



**LEGAL  
PRACTITIONERS  
FIDELITY FUND**

SOUTH AFRICA

INTEGRATED  
ANNUAL REPORT  
**2018**

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## Glossary of terms

<b>LPA</b>	Legal Practice Act, no 28 of 2014
<b>LPC</b>	Legal Practice Council
<b>LPFF</b>	Legal Practitioners Fidelity Fund
<b>LPIIF</b>	Legal Practitioners Insurance Indemnity Fund NPC
<b>BOC</b>	Board of Control
<b>IRBA</b>	Independent Regulatory Board of Auditors
<b>JAAC</b>	Joint Attorneys and Accountants Committee
<b>AMTS</b>	Automated Monthly Transfer System
<b>PI cover</b>	Professional Indemnity Insurance cover
<b>SAA</b>	Strategic Asset Allocation






## Legal Practitioners Fidelity Fund (“LPFF” or “the Fund”) is pleased to present its 2018 integrated annual report.

### Materiality process


The information in this report has been selected to provide stakeholders with an overview of our business model, performance, governance practices, strategy, as well as our risks and opportunities. The selection of issues to be covered in this report was informed by inputs from our stakeholders, including law societies and regulators, and was further refined through engagement with the executive management and the Board of Control.

### Scope and boundary

The report covers all the operations of LPFF. The Fund changed its name from Attorneys Fidelity Fund (AFF) to Legal Practitioners Fidelity Fund on 1 November 2018, in line with changes brought about by the implementation of the Legal Practice Act.

 **For more detail, refer to the Report by the Chief Executive on page 18.**

While the advent of the change in law has changed several practices in the Fund, there has been no change in the scope and boundary of this report relative to the 2017 report, other than the name change. Readers should note that there have been no changes in the size and structure of the Fund during the current reporting period, other than through normal operating activities.

 **This is discussed in more detail on page 26 of this report.**


There has been no material restatement of information provided in earlier reports. The information in this report has been selected to cater for the interests of stakeholders who require a broad overview of LPFF.

### Frameworks and assurance

The information included in the integrated annual report has been provided in accordance with the International Financial Reporting Standards (“IFRS”), the International Integrated Reporting Council’s (IIRC) framework (“the Framework”) and The King Code of Corporate Governance (King IV). No external assurance has been sought, other than in respect of the annual financial statements.

### Forward-looking statements

This report may contain forward-looking statements with respect to LPFF’s future performance and prospects. While these statements represent our judgements and future expectations, several factors may cause actual results to differ materially from our expectations.

 **For further information, please contact LPFF on +27 (0) 21 424 5351 or visit [www.fidfund.co.za](http://www.fidfund.co.za)**

### Approval of the integrated report


The Board of Control of LPFF (“the Board”) acknowledges its responsibility to ensure the integrity of this report and confirm that this integrated annual report addresses all material matters and provides a balanced overview of the Fund and its prospects. The Board has therefore approved the 2018 Integrated Report for publication.


On behalf of the Board

**SS Madiba**  
*Chairman*

**BM Molefe**  
*Chief Executive Officer*

### HOW TO NAVIGATE OUR REPORT

 This icon signifies related information elsewhere in this report

 This icon signifies related information available online at: [www.fidfund.co.za](http://www.fidfund.co.za)

## AT A GLANCE

### Our mission



#### Protect

- Promote access to, and confidence in, the administration of justice by ensuring that victims of theft are promptly and fully compensated for their loss.
- Provide, in the public interest, professional indemnity insurance cover to practitioners against claims arising out of the conduct of the profession by attorneys.
- Ensure, by the application of appropriate risk management measures, that at all times the LPFF has adequate resources, skills and appropriate organisational structures to meet its objectives and to minimise the risk to consumers of legal services



#### Promote

- Be responsive and accessible to legitimate claimants by providing information as to the LPFF's existence and purpose.



#### Defend

- Function as a premier institution of civil society, at all times observing the highest standards of corporate governance and integrity in order to promote public confidence in the probity, dignity and status of the legal profession

Integrity | Responsibility | Excellence | Respect

Underpinned by our values

## Our contribution over the past 12 years

**R1.1bn**

Total claims paid

**6 400**

Number of claims paid

**R1.0bn**

Total spend on regulatory support

**R1.3bn**

Total spent on PI insurance cover



**The Legal Practitioners Fidelity Fund (LPFF) is a fidelity guarantee fund which exists in terms of the Legal Practice Act, which supports both the legal practitioners and consumers of legal services.**

We exist to protect consumers of legal services against loss resulting from the theft of money or property entrusted to attorneys in the course of their practices. The protection provided by the Fund encourages the public to use services provided by legal practitioners with confidence.

As an organisation, we are dedicated to working for a just and fair legal profession. LPFF is also devoted to a community served by ethical, competent and independent legal practitioners, and to society having access to reasonable affordable justice accompanied by compensation in the event of errant behaviour of practitioners.

In terms of the Act, the Fund may financially support legal regulation and legal education in the country and we continue to do so in the interest of both the public and the profession.

The Fund also provides professional indemnity insurance cover to all South African legal practices in respect of claims which may arise from professional conduct. This cover is provided through the Legal Practitioners Insurance Indemnity Fund (LPIIF).

**(Legal Practitioners Fidelity Fund was previously known as the Attorneys Fidelity Fund)**

## LEGAL PRACTITIONERS FIDELITY FUND IN NUMBERS

**R4.5 bn**

Total value of  
the fund



**104**

Number of employees

**R1.1 bn**

Total spent on  
practitioner  
support

**R68m**

Total grants  
to universities

**R66m**

Total  
bursaries for  
law students

**R810m**

Spend  
on legal  
education

**R4.8m**

Spend on  
staff training

## THE VALUE WE ADD



### Safeguarding the public

We safeguard the public against theft and fraud of funds they have entrusted with practitioners. This valuable service remains the cornerstone for building trust and confidence with the general public.



### Growing our resources

Our aim is to sustainably grow our assets to support our objectives. The Fund's net asset value reduced by 5.7% during the year ended 31 December 2018 due to unfavourable investment conditions in 2018.



### Sponsoring regulation

The Fund remains the primary sponsor for funding of regulatory activities of the profession.



### Inspection and fraud expertise

The inspectorate team provides inspection services to the regulators in large and/or complex matters. The expertise of the team is also made available to the National Prosecuting Authority and SA Police Services to ensure the successful prosecutions of defaulting practitioners. Importantly, the Fund's team is ready and experienced to deal with inspections as envisaged in the Legal Practice Act.



### Providing ethical platforms

TRUSTLINE was continued in 2018 in collaboration with the Regulator. This campaign is a country wide initiative providing the public with a platform to lodge any complaints on an anonymous basis in appropriate instances.





### Protecting attorneys

The Fund continues to co-fund Professional indemnity insurance cover for the profession through the LPIIF, its special vehicle for delivering this service.



### Training for tomorrow

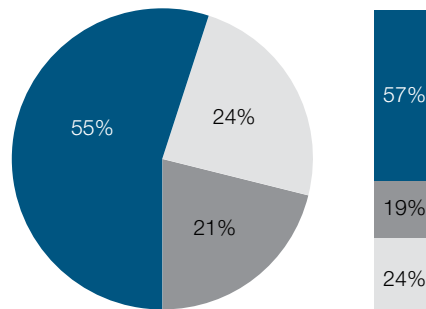
External bursaries for LLB students and grants to universities law faculties – during the period R9.1 million was allocated towards LLB bursaries. 528 students were awarded bursaries for mainly LLB studies and 62 students for LLM. R7.3 million was awarded for grants to university Law Faculties and Law Clinics.

