



President's Fund Annual Report for 2009/10

The Department of Justice and Constitutional Development



the doj & cd

Department:
Justice and Constitutional Development
REPUBLIC OF SOUTH AFRICA

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PART 1

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the Accounting Officer



REPORT OF THE ACCOUNTING OFFICER ON THE ANNUAL FINANCIAL STATEMENTS OF PRESIDENT'S FUND FOR THE YEAR ENDED 31 MARCH 2010

1. GENERAL REVIEW

- 1.1 The President's Fund was established in terms of section 42 of the Promotion of National Unity and Reconciliation Act, 1995 (Act No. 34 of 1995).
- 1.2 Parliament approved the following measures to victims on the recommendations of the State President and subsequent recommendations of the Ad hoc Joint Committee of both houses of Parliament on the tabling of the final two volumes of the Truth and Reconciliation Commission (TRC) Report.
- 1.2.1 Once-off individual grant of R30 000 to those individuals or survivors designated by the TRC.
- 1.2.2 Symbols and Monuments: Systematic programmes to project academic and formal records of history, cultural and art forms as well as erecting symbols and monuments that exalt the freedom struggle, including new geographic and place names.
- 1.2.3 Medical and other forms of Social Assistance: Programmes to provide for medical benefits, education assistance and provision of housing as well as other social benefits to address the needs of TRC identified victims.
- 1.2.4 Rehabilitation of Communities: Whole communities, other than individuals linked to the TRC process, who suffered and are still in distress. Therefore the need for such communities to be rehabilitated through various programmes initiated and supported by Government.
- 1.3 Sub-section 42(2) of the said Act states that *"there shall be paid from the fund all amounts payable to victims by way of reparation in terms of regulations made by the President"*.
- 1.4 To give effect to the payment of the once-off individual grant of R30 000, regulations were gazetted on 12 November 2003.
- 1.5 As at the end of the financial year under review, of the 16 837 applicants for reparation approved by the TRC, 15 956 have been paid the once-off individual grant totalling R479 million. There are 881 beneficiaries still to be paid of which 420 could not be traced by a professional tracing agency, engaged to trace the unpaid beneficiaries, 242 beneficiaries have not supplied the necessary regulatory requirements and 219 applicants who had received interim reparations, died before the payment of final reparation. The President's Fund is consulting with families of the deceased to establish the rightful next of kin in terms of regulations directing disbursements of the individual grants.
- 1.6 Symbols and Monuments: This aspect of the reparation measure is being undertaken by the Freedom Park Trust as well as the Department of Arts and Culture and South African Heritage Resources Agency (SAHRA). This is work in progress and voted funds are being utilised. No request has so far been made by the abovementioned agencies for funding from the President's Fund.
- 1.7 Medical and other forms of Social Assistance: Regulations to render financial assistance to the families of persons who went missing and whose remains were exhumed by the special task team at the National Prosecuting Authority (NPA) for

reburial or symbolic burial was approved by the State President and published in the Government Gazette on 7 May 2010. The initial draft regulations providing for educational assistance had to be re-visited in view of the Department of Education being split into two departments namely basic and higher education. The amended draft regulations have been re-submitted to the respective departments for comments. Development of regulations providing for housing and medical assistance are being pursued with the respective departments.

- 1.8 A Community Rehabilitation model is in the process of being developed in consultation with the respective departments involved. Some of the issues being conducted are the repair/ replacement or provision of health facilities, recreation centres, conflict resolution and healing. This aspect of reparation is taking longer than expected due to the large number of stakeholders that need to be consulted.

2. DONOR FUNDS

No donations were received for the financial year under review.

3. CORPORATE GOVERNANCE ARRANGEMENTS

The Fund utilises the services of the Department of Justice and Constitutional Development for its risk management approach, fraud prevention policies, effectiveness of internal audit and audit committee. It also utilises governance structures including management processes of the said Department.

4. OTHER

We shall continue to utilise the unexpended balance of the money in the Fund for the purposes for which the Fund was established and by direction of the regulations enacted.

My appreciation and thanks are accorded to the related departments, agencies and stakeholders who have contributed towards the administration of the President's Fund.



