems afflicting the third party compensation in the country.

Of particular concern have been the draft regulations published for comment relating to the Amendment Act. In their current form, these regulations will minimise any benefit

that would have accrued from the promulgation of the Amendment Act. To be specific, "serious injury" has been defined so broadly that very little reduction is expected in the over R2 billion paid in general damages in the current financial year alone. The largest class of compensation paid by the RAF is general damages. Estimates by an independent actuary appointed by the RAF indicate that claims incurred will increase materially if the regulations are published in their current form as follows:

- Removal of the R25 000 limitation of passenger claims will increase materially due to the fact that a large volume of claims have been limited by this provision;
- The introduction of the R160 000 limitation to loss of income and support will result in a marginal reduction of claims incurred because the largest volume of loss of income and support claims are already below this threshold;
- The limitation of general damages will result in minimal savings if the definition of "serious injury" is published in its current draft form.

The RAF has made a written submission to DoT with regards to the regulations. We hope that some of our comments will be taken into account during the finalisation of the regulations.

5.6 Strategy for the RAF

The Board has developed and agreed with the Minister of Transport a plan to address the challenges faced by the RAF. This plan includes activities required to streamline the operations of the RAF internally. However, the plan also calls for bold and specific legislative intervention to correct the flawed economic model that underlies the RAF's current business.

In implementing this plan, support will be required from policy-makers and other stakeholders. We expect continued and vociferous lobbying from some quarters in the legal fraternity who benefit substantially from weaknesses in the system. However, as explained in the Government's ASGISA programme, decisive leadership in policy development will be required in the coming months.



Chairperson's Review continued

5.7 Corporate governance

On the governance front, a new mandate together with a new vision, mission, values and key strategic objectives were adopted to suit the new strategic path the RAF is undertaking.

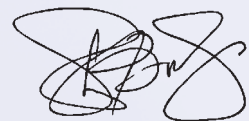
The view of the Board is that the majority of the objectives and measures set out in the Rescue Plan are realistic, achievable and truly "RAF-controllable". Our strategic objectives aim to effectively deliver on the mandate by minimising our costs of administration and service providers as well as managing overall risk within the RAF. However, it must also be pointed out that the RAF does not have control over a large portion of the cash payout that is made up by claimants' legal and expert costs.

5.8 Management structure and succession

The Board fully supports the new CEO, Mr Jacob Modise and his management team. The Board has also given assistance to the CEO in appointing a new team that will deliver on the strategy agreed with the Minister. Most of the vacancies in Executive positions have been filled subsequent to year-end.

5.9 Acknowledgements

On behalf of the Board, I would like to express my sincere thanks for the support accorded to us by our Honourable Minister, Mr Jeff Radebe, members of the Portfolio Committee on Transport, the Select Committee on Public Services, National Council of Provinces responsible for the RAF, the Director-General and officials from the DoT, as well as the management and staff at the RAF for their continued commitment.



DR DE BALOYI
CHAIRPERSON OF THE BOARD

28 AUGUST 2006

The Board decided to shift the focus of the RAF back on the victim of the accident as a customer. The new vision, mission and values are aimed at creating a customer centric organisation.



6. Chief Executive Officer's Report

for the financial year ended 31 March 2006



Mr Jacob RD Modise

The turn-around, however, will require efforts internally within the RAF as well as legislative intervention to address the flaws in the industry structure and economic model.

6.1 Introduction

The ten months I have spent at the Road Accident Fund ("the RAF") up to the end of the financial year have been very eventful indeed. Much time was spent familiarising myself with the workings of the RAF as well as understanding the challenges faced by the organisation.

In the main, our activities were directed towards putting in place the foundations necessary to fulfil the mandate given to us by the Minister of Transport.

The Minister set for the Board and the Chief Executive Officer ("CEO") the following objectives:

- Achieve a turn-around of the RAF that brings about the stability, efficiency and sustainability of the organisation.
- Achieve the social economic objectives of Government to create appropriate capacity through training, development, attraction and retention of staff as well as succession planning.
- Manage the affairs of the RAF in a manner that locates the RAF in the broader strategy of delivery in relation to the broader transport sector and social security system.
- Manage stakeholder relations, in particular relations with victims, Government, legal representatives and service providers, in a manner that is driven by a risk management culture.

6.2 RAF turn-around

The building blocks for an organisational turn-around begin with the development of a clear vision and strategy. This is followed by the establishment of an appropriate organisational structure for delivery, putting the right people in the right places, developing key performance agreements, setting out appropriate processes and systems, and placing the organisation on the correct path for recovery and operational efficiency.

These are some of the activities that occupied us during the ten months period under review.

6.2.1 New Vision, Mission and Core Values

In developing our new vision and mission, the RAF Board reflected on the unflattering history of third-party compensation in South Africa since the mid-forties. In total, more than seven commissions of inquiry have been established into the affairs of the RAF and its predecessors. The bold decision required to restructure the industry, however, remained illusive. Most of the private sector insurance companies that used to administer third-party compensation on an agency basis before the RAF was established, eventually filed for liquidation because of lack of action in this regard.

What has become absolutely clear is that the system of compensation administered by the RAF is fundamentally flawed; encourages perverse incentive to role players such as attorneys, is discriminatory, unaffordable to the South African society, is particularly wasteful, and is cumbersome. In addition to this, successive management of the RAF has not invested in appropriate systems and processes to manage the increased volume of claims. The pay-as-you-go basis of funding the RAF has also meant that the organisation remained grossly under-funded because an economic model had not been put in place to include in the determination of the fuel levy, a pricing for risk. The listing of the difficulties are embodied in the volumes of reports put together in the various commissions of inquiry are beyond the scope of this report.

Nevertheless, the Board decided to shift the focus of the RAF back on the victim of the accident as a customer. The new vision, mission and values are aimed at creating a customer centric organisation.

6.2.2 Rescue Plan

The Board and Management developed a Strategic Plan in September 2005 which incorporated a detailed Rescue Plan for the RAF and was approved by the Minister of Transport on 10 January 2006. In developing the Rescue Plan and turn-around

Chief Executive Officer's Report continued

strategy, much effort was spent analysing the root causes of the problems afflicting the RAF. This exercise proved instructive and valuable in helping us understand some of the solutions that will be required in turning the organisation around.

The turn-around, however, will require efforts internally within the RAF as well as legislative intervention to address the flaws in the industry structure and economic model.

The RAF is in the process of implementing elements of the Rescue Plan. Many of the results, however, will only be realised during the period from 2008 to 2010.

6.2.3 Structure and footprint for service delivery

The RAF has established, following a detailed business diagnostics process, a structure that will enable it to deliver on its revised mission and vision. This structure will include the expansion of the RAF footprint throughout the country as well as a management team that will implement the Rescue Plan.

6.2.4 The right people in the right places

It is critical to have the correct skills set at the different levels within the organisation. During the diagnostic phase, it was identified that the RAF has over time focused on building up skills that lean towards the legal profession. In doing so, the RAF neglected the other skills that are critical to an organisation that administers an intricate compensation system that encompasses medical, loss of support, loss of income, funeral expenses and general damages to be determined. This includes strong general management skills, expert administration and financial skills that will be required to elevate the level of quality of service delivery into the future.

Most of the key Executive Management posts have been filled subsequent to year-end. A strong Management team is critical to the success of any organisation, specifically where it has to be transformed to the full extent that the RAF will require in the near future.



6.2.5 Developing key performance agreements

In managing a turn-around of this magnitude, it is crucial to have properly defined key performance agreements in place at all levels in the organisation. The RAF is currently in the process of implementing a performance management system for the entire organisation, and this will be completed in the near future.

6.2.6 Appropriate processes and systems

The RAF has during the past years under-invested in information technology that is needed to assist and fast track the processing of a claim during its entire life cycle. As part of the R2,7 billion that was received from Government in March 2006, R200 million will be used to modernise IT and related business systems. It is expected that a large portion of these systems would be procured during the next financial year.

6.2.7 Path to recovery

The foundation for the path to the RAF's recovery has been laid during the months leading up to year-end. The weaknesses in both the business model and the internal operations of the RAF are now well understood, and the foundation and cornerstones of the new RAF have been put in place. A plan has now been put in place that, over the next five years, will ensure an

orderly transition of the RAF into a financially healthy organisation that provides world class service to the South African commuters and motoring public.

6.3 Highlights during the ten months

Although it is early days on the road to the RAF's recovery, there were some highlights that needed specific mentioning. Some of them are:

6.3.1 The 2007 to 2009 Strategic Plan ("Rescue Plan")

The new Board went through a lot of effort to draw up a Rescue Plan to place the RAF on the road to recovery. This plan was approved by the Minister in January 2006. This highlight was accentuated when the RAF presented its plan to the Portfolio Committee on Transport on 17 May 2006, and later to the National Council of Provinces, where it was extremely well received. What was noticed specifically by the Chairperson of the Portfolio Committee was the honest and objective way in which the factors leading to the position that the RAF has found itself in have been analysed and identified by the new Board.

6.3.2 Alleviation of liquidity crisis and longer term solvability

The short-term liquidity constraints faced by the RAF were addressed through

Chief Executive Officer's Report continued

presentations to National Treasury in January 2006, and as a result, received an amount of R2,7 billion in March 2006.

A specific word of gratitude is made to National Treasury and the Department of Transport ("DoT") for having made this possible.

Discussions to return the RAF to longer term solvability have been started with National Treasury, with the support of the Department of Transport. We look forward to these discussions realising real solutions, as the addressing of the huge backlog of claims is directly dependent on this longer term funding being received.

6.4 Appreciation

In conclusion, I would like to express my appreciation to the Chairperson and the Board for their strategic leadership and guidance, the Minister of Transport for his support, as well as the Management, Staff and Organised Labour at the RAF for their contribution and dedication during a difficult period.

The RAF is faced with enormous challenges in the year ahead. I trust that the initiatives established during this financial year will afford it the opportunity to deliver on its mandate and promises.



MR JRD MODISE
CHIEF EXECUTIVE OFFICER

28 AUGUST 2006

The RAF has established a structure that will enable it to deliver on its revised mission and vision. This structure will include the expansion of the RAF footprint throughout the country.



7. Sustainability Report

for the financial year ended 31 March 2006

The RAF is in a process of implementing a performance management system that will translate its mission and strategy into a comprehensive set of performance measures to enable it to achieve its goals.

7.1 Socio-economic sphere

Transport is performing both a social and an economic function. On the social front, the sustainability of the RAF bears heavily on the lives of South Africans. Many victims die or are injured in accidents which has a profound effect on peoples lives. The aftermath of these accidents is that in many instances, bread winners are lost to their families through death or are forced out of work. They are left without a livelihood because of the effects of injuries which are in most cases affecting victims' lives negatively.

The RAF is an agent of the Department of Transport ("DoT") but its work has deep-seated effects on other Government departments such as Social Welfare and Development, Health, Finance and Labour. Currently, the victims of accidents who are not fully recovered and rehabilitated from accidents are on the Social Welfare and Development list for social grants. That in turn impacts on the Finance and Treasury Departments in terms of allocating public taxes for funding of the social welfare system.

Fulfilling or satisfying the needs of the claimant is always at the forefront of RAF's activities. To this end, the RAF manages a Patient Outreach Programme ("POP") that seeks to further educate victims of accidents (especially those with undertaking certificates which forms part of the settlement process of claims against the

RAF) of their right to medical treatment. This programme has a foothold in many of the remote rural areas of the country where accessibility to information and hospital treatment is limited.

In the wake of the many road accidents that occur on our roads and the high volumes of claims, the RAF also supports road safety education by being involved in road safety initiatives of DoT and other organisations within the private sector.

Continuous engagements are arranged with stakeholders on the direction the RAF is taking and how they could assist to overcome the challenges faced by the organisation.

7.2 2010 FIFA World Cup

The transport sector is gearing itself towards the 2010 FIFA World Cup which will be hosted in South Africa. An economic boom is expected with hosting such a big event. Plans and strategies are being put in place to ensure its success.

Visitors will find South Africa more attractive if the public transport system is safe, efficient, affordable and reliable. Transport plans to accommodate the events of the World Cup as well as the peak in transport demand will require from the RAF that there be plans to deal with motor vehicle accidents that might occur during this event. As a priority, the event will see an influx of

tourists from foreign countries that would need to understand how accident compensation is dealt with in the country.

7.3 Focus on the claimant

The RAF's efficiency in processing claims is pivotal to claimant satisfaction. Claims are being processed and paid but the growing backlog of some 446 000 at 31 March 2006, influences the length of time it takes to process claims.

Steps are being taken to rectify the current situation so that the backlog is addressed by 2010 in order for the RAF to be able to serve its claimants efficiently.

7.4 Human capital

The RAF exists through its employees. Our employees are our most precious assets. The Human Capital Division has recently developed a Human Resources plan consisting of initiatives that will ensure that RAF's management and staff are provided with the relevant HR support.

The following critical areas have been identified by Human Capital for the 2006 – 2007 period:

- An integrated Human Resources management information system
- Implementing an approved performance management system

- Implementing the employee wellness strategy
- The roll out of Human Resources policies and procedures
- Development of a Training and Development Strategy and establishment of a learning organisation
- Conducting a skills audit

These initiatives, which are not exhaustive, strive to ensure that the RAF achieves its strategic objectives.

The RAF endeavours to attract, and retain individuals who have knowledge of the core business and have the competencies relevant to its business. In addition, the Human Resource and Development Department will provide appropriate programmes that will improve and re-skill the RAF's employees to maximise service delivery.

It must be noted that these Human Capital initiatives will support the RAF's employment equity objectives.

Bursaries were awarded to staff members in line with previously determined needs of various positions.

Sustainability Report continued

7.4.1 Human resource development

Statistical breakdown of bursaries, loans and self-study at the RAF

	Head Office	PTA	CPT	DBN	ELN	JHB	Total
Bursaries	21	26	26	14	3	11	101
Loans	9	9	0	0	0	5	23
Self-study	14	16	11	9	7	10	67
Total	44	51	37	23	10	26	191

7.4.2 Employee relations

The purpose of the Employee Relations Department is to lay the foundations for a harmonious employee/employer relationship and mutual trust through the recognition of fundamental rights such as the freedom of association and the implementation and maintenance of non-discriminatory labour practices. Other areas that received attention are the furthering of employee well-being and the creation of an atmosphere that promotes collective dispute resolution to seek to serve the best interest of all parties. It is also to utilise expertise to advise both the employer and the employee on matters concerning workplace discipline and to maintain harmonious relations that foster good performance and a safe work environment.

The RAF's relationship with SATAWU, the majority union, has improved during the past year. We engage in discussions related to the RAF and their constituency. Our consultation process is in shape in terms of our transformation process. We ensure that all parties are involved to provide input.

7.4.3 Employment equity

The RAF is committed to transforming the demographic profile of our organisation to reflect the society in which we function.

The implementation of our employment equity plan is a strategic priority. We aim to achieve a staff complement that will, within set timeframes, reflect the demographic composition of our society.

The racial distribution of employees, with much emphasis on Executives and Senior Management, has improved during the last two years. In terms of gender, women are not proportionately represented at Executive and Senior Management levels. Very few women are in positions of authority or those requiring technical skills. This area has been identified and will be addressed through the employment equity plan.

Our facilities accommodate all, including the disabled. The RAF is committed to creating opportunities for the disabled as part of our employment equity plan. We currently employ nineteen physically challenged individuals, including Executive level.

Grade categories

Gender representation	Grade A – CU (Staff)	Grade – DL (Middle Managers)	Grade – DU (Senior Managers)	Grade – E (Executive)
African female	456	4	2	0
African male	449	13	3	2
Coloured female	81	0	0	0
Coloured male	58	3	0	0
Indian female	78	2	1	0
Indian male	34	2	0	0
White female	194	3	1	1
White male	108	6	5	0
Total	1 458	33	12	3

7.4.4 Performance Management System

The RAF is in a process of implementing a performance management system that will translate its mission and strategy into a comprehensive set of performance measures to enable it to achieve its goals.

The RAF views the performance management system as a tool that can improve commitment and efficiency, by focusing activities in line with our strategic and operational needs.

The system will further assist to provide and manage individuals with the competencies related to RAF's core business.

7.4.5 RAF Employee Wellness Sustainability Programme

The RAF recognises that people are the cornerstone of its success. Diversity is

valued as a source of strength. As such, the RAF has an Employee Health and Wellness programme which aims to assist its employees in dealing with problems that affect their productivity and service delivery levels, hence the establishment of the Employee Assistance Programme ("EAP").

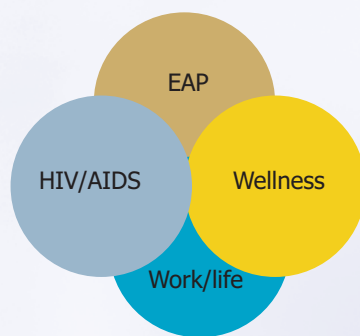
7.4.6 Policies

The RAF EAP policies and guidelines have been developed in terms of the Public Service Regulations, Occupational Health & Safety Act, 1993 (Act No. 85 of 1993), Skills Development Act, 1998 (Act No. 97 of 1998), Labour Relations Act, 1995 (Act No. 66 of 1995) as amended 2002, and in conformity with the international relevant conventions such as the United Nations – and International Labour Organisation ("ILO").

Sustainability Report continued

The focus areas are EAP, HIV and Aids, addiction, and wellness programmes.

Combined “broad brush” model



- **Awareness programmes:** These have been developed in order to make EAP both visible and real. A comprehensive awareness strategy will be started soon and the inclusion of sporting activities will promote awareness in a meaningful manner.
- **Development and design:** With the development and design of a comprehensive EAP at the RAF, an advisory committee will be established which will have representation at all levels for the sustainability of the programme.
- **Peer training:** Supervisor training gives all those who are in management or supervisory positions (including union stewards where applicable), a solid grounding in all aspects of the programme. Specific training and advice will also be given concerning managing

the challenged or upset employee and in the effective use of the programme.