## How we measure up

2018

2017

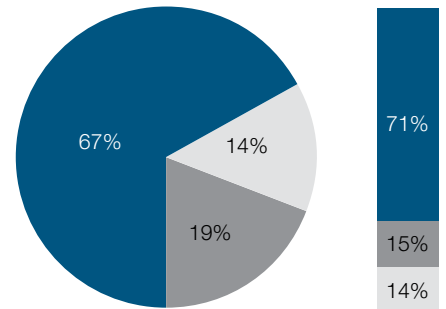
#### Time taken to finalise a claim



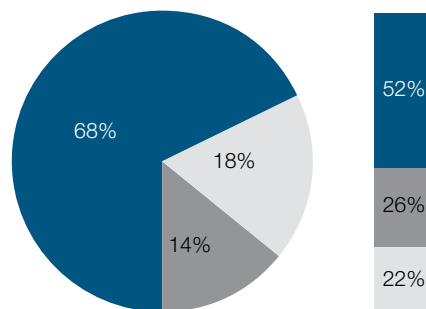
2018

2017

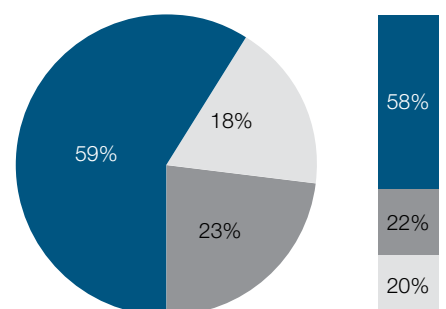
#### Conduct and attitude of claims staff



#### Accessibility of claims handlers



#### Overall response times



EXCELLENT GOOD POOR

## BUSINESS HIGHLIGHTS

**Value of the fund**  
 ↓ 5.7% to R4.5bn

2017: R4.8bn

**Net operating surplus: R2m**

2017: R150m

**Number of claims notified: 1 025**

2017: 891

**Value of claims notified: R475m**

2017: R309m

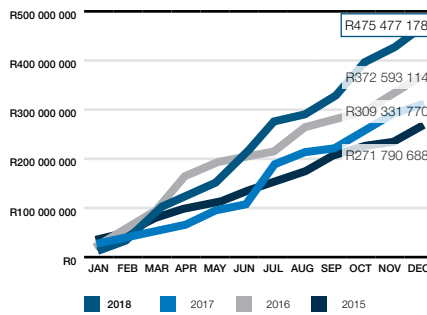
**Number of claims paid: 417**

2017: 625

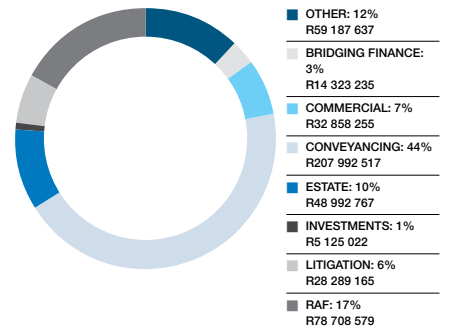
**Value of claims paid: R171m**

2017: R103m

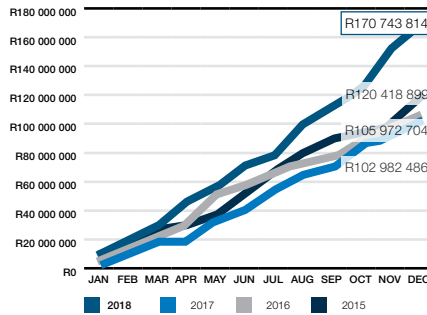
Cumulative claims notified



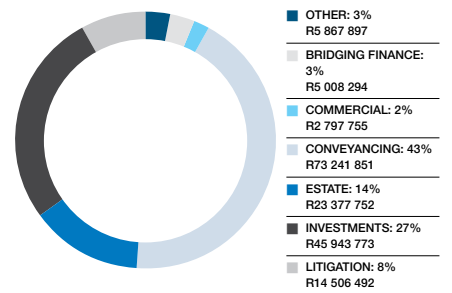
Value of claims notified by area



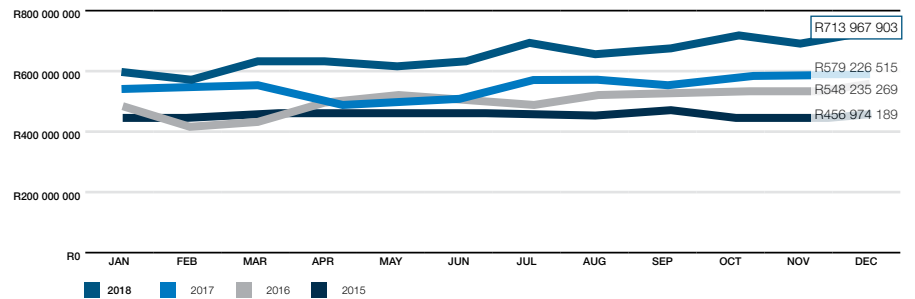
Cumulative claims paid



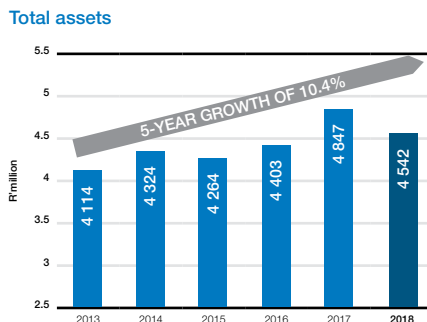
Value of claims paid by area



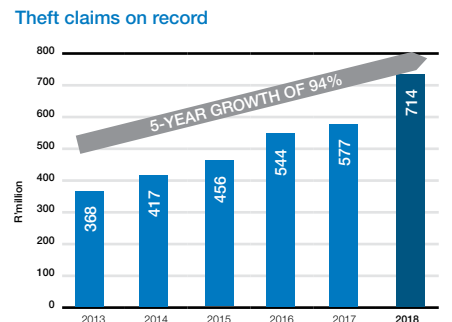
Contingent claims



Growth in net assets



Growth in theft claims





## BUSINESS MODEL

### Industry structure

The Legal Practitioners Fidelity Fund operates under the auspices of the Legal Practice Act, 28 of 2014.

Legal Practice Act

Legal Practitioners Fidelity Fund

Legal Practitioners Insurance  
Indemnity Fund

### Our capitals

The Legal Practitioners Fidelity Fund applies a variety of resources to support its activities and to operate optimally. These resources need to be maintained and nourished to maximise our value add to society. In going about our business, we utilise the following means:



#### Intellectual capital

The skills and knowledge of our employees, our systems and brand, the strength of which gives assurance to the public to utilise legal services with confidence.



#### Human capital

Our employees, whose commitment and dedication supports our goal of safeguarding society at large.



#### Financial capital

The interest earned on legal practice trust accounts, as well as dividends and interest from our investment portfolio.



#### Manufactured capital

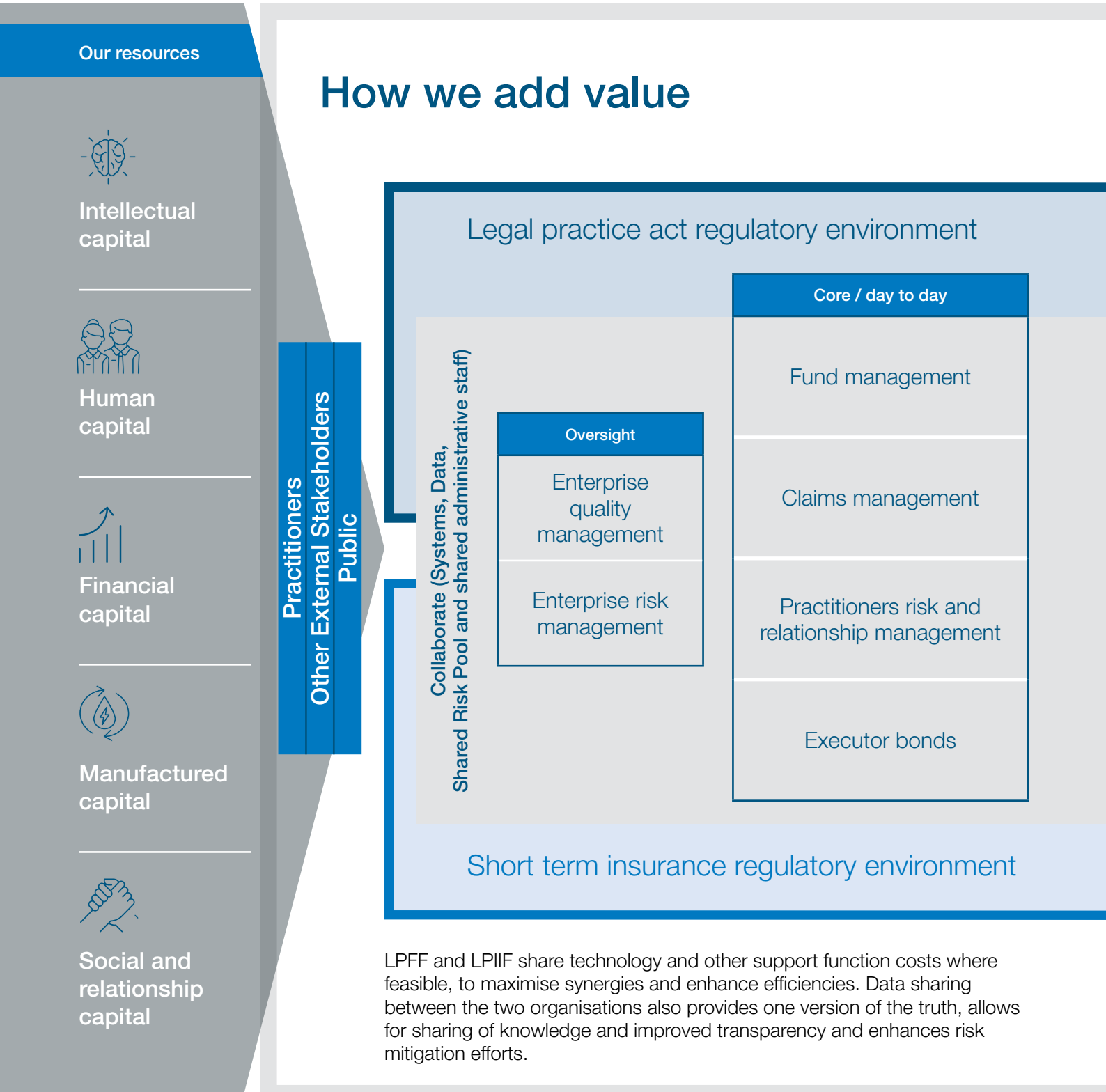
Aspects such as formulated articles for legal publications, guidance to legal practitioners, our support programmes and the work done to improve components of legislation, form part of **both intellectual and manufactured capital**. The buildings we own in Cape Town and Centurion are our most tangible form of manufactured capital. We have a low environmental impact. To the extent that we manage our water and energy consumption and waste, the buildings we own also contribute to our **environmental capital**.