MS NONKULULEKO MSOMI
ACCOUNTING OFFICER

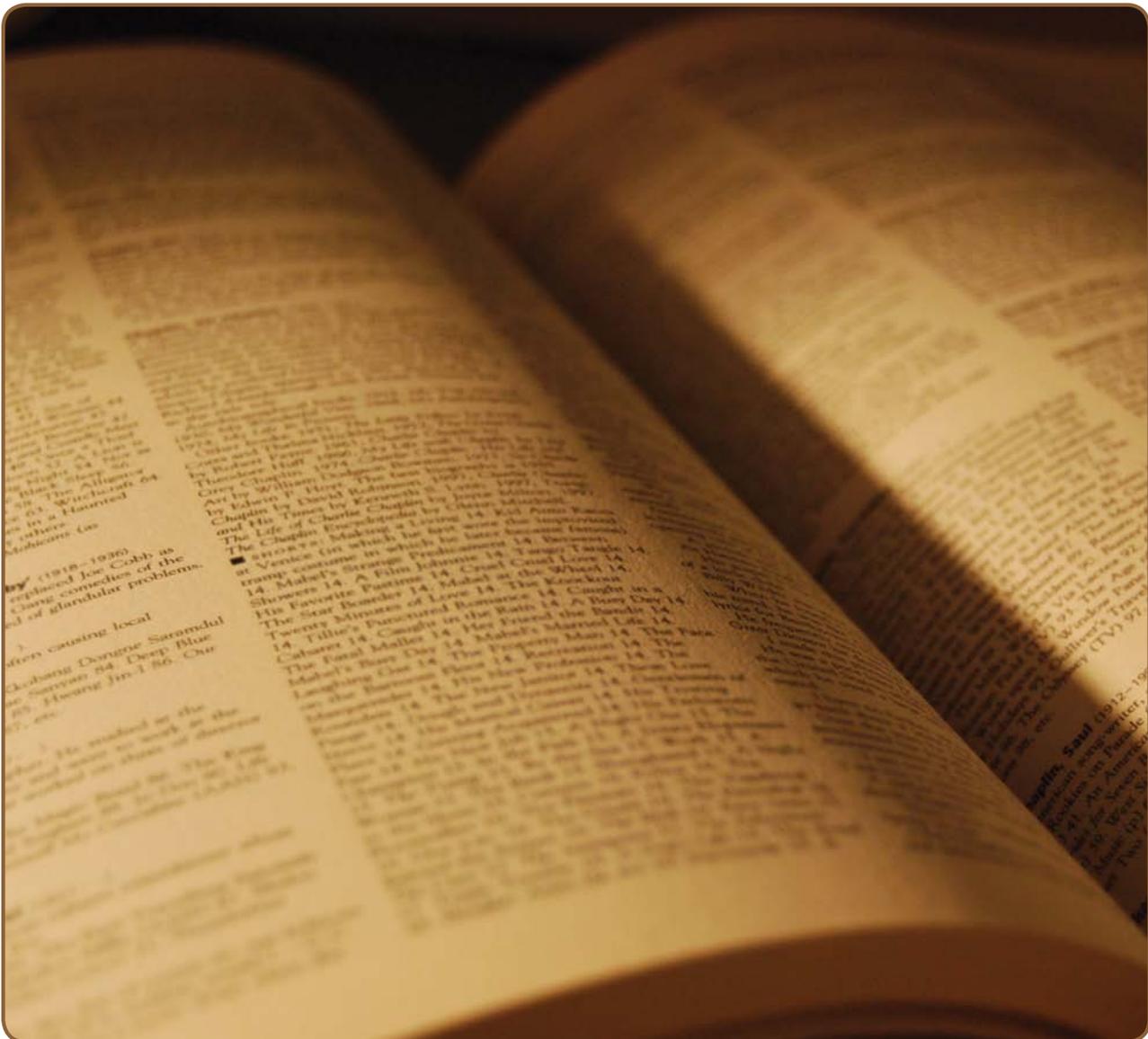




PART 2

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the Audit Committee



REPORT OF THE AUDIT COMMITTEE

1. We are pleased to present our report for the financial year ended 31 March 2010.

1.1 Audit Committee members and attendance

The Audit Committee consists of the members listed below and is required to meet four times per annum as per its approved terms of reference. During the current year, ten meetings were held.