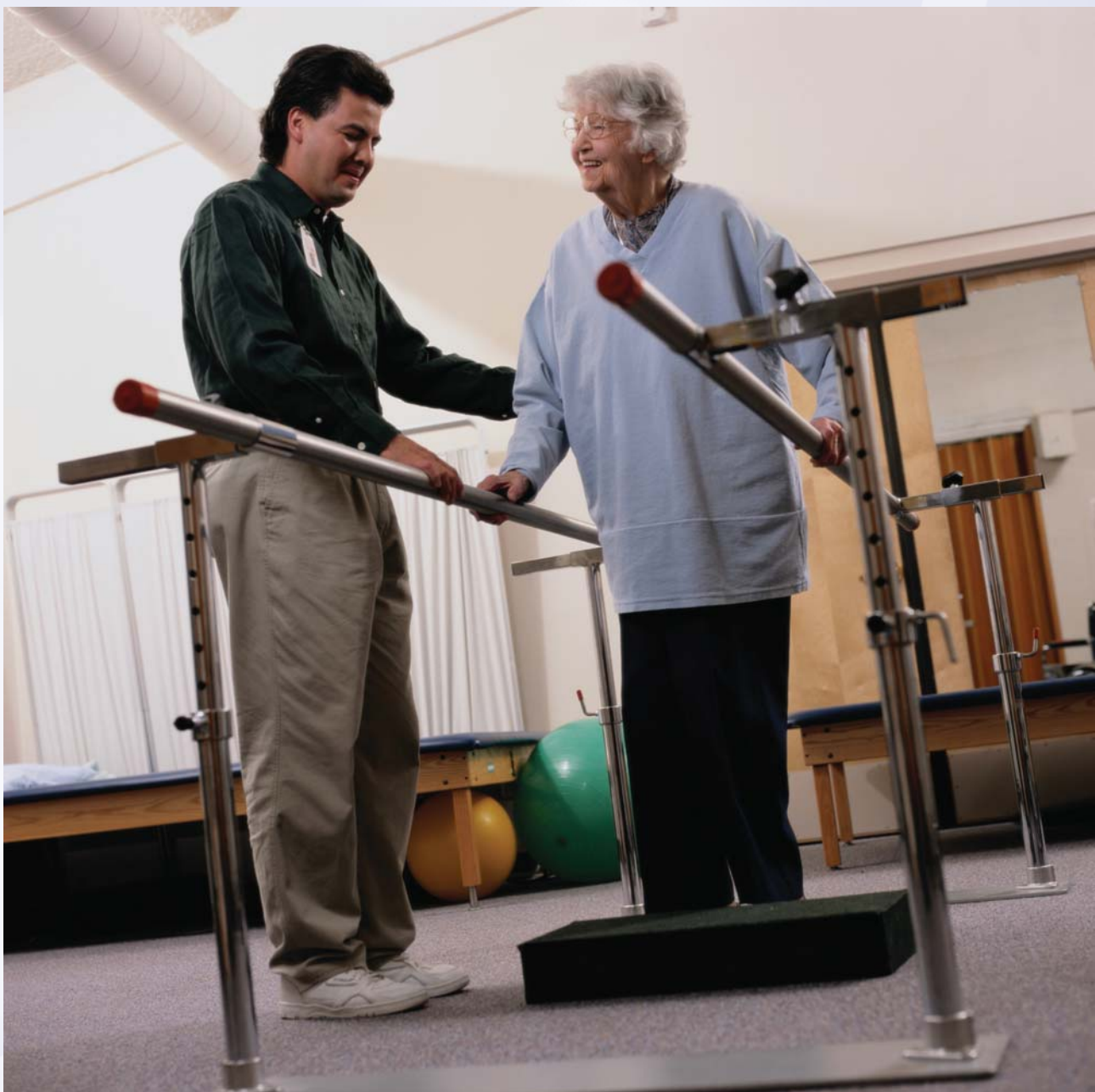
- **Counselling services:** The RAF envisages instituting a 24-hour counselling service that will be utilised by employees confidentially and will include their immediate family members.
- **Wellness programmes:** Linkages have been formed with the medical aid companies to hold wellness days. Sports fraternity is part of our EAP strategy in promoting employee wellness.

7.5 Managing stakeholder expectations

The Board considers that balanced and understandable communication to stakeholders on the RAF's activities is essential, and strives to clearly present all matters material to a proper appreciation of the RAF's position. The Board and management of the RAF are committed to keeping stakeholders informed of developments in the Motor Vehicle Accident (“MVA”) industry. The interests and concerns of stakeholders are addressed wherever possible by communicating information, as it becomes known, regardless of the potentially positive or negative impact.

The Board seeks to build on a mutual understanding of objectives shared between the RAF and its stakeholders through a regular series of meetings and presentations.

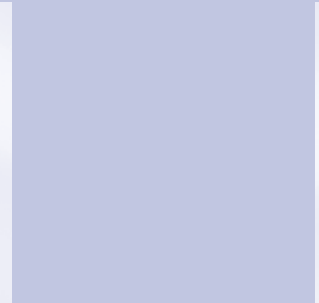
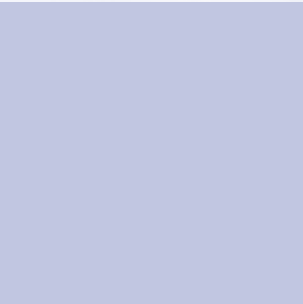
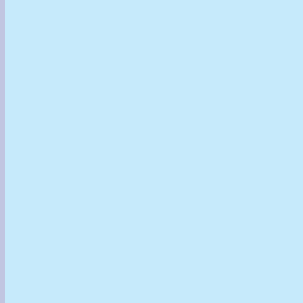
Fulfilling or satisfying the needs of the claimant is always at the forefront of RAF's activities. The RAF patient outreach programme has a foothold in many of the remote rural areas of the country where accessibility to information and hospital treatment is limited.



8. Report of the Board

for the financial year ended 31 March 2006

- | | |
|---|-----------------|
| 1. Dr DE Baloyi, Chairperson of the Board | 7. Ms K Manana |
| 2. Mr VS Mahlangu, Vice Chairperson | 8. Dr AKA Dasoo |
| 3. Mr JRD Modise, Chief Executive Officer | 9. Ms HG Motau |
| 4. Ms KE Moloto-Stofile | 10. Mr T Moyo |
| 5. Prof CJB Greeff | |
| 6. Mr SA Msibi | |



8.1 Introduction

The Board presents its report which forms part of the annual financial statements of the Road Accident Fund ("RAF") for the year ended 31 March 2006, to the Minister of Transport, the Executive Authority in terms of Section 55(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (as amended by Act 29 of 1999), ("PFMA").

The RAF, as established by the Road Accident Fund Act, 1996 (Act No. 56 of 1996), ("RAF Act"), is listed as a national public entity in Schedule 3A of the PFMA.

The Board acts as the accounting authority in terms of the PFMA.

8.2 Board and Secretary of the Road Accident Fund

The current Board, which is a non-executive Board, assumed office on 9 June 2005 for the remainder of the previous Board's term which expired at the end of July 2006. The Minister re-appointed the current Board for a term of three years that commenced on 1 August 2006 and ends on 31 July 2009.

The Board and Acting Corporate Secretary at the date of this report are as follows:

8.2.1 Current Board

Board Members

Dr DE Baloyi	Chairperson of the Board, Chairperson: EXCO and REMCO
Mr VS Mahlangu	Vice-Chairperson of the Board, EXCO, REMCO and Claims Committee member
Ms K Manana	Designated by the Director-General, REMCO member
Mr T Moyo	Chairperson of the Risk Management Committee (RMC), EXCO member
Prof CJB Greeff	Chairperson of the Claims Committee, EXCO member
Dr AKA Dasoo	RMC and Claims Committee member
Ms HG Motau	EXCO and RMC member
Mr SA Msibi	RMC member
Ms KE Moloto-Stofile	REMCO and Claims Committee member

The Director-General: Transport or any other senior officer in the Department of Transport, designated by him or her for a particular purpose is an ex officio member of the Board.

CEO

Mr JRD Modise

ACTING CORPORATE SECRETARY

Ms JR Cornelius

Acting: 16 February 2005 to date

Report of the Board continued

8.2.2 Previous Board

Board Members

(1 August 2003 to 8 June 2005)

Dr S Cooper	Chairperson of the Board (appointed Chairperson: 30 July 2004)
Mr VO Twala	Vice-Chairperson of the Board, Chairperson: Finance and Remunerations Committee, EXCO and Audit Committee member
Ms M Mpofu	Director-General: Department of Transport
Bishop TE Radebe	Chairperson: Transformation, Empowerment and Human Resources Committee and EXCO member
Prof M Lukhele	Chairperson: Medical Committee and EXCO member
Adv DJ Mitchell	EXCO and Transformation, Empowerment and Human Resource Committee member
Dr AW Barday	Medical Committee and Transformation, Empowerment and Human Resource Committee member
Adv NK Dukada	Audit Committee member
Ms A Gibberd	Finance and Remuneration and Medical Committee member
Dr N Goba	Appointed: 1 August 2004, Finance and Remuneration and Medical Committee member
Mr J Nkeli	Appointed: 1 August 2004, Finance and Remuneration and Medical Committee member

CEO

Mr HL Kgomongwe	Contract terminated: 17 May 2005
Mr T Magwaza	Acting: 16 February 2005 until 28 June 2005

CORPORATE SECRETARY

Mr LM Matsi	Resigned: 9 February 2005
Ms JR Cornelius	Acting: 16 February 2005 to date

8.3 Principal activities

The RAF is principally engaged in providing compensation to persons who have suffered loss or damage wrongfully caused by motor vehicle accidents in South Africa.

Claims to the value of R4,845 billion were settled/incurred during this reporting period (2005 – R3,884 billion).

8.4 Historic financial overview

A detailed account of the RAF's financial results is published in the accompanying financial statements.

The table below constitutes extracts of essential information from the financial statements for the past five years:

	Financial year ended								
	31 March 2002		31 March 2003		31 March 2004		31 March 2005		31 March 2006
	11 months* R million	Variance %	R million	Variance %	R million	Variance %	R million	Variance %	R million
Income from									
– Fuel levy: net of diesel rebate	2 441	17,2	2 860	22,8	3 512	30,0	4 566	21,6	5 552
– Investments	167	(124,8)	(41)	(309,0)	87	(34,3)	57	43,8	82
– Other income	–		4	(61,7)	2	(42,3)	1	14,1	1
– Transfer income**	–		–		–		–		2 502
Expenditure									
– Claims paid/incurred	2 541	22,7	3 118	27,7	3 983	(2,5)	3 884	24,8	4 845
– Reinsurance	6	435,6	32	18,3	38	12,9	43	(57,4)	18
– Staff	148	65,4	244	24,1	303	6,3	322	9,3	352
– Administrative	88	64,8	145	(13,8)	125	(14,0)	107	2,5	110
– Depreciation and amortisation	11	85,4	20	18,5	24	(8,6)	22	(32,8)	15
– Road Accident Fund Commission	1		3		0		–		–
– Road Safety Project	–	(100,0)	50	(100,0)	(50)	(100,0)	–	(100,0)	–
Net surplus/(deficit) before provision for outstanding claims	(186)		(790)		(822)		246		2 796
(Increase)/decrease in provision for outstanding claims	(3 140)				(2 305)	(33,1)	(1 541)	(15,6)	(1 301)
Effect of disclosing provision at discounted value	5 404		(3 516)		–		–		–
Adjusted net (increase)/decrease in provision	2 264	(255,3)	(3 516)	(34,4)	(2 305)	(33,1)	(1 541)	(15,6)	(1 301)
Effect of correcting fundamental error	132				(8)		(5)		
Operating surplus/(deficit)	2 210	(294,9)	(4 306)	(27,2)	(3 135)	(58,5)	(1 300)	(215,0)	1 495
Deficit beginning of year	(13 335)	(16,6)	(11 124)	38,7	(15 430)	20,3	(18 565)	7,0	(19 865)
Deficit end of year	(11 125)	38,7	(15 430)	20,3	(18 565)	7,0	(19 865)	(7,5)	(18 370)

* The financial year was changed to align with Government's financial year-end

** The Minister of Finance announced in the 2006/2007 Budget Speech on 15 February 2006 that an amount of R2,7 billion was allocated for the remainder of the 2005/2006 financial year in order to alleviate the short-term liquidity position of the RAF. The transfer was received at the end of the 2005/2006 financial year. A total of R2 502 million from this total was recognised in the 2006 financial year.

Report of the Board continued

From the above, the following can be deduced:

- The net result before the provision for outstanding claims has for a number of years shown a deficit, indicating that the fuel levy has not been sufficient to even cover the funds required by claims payouts and operational expenses.
- In addition to this, the provision for outstanding claims has also been increasing during the past five years, resulting in a net deficit of R18,37 billion as at 31 March 2006.
- The main reason for the deficit that has decreased with R1,495 billion is attributable to the R2,7 billion that has been received from Government in March 2006, of which R2,5 billion has been realised in the 2006 financial year.

8.5 Revenue

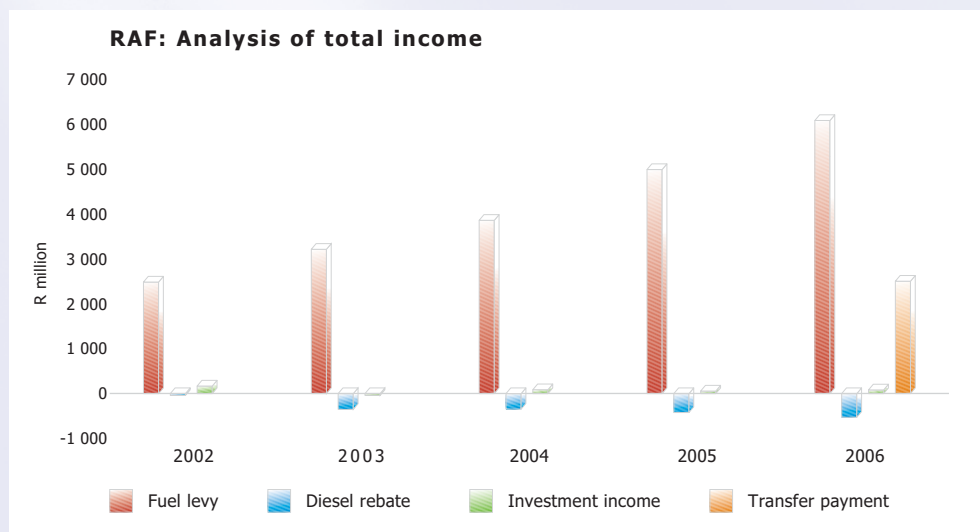
8.5.1 Total income

The summarised position of the RAF's revenue is depicted below in graphic format:

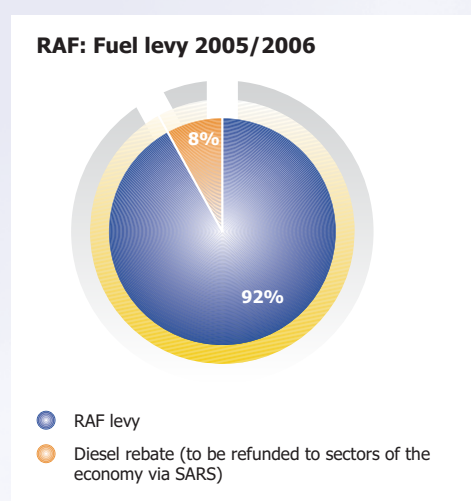
8.5.2 Fuel levy income and diesel rebate

The income of the RAF is derived from a special levy on petrol and diesel sold. This levy was increased from 26,5 c/l to 31,5 c/l during the financial year under review. This became effective on 6 April 2005.

Some sectors of the economy, such as agriculture, forestry, sea fisheries and coastal shipping, the NSRI, rail freight and mining, are granted concessions and do not pay the RAF diesel levy.



The South African Revenue Service (“SARS”) administers this concession as a refund through the VAT system. This amounted to R527 million for the year under review (2005 – R421 million):



The table below shows the net fuel levy income over the past five years.

The fuel levy income of R6 079 million for the 2006 financial year shows an increase of 21,9% in comparison with the previous financial year (2005 – R4 987 million). This is mainly attributable to the increase in the levy on petrol and diesel as stated earlier.

The increase in the levy is also the result of the volumes of fuel consumed as indicated in the table below. The increase was offset by the concessions granted as indicated below.

Financial year ended					
	31 March 2002 11 months R million	31 March 2003 R million	31 March 2004 R million	31 March 2005 R million	31 March 2006 R million
Income from: Fuel levy – less diesel rebate	2 483 (42)	3 212 (352)	3 857 (345)	4 987 (421)	6 079 (527)
Total	2 441	2 860	3 512	4 566	5 552

Financial year ended					
	31 March 2002 11 months million	31 March 2003 million	31 March 2004 million	31 March 2005 million	31 March 2006 million
Fuel levy income	R2 483	R3 212	R3 857	R4 987	R6 079
Fuel levy (c/litre)	16,5	18,5	21,5	26,5	31,5
Consumption (litres)	15 048	17 363	17 939	18 820	19 298

Report of the Board continued

Period	Commodity	Petrol	Diesel
02.02.98 – 03.04.01	Petrol and diesel	14,5 c/l	10,3 c/l
04.04.01 – 02.04.02	Petrol	16,5 c/l	10,3 c/l
04.07.01 – 02.04.02	Diesel	16,5 c/l	16,5 c/l
03.04.02 – 01.04.03	Petrol and diesel	18,5 c/l	18,5 c/l
02.04.03 – 06.04.04	Petrol and diesel	21,5 c/l	21,5 c/l
07.04.04 – 05.04.05	Petrol and diesel	26,5 c/l	26,5 c/l
06.04.05 – 31.03.06	Petrol and diesel	31,5 c/l	31,5 c/l

The above table illustrates the upward adjustment of both the petrol and diesel levies to 31,5 c/l, as announced by the Minister of Finance when he delivered his Budget Speech on 23 February 2005.

A word of appreciation is directed to Government for the increases. However, the claims expenditure, including the increase in the provision for outstanding claims, continued to outstrip, quite significantly, the RAF's income from the fuel levy. The levy adjustments and the increase in consumption resulted in a net increase in revenue of R986 million in the 2006 financial year.

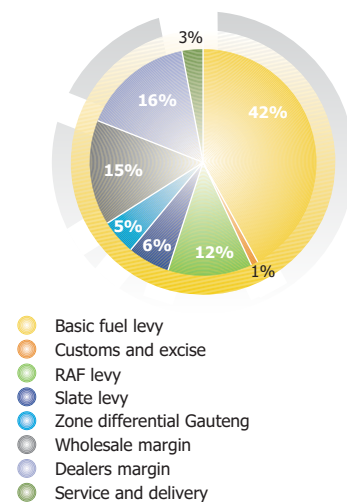
8.5.3 Fuel levy breakdown

The chart shows the RAF levy in comparison with the basic fuel levy and other margins levied on top of the basic fuel price:

- The basic fuel levy is paid into the National Revenue Fund and forms part of National Treasury's income;
- The slate levy is used by Government to balance the under or over recovery on the oil price and is as such, adjusted from time to time;

- The service delivery and Gauteng zone differential levies are directly attributable to the fuel transport costs.

Fuel levy breakdown as at 31 March 2006



8.6 Expenditure

8.6.1 Claims paid

The growth in claims that are lodged with the RAF is attributable to an increase in motor vehicles and a resulting increased accident rate as well as an increased public awareness of the existence of the RAF.

The number of claims for damages as a result of injuries and loss of support by road accident victims or dependants of victims deceased in road accidents are reflected in the table below.

Total number of claims

	Financial year ended				
	2002 11 months	2003	2004	2005	2006
1 Claims outstanding beginning	216 648	284 332	341 479	347 742	443 399
2 + New claims lodged	164 517	169 462	166 654	185 773	190 468
3 – Claims finalised	96 833	112 315	160 391	90 116	188 185
4 = Claims outstanding end	284 332	341 479	347 742	443 399	445 682
5 Increase in new claims	11%	3%	(2%)	11%	3%
6 Finalised/new	59%	66%	96%	49%*	99%
7 Outstanding end/beginning	131%	120%	102%	128%	101%
8 "Average" settlement Increase/(decrease)	R26 240 (5%)	R27 758 12%	R24 831 (11%)	R43 104 74%	R25 941 (40%)

The fourth row represents claims outstanding at the end of the financial year. This increased by 1% to 445 682 during the year under review in comparison to the previous year. Row five shows an increase of 3% in the number of new claims lodged during the same period.

Row six indicates the ratio of finalised claims as a percentage of new claims lodged during the year. An increase in the number of claims finalised (row three) is expressed as a percentage of the number of new claims lodged (row two). Due to the temporary moratorium on offers made during the 2005 financial year, settlement costs for a large number of claims have been paid in instalments. These have been negotiated over terms that ranged from two to twelve months, and therefore the claims are not reflected as finalised until settled in full.