#### Social and relationship capital

Our social and relationship capital comprises our service to the public, our relationships and collaboration efforts with key stakeholders and our support and funding of the legal profession.

## OUR BUSINESS MODEL





For more on our strategies, refer page 19

#### Support / back of house

Procurement and supplier management

ICT management

Human capital management

Facilities management

Shared resources with LPIIF



For more on our key risks and how we manage them, refer page 45

#### Our outputs

- Public protection
- Legal professionals trained in compliance
- A more resilient legal system

#### Our outcomes

- Public has confidence to utilise legal services
- Reduction in fraudulent behaviour

#### Our activities

##### Reducing the risk to the public

- Ensuring efficient and effective regulation through the annual appropriation to the Legal Practice Council
- Formulating appropriate Rules for practitioners and trust account practices with the Legal Practice Council
- Inspection of trust account practices, informing the Regulator on outcomes for appropriate regulatory decision
- On application to the high court, appoint a Curator over the trust account
- Institute a private prosecution for the misappropriation of trust moneys
- Management of criminal investigation and prosecution processes
- Recovery of claims and cost paid from liable practitioners
- Obtain representations made by practitioners through the FFC applications and Statement on Trust Accounts
- Assurance reports in respect of trust account practices
- Writing up books of account of trust account practices
- Defining appropriate trust account banking products
- Comprehensive and appropriate reinsurance programmes, including executor bonds through the LPIIF

##### Reducing the risk to practitioners

- Conduct practitioner support programs
- Practitioner interventions and related programs
- Provision of insurance cover for legal practitioners

##### Creating awareness

- Maintain the TRUSTLINE (whistle blowing)
- Participate in media awareness campaigns
- Contribute to monthly legal publications

##### Supporting a vibrant and effective legal industry

- Contribute risk articles to relevant and appropriate publications
- Issue practice notes and risk warnings
- Inform the market on risks and trends
- Provide legal educational content
- Provide bursaries for legal studies
- Provide prescription alerts

# STAKEHOLDER ENGAGEMENT

LPFF engages with a range of interested parties to remain relevant to, and improve alignment with, the interests of its key stakeholders. The stakeholder groups on the right have been identified as core to the Fund, based on the extent to which they can influence the performance or strategic direction of the Fund, as well as the impact that changes in the organisation might have on them.

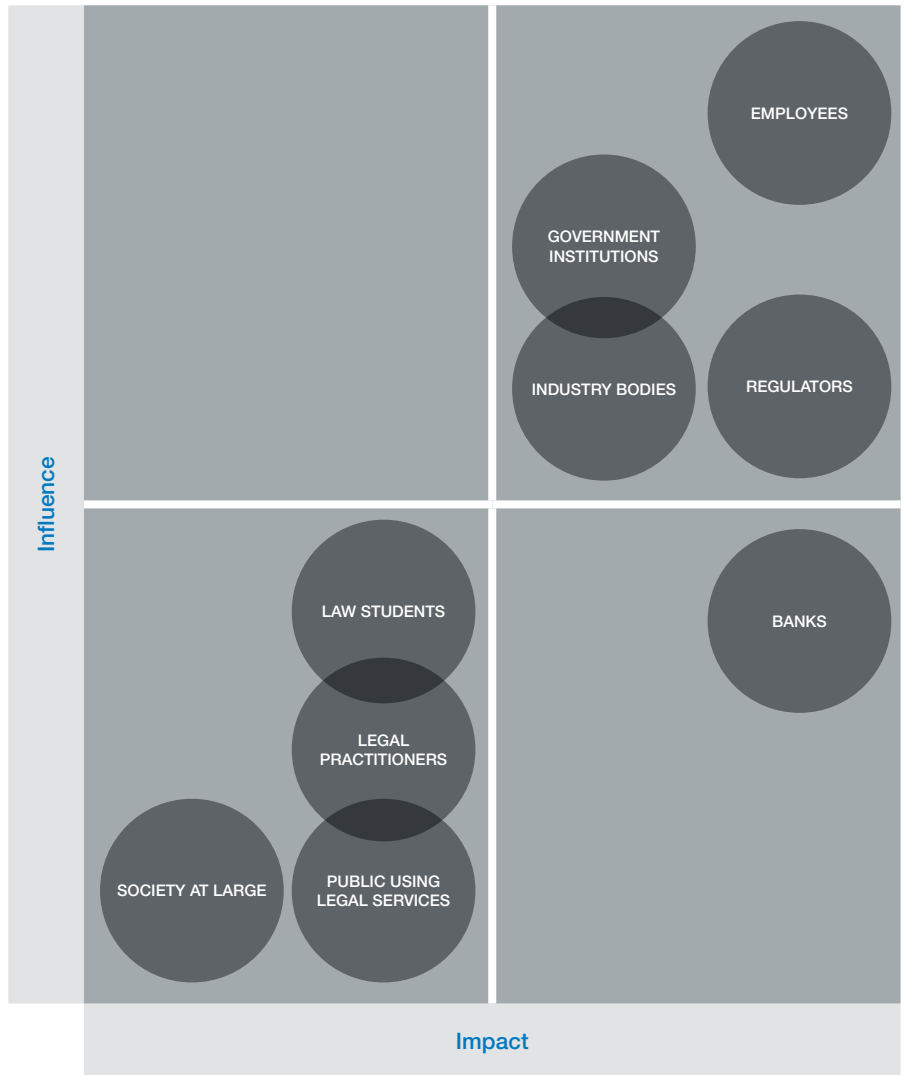
Towards the end of 2018, LPFF implemented a communication strategy to inform the Fund’s external stakeholders about the changes in the new Legal Practice Act. The objectives of the strategy was to:

- create awareness on the changes and the impact of those changes,
- educate the stakeholders of what the Fund’s responsibilities are,
- supply information about changes that have to be made in organisations,
- change behaviour in relation to the Fund’s new responsibilities, and
- advise the stakeholders where to get more information.

A broad spread of channels was used to communicate these changes, including internal communication channels, print, social media, e-mails, fact-to-face meetings, SMS updates, the Fund’s website as well as associated parties’ websites.

## Stakeholder map

These stakeholders have been identified as core to the future sustainability of the LPFF.



## Assessment of stakeholder relationship

We utilise a five point scale to denote our view of the quality of our relationship with different stakeholders.

### Scale

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
No direct relationship	Relationship exists but needs improvement	Relationship exists at an acceptable level but would benefit from further improvement	Quality relationship exists	Strong relationship



## Stakeholder engagement

The engagement initiatives for 2018 with key stakeholder groups are listed below:



### Legal Practitioners

**Methods of engagement:** bi-monthly meetings, newsletters, websites, social media posts, Law Societies, legal forums, legal trade publications, e-mails.

The team successfully issued five articles for the Practice Management column of De Rebus during the 2018 period. The aim of these articles is to educate and empower legal practitioners in their quest to improve performance in the running of their legal practices and trust accounts. This is one of the risk management initiatives of the LPFF.

With the implementation of the Legal Practice Act, and specifically Chapter Two of that Act, in November 2018, the team accepted an invitation from the BAR Council, Gauteng Chapter, to address its members at its Annual General meeting on issues pertaining to holding Fidelity Fund Certificates, running of trust bank accounts, as well as issues of risk management.

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>– Compliance with new regulations and requirements</li> <li>– Continual funding</li> <li>– Increased contributions</li> <li>– Transparency i.r.o. disciplinary findings</li> </ul>	<p>Provide explanations of changes in the regulatory environment and implications thereof through articles and ongoing engagements with industry bodies</p>
Opportunities and future area of focus	
<ul style="list-style-type: none"> <li>– Gearing practitioners to create a compliant environment can assist them to reduce audit costs</li> <li>– Create communication tools and new mechanisms for support and development</li> </ul>	



### The general public who make use of legal services

**Methods of engagement:** radio and television interviews, press releases, social media, website, print, information sharing via legal professionals, online advertising.