Name of member	Number of meetings attended	Status
Mr Stewart Patterson (Chairperson)	5	Retired 3 1 August 2010
Ms Catharina Sevillano-Barredo	4	Retired 3 1 August 2010
Mr Cedric Boltman	5	Reappointed 15 December 2009
Ms Ntombi Langa-Royds	3	Retired 3 1 August 2010
Mr Motsamai Karede	6	Reappointed 15 December 2009
Ms Bajabulile Luthuli	2	Appointed 15 December 2009
Ms Matshego Ramagaga	2	Appointed 15 December 2009
Ms Zodwa Manase	2	Appointed 15 December 2009
Mr Wilson Ramabulana	2	Appointed 15 December 2009

1.2 Audit Committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 38(1) (a) of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and Treasury Regulation 3.1. We further report that we conducted our affairs in compliance with the charter except that due to a change of the accounting officer during the year, there was a delay in the appointment of Audit Committee members, resulting in a meeting not taking place during the third quarter of the year.

1.3 The effectiveness of internal control

There were no significant internal control weaknesses reported to the Audit Committee, however, the fund has been growing significantly over the years due to delays in tracing beneficiaries.

Management has assured the Audit Committee that they will expedite the process to trace beneficiaries and the Audit Committee will monitor management action in this regard.

1.4 Internal audit

Internal audit discharged its responsibilities as per the Internal Audit plan.

1.5 Auditor-General South Africa

We have met with the Auditor-General South Africa to ensure that there are no unresolved issues.

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

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the accounting officer of the department during the year under review.

1.5.2 Evaluation of financial statements

We have done the following:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General South Africa and the accounting officer;
- Reviewed the Auditor-General South Africa's management letter and management's response to it;
- Reviewed the department's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

We concur and accept the conclusions of the Auditor-General South Africa's report on the annual financial statements and are of the opinion that the audited annual financial statements should be accepted, read together with the report of the Auditor-General South Africa.



M Karedi
Chairperson of the Audit Committee
05 August 2010





PART 3

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Report of the Auditor-General of South Africa



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE PRESIDENT'S FUND FOR THE YEAR ENDED 31 MARCH 2010

REPORT ON THE FINANCIAL STATEMENTS

Introduction

I have audited the accompanying financial statements of the President's Fund, which comprise the statement of financial position as at 31 March 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 16 to 26.

Accounting officer's responsibility for the financial statements

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

As required by section 188 of the Constitution, section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 42(7) of the Promotion of National Unity and Reconciliation Act, 1995 (Act No. 34 of 1995), my responsibility is to express an

opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the President's Fund as at 31 March 2010, and its financial performance and its cash flows for the year then ended, in accordance with SA Standards of GRAP as described in note 2.1 to the financial statements and in the manner required by the PFMA.

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

As disclosed in note 14 to the financial statements, the corresponding figures for 31 March 2009 have been restated as a result of an error discovered during 2009/10 in the financial statements of the President's Fund at, and for the year ended, 31 March 2010.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the PFMA, and financial management (internal control).

Findings

Predetermined objectives

- **Usefulness of reported performance information**

Planned and reported performance targets not specific, measurable and time bound

For programme 3: state legal services of the Department of Justice and Constitutional Development, 100% of the planned and reported targets were not:

- specific in clearly identifying the nature and the required level of performance
- measurable in identifying the required performance
- time bound in specifying the time period or deadline for delivery.

- **Reliability of reported performance information**

For programme 3: state legal services of the Department of Justice and Constitutional Development, the validity, accuracy and completeness of 33% of the reported indicators could not be established, as sufficient appropriate audit evidence or relevant source documentation could not be provided for audit purposes.

INTERNAL CONTROL

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA and the Promotion of National Unity and Reconciliation Act, 1995 (Act No. 34 of 1995), but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported are limited to the deficiencies identified during the audit.

Financial and performance management

- Sufficient appropriate audit evidence with regard to the reported performance information of the President's Fund could not be obtained, as the information system used for generating performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information.