The difference between new claims lodged and claims finalised is adding to the growing backlog in outstanding claims.

** During the financial year ended 31 March 2005, the RAF physically stopped processing claims for a few months as a result of liquidity problems and introduced "structured payments", where the claims were basically settled in instalments after agreement between the RAF and the claimants. At the 2005 year-end however, a lot of these claims had not yet been finalised on the RAF systems. As a result of this, and the fact that the RAF did not make offers for a period of three months, it contributed to a lower number of claims being finalised, and a resulting increase in the average settlement. The rate of claims being finalised decreased materially as a result of this.*

Report of the Board continued

The demarcation of non-supplier and supplier claims is highlighted below to further explain the closing balance of all outstanding claims.

Non-supplier claims

	Financial year ended 2005	Financial year ended 2006
1 Claims outstanding beginning	278 193	340 925
2 + New claims lodged	127 732	133 414
3 – Claims finalised	65 000	141 436
4 = Claims outstanding end	340 925	332 903
Finalised/new	51%	106%
Outstanding end/beginning	123%	98%

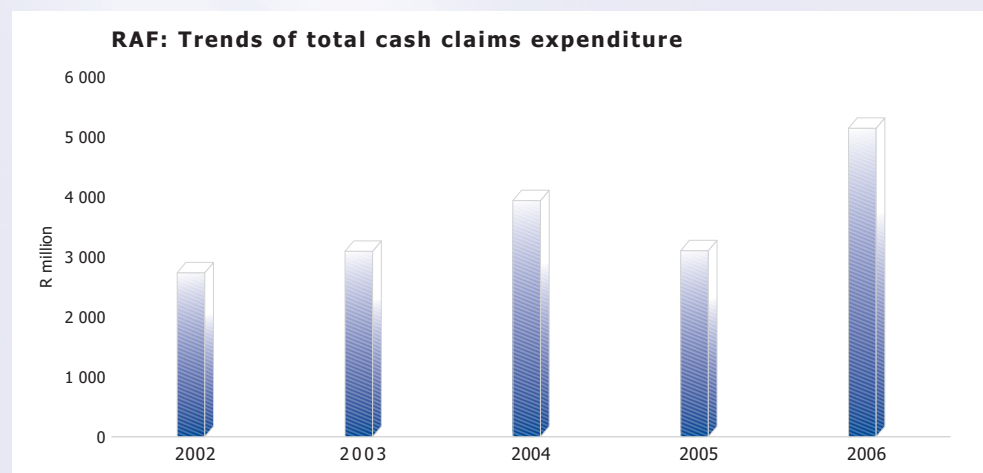
*Supplier claims

	Financial year ended 2005	Financial year ended 2006
1 Claims outstanding beginning	69 549	102 474
2 + New claims lodged	58 041	57 054
3 – Claims finalised	25 116	46 749
4 = Claims outstanding end	102 474	112 779
Finalised/new	43%	82%
Outstanding end/beginning	147%	110%

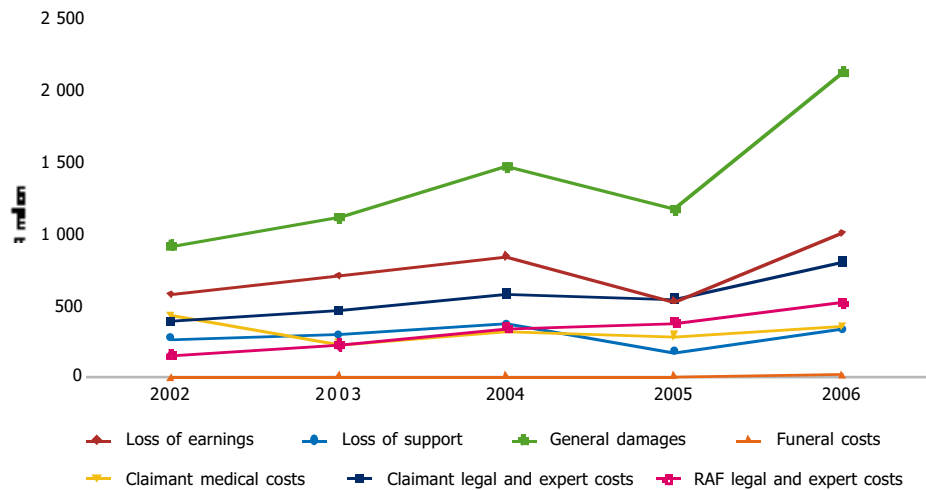
* *Supplier claims are claims that are lodged directly by suppliers of medical services, i.e. hospitals, ambulance services and doctors.*

8.6.2 Composition and trend analysis of cash claims expenditure

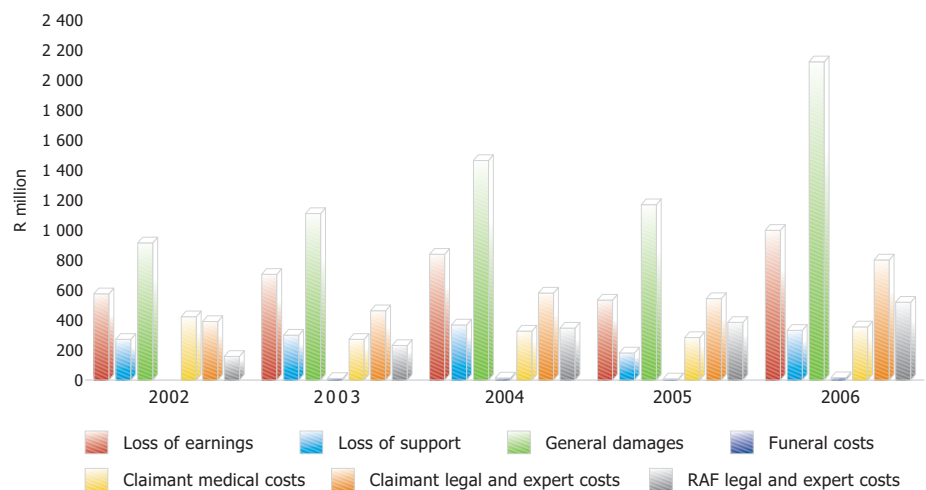
The graphs below indicate the composition of cash claims expenditure during the past five years:



RAF: Cash claims expenditure per category



RAF: Composition of cash claims expenditure



Report of the Board continued

It is clear that general damages make up the largest proportion of the total cash claims compensation payout. A further worrying factor is that both the RAF's and claimants legal costs are individually higher than the medical benefits that are paid out to claimants. This is an indication of the systemic problems that the RAF is faced with in its current form, as medical costs should ideally make out a large proportion of benefit payouts as is the case with RAF counterparts in other parts of the world. A further reason for the lower medical payouts are the fact that in most cases, the RAF issues medical "undertakings" for future medical costs (after date of initial claim settlement by the RAF) in cases where the injuries justifies it, which entitles a claimant to be refunded the medical costs that had already been incurred.

The graphs on the previous page also indicate a general growing trend in compensation as well as legal and expert costs over the past five years, with the exception of 2005 where the RAF physically ran out of cash and had to put payments on hold. What is alarming though is the growth in general damages (non-pecuniary losses) payout, where the total payout in cash for the 2006 financial year alone was in excess of R2 billion. The RAF Amendment Act will seek to partially address this out of proportion growth of general damages, in that compensation will only be paid in the case where a claimant has sustained a "serious injury". The success of the potential

savings will largely be dependant on the definition of "serious injury" as contained in the Regulations to the Amendment Act.

8.6.3 Average Rand value of cash claims payout and number of claimants that received benefits

The graphs on page 41 indicate the average rand value payout for each of the main category of claims expenditure, per claimant who claimed in that category, as well as the number of individual claimants that received cash benefit payments in that category:

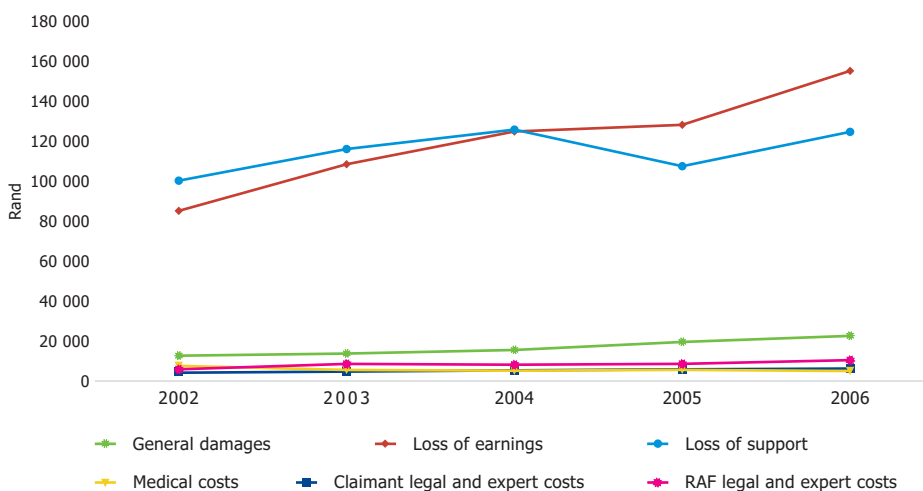
• General damages benefits

The graphs on page 41 indicate that in the "general damages" category approximately 94 000 claimants received cash benefit payments of more than R2,1 billion at an average of some R22 600 per claim payout for the 2005/2006 financial year. The RAF Amendment Act should decrease the claims in this category as it is intended that claims will only be paid to victims that have sustained "serious injuries". Most of the "general damages" claims are paid for smaller claims where non-serious injuries have been inflicted.

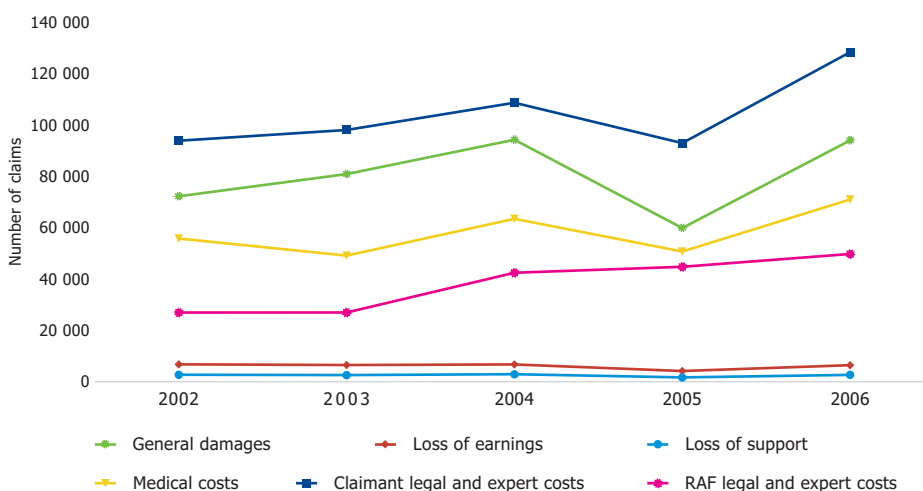
• Loss of earnings benefits

The graphs on page 41 indicate that less than 6 500 claimants have received over R1 billion for "loss of earnings" benefits, at an average of some R155 000 per claim for the 2006 financial year. This indicates that

RAF: Average rand value of cash claim payments



RAF: Number of claims paid in cash



Report of the Board continued

only a small proportion of the South African population is receiving these benefits, and that such claimants are generally in the middle to higher income earning group. These inequalities will be addressed in the future, with amendments to the current legislation.

Furthermore, the fact that such a small percentage in relation to "general damages" claims are receiving these benefits, indicates that the claimants for "general damages" did not even claim for "loss of earnings" benefits, again confirming that a large proportion of the injuries sustained were most probably not serious.

• **Loss of support benefits**

Similarly, only some 2 700 claimants received "loss of support" benefits of R332 million, at an average of some R125 000 for the 2006 financial year.

• **Medical benefits**

In this category, some 71 000 claimants received some R355 million, at an average of some R5 000 for the 2006 financial year. This is a small proportion of the total claims cash payout, and should ideally be much higher.

• **Claimant's legal and expert costs**

Approximately 128 000 claimants' legal and other experts received more than R800 million in payouts, at an average of some R6 250 for the 2006 financial year.

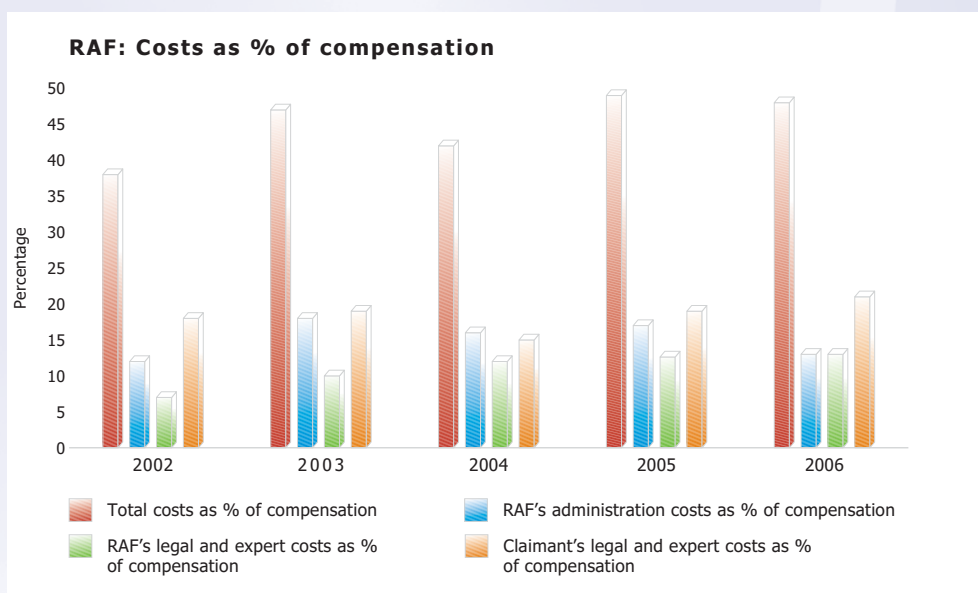
If one considers that in terms of current legislation, the claimants' attorneys are entitled to claim 25% contingency fees of the compensation payout to the accident victim, it is estimated that some R1,6 billion has been paid out in this category. This is again as a result of the systemic problem of a "fault" system, where negligence needs to be proven on the part of the insured driver.

• **RAF's own legal and expert costs**

Almost 50 000 payouts at an average of some R10 500 were made in this category, totalling R520 million for the 2006 financial year. As is stated in the previous category, this is a result of the litigious process that the RAF and its claimants are currently engaged in, as a result of the current legislation.

8.6.4 Costs of settling claims

A comparative analysis of settlement costs over the past few years is set out in the graph and tables below:



* During the 2006 financial year the RAF received a material amount of summonses for claims that have not been settled yet. The resulting litigious processes have increased both RAF's own and claimant legal costs materially.

	Financial year ended									
	2002 11 months R million	Variance %	2003 R million	Variance %	2004 R million	Variance %	2005 R million	Variance %	2006 R million	
Settlement costs:										
– Claimants legal costs	366	26,9	465	2,7	477	14,9	548	46,3	802	
– RAF's legal costs	147	56,9	231	57,8	364	8,0	393	31,5	517	
– Total (1+2)	513		696		841		941		1 319	
Compensation	2 028	19,4	2 422	29,7	3 142	(6,3)	2 943	29,5	3 812	
Total claims (3+4)	2 541		3 119		3 983		3 884		5 131	
Total admin costs	253	74,7	442	10,6	489	1,0	494	0,3	495	
Total expenditure (5+6)	2 794		3 561		4 472		4 378		5 626	
Claimants legal cost as a percentage of compensation	18%		19%		15%		19%		21%	
RAF's legal cost as a percentage of compensation	7%		10%		12%		13%		13%	
RAF's admin cost as a percentage of compensation	12%		18%		16%		17%		13%	
Total cost as a percentage of compensation paid in cash	38%		47%		42%		49%		48%	

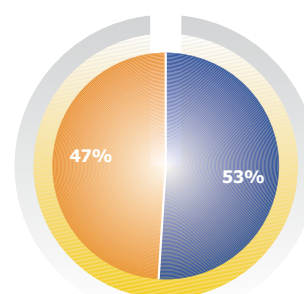
Report of the Board continued

The total cost per claim as a percentage of compensation has decreased by 1% to 48% in the 2006 financial year (2005 – 49%). Administrative costs (including staff costs) as well as legal costs of the RAF and claimants have escalated out of proportion during the past few years. This percentage will be managed downward in future in order to contain costs.

8.6.5 Outstanding high value claims at year-end

At year-end, there were 30 claims lodged not yet settled, where the RAF estimated its outstanding liability to be in excess of R5 million on each claim, at an average of R13,3 million per claim. The chart indicates the split between foreigners and South Africans.

RAF: Estimated outstanding liability at 31 March 2006 for claims in excess of R5 million

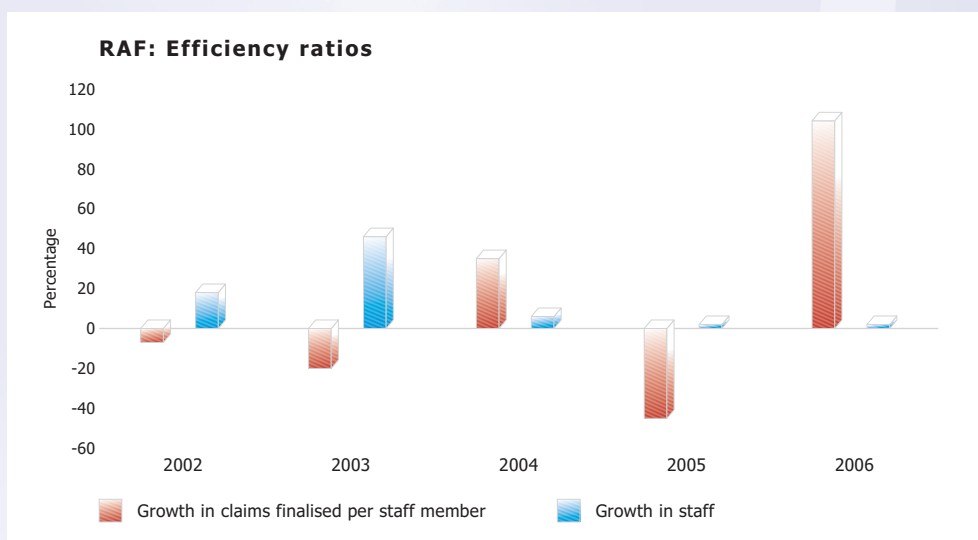


● Foreigners
● South Africans

8.6.6 Human resource growth

The table and graphs below illustrate the increase in the number of staff (permanent and temporary) as well as claims finalised on a year to year basis over the last few years:

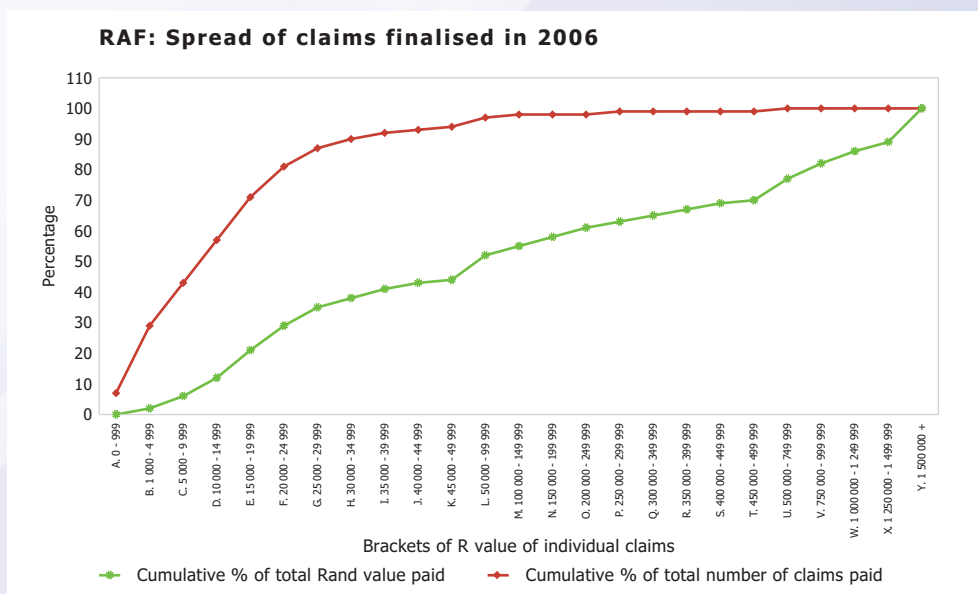
	Financial year ended								
	2002 11 months	% change	2003	% change	2004	% change	2005	% change	2006
Staff count	1 138	46	1 657	6	1 752	2	1 789	2	1 829
Claims finalised	96 833	16	112 315	43	160 391	(44)	90 116	109	188 185



The improved performance during the current financial year arose primarily out of the fact that in 2005 a very low number of claims were settled in comparison to 2006. In addition, during the last quarter of the year, some 40 000 files were finalised where the compensation has already been paid in the 2006 financial year. In comparison to the 90 116 files that have been finalised in the 2005 year, 188 185 files were finalised in the 2006 financial year.