The team was involved with several radio interviews through various radio stations to bring awareness to the public on the Fund's offerings, the changes that are taking place in the profession, and how that would benefit and/or affect the public going forward. This is an ongoing initiative which will aid in implementation of certain sections of the Legal Practice Act.

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>– Timeous settlement</li> <li>– Scope and execution of claims</li> <li>– Capping of claims</li> <li>– Consumer education</li> <li>– Being forward-looking and agenda-setting</li> <li>– Integrating views across all platforms</li> <li>– Promoting real world outcomes</li> </ul>	<ul style="list-style-type: none"> <li>– Educate and raise awareness about the services provided.</li> <li>– Keep claimants informed of progress. Expediting claims processes.</li> <li>– Continue to sustain the created awareness through vigorous communications</li> <li>– The LPFF has invested in robust ICT systems in order to effectively serve the public. Claims processes are being streamlined and digitised to ensure that claims are handled in a fast and safe manner without the need for manual processes.</li> <li>– Provide a whistle-blowing service through TRUSTLINE.</li> </ul>
Opportunities and future area of focus	
<ul style="list-style-type: none"> <li>– Additional awareness will support the credibility of the legal profession</li> <li>– Ongoing and sustained engagement across all platforms</li> <li>– Face-to-face engagement and relationship building with key stakeholders</li> <li>– Increased social media activity to drive conversation in the industry</li> <li>– Multi-media content for different touch points</li> </ul>	

## STAKEHOLDER ENGAGEMENT (CONTINUED)



### Industry bodies (Black Lawyers Association (BLA), Law Society of South Africa (LSSA), Legal Practice Council, National Association of Democratic Lawyers (NADEL))

**Methods of engagement:** external stakeholder workshops, regular meetings with management, 1 on 1 discussions, formal discussions at BLA Annual General Meetings, emails, websites.

Key issues raised	Our response and areas of focus during the period
Resistance to: <ul style="list-style-type: none"> <li>– inspections;</li> <li>– payment of Professional Indemnity Cover; and</li> <li>– curatorship</li> </ul>	<ul style="list-style-type: none"> <li>– Transparent communication with respect to sustainability of the fund.</li> <li>– Practise and compliance support.</li> <li>– Gradual phasing in of payment of premiums.</li> <li>– LPPF CEO addresses issues with the industry bodies at their monthly meetings.</li> </ul>



### Employees

**Methods of engagement:** Regular team events, continuous business and strategy updates, training and development, performance reviews, e-mails, SharePoint, app, intranet, website.

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>– Skills development and training</li> <li>– Job security</li> <li>– Process changes</li> <li>– Communication to employees</li> </ul>	<ul style="list-style-type: none"> <li>– Regular and consistent communication, including information on potential new opportunities. There was a strong focus in the current period on confirmation that no one was at risk due to the changes in the Legal Practice Act (LPA) and that the Fund would be recruiting a number of new employees who will assist with achieving its mandate.</li> <li>– Ensuring support and enablement in skills development, especially given the new responsibilities under the LPA.</li> <li>– Claims processes will be streamlined and digitised to ensure that claims are handled in a speedy and safe manner. This will cut out the need for manual paper based processes.</li> <li>– Information and Communication Technology (ICT) transformation changes will support efficiencies.</li> <li>– Various communication platforms were created for awareness on changes occurring within the organisation.</li> </ul>

### Opportunities and future area of focus

A committed and enthusiastic staff complement improves productivity and leads to a more effective organisation.

Change management to re-invigorate staff on organisational changes.



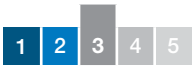
### Regulators (Financial Conduct Services Authority (FSCA), National Credit Regulator (NCR), Legal Practice Council (LPC))

**Methods of engagement:** bi-annual workshops, regular meetings, updates through regulatory returns, website, annual report.

Key issues raised	Our response and areas of focus during the period
Compliance	Consult on concerns raised by the stakeholders i.r.o. deviations in compliance and close any gaps.

### Opportunities and future area of focus

Mutual understanding and collaboration can strengthen the relationship and the industry.



### Financial Institutions (Banks)

**Methods of engagement:** Regular meetings, website, annual report, e-mails.

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>- LPFF's negotiating power</li> <li>- Accreditations</li> <li>- Design of banking products</li> </ul>	<ul style="list-style-type: none"> <li>- Consult on concerns raised by the stakeholders for deviations in compliance and close any gaps.</li> <li>- Requests for new products to fulfil obligations under Legal Practice Act.</li> </ul>

Opportunities and future area of focus
<ul style="list-style-type: none"> <li>- Bank reporting will facilitate the monitoring of balances for risk profiling.</li> <li>- Bank accreditation should provide leverage for negotiating a more beneficial rate of credit interest.</li> <li>- Data that the LPFF receives from the banks will enable us to provide an earlier indication on the funding available to the Legal Practice Council (LPC) each year.</li> </ul>



### Government and Institutions (South African Revenue Service (SARS), Department of Justice (DOJ), South African Police Service (SAPS), South African Institute of Chartered Accountants (SAICA), Independent Regulatory Board for Auditors (IRBA), National Prosecuting Authority (NPA))

**Methods of engagement:** regular interactions and formal management discussions, 1 on 1 with National Forum Chief Executive, e-mails, websites, annual report

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>- Compliance</li> <li>- Formalised and transparent correspondence</li> <li>- Representation in National Forum</li> <li>- Preservation of regulators assets</li> <li>- Turnaround times for changes to legislation</li> <li>- Changes to administration of estates and trusts</li> </ul>	<ul style="list-style-type: none"> <li>- Identify key people within the institutions and communicate with them regularly.</li> <li>- Consult on concerns raised by the stakeholders.</li> <li>- Create cooperative environment to support successful criminal prosecutions.</li> <li>- Participate in the improvement of assurance requirements and execution within the legal practitioner regulatory environment.</li> </ul>



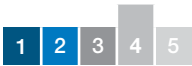
### Law students

**Methods of engagement:** formal meetings, regular communication, social media, online advertising, annual report.

Key issues raised	Our response and areas of focus during the period
<ul style="list-style-type: none"> <li>- Lack of funding</li> <li>- Access to employment opportunities</li> </ul>	<ul style="list-style-type: none"> <li>- Communication about understanding funding implications</li> <li>- Create awareness on the provisioning of bursaries to law students</li> </ul>

Opportunities and future area of focus
<ul style="list-style-type: none"> <li>- Collaboration with universities and other service providers.</li> <li>- Offering quality workplace training.</li> </ul>

## STAKEHOLDER ENGAGEMENT (CONTINUED)



### Society at large

**Methods of engagement:** Participation in various interviews with radio and television stations, the Fund's website, posting podcasts of interviews and launching an application that will enable information to be readily available to all stakeholders, social media, online advertising, annual report.

TRUSTLINE continued in 2018 in collaboration with the Law Society of South Africa. This campaign is a country wide initiative providing the public with a platform to lodge any complaints, on an anonymous basis, in appropriate instances.

A public relations function manages a formal communication strategy which encompasses TRUSTLINE and other campaigns, to promote awareness of risk within the legal profession. Through this office, the Fund hopes to strengthen its communications platform with all stakeholders, both internal and external.

Key issues raised	Our response and areas of focus during the period
Lack of awareness	<ul style="list-style-type: none"> <li>- Educate and raise awareness about the services provided.</li> <li>- As the LPFF and LPIIF have rebranded, increased awareness and stakeholder engagement will be employed through key activities.</li> </ul>

### Opportunities and future area of focus

An effective engagement and awareness programme will engender trust in the legal profession. The following activities are planned:

- Public Relations service provider will help organise roadshows, speaking opportunities at industry events and a golf day.
- Securing media partnerships to host outside broadcasts and inviting the media to cover the events.
- Creating content and collateral, such as flyers, posters, banners, floor layout designs to ensure maximum engagement and programme planning. Content will be relevant and specific to different stakeholders.
- Influencer relations to capitalise on our chosen influencers and generate content with the goal of addressing the issues of awareness.
- Live social media posting.
- Create a stakeholder handbook with easy to understand information.



## OPERATING CONTEXT

The LPFF exists to protect the public against loss as a result of theft of trust funds and, through the LPIIF, to provide Professional Indemnity (PI) insurance cover to the profession. The protection provided by the organisation encourages the public to use services provided by legal practitioners with confidence. The organisation's sustainability and ability to serve the public and profession relies on its ability to respond to and adapt to changes in the economy, to internal and external trends and challenges in the regulatory and South African legal environments.

### Economic conditions

The Fund's income stream from trust interest collections is reliant on an increase in trust account balances, and this may only happen with a greater level of business and consumer confidence. In addition, growth in the Fund's assets is to a large extent dependent on the performance of equity and bond markets, which will go up or down in relation to the outlook for economic conditions and company earnings. Economic activity remains weak, yet important initiatives are being put in place to kick-start the economy and attract new investment.