Auditor-General

Pretoria

30 July 2010



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence





PART 4

DEPARTMENT OF JUSTICE AND CONSTITUTIONAL DEVELOPMENT
PRESIDENT'S FUND

Financial Statements



STATEMENT OF FINANCIAL PERFORMANCE (SPR)

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2009/10	2008/09
		R	R
Revenue			
Non Exchange transactions - Donations		823	0
Non Exchange transactions - Royalties		4 787	1 864
Investment revenue	3	72 734 646	92 851 767
		72 740 256	92 853 631
Less: expenditure		1 105 158	565 284
Surplus/(deficit) for the year	4	71 635 098	92 288 347

STATEMENT OF FINANCIAL POSITION (SPO)

AS AT 31 MARCH 2010

	Notes	2009/10 R	2008/09 R
ASSETS			
Non-current assets			
Financial investments available-for-sale	6	973 102 942	893 320 215
Current assets			
Cash and cash equivalents	8	231 169	8 957 571
Trade and other receivables - Non exchange transactions	5	0	1 664
Total assets		973 334 111	902 279 450
LIABILITIES			
Total liabilities		27 659 225	28 843 536
Trade and other payables - Non exchange transactions	7	27 659 225	28 843 536
CAPITAL AND RESERVES			
Total net assets		945 674 886	873 435 914
Accumulated surplus	9	944 754 443	873 119 345
Accumulated other comprehensive income	10	920 443	316 569
Total net assets and liabilities		973 334 111	902 279 450



STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2009/10	2008/09
		R	R
Accumulated Surplus			
Balance as at 1 April		873 119 345	780 906 318
Plus: Surplus/(deficit) for the year		71 635 098	92 288 347
		944 754 443	873 194 665
Less: Prior year error	14	0	75 320
Balance as at 31 March	9	944 754 443	873 119 345
Accumulated other comprehensive income			
Balance as at 1 April		316 569	0
Plus: Unrealised gain for the year	6.1	603 874	316 569
Balance as at 31 March	10	920 443	316 569
Total net assets		945 674 886	873 435 914

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2009/10	2008/09
		R	R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts on behalf of beneficiaries		-2 204 706	-1 128 704
Cash paid to beneficiaries and creditors		1 105 158	549 964
Cash generated from/(utilised in) operations	11	-1 099 548	-578 740
Investment income received		72 734 646	92 851 767
Net cash inflows/(outflows) from operating activities		71 635 098	92 273 027
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows from investing activities		-79 178 853	-113 916 631
Net investments		-79 178 853	-113 916 631
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash flow financing activities		-1 182 647	24 071 466
Increase/(decrease) in beneficiary liability		-1 184 311	-2 240 471
Decrease/(increase) in accounts receivable		1 664	26 311 937
Net increase/(decrease) in cash and cash equivalents		-8 726 402	2 427 862
Cash and cash equivalents at the beginning of the year		8 957 571	6 529 709
Cash and cash equivalents at end of the year		231 169	8 957 571



ACCOUNTING POLICIES

1. General information

The President's Fund was established in terms of Section 42 of the Promotion of National Unity and Reconciliation Act, 1995 (Act No. 34 of 1995) and domiciled in the Republic of South Africa.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for available-for-sale investments that have been measured at fair value. The financial statements are presented in rands.

Statement of compliance

The financial statements of the President's Fund have been prepared in accordance with South Africa Statements of GRAP as required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

2.2 Summary of significant accounting policies

2.2.1 Revenue recognition

The President's Fund recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the President's Fund activities as described below.

(i) Grants received

Grants from the Department of Justice and Constitutional Development are accounted for in the period to which the allocations relate.

(ii) Donations received

Donations are accounted for on receipt.

(iii) Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(iv) Interest Income

Interest revenue is accrued on a time basis, by reference to the principal outstanding, and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.2.2 Expenditure

(i) Repairs

Repairs are accrued on approval by the Committee on Reparation and Rehabilitation Commission.

(ii) Administration expenditure

Administration expenses do not form part of grants as stated in subparagraph 2.2.1. Disbursements in respect of administrative expenses are borne by the Department of Justice and Constitutional Development, except for bank charges and service provider fees that are borne by the Fund itself.

2.2.3 Financial instruments

Initial recognition and subsequent measurement - Continue date of recognition of financial instrument

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the marketplace are recognised on the date that the President's Fund commits to purchase or sell the asset.

Initial recognition of financial instrument

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets not at fair value through profit or loss, any directly attributable incremental cost of acquisition or issue.

i) Trade and other receivables

Trade and other receivables originated by the Fund are stated at fair value less provision for doubtful debts.

ii) Trade and other payables

Trade and other payables incurred by the Fund are stated at present liability.

iii) Cash and cash equivalents

Demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value are disclosed under another category of financial instrument, depending on their nature.