8.6.7 Spread of claims finalised

The graph below indicates the spread of claims that were finalised in the 2006 financial year:

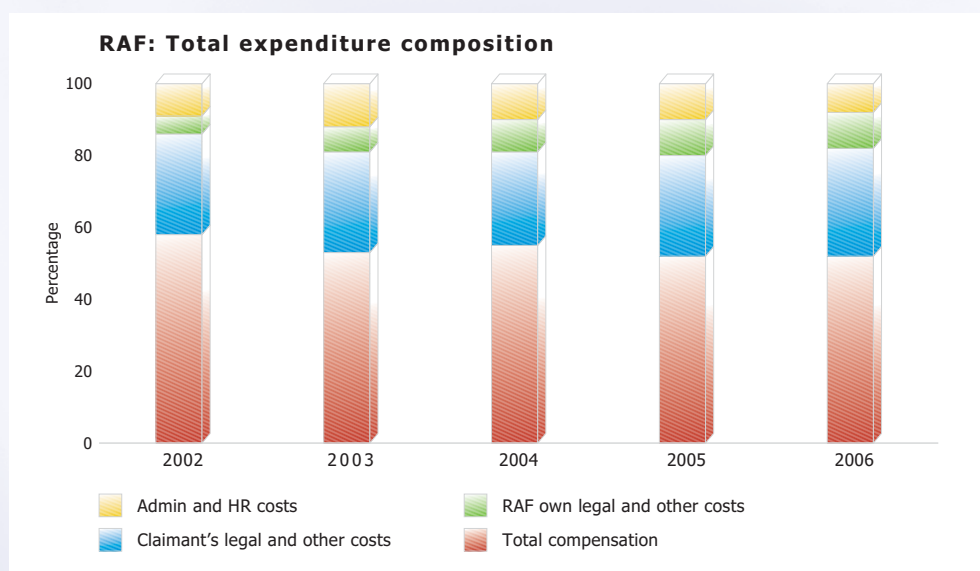


Report of the Board continued

The above graph illustrates that in terms of claims finalised, 90% of the number of claims make up only 38% of the Rand value that were paid out for those claims. It indicates that a large percentage of claims are low value claims under the R30 000 range. This will be particularly important when new processes are designed, as the amount of time and energy spent on low value claims does not justify the fact that it makes up a relatively small percentage of the total Rand value pay out.

8.6.8 Expenditure composition

The chart below displays the RAF's main expenditure items for the 2006 financial year:

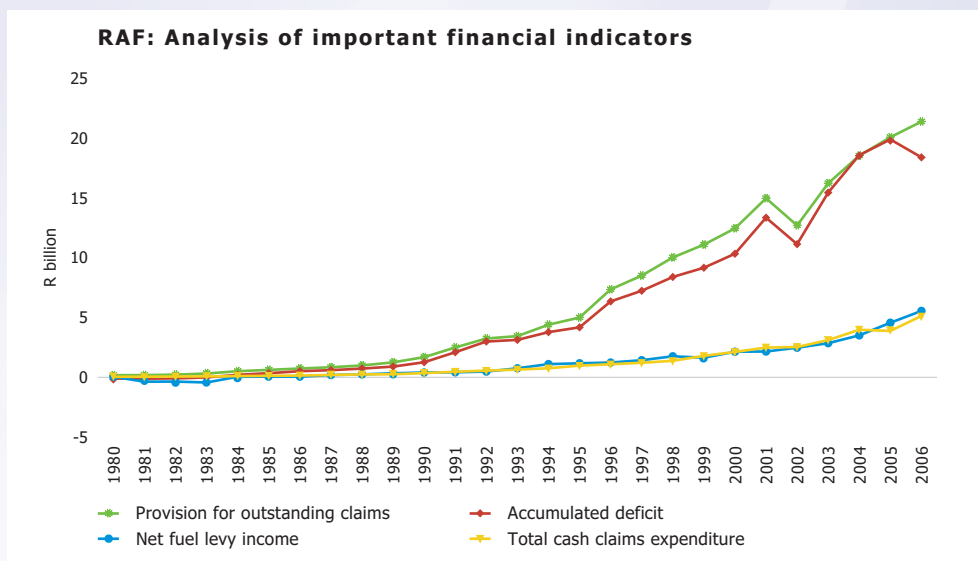


The RAF administrative costs, (inclusive of staff, finance costs and depreciation) as a percentage of total expenditure, decreased from 8% in the previous financial year to 7% during the year under review. This expense now amounts to R478 million (2005 – R456 million). The RAF administrative costs per claim finalised decreased by 50% to R2 536 in comparison with R5 063 in 2005 due to a much higher rate of finalisation of claims during this period.

8.7 Review of financial position

8.7.1 Key financial indicators

The statement of financial position as at 31 March 2006 shows a deficit of R18,37 billion that has escalated over the years as illustrated below:



- The accumulated deficit and the outstanding claims provision are directly related as can be seen from the above graph.
- It is also clear that the fuel levy that was received over the years was only sufficient to fund the cash flow requirement for claims expenditure. It did not address the funding requirement for the backlog of claims that kept on increasing. The increase in the claims backlog accordingly resulted in the steady increase of the accumulated deficit.
- It is worthwhile to mention that the total deficit for the year under review has decreased by R1,49 billion to a total of R18,37 billion (2005 – R19,86 billion). This is directly attributable to the amount of R2,5 billion that formed part of the transfer payment of R2,7 billion received from Government that was recognised in the 2006 financial year.

Report of the Board continued

8.7.2 Solvency/going concern

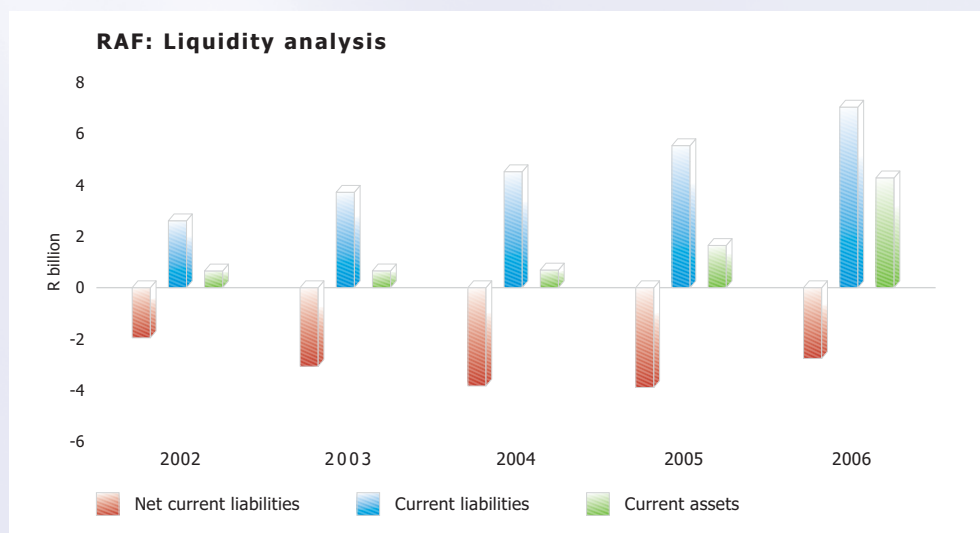
The table below depicts the total assets and the total liabilities of the RAF over the past five years:

RAF: Financial position analysis	Financial year ended				
	2002 11 months R'000	2003 R'000	2004 R'000	2005 R'000	2006 R'000
Total Assets	1 631 868	1 249 956	768 002	1 707 643	4 357 403
Total Liabilities	(12 756 868)	(16 679 573)	(19 333 307)	(21 572 755)	(22 727 616)
Net total liability/negative equity	(11 125 000)	(15 429 617)	(18 565 305)	(19 865 112)	(18 370 213)

- From the table and graph above it is clear that the RAF has not been solvent for a number of years.
- However, the accumulated deficit has decreased in the 2006 financial year as depicted in the graph in paragraph 8.7.1 above.

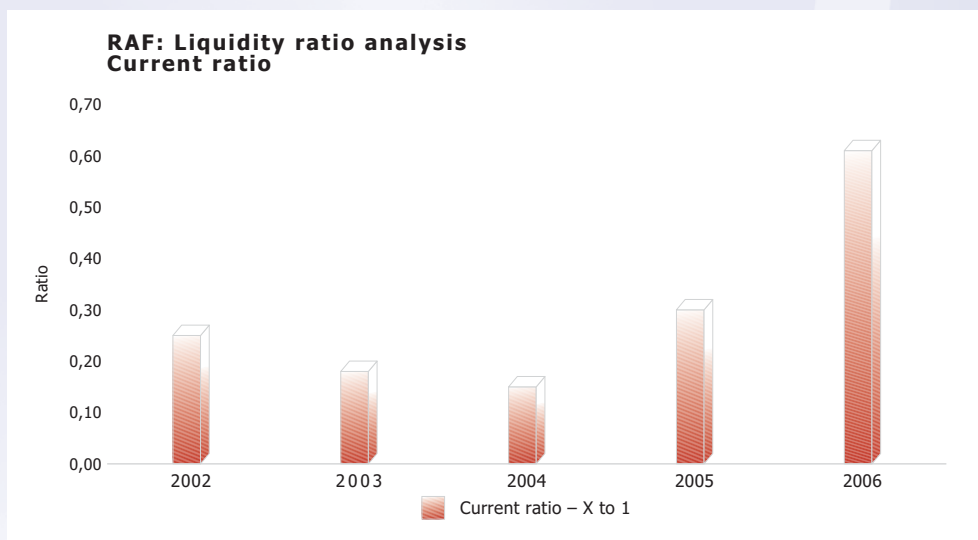
8.7.3 Liquidity

The graph and table below depict the current assets and the current liabilities of the RAF.



As can be seen in the table and graph above, the RAF does not have sufficient near cash assets to compensate for its short-term liabilities.

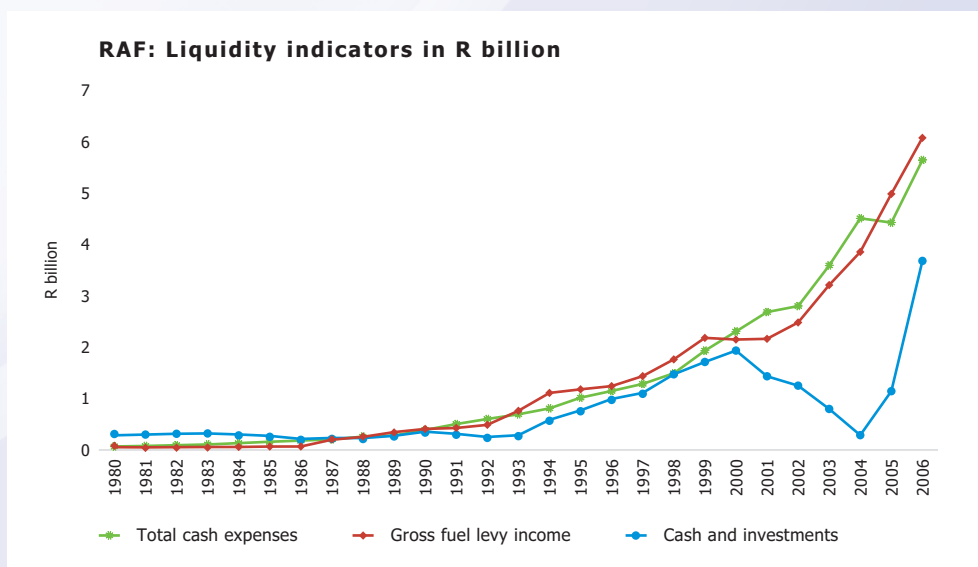
The current ratio is depicted in the graphs below.



The standard current ratio in a financially sound organisation should be 2:1; and 1:1 when the inventory is deducted. The RAF 2006 ratio of 0.61: 1 is far from the standard which is mainly attributable to the short-term portion of the outstanding claims provision (2005 – 0.3: 1).

8.7.4 Cash balances

The graph below depicts the trends in the cash holdings of the RAF over time:



Report of the Board continued

From the chart on the previous page the following can be discerned:

- From 1993 to 1999, the RAF built up cash and investment reserves to a level of nearly R2 billion as a result of a reduction in the number of claims processed.
- From 2000 to 2004, cash holdings reduced as claims and costs increased, resulting in the cash and investments being totally depleted by 2004.
- In the 2004/2005 financial year, the RAF experienced a liquidity crunch and as a result offers for compensation were halted for a period of three months from June to August 2004. Agreements were entered into with claimants to pay their compensation in instalments over a period of two to twelve months. This allowed the RAF to rebuild its cash reserves (primarily by not meeting its obligations).
- At year-end, 31 March 2006, the RAF had accumulated cash holdings of approximately R3,7 billion. However, amounts owing under the instalment arrangements (structured payments) of R485 million as well as the unpaid diesel rebate of R581 million, placed the true net cash position at an amount of R2 634 million which is a substantial improvement from the 2005 net cash position of (R284) million.

8.8 Reasons for poor financial health

8.8.1 Insufficient fuel levy income

The fuel levy received by the RAF on a monthly basis has not been sufficient to cover the settlement costs of the number of claims registered and the capacity that could be finalised each month. As a result of this,

the RAF continues to process fewer claims that it is capable of processing and has entered into arrangements to pay compensation in instalments ranging from two to twelve months (structured payments).

8.8.2 Increase in number of claims submitted

The number of claims that have been submitted during the past years has escalated substantially as a result of an increased awareness of the RAF among the public.

8.8.3 Increase in direct costs that are attributable to settling a claim

Administrative, human resources, investigation and litigation costs of the RAF have progressively increased over the past few years, as is illustrated in 8.6.4 above.

8.8.4 Going concern

The going concern basis was used in preparing the annual financial statements.

The Board and Management have taken it upon themselves to determine how the growing deficit can be contained or reversed, and will continue to deal with the financial position of the RAF to the best of their ability.

To this end, the RAF has engaged National Treasury and the Department of Transport in discussions to resolve the short, medium and longer term funding position of the RAF.

As a result of these discussions and proposals, the Minister of Finance announced in the 2006/07 budget speech on 15 February 2006 that an amount of R2,7 billion was allocated for the remainder of the 2006 financial year in order to alleviate the short-term liquidity position

of the RAF. The transfer was received at the end of the 2006 financial year. A total of R2,5 billion from this total was recognised in the 2006 financial year.

The RAF will continue to work together with these stakeholders in order to devise a comprehensive solution to address the long-term sustainability of the organisation.

8.9 Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005)

The RAF Amendment Bill was signed by the President on 27 December 2005 as the Road Accident Fund Amendment Act, 2005 (Act No. 19 of 2005) and was published in the Government Gazette on 5 January 2006.

The date for commencement of the Amendment Act has not yet been determined, the reason being that prior to the Act being passed into law, a number of Regulations must be developed and approved by the Minister of Transport.

8.10 Events subsequent to reporting date

8.10.1 RAF Amendment Act

On 31 July 2006 Sections 1, 2, 3, 4 and 5 of the RAF Amendment Act were promulgated into law.

8.10.2 Revenue Laws Amendment Act

On 1 April 2006, the relevant Sections of the Revenue Laws Amendment Act, 2005 (Act No. 31 of 2005) that changed the collection of revenue of the RAF came into operation. The effect of these Sections is that the fuel levies that were previously directly received from the fuel companies, via the Central Energy Fund, are now being

collected by SARS from the fuel refineries. The funds are then paid into the National Revenue Fund who allocates it to the Department of Transport who then transfer it to the RAF. This change has led to a negative impact on the cash flow position of the RAF during the first few months of the 2007 financial year.

8.10.3 Recovery of outstanding debt

In the 2005 annual report, the RAF mentioned that it had launched a High Court application to recover an amount of R43,7 million from an intermediary between the RAF and medical service providers.

On 23 August 2006, the High Court of South Africa delivered judgment to order the respondents to repay the full outstanding amount at date of judgment, including costs and interest, to the RAF.

8.11 Addresses

The Road Accident Fund's office, postal and registered addresses are as follows:

Registered office/domicile:

38 Ida Street, Menlo Park, Pretoria, 0081

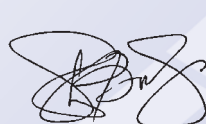
Postal address:

Private Bag X2003, Menlyn, Pretoria, 0063

Registered address:

38 Ida Street, Menlo Park, Pretoria, 0081

Website: www.raf.co.za



DR DE BALOYI
CHAIRPERSON OF
THE BOARD
28 AUGUST 2006



MR JRD MODISE
CHIEF EXECUTIVE
OFFICER

9. Report of the Audit Committee

for the financial year ended 31 March 2006

The claims expenditure, including the increase in the provision for outstanding claims, continued to outstrip, quite significantly the RAF's income from the fuel levy.

We are pleased to present our report for the financial year ended 31 March 2006.

The Board of the RAF has in compliance with the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA") and related Treasury Regulations, established an Audit Committee as its subcommittee in order to enhance its oversight responsibilities and good governance of the RAF. The Audit Committee, appointed effectively from 9 June 2005, consists of four members, who are all members of the Board, are financially literate and possess diverse skills. The Audit Committee have adopted appropriate formal terms of reference as its Audit Committee Charter, have regulated its affairs in compliance with its Charter and have discharged its responsibilities as contained therein. The Chairperson is knowledgeable of the status of the position and has the requisite business, financial and leadership skills to serve in this position.