### Regulatory changes

The Fund, like all stakeholders in the legal profession in South Africa, has been in a state of transition, occasioned by the introduction of the Legal Practice Act 28 of 2014 which is changing the spectrum of regulation of the legal profession in South Africa completely. A key theme for 2018 was the review and repositioning of the operating model of the LPFF to adequately implement its objectives as mandated by the new Act. The most fundamental changes are indicated in the adjacent table. The Fund has had to re-engineer its business processes and operating model to accommodate these changes, with a number of critical areas being done for the first time. More importantly it has had to invest significantly in human capital development to match skills to new activities given the new function it is to perform in terms of the Act. It also had to invest in technology to take over systems functionality that were previously provided by third parties. The requirements for new board appointments also had to be considered.

### Regulatory changes

Attorneys Act, 53 of 1979	Legal Practice Act, 28 of 2014
<b>Name change</b>	
Previously Attorney's Fidelity Fund.	Now Legal Practitioners Fidelity Fund – the same underlying juristic entity
Attorneys Indemnity Insurance Fund	Now the Legal Practitioners Indemnity Insurance Fund NPC (the LPIIF).
<b>Oversight</b>	
Currently, the Board of Control is made up of 16 members, four attorneys from each of the four Law Societies.	The Legal Practice Act makes provision for ministerial as well as civil society representation on the Board of the Fund – a significant change in the governance structure of the Fund. The new Board will consist of 9 members, including four legal practitioners, 1 advocate, 2 members nominated by the IRBA, 2 members appointed by the Department of Justice. The Legal Practice Act requires that appointments to corporate structures must consider racial and gender equality to improve diversity.
The four Law Societies ceased to exist on 31 October 2018.	Replaced by the Legal Practice Council which will have regulatory jurisdiction over all legal practitioners.
<b>Fund sustainability</b>	
There is no cap provided on the maximum size of theft claims.	Vital to future sustainability is management of the Fund's exposure to theft claims. The legislative cap on the Fund's exposure per individual claim has been set at R5 million in the new Act.
Interest was collected via the Law Societies and paid over to the Fund.	LPFF will collect its own interest in future. An interim arrangement is in place to ensure continuity in collections until news systems go live on 1 March 2019.
	Interest income from S86 (4) of the Legal Practice Act will be a new and important revenue stream that will contribute to the sustainability of the Fund.
Practitioners were encouraged to pay unidentifiable and unclaimed trust monies to the Fund to mitigate risks. This is not a legal requirement in terms of the Attorneys Act.	Payment of unidentifiable and unclaimed trust monies to the Fund will become compulsory in the Legal Practice Act dispensation.
<b>Financial obligations</b>	
Most of the funding for certain regulatory activities of the Societies which the Fund was carrying out on an agency basis in terms of the Attorneys Act, was of a discretionary nature	In the Legal Practice regime, it is now obligatory for the Fund to provide an annual appropriation to the Legal Practice Council. The Act does however provide that the financial requirements of the Fund will always take precedence.
All Attorneys received Professional Indemnity cover free of charge. The cost of providing the cover as well as administrative costs are borne by the Fund.	Attorneys will contribute an amount as fixed by the Board to the premium for Professional Indemnity cover annually. The Fund's contribution will be limited to a period of five years and reduce incrementally over that period, until it only contributes to the operating costs of the scheme whilst the premium as a whole is borne by the profession.
Fund is empowered to subvent university law faculties and university law clinics and enhance professional standards	No provision is made for this in the Act. While it is inevitable that the funding of legal education will be approached differently under the Legal Practice Act, it is expected that the Fund will continue to provide financial support in the future.
<b>Activities</b>	
Reliance was placed on the regulation by the Law Societies and assurances from the audit of attorney trust accounts	New areas of operation and functions of the Fund set out in the Legal Practice Act include the power to inspect books of account of practitioners and the involvement of the Fund in curatorship functions.
	The Legal Practice Act introduces an important change for the fact that no attorney who holds a fidelity fund certificate can refuse an inspection and must provide information as requested by the Fund.
Fidelity Fund certificates issued by four Law Societies, limited to attorneys only.	Certificates to be issued by the Practice Legal Council, now for both attorneys and advocates.

## CHAIRMAN'S REPORT

It gives me great pleasure to, on behalf of the Board of Control of the Legal Practitioners Fidelity Fund, present this overview of the activities of the Fund for the financial year 2018.

The Legal Practitioners Fidelity Fund is a creature of statute, established in terms of various Acts previously regulating the attorney profession in South Africa, but currently existing within the confines of the Legal Practice Act 28 of 2014. It has a board of sixteen members constituted through the now defunct four law societies, each of which is represented by four members during the transition period that will cease in April 2019. The new board will comprise of 9 members.

**SS Madiba**  
Chairman



The Fund's primary purpose is the protection of members of the public in instances of theft and/or misappropriation of trust funds and/or property by attorneys in South Africa. In terms of the Act, the Fund may also subvent legal regulation in the country and it has done so in the interest of both the public and the profession.

The Fund currently operates in an environment in which the legal profession, particularly amongst the previously disadvantaged, is steadily growing. This means that the protection it extends to the public is increasing because its risk pool is growing. All of this is happening against the backdrop of an economy with low growth and low primary revenue streams. In short, whilst the risk pool is growing, the Fund's income is almost flat, if not lower than the previous year.

The Fund however, like all stakeholders in the legal profession in South Africa, is in a transitional phase which has been occasioned by the introduction of the Legal Practice Act 28 of 2014. Chapter 6 of this Act, which relates to the Fund, came into operation on 1 November 2018 and has forced the Fund to re-engineer its business processes and operating model. The regulatory framework has changed, with the Fund's Board being completely independent of the regulator in all ways, which is contrary to the past. Legal practitioners on its Board are elected and not designated by the regulator. More importantly, the Fund has new powers, being those of inspections, curatorships and private prosecutions that can be exercised independently of the regulator. The landscape has changed fundamentally in this regard.

The necessity for a change in its business model could therefore not have been greater. I am pleased to be able to report that, through strong impetus of its management team, the Fund has been able to finalise a new operating model and projects in the technology environment that are intended to support this new operating model, well in time for the new Act.

In the past, the Fund subvented regulatory activities of the Societies on an agency basis, but in terms of section 22 (b) of the new Act, the Fund is obliged to make an annual appropriation to the Legal Practice Council,



which has now been established. This matter goes to the heart of the sustainability of the Fund and as such, the Fund commissioned its Actuary to develop a funding model that will ensure proper and effective regulation without threatening the long term sustainability of the Fund. As at the end of 2018, the Fund could only contribute an amount of R205 million towards regulatory activities for the financial year 2019, in terms of the Actuary's report. I might add that the net asset value of the fund reduced from R4.8 billion to R4.5 billion. Despite this decline in net asset value, the Fund had an operating surplus of R2 million in 2018.

The development of the new operating model and development of our staff in terms of skills, were some of the Fund's key successes this year. We believe that the sustained effort to align the Fund and its business requirements will continue unhindered.

The Fund has completed eight IT projects geared towards the implementation of its strategy of digitised operations going into the future. On the skills side, three particular examples of employee upskilling bear mentioning – two learners acquired formal business degrees and we promoted them to appropriate positions within the Fund as part of our succession plan. A former security guard at the Fund finalised his articles of clerkship and has now joined the Fund's claims team. He will be admitted as an attorney shortly. We are particularly proud of these employees.

The Fund continued to hold itself to the highest standards of governance and has formally adopted the King Code of Governance. There was also a concerted effort to ensure ethical behaviour by all in the organisation. Specific matters related to conflict of interest was managed well within policy considerations and proper reporting. A Social and Ethics committee was formed to ensure compliance and report to the Board quarterly.

The Fund, by its very nature, can only use resources as directed by its founding statute. The biggest contribution that the Fund makes annually towards corporate social responsibility is bursaries to law students at the various universities and grants to their faculty clinics that provide these students with specialised skills training. R15.2 million was spent in this regard in 2018.

This was a particularly challenging year for me as Chair of the Fund, especially with the transitioning into the new era of the Legal Practice Act and its changes. I am however grateful that the Act was amended to make provision for the continuation of the old Board. This provides the opportunity to ensure a smooth transition and as such, a Board as well-functioning as the current one should be able to leave a strong legacy for the new Board.

The Board approved a three-year strategy which is currently being rolled out as part of the organisational reorganisation and design programme, focused on ensuring change in line with the new Legal Practice Act. The current Board has been able to see the entire strategy almost to fruition, which is something we are immensely satisfied with.

I would like to take this opportunity to thank the members of the Board, its committees, the management, as well as all the staff of the Fund for having made it possible for my work and task of leading the Fund to have been much easier than I would have thought it would be. More importantly I would also like to thank our stakeholders, and particularly the erstwhile regulators, for helping us make 2018 a successful year by working in cooperation with us.

I hereby express my full support to the new Board that will come into office on 1 May 2019 and wish them the greatest success in taking the Fund forward.