Cash and cash equivalents that do not have fixed and determined payments will be classified as available-for-sale financial assets.

Cash and cash equivalents and bank borrowings are recorded at face value.

Financial instruments - initial recognition and subsequent measurement

Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified at fair value through profit or loss, held-to-maturity or loans and advances. They include equity instruments, investments in money markets and other debit instruments.

After initial measurement, availability-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity as "*accumulated other comprehensive income*". When the security is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Financial Performance in "*other operating income*" or "*other operating expenses*". Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the Statement of Financial Performance as "*other operating income*" when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the



Statement of Financial Performance in "*impairment losses on financial investments*" and removed from the available-for-sale reserve.

2.4 Contingent liabilities

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the President's Fund. The President's Fund classifies its contingent liability as people who were declared victims by the TRC and have not applied for reparation. It is uncertain whether these people will apply for reparation. Contingent liabilities are included in the disclosure notes.

2.5 Cash Flow Statement

The cash flow statement is prepared according to the indirect method.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 MARCH 2010

3. Investment revenue

Interest received (Available-for-sale investments) - PIC

Plus: Prior year error - Note 14.2

Interest received (Fixed and Call deposits) - Standard Bank

	2009/10	2008/09
	R	R
Interest received (Available-for-sale investments) - PIC	72 734 646	13 029 804
Plus: Prior year error - Note 14.2	0	49 986
	72 734 646	13 079 790
Interest received (Fixed and Call deposits) - Standard Bank	0	79 771 977
	72 734 646	92 851 767

4. Surplus/(deficit) for the year

Operating profit has been determined after taking into account the following income and expenses:

Revenue

Non Exchange transactions - Donations

Non Exchange transactions - Royalties

Investment Revenue - See note 3

72 740 256**92 853 631**

823

0

4 787

1 864

72 734 646

92 851 767

Less: expenditure

Interim reparations

Management Fees - Public Investment Corporation (Prior year for 2 months only)

Final reparations

Service Provider - BDB Data Bureau

Bank Charges

Provision for bad debts - See note 5

1 105 158**565 284**

50 000

29 360

532 803

76 144

510 000

345 000

7 827

6 419

2 864

3 411

1 664

104 950

Surplus/(deficit) for the year**71 635 098****92 288 347**

5. Trade and other receivables - Non exchange transactions

	2009/10	2008/09
	R	R
Reparation payments recoverable:	0	1 664
Accounts receivable	273 264	273 264
Less: Provision for bad debts	-273 264	-271 600
	0	1 664

During the financial year the President's Fund transferred its investment to the Public Investment Corporation. Due to this change in investment there is no accrual in interest.

6. Financial investments available-for-sale

6.1 Public Investment Corporation

Opening balance as originally stated	893 320 215	0
Cost	893 003 646	0
Unrealised profit/(losses)	316 569	0
Investment income received during financial year	72 734 646	13 029 804
Additions during the year	8 957 010	880 000 000
Disposals during the year	-1 980 000	0
Unrealised profit/(losses)	603 874	316 569
Management expenses - After prior period error - See note 14.2	-532 803	-76 144
Closing balance	973 102 942	893 320 215
Fair value at acquisition date	972 182 499	893 003 646
Unrealised profit/(losses)	920 443	316 569

Unrealised profit/(losses) is the difference between "All-in market values" and the "Clean book value" plus "Market value interest". A provision against Accumulated other comprehensive income was made for these unrealised profit/(losses).

	2009/10	2008/09
	R	R
PIC Investments		
Money Market 0 - 3 months	422 146 400	292 300 168
Money Market 3 - 6 months	272 404 553	271 227 788
Money Market 6 - 9 months	25 849 931	201 562 329
Money Market 9 - 12 months	162 103 631	107 080 668
PIC management fee correction	4 732 791	591 886
PIC interest receive correction	203 107	49 986
Trading Cash	85 662 529	20 507 390
	973 102 942	893 320 215
6.2 Total financial investments available-for-sale	973 102 942	893 320 215
7. Trade and other payables - Non exchange transactions		
Reparation payments approved - After prior year error adjustment - See Note 14.2	27 659 099	28 843 499
Accruals	126	37
	27 659 225	28 843 536
8. Cash and cash equivalents		
Standard Bank account	231 169	8 957 571
	231 169	8 957 571
<p>The carrying amount of Cash and cash equivalents approximates their fair value due to their short-term maturity.</p>		
9. Accumulated surplus/(deficit)		
Opening balance at the beginning of the year	873 119 345	780 906 318
Less: Prior year error - See note 14.1	0	-75 320
Restated opening balance at the beginning of the year	873 119 345	780 830 998
Surplus/(deficit) for the year	71 635 098	92 288 347
Balance at the end of the year	944 754 443	873 119 345
10. Accumulated other comprehensive income		