The Executive Authority took a decision in June 2005 to relieve the previous RAF Board of its responsibilities. The then Audit Committee, due to it being a sub-committee of the Board was also dissolved. The Audit Committee consisted of five members, of whom three were non-Board Members. The Committee was chaired by an independent person.

During the year under review, the Audit Committee was governed by a Charter and written terms of reference, which were approved by the Board of the RAF. The terms of reference and the Charter are in line with the PFMA, Treasury Regulations, the Standards of the Institute of Internal Auditors as well as the recommendations in the King II Report on Corporate Governance. These documents are reviewed annually to ensure their relevance.

The Committee was, therefore, responsible for performing its duties as set out in the terms of reference, and this included reviewing the following:

- The effectiveness of the internal control systems;
- The risk areas of the entity's operations to be covered in the scope of the internal and external audits;
- The accounting and auditing concerns identified as a result of the internal or external audits;
- The RAF's compliance with legal and regulatory provisions, in particular the Road Accident Fund Act, 1996 (Act No. 56 of 1996), the PFMA as well as the National Treasury Regulations;
- The activities of the Internal Audit Department, including its work programmes, coordination with the external

auditors, the reports of significant investigations and the responses of management to specific recommendations;

- The independence and objectivity of the external auditors.

The review of annual financial statements with specific attention to:

- Underlying accounting policies or changes thereto;
- Major estimates and managerial judgments;
- Significant adjustments flowing from the year-end audit;
- Compliance with generally accepted accounting practices, the PFMA and other statutory precepts; and
- The appropriateness of the going-concern assumption.

The Audit Committee was also responsible for a number of initiatives to improve the current internal control environment during the year under review inter alia:

- Reviewing and approving of the Internal Audit Department's Charter, its three year

rolling Strategic Plan, and the annual operating Internal Audit Plan including the Internal Audit organisation structure;

- Encouraging communication between members of the Board, Senior and Executive Management, and the Internal Audit Department;
- Overseeing the implementation of enterprise-wide risk management processes;
- Recommending to the Board, the approval of the Risk Management Strategy and the Fraud Prevention Plan (subsequently approved); and
- Reviewing material policies and recommending them to the Board for approval.

Although there were some areas of improvement, the systems of internal controls were not entirely adequate and effective for the year under review as compliance with prescribed policies and procedures were lacking in certain instances. The Internal Audit reports also indicated instances of non-compliance during the period under review.



Report of the Audit Committee continued

The Audit Committee has evaluated the annual financial statements of the RAF for the year ended 31 March 2006 and concluded that they comply, in all material respects, with the requirements of the PFMA, Generally Recognised Accounting Practice ("GRAP") and South African Statements of Generally Accepted Accounting Practice ("GAAP").

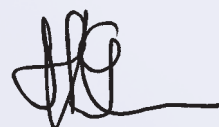
The Audit Committee has:

- Perused the Auditor-General's management letter and Management responses thereto;
- Noted the responses by Management and made its own recommendations as required in terms of Treasury Regulations 3.1.12; and
- Noted the opinion from the Auditor-General and it remains committed to assisting Management in discharging their duties in terms of legislation.

The Audit Committee concurs and accepts the Auditor-General's conclusions 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.

Appreciation

The Audit Committee expresses its sincere appreciation to the Honourable Minister, Board, Chief Executive Officer, Senior Management team and the Auditor-General.



MS HG MOTAU
CHAIRPERSON OF THE AUDIT COMMITTEE

28 AUGUST 2006

In all dealings, the RAF strives to ensure that the interests of stakeholders, especially victims of road accidents, are foremost in its decisions.



10. Corporate Governance Report

for the financial year ended 31 March 2006

10.1 Introduction

The Road Accident Fund ("the RAF") is committed to the concept and principles of good Corporate Governance. As a public entity, the RAF is guided by the principles of the Code of Corporate Practices and Conduct as contained in the Report on Corporate Governance for South Africa 2002 and augmented by the statutory duties, responsibilities and liabilities imposed on it in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999) ("PFMA"). In all dealings, the RAF strives to ensure that the interests of stakeholders, especially victims of road accidents, are foremost in its decisions.

10.2 Key initiatives during the period:

10.2.1 Shareholder Compact

A shareholder performance agreement was concluded between the RAF and its Executive Authority (Minister of Transport) hereafter referred to as the Shareholder. The Compact serves to promote and encourage good governance within the RAF as the respective roles and responsibilities of the Board and the Shareholder are clearly defined ensuring that there is agreement on the mandate and key objectives to be achieved by it.

10.3 The Board of the RAF

10.3.1 Composition of the Board

The details of the previous and current Board Members appear in the Board Report.

The RAF has a unitary board structure comprising of nine non-executive, independent members/directors in compliance with the provisions of the Road Accident Fund Act, 1996 (Act No. 56 of 1996) (as amended). The Board Members, appointed by the Minister of Transport, have extensive experience in one or more of the fields of insurance, finance, medical service provision, law, accounting and actuarial science, or in matters relating to disabled persons, road users, commuters or consumers interests. In terms of the RAF Act ("the Act") the Board is reconstituted every three years.

The Board appoints a Chairperson and Deputy Chairperson. The Chief Executive Officer is a Board Member and he attends all Board and Board Committee meetings. Members of Executive Management are invited to attend Board and Board Committee meetings relevant to their respective business units as and when required.

As provided for in the RAF Act the selection and appointment of Board Members is a matter for the Minister of Transport. Emphasis is placed on achieving a balance of skills, experience and knowledge.

Dates of meetings are scheduled annually in advance. Special meetings are convened as and when material issues requiring decisions arise. The Board meets at least once quarterly, excluding sessions devoted to strategy and business planning.

All Board Members have access to Management, including the Corporate Secretary, and to such information as is needed to carry out their duties and

responsibilities fully and effectively. The Corporate Secretary provides support to the Board to ensure its effective functioning and proper administration of Board proceedings. The current Board was re-appointed with effect from 1 August 2006 to serve a three year term that expires on 31 July 2009.

10.3.2 Corporate Charter

In keeping with good corporate governance practices, the previous Board developed and adopted a Corporate Charter. The Corporate Charter was reviewed and amended by the current Board.

10.3.3 Chairperson and Chief Executive Officer

The roles of the Chairperson and Chief Executive Officer are clearly defined. The Board was initially led by the Chairperson, Dr Saths Cooper, an independent non-executive Board Member and thereafter by Dr Danisa Baloyi who was appointed by the Minister as Chairperson from 9 June 2005. The Executive Management of the RAF was the responsibility of the previous Chief Executive Officer, Mr Humphrey Kgomongwe until 17 May 2005 and is currently the responsibility of the Chief Executive Officer, Mr Jacob Modise, who was appointed on 9 June 2005.

10.3.4 Delegation of Authority

The power and authority to lead, control, manage and conduct the business of the RAF including the power to delegate is clearly defined in terms of the RAF Act, 1996 (Act No. 56 of 1996) (as amended).

10.3.5 Board induction and orientation

A formal induction programme is conducted in order to familiarise new Board Members with the RAF's legislative framework, its governance process and the nature and operations of the business. The Board is made aware of new laws and regulations on an ongoing basis.

10.3.6 Board remuneration

The remuneration of members of the Board is determined by the Shareholder. Members of the Board are remunerated by the RAF for services rendered; as such members are reimbursed for all reasonable expenses incurred in attending meetings of the Board: Provided that the Chairperson of the Board may receive such higher remuneration than that of the other members, as may be determined by the Shareholder.

10.3.7 Board Committees

Several Board Committees have been duly constituted to assist the Board in discharging its responsibilities. Each Committee operates within the ambit of its delegated terms of reference that sets out the composition, role, responsibilities, delegated authority and requirements for convening meetings.

10.3.8 Executive Committee ("EXCO")

The Executive Committee of the Board is chaired by the Chairperson of the Board. Its membership consists of the Board Chairperson, Board Vice-Chairperson, Chief

Corporate Governance Report continued

Executive Officer and Chairpersons of the Board Committees. EXCO meets as and when required.

For the period 1 April 2005 to 8 June 2005 the Executive Committee of the Board consisted of the following members:

- Dr S Cooper (Chairperson: Board and EXCO)
- Mr VO Twala (Vice-Chairperson: Board and EXCO, Chairperson: Finance and Remunerations Committee)
- Bishop TE Radebe (Chairperson: Transformation, Empowerment and Human Resources Committee)
- Prof M Lukhele (Chairperson: Medical Committee)
- Adv DJ Mitchell (Additional member)
- Mr HL Kgomongwe (Chief Executive Officer) until 17 May 2005

The Chairperson of the Board's Audit Committee was not a member of EXCO during this period.

For the period 9 June 2005 to 31 March 2006 the Executive Committee of the Board consisted of the following members:

- Dr DE Baloyi (Chairperson: Board, EXCO and Remuneration and Human Resources Committee)
- Mr VS Mahlangu (Vice-Chairperson: Board)
- Mr T Moyo (Chairperson: Risk Management Committee)
- Prof CJB Greeff (Chairperson: Claims Committee)
- Ms HG Motau (Chairperson: Audit Committee)
- Mr JRD Modise (Chief Executive Officer) as from 27 June 2005.

10.3.9 Audit Committee

The Audit Committee was chaired by an independent and non-executive professional who was not a Board Member until the termination of the previous Board's term on 8 June 2005; thereafter the Committee was chaired by a non-executive Board Member.

The Audit Committee meets quarterly with Senior Management, which includes the CEO, CFO and the CIA. The external auditors and internal auditors attend these meetings and have unrestricted access to the Audit Committee and to its Chairperson.

The Audit Committee serves in an advisory capacity to the Board and assists the Board to discharge its duties relating to the safeguarding of assets, the operation of adequate systems, risk management and controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place.

The RAF has an inhouse Internal Audit function. It has a specific mandate from the Audit Committee and independently appraises the RAF's internal controls and accounting records, reporting its findings to Management as well as the Audit Committee. As part of the system of internal control, the RAF's Internal Audit function conducts operational, financial and specific audits and co-ordinates audit coverage with the external auditors.

For the period relevant to this report from 1 April 2005 to 8 June 2005 the Audit Committee of the Board consisted of the following members appointed to the Audit Committee by the then Board:

- Mr JR Rapoo (Chairperson: External member, i.e. neither a member of RAF Board nor staff)
- Mr C Choeu (External member, i.e. neither a member of RAF Board nor staff)
- Mr RK Desai (External member, i.e. neither a member of RAF Board nor staff)
- Mr VO Twala
- Adv NK Dukada

For the period relevant to this report from 9 June 2005 to 31 March 2006 the Audit Committee of the Board consisted of the following members of the Board appointed to the Audit Committee by the current Board:

- Ms HG Motau (Chairperson)
- Mr T Moyo
- Prof CJB Greeff
- Mr SA Msibi

10.3.10 Risk Management Committee

The Risk Management Committee ("RMC"), chaired by an independent non-executive Board Member, meets quarterly, or as often as necessary.

The purpose of this Committee is to ensure that the RAF has an integrated Risk Management Strategy. The Committee deals

with issues such as risk accountabilities, risk exposure, integrated risk management processes and emerging risks. The Committee ensures that the RAF's risk management strategies and processes are aligned with the recommendations of the King II guidelines on Corporate Governance.

For the period relevant to this report, from 9 June 2005 to 31 March 2006, the Risk Management Committee of the Board consisted of the following members appointed to the Committee by the current Board:

- Mr T Moyo (Chairperson)
- Ms HG Motau
- Dr AKA Dasoo
- Mr SA Msibi

10.3.11 Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee ("REMCO"), chaired by an independent non-executive Board Member, meets quarterly, or as often as necessary.

The purpose of this Committee is to establish a formal and transparent procedure for developing a policy or causing a policy to be developed on Executive remuneration packages and for fixing the remuneration packages of Executives within the RAF, and to make recommendations to the Board in relation thereto.

Corporate Governance Report continued

REMCO is responsible for developing and implementing a competitive Human Resources Strategy to ensure that the RAF is able to attract, retain and develop the best possible talent to support superior business performance. The objective is to create an organisational culture, structures and processes that support the development of people and the optimisation of their potential. The strategy forms part of the strategic plan and REMCO is responsible for enforcing, monitoring and auditing development and progress.

The Committee monitors compliance with the Employment Equity Act, 1998 (Act No. 55 of 1998).

For the period relevant to this report, from 9 June 2005 to 31 March 2006, the Remuneration and Human Resources Committee of the Board consisted of the following members of the Board appointed to the Committee by the current Board:

- Dr DE Baloyi (Chairperson)
- Mr VS Mahlangu
- Ms KE Moloto-Stofile
- Ms K Manana

10.3.12 Claims Committee

The Claims Committee, chaired by an independent non-executive Board Member, meets quarterly, or as often as necessary.

The purpose of this Committee is to oversee all claims operational aspects of the RAF relating to compensation of road accident victims and the actuarial valuation of outstanding claims. The Claims Committee assists the Board by guiding and directing the claims administration strategy, processes and systems including data collection and actuarial evaluation of the outstanding claims liability.

For the period relevant to this report, from 9 June 2005 to 31 March 2006, the Claims Committee of the Board consisted of the following members of the Board appointed to the Committee by the current Board:

- Prof CJB Greeff (Chairperson)
- Mr VS Mahlangu
- Ms KE Moloto-Stofile
- Dr AKA Dasoo

10.3.13 Transformation, Empowerment and Human Resources Committee (“TRANS-COM”) (This Committee was a subcommittee of the previous Board)

The Transformation, Empowerment and Human Resources Committee (“TRANS-COM”), chaired by an independent non-executive Board Member, met quarterly, or as often as it was necessary.

The purpose of this Committee was to ensure that the RAF protects or advances persons or

categories of persons who are disadvantaged by unfair discrimination of the past and to promote the achievement of equality within its operations. The Committee also ensured that adequate policies and strategies relating to Black Economic Empowerment ("BEE"), Transformation, Human Resources, Procurement and related matters were put in place and implemented effectively.

For the period relevant to this report, from 1 April 2005 to 8 June 2005, the Transformation, Empowerment, Human Resources Committee of the Board consisted of the following members appointed to the Committee by the then Board:

- Bishop TE Radebe (Chairperson)
- Dr AW Barday
- Adv NK Dukada
- Ms W Stander
- Adv DJ Mitchell

10.3.14 Finance and Remunerations Committee (This Committee was a subcommittee of the previous Board)

The Finance and Remunerations Committee consisted of non-executive Board Members. The Committee invited members of Executive Management to its meetings. There was a standing invitation to the CEO and the CFO. The main function of this Committee was to oversee all financial aspects of the RAF including overseeing of financial functionaries and approval of special financial arrangements. The Committee also assisted the Board by

guiding and directing the remuneration philosophy, strategy and structure, and monitoring and controlling remuneration, benefits structure and cost. The Committee approved accounting procedures and systems set in place by the Audit Committee and ensured that these were followed.

For the period relevant to this report from 1 April 2005 to 8 June 2005 the Finance and Remuneration Committee of the Board consisted of the following persons appointed to the Committee by the then Board:

- Mr VO Twala (Chairperson)
- Ms A Gibberd
- Adv DJ Mitchell
- Dr N Goba
- Mr J Nkeli

10.3.15 Medical Committee (This Committee was a subcommittee of the previous Board)

The purpose of this Committee was to make recommendations to the Board in relation to strategies, procedures and policies affecting the medical aspects of handling third party claims within the RAF. The Committee assisted the Board in ensuring the development of strategies in dealing with the medical and related aspects of the recommendations contained in the report of the Road Accident Fund Commission.

For the period relevant to this report from 1 April 2005 to 8 June 2005 the Medical Committee of the Board consisted of

Corporate Governance Report continued

the following persons appointed to the Committee by the then Board:

- Prof M Lukhele (Chairperson)
- Ms A Gibberd
- Dr AH Barday
- Dr N Goba
- Mr J Nkeli

10.3.16 Chief Executive Officer (“CEO”) and the Management

The CEO of the RAF, Mr HL Kgomongwe, was suspended on 4 February 2005 and his employment was terminated on 17 May 2005. Mr T Magwaza acted as CEO, as from 4 February 2005 until the appointment of Mr JRD Modise, as CEO, on 9 June 2005.

All Board Members have access to the services of the CEO and members of the Management.

10.3.17 Corporate Secretary

All Board Members have access to the advice and services of the Acting Corporate Secretary who ensures compliance with applicable procedures and legislation.

10.3.18 Board and Board Committee meetings attendance

The attendance of meetings by the previous Board, independent non-Board Committee members and the CEO of the RAF during the financial year is reflected in the summary below:

Members	Executive Board	Executive Committee	Audit Committee	Finance and Remuneration Committee	Transformation, Empowerment and HR Committee	Medical Committee
Number of meetings	1	4	1	0	1	1
Dr S Cooper	1	4				
Prof M Lukhele	1	3				1
Bishop TE Radebe	1	4			1	
Adv N Dukada	–				1	
Ms M Mpofu	–					
Ms A Gibberd	1					1
Mr VO Twala	1	3				
Dr AW Barday	1				1	
Adv DJ Mitchell	1	4			1	1
Dr N Goba	1					1
Mr J Nkeli	1					1
External Members of the Audit Committee (who are not Board or staff members)						
Mr JR Rapoo			1			
Mr C Choebu			1			
Mr RK Desai			1			
CEO (Member of EXCO)						
Mr HL Kgomongwe						

Members	Executive Board	Executive Committee	Audit Committee	Risk Management Committee	Remuneration and Human Resources Committee	Claims Committee
Number of meetings	5	2	4	2	1	1
Dr DE Baloyi	3	2			1	
Mr VS Mahlangu	4	2			1	1
Mr T Moyo	4	2	3	2		
Prof CJB Greeff	4	2	3			1
Ms K Manana	4				1	
Ms KE Moloto-Stofile	4				1	1
Ms HG Motau	5	2	4	1		
Dr AKA Dasoo	5			2		1
Mr SA Msibi	4	2		2		
CEO (Member of EXCO)						
Mr JRD Modise	5	2	4	2	1	1

10.4 Management structures

The RAF has an appropriate organisational structure for planning, executing, controlling and monitoring its business operations in order to achieve the strategic business objectives approved by the Board. The Management of the RAF has three tiers, namely the Executive Management team, Senior Management team (comprises of Senior Managers) and Middle Management team. The Management of the RAF is delegated to the CEO and the Executive Management in accordance with the Road Accident Fund Act, the PFMA and written delegations of authority policy and other related regulations. The Executive Managers and business unit heads are accountable for the control, conduct and performance of their businesses within the agreed business strategy.

Some of the key positions have been vacant during the latter half of the financial year pending a business diagnostic process.

10.4.1 Business planning

The Board regularly reviews the RAF's strategic direction and the CEO considers the strategy for the individual lines of business with Executive Management on a planned basis.

Annual budgets and three-year strategic plans are prepared with performance targets for each line of business set by the Board in conjunction with Executive Management. The overall business plan is then reviewed by the Board of the RAF.

Performance against the strategic objectives is regularly monitored at Board level. Forecasts are done on a regular basis to combine the business plan and actual figures to give the Board a better reflection of the financial position of the RAF, and what can be expected in terms of operational performance. This gives the Board a clear indication of what needs to be done in order to meet the RAF's objectives.

Corporate Governance Report continued

10.4.2 Internal control, risk management and compliance

The Board Members welcome the guidance for Directors or Board Members published in the King Report on Corporate Governance as well as the PFMA, concerning the operation of a sound system of internal control.