**SS Madiba**  
*Chairman*

## REPORT BY THE CHIEF EXECUTIVE OFFICER

The past year saw the transformation of the regulatory regime in the legal profession in South Africa, with the repealing of both the Attorneys Act as well as the Admission of Advocates Act. The two Acts which had been the cornerstone of the regulation of attorneys as well as advocates for many years, were formally replaced by the Legal Practice Act 28 of 2014. The Act came into operation on 1 November 2018 when the creation of one regulatory body, the Legal Practice Council, became a reality. Not only did this Act come into operation, it brought with it new areas of operation for the Fund in particular, and fundamentally altered the governance structures of the Fund, notably the composition of the Board of Control. The changes also brought with them the much-anticipated statutory powers that the Fund had been looking forward to, in order to mitigate some of the external risk it faces on a day to day basis. These changes will inevitably also have a definite impact on the business model of the Fund. In the last four years the Fund had been aligning its strategy to harmonise with the new legislation, bearing in mind the new obligations, rights and powers it had been granted in terms of this legislation. To this end the Fund identified that, in order to not only manage its risks more effectively, but also to be able to deploy its resources optimally, it has to ensure that it has the correct technology tools and platforms in place. These platforms will ensure that it can manage its data more efficiently, be placed in a position to use the data in profiling, identifying risky practices and practitioners and as such, be able to share these with the regulators because of the commonality of purpose between them and the Fund. The Fund's future strategy is encapsulated through the depiction on the following page which sets out its aspirations, enablers, its strategic plans and more importantly, the key risks it faces whilst trying to bed down the strategy ensuring its long-term sustainability.

The strategic plans set out have been a key focus of each of the executives and the drive towards excellence has been underpinned by this dashboard whose sole intention is to keep the entire business of the Fund focused on what is important and right to enable the Fund to succeed in its mandate.

In terms of section 22(1) (b) of the new Act, the Fund is obliged to provide the Legal Practice Council with an annual financial appropriation which is intended to ensure proper regulation takes place. As such, the Fund remains the cornerstone of regulatory activities of the profession as envisaged in the

Act. This is now an obligation and no longer discretionary, as was the case in the era of the Attorneys Act. Even more onerous is the fact that the Fund is now also obliged to fund the regulation of advocates, which it never did in the past and inevitably the financial expectations brought to bear on the Fund are greater, hence focus on projects that address this was a particular priority in 2018.

Significant time and resources were also invested in human capital development, to give impetus to the new functions the Fund is to perform in terms of the Act, to ensure that skills within the organisations tie back to new activities. This was more so because of the development of the new technology tools and platforms alluded to earlier in this report and in line with the adopted strategy that relies heavily on technology and data manipulation in the regulatory environment in which the Fund finds itself. The Board of the Fund had already, as far back as 21 November 2016, adopted a business model driven primarily by business intelligence, seeking to address the entire risk universe of the Fund and enhance revenue collection streams geared towards meeting the twin objectives of the Fund, namely remaining sustainable in order to provide public protection and contributing towards effective regulation.

### The journey towards the implementation of the Legal Practice Act

I have already alluded to the fact that the Board of the Fund adopted a new business model which is largely underpinned by the acquisition of technology and its platforms, in order to ensure that more business intelligence is built around practitioners and the risk they pose in order to ameliorate these over the long term. This is being driven through a transformation project that started in 2016 and continues into 2019. A number of projects were undertaken and completed in 2018. As can be noted in the short commentary on each of the completed programs, the purpose of each fit into the elements set out in the strategy dashboard above. They are also fit for purpose in order to modernise the role of the Fund in supporting regulation in the country, whilst remaining sustainable. The ICT work streams completed in 2018 include the following aspects:

Work programme	Description	Strategic intent	Completion date
Business Continuity and Disaster Recovery	Establishment of capability to enable business to continuity operating during possible disasters	Strategic implementation to enable Business Continuity	February 2018
Master Data Management – Phase I	Implementation of a central database for practitioners and firms	Providing a single view of Practitioner, Firm and Relationships	October 2018
Enterprise Content Management – SharePoint 2016 (Phase I)	Design and implementation of enterprise content management to	Content Digitisation and modernisation to reduce paper work in the business	August 2018
Fund Collection Management System (FCMS)	Design and implementation of Trust Interest Collection Management	Establishment of technical capability to collect trust interest monies into the organisation	December 2018
Enterprise Risk Management	Design and implementation of Enterprise Risk Management	Digitisation of enterprise risk registers and related improvements	November 2018
Fidelity Fund Certificate (FFC) System Enhancement for 2019 Applications	Design and Implementation of Enhancements for FFC for 2019 applications for FFCs.	Enhancement of FFC to cater for new rules as a result of implementation of the Legal Practice Act, 28 of 2014	December 2018
Enterprise Data Programme	Design and Implementation of data management capability	Designs of data governance, data strategy and standardisation of data elements	August 2018
Mobile App	Design and Implementation of mobile app	Establishment of Strategic communication tool and platform to reach out to stakeholders for stakeholder engagement	December 2018



**Our aspirations**

Sustainable value to protect the public	Rewarding environment for our employees	Exemplary customer service	Trusted legal profession
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**Our enablers**

Stakeholder engagement	Mitigate practitioner and Fund risks	Optimal investment and interest returns	Appropriate Professional Indemnity cover	Prompt payment of valid claims
Effective and efficient regulation	High performing staff	Compliance and governance	Appropriate processes and systems	

Our strategic response to key risks as well as the operating environment is depicted below

**Our risks**

Non-compliance with OHSA	Business continuity and disaster recovery	Corporate governance inadequacy	3rd party funding requirements	Unlimited liability Fund	PI insurance costs	Level of Fund revenue
Constrained future capacity	Investment and market risk	Crime against the fund	Cyber risk	Inappropriateness/inadequacy of ICT	Non-compliance with legislation and policies	Stakeholder management



For more information on our risks, refer to the risk report on page 45.

**Customer service driven strategies**

Collection of own interest	Maximisation of Trust interest	Practitioner risk management and support	PI premium contribution	Appropriation for efficient and effective Regulation
Limiting claims liabilities	Benefits through synergies	Sustainable value creation	Efficient, effective and appropriate processes and system solutions	

## REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

There are a number of other ICT work streams planned for completion in 2019 which bear relevance to the strategy of the Fund which have commenced but are yet to be completed and can be summarised as follows:

Work programme	Description	Strategic intent	Target date
Enterprise Resource Planning (ERP)	Design and implementation of ERP	Strategic business resources planning and management	April 2019
Integrated Claims Management Systems (ICMS)	Design and implementation of Integrated Claims Management	Digitisation and improvement of the claims management capability	May 2019
Master Data Management – Phase II	Further implementation of a central database for practitioners and firms including LPC requirements	Providing a single view of Practitioner, Firm and Relationships as golden records	August 2019
Business Process Management	Design and implementation of Business Process Management	Content Digitisation and modernisation business process	October 2019
Complaints and Disciplinary management system	Design and implementation of Complaints and Disciplinary management system	Establishment of technical capability to manage complains and disciplinary activities	November 2019
Redevelopment of FFC System into the new Platform	Redevelopment of FFC System into the new Platform	Re-platform the FFC capability for an improved efficiency and effectiveness for 2020 applications	July 2019
Fund Collection Management System (FCMS) – Phase II	Further Design and Implementation of Fund Collection Management System – Phase II	Enhancement of FCMS to include PI contributions	December 2019
Enterprise Data Programme – Phase II	Further design and Implementation of data management capability	Further designs of data governance, data strategy and standardisation of data elements	August 2019
Curatorship Management System	Design and Implementation of Curatorship Management System	Establishment of Strategic communication tool and platform for managing Curatorship assignments	December 2019

The involvement of other stakeholders, like regulators, both within and outside of the Fund remains critical for the success of the projects and the implementation of the Fund's strategy. Pleasingly, the timelines set for completion in 2018 were met and it is envisaged the same will be the case in 2019.

Without the proper ICT systems and infrastructure, it is inconceivable that the Fund would be able to achieve its objectives of managing risk through analysis and reliable business data and reports hence, the various work streams of the project.

Change management programmes commenced and were implemented in 2018. These programmes continue in order to address the impact of change on the organisation and its staff.

### Financial sustainability

The Legal Practice Act brought with it a new income stream for the Fund after successful lobbying of government and stakeholders to ensure an area that was eroding the Fund's asset base with no compensating contribution, is changed. Section 86(5)(b) of the Act make provision for a 5% contribution to the Fund of any interest earned in section 86(4) accounts, which accounts relate to short term investments by practitioners where there is an underlying transaction in progress. Although the section ought to have been

enforced with effect from 1 November 2018, the Board of Control of the Fund decided that the enforcement of this section be suspended until 1 March 2019 to ensure that its operation is synchronised to the new financial year and avoids overlaps between two financial years, which would have complicated matters for both practitioners and the public with regard to their tax obligations. The banking industry is also ready to implement products geared towards the collection of this 5% contribution.