	2009/10	2008/09
	R	R
Opening balance at the beginning of the year	316 569	0
Unrealised profit/(losses) for the year	603 874	316 569
Revaluation increase/(decrease) in investments	0	0
Balance at the end of the year	920 443	316 569
11. Cash generated from/(utilised in) operations		
Surplus/(deficit) before interest	71 635 098	92 273 027
Less: Investment income received	-72 734 646	-92 851 767
Net cash flows from operating activities	-1 099 548	-578 740
12. Related party transactions		
All administration costs for the President's Fund are paid for by the Department of Justice and Constitutional Development.		
13. Contingent liabilities		
Victims identified by the TRC need to apply for reparations before they are recognised as creditors. An uncertainty exist as to how many victims may apply in the future. At 31 March 2010 the estimated amount was R77 192 000 in respect of 2 344 beneficiaries.		
14. Prior year error		
14.1 Prior year error due to under provision of creditors for the 2007/08 financial year. Opening balance adjusted as at 1 April 2008.		
Increase in creditors		<u>75 320</u>
Decrease in Accumulated surplus		<u>75 320</u>
14.2 Prior year error due to incorrect management fees calculated by PIC for 2008/09.		
Decrease in management Fees		<u>591 886</u>
Increase in Investment income		<u>49 986</u>

RISK MANAGEMENT STATEMENT

1. Introduction

As a client of the PIC, the President's Fund specifies its desirable risk parameters in accordance with its own risk appetite. This risk appetite informs the formal investment mandate given to the PIC. The ultimate responsibility for investment risk management oversight lies with the PIC and not with the President's Fund.

2. Market risk

Market risk is the potential loss due to adverse movement in the market value of assets.

The Entity's activities expose it primarily to the risks of fluctuations in interest rates risk.

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how net surplus, and/or net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

Interest rate risk management

The President's Fund interest rate profile consists of Money Market accounts and bank balances which expose the entity to fair value interest rate risk and cash flow interest rate risk, and can be summarised as follows:

Financial Assets

Bank balances linked to South African prime rate

Money Market linked to South African prime rate.

The management of the money market interest rate risk is done by the PIC.

3. Interest rate risk

This risk is the potential financial loss as a result of adverse movements in interest rates that affect the value of money market instruments. As a PIC client President's Fund has exposure to interest rate risk through investments in money markets.

Sensitivity to interest rate movements is measured by the duration of the fixed interest exposure. Such duration is dictated in the President's Fund client investment mandate to PIC, relative to the appropriate benchmark.

Furthermore, these investment mandates prescribe how the assets should be managed by PIC, in line with President's Fund liquidity needs and its liability profile.

4. Credit risk

President's Fund investment portfolios are exposed to the potential for credit-related losses that can result due to an individual, counterparty or issuer being unable or unwilling to honor contractual obligations.

To mitigate this risk and minimise excessive credit exposure to one single counterparty, the President's Fund mandate to PIC states that PIC will only



invest with local commercial banks or institutions that have a credit rating of at least "A" from one of the recognised domestic and/or international credit rating agencies.

5. Liquidity risk

Liquidity risk arises when there are insufficient liquid assets available to enable the President's Fund to meet its obligations when due.

The President's Fund current liquid asset holdings of less than 3 months maturity amount to R507 million of the total portfolio which ensures sufficient liquidity to pay out monies due to beneficiaries.

6. Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds, which can result in undesirable risk exposures.

The President's Fund manages this risk through the PIC investment mandate, which dictates the level of concentration. Money market investments are spread across banks to reduce and diversify the client's concentration risk.



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P/Bag X81, Pretoria, 0001

Tel: (012) 315 1111