• Internal controls

The Board acknowledges its overall responsibility for the RAF's system of internal control and for reviewing its effectiveness, whilst Executive Management is accountable to the Board for monitoring the system of internal control and for providing assurance to the Board that it has done so. Executive Management has implemented an internal control system designed to facilitate effective and efficient operation of the RAF and its business.

The system of internal control also helps to ensure the quality of internal and external reporting, compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. The RAF's internal control system is designed to manage, rather than eliminate, the risk of failure to achieve the RAF's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Executive Management is responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed

on a regular basis and may be associated with a variety of internal and external sources.

The internal controls are in the process of being reviewed as part of a business diagnostic initiative.

• Risk management

The Board identifies and monitors risk through the planning process, the close involvement of the Executive Management in the RAF's operations and the periodic monitoring of key issues to ensure that the significant risks faced by it are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

An integrated risk management framework was developed and a risk assessment workshop was conducted where business identified risks were prioritised by the Board.

The Board has also adopted a risk management policy and a risk strategy will be implemented in the new financial year.

• Monitoring

The Board has delegated to Executive Management implementation of the system of risk management and internal financial control. The operation of the system is monitored and a programme of reviews focusing on key aspects of the business is being carried out. The Board conducts a review of the operation and effectiveness of

this system of internal financial control annually.

The Board Members accept responsibility for maintaining appropriate internal control systems to ensure that RAF's assets are safeguarded and managed, and losses arising from fraud or other illegal acts are minimised. Control systems are continually monitored and improved in accordance with generally accepted best practices.

The Internal Audit Unit is a function established at corporate level, reporting to the Audit Committee, to assist Executive Management and the Audit Committee in the effective discharge of their respective responsibilities, by means of independent financial, internal control and operational systems reviews.

10.4.3 Monitoring of controls

The key processes supporting the Board's regular and annual review processes are summarised below.

• CEO and Executive Management

The CEO reports to the Board on behalf of Executive Management and their respective business units on major changes in the business and the external environment that affect the significant risks of their respective businesses. The Board receives regular operational or performance information, which includes key performance and risk indicators.

• Internal Audit and the Audit Committee

The RAF's Internal Audit function operates on an operational level and carries out regular risk-focused reviews of the system of internal control. The Internal Audit function operates independently of Executive Management, reporting for day-to-day operational purposes only, to the CEO, with unrestricted access to the Chairperson of the Audit Committee.

An Internal Audit Charter, reviewed and approved by the RAF's Audit Committee, governs Internal Audit activity within the RAF. Progress against the approved strategic three year audit rolling plan is reported regularly to the Audit Committee.

Risk and control failures are reported to the Audit Committee, where rectification procedures and progress are closely monitored. Planned corrective actions are independently monitored for timely completion by Internal Audit and, as appropriate, by the Audit Committee and Board.

10.5 Employment equity and policies

The internal controls, based on established policies and procedures, are applied by trained, skilled personnel with an appropriate segregation of duties and are monitored throughout the RAF. All employees are required to maintain the highest ethical standards in ensuring that the RAF's business practices are conducted in a manner, which in all reasonable circumstances, is above reproach.

Corporate Governance Report continued

The RAF's employment policies take the above mentioned into consideration and are regularly reviewed and updated to ensure their appropriateness. They are further designed to promote a working environment which supports the recruitment and retention of highly effective employees with a high ethical and moral standard.

Employment equity targets are aligned with government, currently employment equity levels are at 72%.

10.5.1 Working environment

The RAF considers that the establishment of the right working environment for its people is essential for their performance and development and to the future of the RAF.

10.5.2 Discrimination

Employees are recruited and promoted on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is balanced against the requirement to address the issues of employment equity, and the RAF's practices demonstrate cognisance of this assumption.

10.5.3 Employee involvement

The RAF values the involvement of its employees through their union primarily and continues to keep them informed on matters affecting them as employees and factors

relevant to its performance. Employee involvement and consultation are managed in a number of ways, including in-house publications, briefings, roadshows and the intranet.

Employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. Change management processes and capability are being developed to ensure the inclusion of staff in changes affecting them.

10.5.4 Policies

The RAF applies policies that do not discriminate on grounds of race, age, disability, sex or religion and which provide good opportunities for disadvantaged sections of the community.

10.5.5 Freedom of association

The RAF recognises the rights of employees with regard to freedom of association and representation within the context of corporate economic viability arising from its responsibility to its road accident victims and other stakeholders. The RAF affirms that employees have the right to choose whether or not they wish to participate in organised labour structures.

10.6 Stakeholder communications

The Board considers that balanced and understandable communication on the RAF's activities to stakeholders is essential, and

strives to clearly present any matters material to a proper appreciation of its position. The Board and Management of the RAF are committed to keeping stakeholders informed of developments in the MVA industry and drive this through its stakeholder relations and communications strategy. The interests and concerns of stakeholders are addressed wherever possible by communicating information, as it becomes known, regardless of the potentially positive or negative impact.

The Board seeks to build on a mutual understanding of objectives shared between the RAF and its stakeholders through a regular series of meetings and presentations.

10.7 Fraud and illegal acts

The RAF does not engage in, accept or condone engaging in any illegal acts in the conduct of its business. The Board ensures active pursuit and prosecution of perpetrators of fraudulent or other illegal activities, should they become aware of any such acts.

The Board and Management of the RAF have adopted a zero tolerance to any form of fraud, bribery and corruption or any form of deviance. This is not tolerated at any level in the organisation and are dealt with immediately. All such incidents are reported to the authorities for prosecution.

Partnerships entered into with the South African Police Service ("SAPS"), the National

Prosecuting Authority ("NPA"), and the Special Commercial Crimes Unit is of great assistance to the RAF.

The RAF has continued making use of a fraud line and confidential reporting programme Tip-Offs Anonymous, run by an independent third-party organisation whereby employees as well as members of the general public are encouraged to report any fraudulent incidents they are aware of or suspect within the organisation.

10.8 Interest in contracts/ related party transactions

Section 10 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996), requires a member of the Board of the RAF to declare any interest relating to the functions, duties and obligations of the RAF in terms of this Act and such a member may not vote in respect of any decision of the Board in so far as he or she has such interest therein.

The Board Members declare their interests at every Board meeting and a register of interests is maintained by the Corporate Secretary.

Full disclosure of transactions with related parties is set out in note 22 to the financial statements.

10.9 Ethical responsibilities

The RAF subscribes to principles of ethics and good business practice and the Board believes that the ethical standards and the

Corporate Governance Report continued

criteria for compliance with these standards as contained in the 2002 King Report are being met in line with principles of Corporate Governance.

The RAF is committed to conducting business with uncompromising honesty, integrity, diligence and professionalism. Board and staff members at every level are expected to adhere to the highest standards of ethics and behaviour.

10.10 Healthcare and safety

Access to healthcare is provided to employees through the provision of medical insurance schemes. The RAF continues to take a proactive stance against life-threatening epidemics such as HIV/Aids. These diseases are being actively managed, largely on a preventative basis, to negate their impact on the business and the employees themselves.

An HIV/Aids policy has been developed and published. The policy is in line with that of the Department of Transport. The nature of the strategy has been to conduct HIV/Aids training to all staff. The training relates to the causes, prevention, precautions and maintenance of health if infected.

An Employee Assistance Programme co-ordinator has been appointed.

10.11 Transformation

The RAF is committed to ensuring transformation within the organisation. As

part of its procurement policies the RAF supports BEE through the procurement of goods and services from black-owned businesses.

10.12 Sustainability

The Board and Management take responsibility for ensuring the implementation of sustainability – economic, social and environmental – into all business practices.

10.13 Confidentiality

Due to the nature of the RAF's business, it is imperative that a strict code of confidentiality is maintained throughout the RAF to protect its environment. Each staff member is required to sign a confidentiality agreement and any breach is dealt with in accordance.

10.14 Procurement

The RAF has a procurement policy embracing its commitment to BEE. A dedicated Procurement Manager and Procurement Control Committee are responsible for promoting and monitoring sustainable affirmative procurement, subject to performance standards by the suppliers and the need to assist emerging suppliers.

Current policy and procedures are in the process of being reviewed in order to ensure full compliance to legislation.

11. Performance Against Objectives

for the financial year ended 31 March 2006

The performance targets reviewed below are the objectives agreed between the RAF and the Minister of Transport as contained in the 2006 – 2009 Strategic Plan as approved by the Minister in terms of Section 30.1.1 of the Treasury Regulations. The Board monitors performance against these objectives on a month-to-month basis and is reported on quarterly in terms of Section 30.2.1 of the Treasury Regulations.

11.1 Core business operations

Key performance area	Key performance indicators	Target	Performance results	Notes
Processing backlog	Claims processed	110 000	188 185	Achieved. Included in this figure is a total of 45 432 claims that have been electronically finalised where compensation had already been paid.
	Outstanding claims	582 000	445 682	
Cost: compensation ratio	RAF legal costs	13%	13%	Achieved.
Cost: compensation ratio	RAF HR and Admin costs	14%	13%	Achieved.
Cost: compensation ratio	Claimant costs	17%	21%	Not achieved. RAF has limited control over claimants legal and other costs.
Total cost to compensation ratio		44%	48% costs include cash claims expenditure; HR and admin costs.	Not achieved as a result of the RAF having limited control over claimants legal and other costs.
Financial sustainability	Total revenue required	R7,724 billion	R8,137 billion	Achieved. R2,5 billion of R2,7 billion transfer payment from Government recognised in 2005/06 financial year.
	Fuel levy income	Expected: R5,270 billion Additional revenue required: R2,454 billion	R5,552 billion R2,502 billion recognised of the R2,7 billion transfer payment received from Government.	Achieved through increased fuel consumption. Fuel levy increased by 5 c/l to 31,5 c/l in the 2005/06 financial year. Achieved.

Performance Against Objectives continued

Key performance area	Key performance indicators	Target	Performance results	Notes
Financial health	Solvency			
	Negative equity	(R30,869 billion)	(R18,370 billion)	Achieved.
	Liabilities/total assets	(1 034%)	(522%)	Achieved.
	Liquidity			
	Net working capital	(R3,893 billion)	(R2,741 billion)	Achieved.
	Profitability			
	Net surplus/net fuel levy	(143%)	(27%)	Achieved.

11.2 New business development

The targeted dates for the achievement of the items below as set out in Section 8 of the Strategic Plan were dependent on the date on which the Minister would give the go-ahead for the implementation of the plan. The dates were scheduled to follow the approval of the Strategic Plan, which approval was received on the 10th of January 2006. As set out in Section 8 of the Strategic Plan, these dates have been adjusted to take the delay in approval into account.

Key performance area	Key performance indicators as per strategic plan	Adjusted key performance indicators as per strategic plan	Target	Performance results
Complete tender process for specialised services	Contracts entered into with specialist service providers by 31 October 2005.	31 January 2006	Signed contracts covering all critical areas of investigation by deadline date.	Achieved.
Set up business development team	Fully functional business development unit by 30 November 2005.	28 February 2006	Service agreements entered into with all required team members by deadline date.	Partially achieved.
Perform business diagnostics	Detailed signed-off diagnostic reports for each area of investigation including feasibility and cost benefit analyses by 31 January 2006.	30 April 2006	Detailed diagnostic reports completed by deadline date.	Achieved.

12. Financial Statements

for the financial year ended 31 March 2006

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The financial statements were approved by the Board on 28 August 2006 and signed on its behalf by:



DR DE BALOYI
CHAIRPERSON OF THE BOARD



MR JRD MODISE
CHIEF EXECUTIVE OFFICER

Report of the Auditor-General to Parliament on the financial statements of the Road Accident Fund

for the year ended 31 March 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 76 to 108, for the year ended 31 March 2006, have been audited in terms of Section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with Sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette No. 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette No. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

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

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Road Accident Fund ("RAF") at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements.

5. EMPHASIS OF MATTER

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

5.1 Submission of annual financial statements

The financial statements were approved by the Board on 29 May 2006. The statements were subsequently revised to address material shortcomings and were re-submitted for audit together with the supporting documentation on 29 August 2006. This has led to non-compliance with Section 55(1)(d) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), which relates to timely submission.

5.2 Going concern

With reference to paragraph 8.8.4 of the Board Report, the annual financial statements have been prepared on the going-concern basis which assumes that sufficient funds will be available to continue operations of the RAF without loss to present or future creditors.

The financial statements, however, show that the total liabilities exceeded total assets by R18 370 million (2005 – R19 865 million) at 31 March 2006 and net current liabilities of R2 662 million (2005 – R3 821 million) at that date.

This is mainly attributable to the long-term provision for outstanding claims amounting to R15 693 million at year-end (2005 – R16 044 million) while the short-term provision included in net current liabilities amounted to R5 658 million (2005 – R4 006 million).

The increase in cash and cash reserves from R1 145 million in 2005 to R3 682 million at 31 March 2006 can be attributed mainly to a once-off transfer payment received from National Treasury and to some extent the introduction of structured payments during the year. Claims were settled in instalments, while the RAF invested surplus cash to rebuild cash reserves previously depleted. Structured payments have since been discontinued and should the RAF be required to settle both the outstanding claims and the amount owed to SARS, cash reserves accumulated during the year would not be sufficient.

5.3 Control environment

I noted in my previous report that several positive interventions had taken place after the close of that financial year. This has been manifested in a number of improvements. However, various aspects still require a concerted effort and are summarised below. Management has confirmed that these matters are being addressed and I will be reviewing their progress during my next audit.

5.3.1 Policies and procedures

Whilst the RAF has been active in this area, a number of policies and procedures have become dated and are in need of review. Care should also be taken to ensure that the policies and procedures cover all significant areas of operation, in particular those of claims management and information technology security. They should also be properly approved and rolled out to all staff.

Report of the Auditor-General continued

5.3.2 *Claims management*

The claims management process is central to the operation of the RAF. Whilst the volume, quantum and complexity of the claims are recognised, together with the dependence in many instances on third parties to provide information, a number of concerns were noted. These related to the timelines for completion, the completeness of information and records and to certain administrative arrangements, such as the payment procedures, organisational arrangements and delegations.

Many allegations have been made of fraud and corruption. It should be noted that fraudulent claims may require collusion between external and internal parties and consequently, would not normally be revealed through a regularity audit.

5.3.3 *Information systems*

A follow-up information system audit of general controls surrounding the information technology environment at RAF was completed in April 2006, and the findings were reported to the Acting Chief Financial Officer. The corrective measures referred to by RAF management will be evaluated during the next audit.

Some of the most significant weaknesses identified were inadequate maintenance of audit trails, inadequate change control procedures, segregation of duties and other control procedures.

6. **APPRECIATION**

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

Shauckat Fakie

SA FAKIE
AUDITOR-GENERAL
PRETORIA

13 SEPTEMBER 2006



AUDITOR-GENERAL

Board Members' Responsibility

as at 31 March 2006

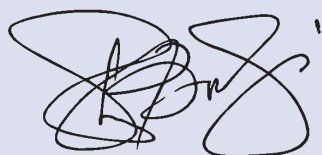
The Public Finance Management Act, 1999 (Act No. 1 of 1999), (as amended by Act 29 of 1999), ("PFMA") requires the Board to ensure that the Road Accident Fund keeps full and proper records of its financial affairs. The annual financial statements should fairly present the state of affairs of the RAF, its financial results, performance against predetermined objectives and its financial position at the end of the financial year in terms of Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice.

The Board as the Accounting Authority is responsible for the preparation, integrity and fair presentation of the annual financial statements of the RAF. The annual financial statements for the year ended 31 March 2006, presented on pages 76 to 108 have been prepared in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice and include amounts based on judgements and estimates made by professional actuaries and Management of the RAF.

The Board has adopted the going-concern basis for the preparation of the annual financial statements.

In the opinion of the Board, based on the information available to the Board at the date of signature of these audited financial statements, the annual financial statements fairly present the financial position of the RAF at 31 March 2006 and the results of its operations and cash flow for the year ended 31 March 2006.

The audited annual financial statements for the year ended 31 March 2006 were approved by the Accounting Authority on 28 August 2006 in terms of Section 51(1)(f) of the PFMA and are signed on its behalf by:



DR DE BALOYI
CHAIRPERSON OF THE BOARD



MR JRD MODISE
CHIEF EXECUTIVE OFFICER

28 AUGUST 2006

Road Accident Fund

statement of financial position

as at 31 March 2006

	Notes	2006 R'000	2005 R'000
ASSETS			
Current assets		4 278 447	1 644 954
Cash and cash equivalents	2	3 682 359	1 145 134
Income receivable	3	565 491	440 689
Other receivables	4	3 408	6 463
Advance payments and deposits	5	27 189	52 668
Non-current assets		78 956	62 689
Infrastructure plant and equipment	6	55 521	62 689
Non-current portion of income receivable	4	2 832	–
Non-current portion of advance payments and deposits	5	20 603	–
Total assets		4 357 403	1 707 643
LIABILITIES			
Current liabilities		7 019 675	5 528 489
Payables	7	543 445	842 789
Unutilised transfer payment	8	198 428	–
Provision for outstanding claims	9	5 658 365	4 005 872
Other provisions	10	38 926	42 324
Provision for diesel rebate	10.7	580 511	637 504
Non-current liabilities		15 707 941	16 044 266
Payables	7	14 856	–
Provision for outstanding claims	9	15 693 085	16 044 266
Accumulated deficit		(18 370 213)	(19 865 112)
Total liabilities		4 357 403	1 707 643



Road Accident Fund

statement of changes in net assets

for the year ended 31 March 2006

	Notes	Accumulated surplus/(deficit) R'000
Balance at 31 March 2004		(18 565 305)
As previously reported		(18 556 863)
Effect of change in accounting policy	12	(169)
Prior year adjustment: Operating lease	21	(8 273)
Operating (deficit) for 2005 as previously stated		(1 294 747)
Effect of change in accounting policy	12	(543)
Prior year adjustment: Operating lease	21	(4 517)
Balance at 31 March 2005		(19 865 112)
Operating surplus for the year		1 494 899
Balance at 31 March 2006		(18 370 213)

Road Accident Fund

statement of financial performance

for the year ended 31 March 2006

	Notes	2006 R'000	2005 R'000
REVENUE			
Net fuel levies	13	5 552 334	4 566 034
Interest	14	81 969	56 995
Other operating revenue	15	1 003	879
Transfer payment recognised	16	2 501 572	–
Total revenue		8 136 878	4 623 908
EXPENSES			
Claims	17	6 146 584	5 424 640
Reinsurance premiums		18 226	42 786
Staff	18.1	352 171	322 113
Administrative	18.2	110 166	112 003
Finance cost	18.3	26	27
Depreciation and amortisation	6	14 886	22 155
Total expenses		6 642 059	5 923 724
(Gains) on sale of infrastructure, plant and equipment		(80)	(9)
SURPLUS/(DEFICIT) FOR THE PERIOD		1 494 899	(1 299 807)



Road Accident Fund

cash flow statement

for the year ended 31 March 2006

	Notes	2006 R'000	2005 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts: Fuel companies and other		5 965 243	4 889 513
Transfer payment from Government		2 700 000	–
Cash payments		(6 202 245)	(4 075 973)
Cash utilised in operations	19.1	2 462 998	813 540
Interest received		81 969	56 995
Interest paid		(26)	(27)
Net cash inflows/(outflows) from operating activities		2 544 941	870 508
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of infrastructure, plant and equipment		(7 716)	(5 309)
Net cash flows from investing activities		(7 716)	(5 309)
Net increase/(decrease) in cash and cash equivalents		2 537 225	865 199
Cash and cash equivalents at beginning of period		1 145 134	279 935
Cash and cash equivalents at end of period		3 682 359	1 145 134

Road Accident Fund

notes to the annual financial statements

for the year ended 31 March 2006

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of presentation

The financial statements have been prepared in accordance with the 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 Recognised 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

AC 101: Presentation of financial statements
AC 118: Cash flow statements
AC 103: Accounting policies, changes in accounting estimates and errors

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

1.1.1 Terminology differences

Standard of GRAP

Statement of financial performance
Statement of financial position
Statement of changes in net assets
Net assets
Surplus/deficit for the period
Reporting date

Replaced statement of GAAP

Income statement
Balance sheet
Statement of changes in net equity
Equity
Retained earnings
Balance sheet date

1.1.2 Cash flow statement

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

1.1.3 Specific information

Specific information such as:

- (a) Receivables from non-exchange transactions, including taxes and transfers;
 - (b) Taxes and transfers payable;
 - (c) Trade and other payables from non-exchange transactions;
- must be presented separately on the statement of financial position.