Connected to this new income stream is an education campaign that we implemented in 2018 regarding this important deviation of how such investments were treated in section 78(2) A, as contained in the now repealed Attorneys Act. The education campaign took place through various media forums including radio and television shows and the intended objective was to indicate the Fund's new powers and obligations to the end users of legal services and more importantly to emphasise the services it offers to the public.

During the year under review the Fund received R591 million in trust interest income compared to R610 million over the same period in 2017. This translates to a decrease of 3% and can be attributed to a reduction in the amount of trust money in circulation, arising from lower levels of business confidence. In the absence of rising interest rates, an increase in trust

interest income in 2018 remains remote, unless there is a sudden improvement in the macroeconomic environment. Trust interest portfolio management is expected to increase the effective management of trust accounts and the benefits of this initiative are expected in the medium to long term. The Fund is dependent on trust account interest for the bulk of its operational requirements.

The Fund's net asset value reduced by 5.7% during the year ended 31 December 2018. This unfavourable results is the outcome of the investment markets being in negative territory for most of 2018, as well as withdrawal of R225 million from the portfolios.

### The board of control

#### Constitution

The power of the Fund vests in a Board of Control, constituted in terms of the Legal Practice Act 28 of 2014. This is in terms of an amendment to the Act which, in terms of subsection 62 (2) thereof, extended the current Board tenure to the end of April 2019. The Executive management of the Fund previously served purely at the pleasure of the Board of Control with no legislative powers granted to it. However, in terms of the Legal Practice Act, section 63(2) the Act specifically recognises the office of Executive Officer of the Board who is imbued with powers to carry out certain delegated powers as well as



accounting for the assets and liabilities of the Board. The Board of Control is vested with legislative power to consider claims against the Fund. A power which in terms of section 63(1) (j) it may delegate to its employees, subject to whatever conditions it might impose. This section is merely a repetition of the provisions of an earlier Judicial Amendment Act whose primary purpose seemingly had been intended to ensure that employees charged with claims consideration are placed in a position to determine or repudiate claims. Although this provision has been in existence in the last three years it has been used sparingly with Board members preferring to consider claims themselves on a remunerative basis. Claims handlers are restricted to merely making recommendations a scenario which does sometimes delay the speedy resolution of claims. The smaller Board as provided for is likely to have an impact on this practice going forward as there will be less legal practitioners than is the current scenario and as such that might call for full delegation of claims consideration to full time employees who are claims handlers.

## Practitioners' risk management

### Fidelity Fund Certificates

The team ensured the FFC portal readiness for issuance of Fidelity Fund Certificates in line with the requirements of the Legal Practice Act. Three major enhancements bear highlighting:

1. the inclusion of the mandatory contribution of R345 by a practitioner for issuance of a certificate;
2. amendment of the system to issue just one certificate to a practitioner irrespective of the number of legal practices the practitioner is linked to; and
3. amendment of the issuing institution from the traditional four Law Societies to one Legal Practice Council.

The issuance of just one certificate per practitioner necessitated a further change in the application process, which eventually saw the separation of the firm information module from the member certification module. A few teething problems were initially experienced, leading to the postponement of the application submission due date from 30 November 2018 to 31 December 2018, but these have been resolved.

The online portal for application for the 2019 Fidelity Fund Certificates opened on 21 November 2018, and as at 31 December 2018, 7 768 certificates were issued. The Fund received and approved requests from the Legal Practice Council to capacitate the various Provincial Offices to assist with issuances during the peak period.

### Compliance and Support Program

The Compliance Support Program was rolled out in January 2015 in the then KwaZulu-Natal Law Society and extended to the then Free State Law Society in April 2017, as a compulsory program for new firms. During 2018, the Board resolved to discontinue the program in its current form, resulting in the last intake for new firms into the program of September 2018. In terms of this resolution, firms enrolled in the program as at 30 September 2018 remain in the program until their tenure of two years is concluded. As at the end of December 2018, 308 firms remain in the program for KwaZulu-Natal, and 65 firms opened in the Free State with 36 supported. The remainder of the firms in the Free State were not supported as practitioners advised that they were seasoned and had run trust accounts before.

The team continues to exit firms in the KwaZulu-Natal jurisdiction, and as at December 2018, 103 firms were exited. No participating firms have been exited from the Free State jurisdiction.

### Prosecutions

The Prosecutions Unit handled a total of 203 criminal cases in 2018. The prosecution processes were successfully concluded in respect of 14 matters in which the defaulting attorneys were convicted and given various sentences. In addition, there is one matter in which the defaulting attorney has been convicted of theft of trust funds but is still awaiting sentencing. There are also 36 matters that are either on trial or in respect of which trial dates have been allocated. There are three matters in which the defaulting attorneys have fled the country. Extradition proceedings have been instituted in respect of one of the said matters and the Fund is actively assisting the National Prosecuting Authority to finalise the extradition application.

The Unit has registered 17 new criminal cases against the defaulting attorneys and 52 cases were in the process of being registered.

There has been significant progress in respect of civil proceedings against erstwhile directors who are jointly and severally liable with their firms to repay the claims paid by the Fund. The immovable properties of several former directors have been attached and will soon be sold to recover the amounts of claims paid by the Fund. Many more similar cases have been identified and the Unit is in the process of instituting civil proceedings to recover the stolen funds.

The Unit has vigorously pursued the defaulting attorneys who have failed to comply with Court Orders directing them to repay the claims paid by the Fund. This has resulted in large amounts of money being recovered. Those defaulters who have totally failed to pay in accordance with the Court Orders have had their cases referred to court to have their sentences converted to jail terms.

The recovery of the claims and the legal costs incurred in connection with the striking offs have improved significantly in 2018. There have been continuous engagements with the various stakeholders about their role with regards to the prosecution of the defaulting attorneys and the recovery of the stolen trust funds. These engagements, through the Joint Stakeholders Committee and individual stakeholders, have greatly improved the operational relationships with the various stakeholders.

The stakeholders training manual has been updated to align same with the new Legal Practice Act. The Fund is now able to offer training to public prosecutors and investigators dealing with commercial crimes involving theft of trust funds by legal practitioners.

### Investigations and cash-flow analysis

The team continues to conduct financial forensic investigations and cash-flow analysis reports in support of the Prosecutions teams (internally and externally), the Claims Department and the Legal Practice Council. In the 2018 period, the team conducted and concluded one cash-flow analysis report as per mandate from our Prosecutions team

## REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

and the Regulator. The team concluded three financial forensic investigations during the 2018 period. The team continues to support these stakeholders through investigations and cash-flow analysis.

### Curatorship

The Fund had completed the re-engineering of its business processes and operating model to align with the new Act in 2017. There were, however, some critical processes and IT systems that were being introduced for the first time, such as curatorship functions, its processes as well as the IT systems necessary to facilitate its automation and integration. These had yet to be fully implemented.

One of the key objectives of the organisational reorganisation and design programme was to focus on ensuring that changes that affected other stakeholders such as the (then) Law Societies, were carried out in cooperation and in conjunction with them. Key to that strategy for the Legal Practitioners Fidelity Fund as an organisation, was the enhancement of risk management which, for the proper achievement of its desired objectives and goals, necessarily had to be IT driven.

A structured process of consultations and engagements in this regard would be significant, as it would focus on aligning the curatorship processes with the provisions of the Legal Practice Act and the rules and/or regulations made thereunder. It would also ensure the streamlining of the processes and procedures applied in carrying out and executing curatorship duties and functions. But importantly, it would ensure the settling of the contents of the standard court orders to be sought and obtained in relation with the curatorship duties.

The achievement of the strategic goals and objectives of the Curatorship Unit was, and still is, wholly dependent on the successful and complete implementation of the objectives highlighted above. Some of these projects are at the final stage of planning and/or implementation and should be fully implemented by the end of 2019.

The Curatorship Unit, having only started operating in October 2017, is still in the process of planning and setting up its human

resources and infrastructure requirements. One of the key deliverables for 2018 was management and digitisation of Curatorship capability, which was planned to be accomplished around October 2018.

The purpose of the Unit remains to contribute to the Fund's strategic objectives relating to risk management by maintaining and implementing an effective and efficient curatorship strategy and plan, and by carrying out the following responsibilities and duties, amongst others:

- Negotiating and engaging with internal and external stakeholders on matters concerning curatorship processes.
- Negotiating curatorship service level agreements.
- Identifying practices requiring curatorship.
- Obtaining court orders to allow for the appointment of a curator.
- Overseeing Curator service level agreements
- Managing and attending to the finalisation of all matters where the Fund's officials have been appointed curator's agent.
- Managing and overseeing all curatorship matters, including those where former law society officials had been appointed curator bonis and where they had subsequently appointed other agents.
- Providing feedback to relevant stakeholders, including Executive Management and the Board of Control, through monthly, quarterly and annual reports.