1.1.4 Restrictions on cash balances

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

1.1.5 Exclusion of budget information

Paragraph 11 to 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 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

Revenue arising from fuel levies is recognised on an accrual basis as and when the levy becomes due according to directives issued.

Interest income is accrued on a time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity.

Dividend income from investments is recognised when the right to receive payment has been established.

1.2.1 Transfer payment

Transfer payment not utilised

On receipt of the grant payments, payments are recorded as Government grants not utilised. On utilisation the recognition is done in accordance with the following principles:

Transfer payment related to income

Grants that compensate the entity for expenses incurred are recognised as grants and transfers recognised in the statement of financial performance on a systematic basis in the same periods in which the expenses are incurred, unless where stated otherwise in the notes to the financial statements.

Transfer payment utilised for projects

Grants that compensate entities for projects undertaken and for which there is no return on investment are recognised as expenses when incurred.

Road Accident Fund

notes to the annual financial statements continued

1.3 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA; or
- Any national legislation providing for procurement in that national Government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

Any irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

1.4 Leases

Lease rentals are in respect of operating leases and are charged against income as incurred.

1.5 Provision for outstanding claims

The provision for outstanding claims includes allowance for the following elements:

- Provision for further claims payments on claims that have been notified to the RAF and that are currently open,
- Provision for payment on claims that have occurred but not been notified to the RAF (these are also referred to as "incurred but not reported" ("IBNR") provision),
- Provision for payments on claims that have been notified, are closed, and could be reopened in the future,
- Provision for external and direct claims handling expenses,
- An adjustment to the provision with respect to reinsurance recoveries, and
- An adjustment to the provision with respect to structured settlement payments as the accrual for structured payments is already included as a separate item in the financial statements.

The estimates of outstanding claims provision were produced on a "going-concern" basis, and:

- The outstanding claims estimate is reflected in the financial statements as discounted, based on expected monetary values at the expected time of payment of those claims.
- Reserves for internal or indirect claim handling expenses (e.g. administration costs) are specifically excluded from the estimates.
- Methodology used in determining the provision for outstanding claims.

The following methodology was used to estimate the outstanding claims provision:

- The claims between non-undertakings and undertakings classes of business were split as the claim payment patterns for these two classes of business differ significantly.
- The claims payment data were grouped into four major categories, namely compensation, medical, RAF legal expenses and claimant legal expenses.
- Ultimate reported claims numbers were projected using a Bornhuetter-Ferguson method. Current open claims, reopened claims and finalised claims are included in the projections.
- The liability calculated under the non-undertaking class was calculated using several claims reserving methods and using actuarial judgment to determine the ultimate claims experience for each accident year. This approach implicitly allowed for future inflation.
- Allowance was made for further claims run-off for non-undertaking claims.
- For the undertakings class the method used was to determine the probability of a future payment together with an annual cost per undertaking. The undertaking class is potentially very long term and allowance was made for 45 years of future payments.
- Future projected claim payments were discounted at an appropriate discount rate. In the 2005 financial year a discount rate of 8,1% was applied. A discount rate of between 7% and 7,5% depending on the future term of the expected claims payment was applied in 2006.

The methodology relies on the following implicit assumptions:

- That the claims payment patterns were not distorted by large claims or claims aggregations caused by major accidents with a large number of deaths or serious injuries.
- That the proportion of fraudulent claims, invalid claims and claims eventually settled at nil has not changed significantly over the period on which the claims projections are based.
- That no further significant claims arise from accidents occurring prior to the 1980 financial year.
- That the development of future number of claims reported will follow past established development patterns as applied to the independent estimate of the ultimate projected number of claims.
- Recoveries on fraudulent claims are implicitly allowed for in the future projections. Data on fraud recoveries was not available and as such, no allowance was made in the claims projections.

1.6 Leasehold improvements, infrastructure, plant and equipment

Leasehold improvements, infrastructure, plant and equipment are stated at cost less accumulated depreciation. Depreciation rates were reassessed during the 2005/06 financial year and a Management decision was taken to apply depreciation rates consistent with rates used in the previous financial year, as a result of the nature of the assets. Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method on the following basis:

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The depreciation rates are:

Leasehold improvements	6,67%
Motor vehicles	20%
Office equipment	15%
Office furniture	10%
Computer equipment	33,33%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

1.7 Retirement benefit costs

The RAF operates both defined contribution and defined benefit plans, the assets of which are held in a trustee-administered fund. The plans are funded by payments from the RAF and employees, taking account of the recommendations of independent actuaries in the case of the defined benefit plans. For defined benefit plans, the defined benefit obligation, the related current service cost, and where applicable, the past service cost are determined by the projected unit credit method.

A portion of actuarial gains and losses is recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at the date before deducting plan assets, or
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised is the excess referred to above, divided by the expected remaining working lives of the employees participating in the plan.

Payments to defined contribution retirement benefit plans are charged to the statement of financial performance in the year to which they relate.

1.8 Post-retirement medical obligations

In the current year the accounting policy was changed with regards to post-retirement medical obligation to align it with retirement benefit costs (refer to note 12 for disclosure of the financial effect thereof).



The RAF provides post-retirement healthcare benefits to its retirees based on the following subsidy policy:

- Pensioners who joined the RAF before 1 May 1998 will pay 50% of the total healthcare contribution and the RAF the balance.
- An employee who joined the RAF from 1 May 1998 will after retirement pay 100% of the total healthcare contribution.
- The entitlement to post-retirement healthcare benefits is based on the employee remaining in service up to retirement age.
- The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method.

Valuations of these obligations are carried out by independent actuaries.

A portion of actuarial gains and losses is recognised as income or expense if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at the date before deducting plan assets; or
- 10% of the fair value of any plan assets at that date.

The portion of actuarial gains and losses to be recognised is the excess referred to above, divided by the expected remaining working lives of the employees participating in the plan.

1.9 Financial instruments

• Classification

Financial instruments as reflected on the statement of financial position include all financial assets and liabilities, employee benefit plans, and property, plant and equipment. Management determines the appropriate classification at initial recognition of the financial instrument.

• Measurement

Initial measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

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Subsequent measurement

Gains and losses arising from a change in fair value of all other financial instruments except investments are recognised in net surplus or deficit for the period in which the change arises.

• **Financial assets**

Receivables and loans originated by the entity

The RAF has classified the following financial assets as "originated by the entity":

1.9.1 Investments

Interest is accrued for on a day to day basis.

Gains and losses on disposal of investments

On the disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the statement of financial performance.

1.9.2 Accounts receivable and prepayments

Accounts receivable, accrued income and other receivables are stated at cost due to the short-term nature thereof. Bursaries and loans originated by the RAF where money is provided directly to the employees for the purpose of studies are carried at amortised cost to reflect the estimated recoverable amount. The fair value of these items approximates their carrying value.

1.9.3 Cash and cash equivalents

Cash and cash equivalents are stated at cost which equates to their face value.

"Held-for-trading", "held to maturity" and "available for sale" financial assets

The RAF did not classify any financial assets under the above categories.

• **Financial liabilities**

Other financial liabilities

The RAF has classified the following financial liabilities as "other financial liabilities":

Held-for-trading financial liabilities

The RAF did not classify any financial liabilities as "held-for-trading liabilities".

1.9.4 Accounts payable and accruals

Accounts payable and accruals are stated at cost.

1.9.5 Provisions

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

2. CASH AND CASH EQUIVALENTS

	2006 R'000	2005 R'000
Cash and cash equivalents include the following:		
Short-term call deposits at banking institutions	3 434 204	1 010 400
Balance of RAF current accounts	248 147	134 726
Petty cash	8	8
Total	3 682 359	1 145 134

An amount of R1 608 million of the transfer payment of R2,7 billion received is included in the total for 2006.

Bank balances and cash comprise cash and short-term, highly liquid investments that are held with registered banking institutions with maturities of 90 days or less and that are subject to insignificant interest rate risk. The carrying amount of these assets approximates to their fair value.

3. INCOME RECEIVABLE

	2006 R'000	2005 R'000
Interest receivable from money market investments	10 098	10 360
Interest receivable from fuel companies	494	347
Fuel levy debtors	557 461	432 544
– Doubtful debts provision	(2 562)	(2 562)
Total	565 491	440 689

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notes to the annual financial statements continued

4. OTHER RECEIVABLES

		2006 R'000	2005 R'000
		587	2 957
Motor finance scheme	Current portion	121	
	Non-current portion	466	
Loans and bursaries		424	922
		5 229	5 200
Sundry debtors	Current portion	2 863	
	Non-current portion	2 366	
Doubtful debts		2 720	–
– Doubtful debts provision		(2 720)	(2 616)
Total		6 240	6 463

The Board considers the carrying amount of trade and other receivables approximates to their fair value.

5. ADVANCE PAYMENTS AND DEPOSITS

		2006 R'000	2005 R'000
		30 905	43 710
Advance payment i.r.o. suppliers claims	Current portion	10 302	
	Non-current portion	20 603	
Expenses paid in advance		2 966	332
Deposits		13 921	8 626
Total		47 792	52 668

The deposit amounts shown above had been included in "cash and cash equivalents" in the 2005 financial statements. As the substance of the cash amounts are in fact deposits in nature, it has been reclassified under "advance payments and deposits" for the current financial year and the comparative amount has been reclassified accordingly.

6. INFRASTRUCTURE, PLANT AND EQUIPMENT

	Leasehold improvements R'000	Motor vehicles R'000	Office equipment R'000	Office furniture R'000	Computer equipment R'000	Total R'000
Cost						
Cost at 1 April 2005	60 046	5 787	10 109	16 895	75 494	168 331
Additions:		1 055	239	1 108	5 341	7 743
Disposals		–	(53)	(2)	(140)	(195)
Cost at 31 March 2006	60 046	6 842	10 295	18 001	80 695	175 879
Depreciation and amortisation						
Depreciation at 1 April 2005	21 956	3 097	4 704	8 757	67 128	105 642
Depreciation for the year	4 003	986	1 516	1 512	6 869	14 886
Depreciation on disposals		–	(29)	(3)	(138)	(170)
Depreciation at 31 March 2006	25 959	4 083	6 191	10 266	73 859	120 358
Net carrying amount at 31 March 2006	34 087	2 759	4 104	7 735	6 836	55 521
Cost						
Cost at 1 April 2004	60 046	4 674	9 977	16 053	72 330	163 080
Additions:		1 259	135	859	3 218	5 471
Disposals		(146)	(3)	(17)	(54)	(220)
Cost at 31 March 2005	60 046	5 787	10 109	16 895	75 494	168 331
Depreciation and amortisation						
Depreciation at 1 April 2004	17 953	2 483	3 326	7 319	52 463	83 544
Depreciation for the year	4 003	660	1 380	1 442	14 670	22 155
Depreciation on disposals		(46)	(2)	(4)	(5)	(57)
Depreciation at 31 March 2005	21 956	3 097	4 704	8 757	67 128	105 642
Net carrying amount at 31 March 2005	38 090	2 690	5 405	8 138	8 366	62 689

The RAF Head Office building in Menlo Park was erected by the RAF on land that is owned by the South African National Roads Agency ("SANRAL"). The RAF is in the process of negotiating with SANRAL to acquire the land on which the building is situated.

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notes to the annual financial statements continued

Improvements on land had been capitalised in the year in which the expense occurred. Improvements are depreciated on a straight-line basis over the period of the contract.

Land with the leasehold improvements are leased for a period of 15 years with an option to extend the lease for another 15 years.

7. PAYABLES AND ACCRUALS

	Notes	2006 R'000	2005 R'000
Claim amounts requested but not paid at year-end		43 350	67 789
Claims creditors: Structured payments	9	485 433	746 750
Sundry creditors			
– Current portion		14 662	28 250
– Non-current portion		14 856	
		558 301	842 789

8. UNUTILISED TRANSFER PAYMENT

	Notes	2006 R'000	2005 R'000
Unutilised Transfer payment	16	198 428	–
Reconciliation of transfer payment			
Transfer payment received		2 700 000	–
Expenditure	16	(2 501 572)	–
Acquisition of new systems (business diagnostics)		(1 572)	–
Diesel rebate – Paid by year-end		(583 585)	–
– Accrued for		(580 511)	–
Structured settlements – Paid by year-end		(506 999)	–
– Accrued for		(828 905)	–
		198 428	–

The Minister of Finance announced in the 2006/2007 budget speech on 15 February 2006 that an amount of R2,7 billion was allocated for the remainder of the 2005/2006 financial year in order to alleviate the short-term liquidity position of the RAF. The transfer was received at the end of the 2005/06 financial year. A total of R2 502 million from this total was recognised in the 2006 financial year.

9. PROVISION FOR OUTSTANDING CLAIMS

	2006 R'000	2005 R'000
Opening balance	20 050 138	18 509 000
Utilisation during the year	(4 845 272)	(3 883 502)
Provisions made during the year	6 146 584	5 424 640
Closing balance	21 351 450	20 050 138
Analysis for reporting purposes		
Non-current portion	15 693 085	16 044 266
Current portion	5 658 365	4 005 872
Total	21 351 450	20 050 138

	Notes	2006 R'000	2005 R'000
Composition of provision for outstanding claims			
Compensation claims		12 363 227	11 244 057
Medical expenses		1 597 795	1 313 191
Legal expenses		5 021 411	4 461 186
Further claims development		303 587	910 555
Subtotal non-undertakings outstanding claims provision		19 286 020	17 928 989
Undertakings outstanding claims provision		2 624 036	2 229 621
Provision for outstanding claims before allowance for structured settlements and reinsurance		21 910 056	20 158 610
Allowance for structured settlements	7	(485 433)	–
Allowance for reinsurance		(73 173)	(108 472)
Total provision for outstanding claims		21 351 450	20 050 138

The amount of R21 351 million reflects the discounted actuarial estimate net of allowance for structured payments and reinsurance of the amounts expected to become due and payable in future in respect of claims that had arisen at the year-end (undiscounted liability for 2006 net of reinsurance – R31 890 million, 2005 – R33 791 million).

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notes to the annual financial statements continued

The undiscounted outstanding claims liability estimates as at 31 March 2006 is 5,6% lower than the estimate from the previous valuation. In contrast, the discounted estimate of the outstanding claims liability as at 31 March 2006 is 6,5% higher than the estimate for the previous evaluation. The primary reason for this is that the actuaries have shortened the claims development patterns (it was assumed that larger claims are being paid sooner than assumed at the previous valuation).

10. OTHER PROVISIONS

	2006 R'000	2005 R'000
10.1 Reinsurance premiums		
The RAF reinsures itself against large claims. The reinsurance limit for the 2006 financial was R100 million (2005 – R50 million). The reinsurance treaties and premiums are revised annually based on claims history. Provision is made for adjustments to the premium based on final year-end claim amounts which only become available after year-end.		
Opening balance	8 527	6 521
Increase in the provision charged to income	15 091	8 527
Provision utilised	(23 618)	(6 521)
	–	8 527
10.2 Leave pay		
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the liability for annual leave as a result of services rendered by employees up to balance sheet date.		
Opening balance	14 425	14 311
Increase in the provision charged to income	15 473	14 425
Provision utilised	(14 425)	(14 311)
	15 473	14 425
10.3 Bonuses		
Accumulated bonuses (13th cheque) are calculated based on annual bonuses for the four months up to 31 March 2006 as pro-rated bonuses are paid annually in November. The bonuses are based on the cost to company remuneration of all the employees who qualify.		
Opening balance	5 168	5 064
Increase in the provision charged to income	5 259	5 168
Provision utilised	(5 168)	(5 064)
	5 259	5 168

10. OTHER PROVISIONS (continued)

	2006 R'000	2005 R'000
10.4 Overtime		
Overtime that was approved but not yet paid at year-end. This was done in order to reduce backlogs in the claims environment.		
Opening balance	169	268
Increase in the provision charged to income	–	169
Provision utilised	(169)	(268)
	–	169
10.5 Medical expense		
The RAF provides for post-employment medical obligation to certain employees. The provision is based on an actuarial valuation performed annually.		
Opening balance	15 780	10 810
Increase in the provision charged to income	2 414	4 970
	18 194	15 780
10.6 Pension fund		
The RAF operates a pension fund which provides benefits on both defined benefit and defined contribution plans for permanent staff. The provision is based on an actuarial valuation performed on the defined benefit fund, annually.		
Opening balance	(1 745)	–
Increase/(decrease) in the provision charged to income	1 745	(1 745)
	–	(1 745)
Total	38 926	42 324
10.7 Fuel/diesel rebate		
In terms of legislation, the RAF has an obligation to refund 31,5 c/l (2005/06), 26,5 c/l (2004/05), 21,5 c/l (2003/04), 18,5 c/l (2002/03) and 16,5 c/l (2001/02) of the diesel levy income to different economic sectors. The provision is calculated based on actual claims from these sectors processed through SARS.		
Opening balance	637 504	719 240
Increase in the provision charged to income	526 592	421 143
Provision utilised	(583 585)	(502 879)
	580 511	637 504

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notes to the annual financial statements continued

11. RETIREMENT BENEFITS

11.1 Post-employment pension benefit

The RAF operates a pension fund which provides benefits on both defined benefit and defined contribution plans for permanent staff. This fund is administered on behalf of the RAF by pension fund administrators and is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

The Pension Fund Act requires an actuarial valuation every year.

The defined benefit plan fund was actuarially valued, using the projected unit credit method at 31 March 2006 and it revealed that the assets of the fund represent 179,8% (31 March 2005 – 150,4%) of the future benefits. This is after reserves have been provided for in terms of the Pensions Funds Second Amendment Act, 2001 for existing members from a date 12 months after the surplus apportionment date (31 March 2003).

	2006 R'000	2005 R'000
Staff costs		
Defined benefit plan expense		
– Current service costs	219	187
– Interest costs	2 191	2 480
– Expected return on plan assets	(3 294)	(2 366)
– Actuarial (gain)/loss recognised in the current year	(7 607)	–
– Vested past service costs	–	–
– Non-vested past service costs	–	–
– Reversal of prior year unrecognised post-employment benefit asset	–	–
– Movement in unrecognised post-employment benefit asset	10 638	–
	2 147	301

	2006 R'000	2005 R'000
The amount included in the statement of financial position arising from the defined benefit plan is as follows:		
Present value of plan liability: end of year	(26 498)	(24 341)
Fair value of plan assets: end of year	47 651	36 601
	21 153	12 260
Unrecognised actuarial (gain)/loss: end of year	3 113	(10 515)
Unrecognised past service cost: end of year	–	–
Unrecognised post-employment benefit asset	(24 266)	–
	–	1 745
Movements in the net asset/(liability) recognised in the statement of financial position		
Net past service benefit asset/(liability): beginning of the year	1 745	1 655
Amount charged to the statement of financial performance	(2 147)	(301)
Contributions received by the fund	402	391
Closing net (surplus)	–	1 745
Actual return on plan assets		
Expected return on plan assets	3 294	2 366
Actuarial gain/(loss) on plan assets	8 868	5 124
Actual return on plan assets	12 162	7 490

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notes to the annual financial statements continued

The principal actuarial assumptions used for accounting purposes were as follows:

	2006	2005
Discount rate before retirement	8,37%	9,00%
Discount rate after retirement	4,70%	5,00%
Long-term price inflation	5,00%	5,00%
Salary inflation	7,00%	7,00%
Expected return on plan assets	9,00%	9,00%
Mortality pre-retirement (rated down three years for females)	SA56-62	SA56-62
Mortality post-retirement (rated down three years for females)	PA(90)	PA(90)
Proportions married – 100% of all future pensioners married at retirement, husband four years older than the wife.		
Children's pensions – would continue to receive a pension until age 23.		

The next actuarial valuation for the defined benefit plan is due on 31 March 2007.

During the year under review, contributions to the value of R27,4 million (2005 – R26,4 million) were made to the pension fund.

11.2 Post-employment medical obligations

The RAF operates a post-employment medical benefit scheme that covers employees who were appointed prior to 1 May 1998.

The latest valuation of the RAF's liability in respect of post-retirement benefits for the financial year-end was performed on 31 March 2006 and it will be valued at yearly intervals thereafter.

A total of 17 current pensioners qualify for this benefit and approximately 17% of employees are prospectively entitled to this benefit. The initial liability and future increases thereof are charged to income.

	2006 R'000	2005 R'000
Staff costs		
Post-employment medical benefit expense		
– Current service costs	1 333	1 139
– Interest costs	1 282	1 665
– Actuarial (gain)/loss recognised in the current year	(6)	–
	2 609	2 804
In the current year it was decided to adopt a similar accounting policy for post-retirement medical obligations as has been used for retirement benefit costs. This was done in order to ensure consistency of accounting treatment of post-retirement benefits. The effect thereof is indicated above and has been charged against income in the current year.		
The amount included in the statement of financial position arising from the defined benefit plan is as follows:		
Present value of plan liability: end of year	(14 723)	(14 248)
Fair value of plan assets: end of year	–	–
	(14 723)	(14 248)
Unrecognised actuarial (gain)/loss: end of year	(3 471)	(1 532)
	(18 194)	(15 780)
Movements in the net asset/(liability) recognised in the statement of financial position		
Net past service benefit asset/(liability): beginning of the year	(15 780)	(13 801)
Amount charged to the statement of financial performance	(2 609)	(2 804)
Contributions received by the fund	195	825
Closing net (surplus)	(18 194)	(15 780)

(No plan assets are shown as medical benefits are unfunded.)

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notes to the annual financial statements continued

The principal actuarial assumptions used for accounting purposes were as follows:

	2006	2005
Discount rate	7,75%	9,00%
Healthcare cost inflation	5,75%	7,00%
Real discount rate	1,89%	1,87%
Normal retirement age	60,0	60,0
Expected average retirement age	58,9	59,0
Spouse age gap	3 years	3 years
Continuation at retirement	100%	100%
Proportion married at retirement	80%	80%
Mortality: Pre-expected retirement age	SA1985-90 light	SA56-62
Mortality: Post-expected retirement age	PA(90)	PA(90)

12. CHANGE IN ACCOUNTING POLICY

	Notes	2006 R'000	2005 R'000
In the current year it was decided to adopt a similar accounting policy for post-retirement medical obligations as has been used for retirement benefit costs. This was done in order to ensure consistency of accounting treatment of post-retirement benefits. The effect thereof is indicated below.	1.8		
Increase in staff costs		–	543
Increase in post-employment medical obligation		–	543
Amendment to accumulated deficit 1 April 2005		–	169

13. FUEL LEVIES

	2006 R'000	2005 R'000
Gross fuel levies	6 078 925	4 987 177
Less: Diesel rebate	(526 591)	(421 143)
	5 552 334	4 566 034

14. INTEREST

	2006 R'000	2005 R'000
Interest received from money market investments	81 969	56 995

15. OTHER OPERATING REVENUE

	2006 R'000	2005 R'000
Interest Central Energy Fund	387	36
Interest study loans	21	–
Interest personnel loans	1	1
Interest motor finance scheme	178	384
Training: INSETA	–	223
Other	416	235
Total other income	1 003	879

16. TRANSFER PAYMENT RECOGNISED

	Notes	2006 R'000	2005 R'000
Transfer payment received in cash for the following purposes:			
SARS diesel rebate		1 200 000	–
Claims payments that have been structured in instalments		1 300 000	–
Acquisition of new systems		200 000	–
Transfer payment in 2005/06		2 700 000	–
Less: Recognised 2005/06	8	(2 501 572)	–
Amount transferred to 2006/07	8	198 428	–

17. CLAIMS EXPENDITURE

	2006 R'000	2005 R'000
Claims paid in cash	5 131 028	3 105 238
Accruals – structured	485 433	746 750
– other	43 350	67 788
Reversal of previous year accruals – structured	(746 750)	–
– other	(67 788)	(36 274)
Net increase in provision	1 301 311	1 541 138
	6 146 584	5 424 640

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notes to the annual financial statements continued

18. OPERATING EXPENDITURE

Operating surplus/loss had been arrived at after taking into account the following:

18.1 Staff

	Notes	2006 R'000	2005 R'000
Staff costs		352 171	322 113
Included in staff costs are:			
– Contribution to pension fund:		27 354	26 380
Defined benefit plan	11.1	2 147	301
– Contribution to medical aid:		19 026	18 347
Post-retirement healthcare benefit	11.2	2 609	2 804

At 31 March 2006, 1 584 permanent staff were employed by the RAF (2005 – 1 699).

18.2 Administrative

	Notes	2006 R'000	2005 R'000
Administrative expenses include amongst others the following:			
Auditor's – fees (external)		1 585	2 498
Director's – fees	23	1 403	1 748
Director's – expenses		682	1 266
Other expenses		106 496	106 491
Total		110 166	112 003
Included in administration expenses are:			
– Office rental		21 830	23 553
– Operating costs		17 184	16 459
– Computer services		18 110	26 002
– Telephone, stationery and postage		15 010	14 185
– Legal fees		8 566	2 896
– Professional services		11 253	5 732
– Maintenance		4 062	4 980
– Rental of equipment		2 433	1 855
– Subsistence and transport		2 824	2 799
– Bank charges		1 543	1 099
– RSC levies		962	914
– Insurance		839	931
– Publications and adverts		652	711
– Marketing		470	831

The RAF occupies six office premises of which four are under long-term operating leases. These lease agreements range over periods varying between five to eight years and are subject to escalation of 8% to 10% per annum.

18.3 Finance cost

	2006 R'000	2005 R'000
Interest paid	26	27

18.4 Irregular, fruitless and wasteful expenditure

The following items of irregular and possible fruitless and wasteful expenditure have been included in the statement of financial performance.

	2006 R'000	2005 R'000
Irregular expenditure	1 887	–
Internal fraud – claims related	1 646	–
– payroll	241	–
Fruitless expenditure	373	2 462
Extended suspensions of Management	373	696
Legal settlement (suspension of medical project)	–	–
Legal settlement (IT project)	–	1 500
Penalty tax and interest (IT service provider)	–	266
Total	2 260	2 462

Internal fraud: Immediate steps were taken to prevent further losses, i.e. suspension of staff and removing of all access to IT systems. Criminal cases were opened and investigations are continuing. Where enough evidence could be traced the guilty party was disciplined and subsequently dismissed.

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notes to the annual financial statements continued

19. NOTES TO THE CASH FLOW STATEMENT

	2006 R'000	2005 R'000
19.1 Reconciliation of net surplus/(deficit) to cash utilised in operations		
Operating surplus/(deficit)	1 494 899	(1 299 807)
Adjusted for:		
– Depreciation	14 886	22 155
– Increase in provision for outstanding claims	1 301 311	1 541 138
– (Decrease) in provision for diesel refund	(56 993)	(81 736)
– Interest income	(81 969)	(56 995)
– Interest paid	26	27
Operating surplus before working capital changes	2 672 160	124 782
Changes in working capital	(209 162)	688 758
Decrease in debtors	223	5 778
(Increase) in income receivable	(124 802)	(102 539)
(Increase)/decrease in advance payments and deposits	4 876	(2 970)
Increase/(decrease) in provisions	(3 398)	3 053
Increase/(decrease) in creditors and accruals	(86 061)	785 436
Cash utilised in operations	2 462 998	813 540

20. OPERATING LEASES

	2006 R'000	2005 R'000
Future minimum lease payments under non-cancellable operating leases are as follows:		
Up to one year	22 040	18 383
Two to five years	62 407	84 447
	84 447	102 830

21. FUNDAMENTAL ERROR

	Impact on 2006 R'000	Impact on 2005 R'000	Impact on years prior to 2005 R'000
<p>The South African Institute of Chartered Accountants ("SAICA") released circular number 7/2005 in August 2005 which advised entities on the accounting treatment of operating leases in terms of the provisions of AC 105. In the past, as was generally the practice in South Africa, operating lease expenses were charged to the income statement when incurred. AC 105 requires accounting for operating lease payments with fixed rental increases on a straight-line basis over the period of the lease agreements.</p> <p>Recognition of operating lease payments on a straight-line basis as opposed to when incurred</p>	(2 067)	(4 517)	(8 273)

22. RELATED-PARTY TRANSACTIONS

The RAF is controlled by its Shareholder, the Government, represented by the Minister of Transport. The following transaction was carried out with the related party.

	2006 R'000	2005 R'000
Government transfer payment		
Amounts recognised in 2005/06	2 501 572	–
Acquisition of new systems (business diagnostics)	1 572	–
Diesel rebate – paid by year-end	583 585	–
– accrued for	580 511	–
Structured settlements – paid by year-end	506 999	–
– accrued for	828 905	–
Amounts transferred to 2006/07	198 428	–
	2 700 000	–

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23. BOARD AND EXECUTIVE MEMBERS' EMOLUMENTS

The following members held office as the Board of the RAF during the year ended 31 March 2006.

23.1 Board Members

Non-executive Board Members			Board annual fee R'000	Board meetings			Other meetings			Total R'000
Members	Office held	Term		Travel time R'000	Prepa- ration fees R'000	Meeting fees R'000	Travel time R'000	Prepa- ration fees R'000	Meeting fees R'000	
Current Board										
DE Baloyi (Chairperson)	Board Member	9 Jun 05 to 31 Mar 06	44	3	6	12	3	6	14	88
VS Mahlangu	Board Member	9 Jun 05 to 31 Mar 06	29	5	5	10	7	6	12	74
K Manana	Board Member	9 Jun 05 to 31 Mar 06								–
T Moyo	Board Member	9 Jun 05 to 31 Mar 06	29	5	5	10	13	10	25	97
CJB Greeff	Board Member	9 Jun 05 to 31 Mar 06	29	4	5	10	8	9	21	86
AKA Dasoo	Board Member	9 Jun 05 to 31 Mar 06	29	3	7	14	2	5	10	70
HG Motau	Board Member	9 Jun 05 to 31 Mar 06	29	2	7	14	3	6	12	73
SA Msibi	Board Member	9 Jun 05 to 31 Mar 06	29	1	5	10	2	7	16	70
KE Moloto-Stofile	Board Member	9 Jun 05 to 31 Mar 06	29	2	7	17	2	3	6	66
Subtotal			247	25	47	97	40	52	116	624
Previous Board										
S Cooper (Chairperson)	Board Member	1 Apr 05 to 8 Jun 05	10	25	18	171	29	15	120	388
VO Twala	Board Member	1 Apr 05 to 8 Jun 05	7	2	3	6	13	6	33	70
M Lukhele	Board Member	1 Apr 05 to 8 Jun 05	7	1	2	4	4	7	12	37
DJ Mitchell	Board Member	1 Apr 05 to 8 Jun 05	7	–	–	–	8	4	10	29
TE Radebe	Board Member	1 Apr 05 to 8 Jun 05	7	4	3	8	10	7	20	59
AW Barday	Board Member	1 Apr 05 to 8 Jun 05	7	4	4	10	5	2	12	44
NK Dukada	Board Member	1 Apr 05 to 8 Jun 05	7	1	1	2	–	–	–	11
A Gibberd	Board Member	1 Apr 05 to 8 Jun 05	7	1	1	5	3	17	20	54
N Goba	Board Member	1 Apr 05 to 8 Jun 05	7	2	2	4	6	3	7	31
J Nkeli	Board Member	1 Apr 05 to 8 Jun 05	7	1	3	6	3	21	15	56
Subtotal			73	41	37	216	81	82	249	779

23.2 Executive Management

Members of Executive Management			Total employment cost					Total R'000
			Salary R'000	Pension contributions R'000	Expense allowances R'000	Other contributions R'000	Settlements and other payments R'000	
Members	Office held	Term						
JRD Modise	CEO	27 Jun 05 – 31 Mar 06	960	128	319	25		1 432
HL Kgomongwe	CEO	1 Apr 05 – 17 May 05	221	29	51	5	1 020	1 326
Subtotal			1 181	157	370	30	1 020	2 758
M Maimane	(Executive Corporate Services)	1 Apr 05 to 31 Mar 06	666	93	141	–	49	949
S Cronje	(Executive Stakeholder Relations Management)	1 Apr 05 to 31 Mar 06	378	49	114	4		545
T Magwaza	(Acting CEO)							
	(Claims Executive)	1 Apr 05 to 31 Oct 05	450	58	70	16	1 395	1 989
J Mokoka	(Chief Financial Officer)	1 Apr 05 to 30 Sep 05	333	43	107	13		496
RRDD Anderson	(Executive Special Projects)	1 Apr 05 to 17 Jul 05	187	24	17	7	1 473	1 708
Subtotal			2 014	267	449	40	2 917	5 687

23.3 Summary

Year ended 31 March 2006									
	Board annual fee R'000	Board meetings			Other meetings			2006 Total R'000	2005 Total R'000
		Travel time R'000	Preparation fees R'000	Meeting fees R'000	Travel time R'000	Preparation fees R'000	Meeting fees R'000		
Non-executive Board Members	320	66	84	313	121	134	365	1 403	1 748
Total employment cost									
	Salary R'000	Pension contributions R'000	Expense allowances R'000	Other contributions R'000	Settlements and other payments R'000	2006 Total R'000	2005 Total R'000		
Executive Management	3 195	424	819	70	3 937	8 445	5 329		
						9 848	7 077		

Road Accident Fund

notes to the annual financial statements continued

24. TAXATION

The RAF is exempt from taxation in terms of the provision of Section 10(1)(cA)(i) of the Income Tax Act, 1962 (Act No. 58 of 1962) and Section 16 of the Road Accident Fund Act, 1996 (Act No. 56 of 1996).

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

• Credit risk management

Potential concentrations of credit risk consist mainly of short-term cash. Money market instrument operations are only entered into with well established and reputable financial institutions.

The current debtors of the motor vehicle scheme of the RAF are at Executive or Management levels. The RAF is the registered titleholder to all the vehicles involved and all the vehicles are comprehensively insured. Monthly instalments are deducted directly from payroll. This scheme has been discontinued.

It is RAF's policy to grant bursaries and study loans to employees relevant only to its line of business. Monthly instalments are deducted directly from payroll.

• Interest rate risk management

All liquid funds are invested with registered South African banking institutions with maturities of 90 days or less, thereby minimising interest rate risk.

Interest rates of interest-bearing debts are linked to the prime bank overdraft rate.

The interest rate applicable on motor vehicle debtors, study loans and bursaries is equivalent to the official rate of interest for determining a fringe benefit as approved by the Minister of Finance from time to time.

• Currency risk management

The only financial items that are exposed to currency risk are claims that are paid to foreign claimants. The engaging of forward cover is considered on a case-by-case basis if the period between making an offer and final payment is material.

26. CONTINGENT ASSET

In terms of Section 5(1) of the Road Accident Fund Act, 1996 (Act No. 56 of 1996), the RAF procures the funds it requires to perform its functions by way of a fuel levy in respect of fuel sold within the Republic of South Africa.

Where an inflow of economic benefits as stated above is probable, it can therefore be regarded and disclosed as a contingent asset.

The estimated value for the 2006/07 year is R6,2 billion. It is impractical to quantify a value for future years as negotiations to determine future funding are currently in process.

27. CONTINGENT LIABILITY

27.1 ABSA Bank: Employees' personal loans

The RAF has signed as surety to ABSA Bank Limited for personal loans granted to employees of the RAF. The maximum loan per employee was R30 000.

The total guarantee is R1,5 million. The personal loan scheme was terminated during May 2004. The balance of loans outstanding as at 31 March 2006 is R49 772 (2005 – R259 220) and will be phased out over the remaining periods.

27.2 ABSA Bank: Employees' housing loans

The RAF has signed as guarantor for housing loans granted by ABSA Bank Limited to employees of the RAF. The liability of the RAF is limited to 10% of each mortgage bond.

The total of the guarantee is R500 000. The amount pledged is R59 100 and the balance of the loans outstanding as at 31 March 2006 is R799 067 (2005 – R1 018 604).

The following local guarantees also existed at 31 March 2006.

Description	Purpose	Notes	2006	2005
SA Mutual Life Assurance Society	Office accommodation Durban		300 000	300 000
Ryckloff Beleggings	Office accommodation Johannesburg		5 248 668	5 248 668
Sound Props Investments	Archives Cape Town		9 150	9 150
Gensec Property Services	Office accommodation Pretoria		19 046	19 046
Johan vd Vyver Attorneys	Suppliers claims		1 648 743	–
Total local guarantees			7 225 607	5 576 864
Card facilities (fleet cards)			120 000	120 000
Guarantee for employee personal loans		27.1	1 500 000	1 500 000
Guarantee for employee housing loans		27.2	500 000	500 000
Letter of undertaking			–	–
Total			9 345 607	7 696 864

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as at 31 March 2006

The RAF has ceded to ABSA Bank Limited a Special Deposit Account with a balance of R9 345 607 as at 31 March 2006 as security for the guarantees issued, facilities and loans granted by ABSA Bank Limited on behalf of the RAF.

27.3 Security furnished pending finalisation of legal proceedings

The RAF has furnished security to the amount of R4 418 143 in respect of legal proceedings pending.

The amount has been invested in terms of Section 78(2A) of the Attorneys Act, 1979, in interest-bearing term deposit investment instruments at registered banking institutions for the benefit of the RAF.

27.4 Other contingent liabilities

Due to the nature of the RAF Act and the compensation scheme being based on delict, the environment is inherently litigious. At any given time the RAF is administering numerous litigated matters, these matters being at different stages in the litigation process. Certain of the litigated matters will have trial dates allocated while others will be in the pre-trial stage and others will have proceeded to trial and judgement date is being awaited.



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