### Trustline

TRUSTLINE continued in 2018 in collaboration with the Law Society of South Africa. This campaign is a country wide initiative providing the public with a platform to lodge any complaints on an anonymous basis in appropriate instances. However, we have continued to see the number of cases reported dropping instead of increasing over a period of time.

After enough data has been collated it will put the Fund in a position to assess whether this drop can be correlated with a reduction in theft claims or not. At this stage there isn't enough information to justify such a conclusion. Management has however set up new initiatives of communication with the public through participation in various

interviews with Radio and television stations, revamping the Fund's website and posting podcasts of the interviews and launching an LPFF application that will enable information to be readily available to all stakeholders.

As part of the new structure of the Fund approved in November 2016, a public relations function has been created which has developed a formal communication strategy and encompass TRUSTLINE and any other campaigns promoting awareness of risk within the legal profession. Through this office the Fund hopes to strengthen its communications platform with all stakeholders both internal and external.

### The Fund's reinsurance programme

The Fund's reinsurance programme was renewed for a further year on 1 July 2018, with cover under the core programme having again been placed for an amount of R425 million in excess of the Fund's retention of R150 million.

The Fund's more specific programme, which provides protection to the Fund of R75 million in excess of the Fund's retention of R50 million in the event of loss arising from claims paid in relation to a defalcation involving a single practice, was likewise renewed with effect from the expiry date. This programme insures to the benefit of the Fund's core programme, by protecting the Fund against rapid erosion of its retention under the core programme.

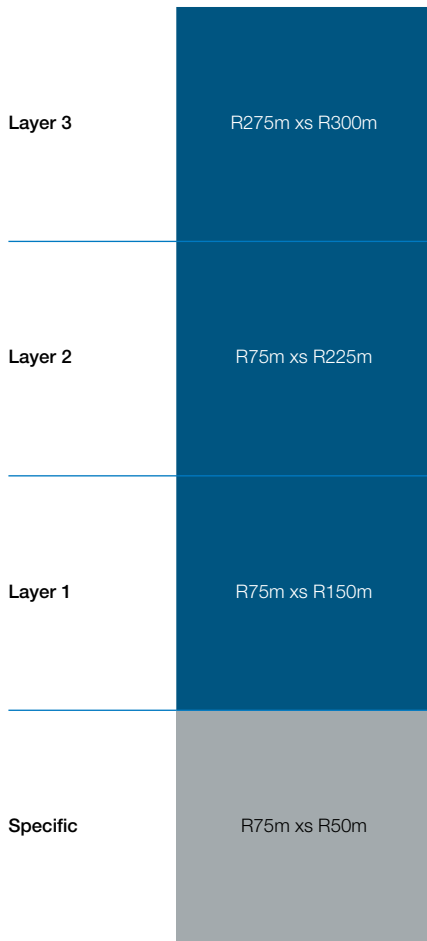
The Fund's underwriters continue to be engaged by management annually with updates on the Fund's business, as well as risk management initiatives that have been put in place to mitigate the escalation of theft claims.

The premium for the renewal was finalised on expiring terms, despite a deterioration in the theft claims on record. This signifies an appreciation of the efforts continually being made on risk management.

The re-insurance programme remains a basic guarantee against the very real threat of a catastrophic claim and will militate against total or serious erosion of the assets of the Fund in the event of a serious deterioration in claims.



## Legal Practitioners Fidelity Fund 2018/19 Fidelity Stop Loss Reinsurance Programme



\*Stop Loss programme, ultimate net loss in the aggregate

### GC London Order: 70%

Reinsurer	Layer 1	Layer 2	Layer 3
Chubb 2488	20%	20%	20%
Brit 2987	15%	15%	15%
Newline	9%	7%	7%
Aspen 4711	6%	5%	5%
Antares	5%	4%	4%
QBE	15%	14%	14%
Markel	0%	5%	5%
<b>Total signed lines</b>	<b>70%</b>	<b>70%</b>	<b>70%</b>

### CG SA Order: 30%

2018		Premium
Layer 3	R275m xs R300m	R878 997
Layer 2	R75m xs R225m	R698 084
Layer 1	R75m xs R150m	R1 274 280
<b>Total premium</b>		<b>R2 851 361</b>

### Corporate governance

The Board of Control adopted a charter on 27 July 2004, committing the Fund to principles of good governance. Charters by which the Governance Committees were constituted were also adopted by the Board. These charters are continually revisited in order to ensure relevance and to meet with change in governance in a rapidly changing world. There continues to be a cohort of

independent committee members not linked to the legal profession, thus infusing such committees with specialised skills and introducing a new discourse in order to assist the Fund in the future. More importantly, the separation of the Fund from the Legal Practice Council in the sense that no member of either may serve across both organisations, is a welcome development that will eliminate real and perceived conflicts of interest. The

entrenchment of the principle of removal from the Board subject to good cause shown, also ensures that the rule of law prevails, and good governance can only benefit from that. In summary, the principles that the Board adopted have been re-enforced within legislation and the Board has adhered to them in 2018.

## REPORT BY THE CHIEF EXECUTIVE OFFICER (CONTINUED)

### Professional Indemnity insurance

The Fund continued to pay the premium that enables the entire attorneys' profession to be indemnified against claims arising out of the conduct of their practice (except theft) for free through the LPIIF, its special vehicle for delivering this service.

The premiums have increased exponentially over the years and the current premium for the insurance year 2018/2019 is R213 million. This led to the Board adopting a premium contribution programme by practitioners in 2016 set out hereunder in the diagram below:

The program would have been initiated in 2017 but due to problems in consultations between the Fund and the legal profession it was delayed and only in 2018 did the Board give its final consent for implementation, which is due to commence when the new round of applications for Fidelity Fund certificates opens in October 2019. The figures depicted in the diagram are at least two years out of sync with what will be payable when the scheme is implemented, which of necessity will be revised.

A key addition to this proposal which was approved in 2018 and is intended to ensure that the plight of struggling practitioners is ameliorated, is that the Fidelity Fund will fully subsidise the contributions of new practitioners for the first two years of their practice, hence removing any form of barrier to entering the legal profession as practitioners in their own right.

An important issue for all stakeholders to note is the change in policy of the Insurance Indemnity Fund, which is that it will not henceforth provide cover for the activities of any practitioner who initiates such while not in possession of a valid Fidelity Fund Certificate. This change was, in essence, necessitated not so much by the Fund itself, but my pronouncements of the courts in matters of this nature when the court had to adjudicate on them.

Year	Premium requirement	Assessed loss contribution	LPFF		Contribution per practitioner
			Investment Income Contribution	LPFF requirement	
2017	R147m	R185m	R38m	R370m	R0pm
2018	R147m	R0	R38m	R112m	R370pm
2019	R147m	R0	R38m	R97m	R444pm
2020	R147m	R0	R38m	R82m	R517m
2021	R147m	R0	R38m	R67m	R591pm
2022	R147m	R0	R38m	R53m	R666pm
Thereafter	R147m*	R0	R38m	R38m	R739pm

\*Premium assumed constant for comparative purposes. Premium and monthly contributions ex VAT.

### Legal Practitioners Insurance Indemnity Fund

The LPIIF remains under the regulatory regime of the Financial Conduct Services Authority (FCSA) with its directors appointed by the Fund. Compliance with the onerous SAM regime as well as Board notices like Notice 158 of 2014 relating to governance in the short-term insurance industry, has been of the highest standards. A case in point, is that the LPIIF retained the Institute of Directors of South Africa to conduct an evaluation of its effectiveness as a Board in 2018 and was found to be in line with the benchmark for good governance.

In 2018, the LPIIF directors are as follows:

1. Mr MJ Haken (Non-executive, Independent Chairman)
2. Mr TD Khanyile Non- executive, Independent and Chairman of the Audit and Risk Committees
3. Mr HC Van Rooyen Free State Law Society
4. Mr MAAS Essa KwaZulu-Natal Law Society
5. Mr J Lesejane Audit Expert
6. Ms HK Dlepu Law Society of the Northern Provinces
7. Mr CP Fourie Law Society of the Northern Provinces
8. Mr EA Moolla KwaZulu-Natal Law Society
9. Mr SL Mgxaji Cape Law Society



## Outlook

The Fund's income stream from trust interest collections would benefit from an increase in trust account balances, and this may only happen with a greater level of business and consumer confidence. The downside risks posed by technology innovation are ever-present and are addressed in the Investment Executive's report.

There are a number of significant changes being rolled out in 2019 to address the sustainability issues. Among these, the new income stream from s86(4) client investments is vital to the Fund's financial sustainability and will come on stream with effect from 1 March 2019 as provided for in the Legal Practice Act. Also vital to future sustainability is management of the Fund's exposure to theft claims. A legislative cap on the Fund's exposure per individual claim is key in this regard. A suitable provision is contained in the Legal Practice Act.

Looking forward to 2019, we will continue to listen to our stakeholders and claimants, focus on understanding their needs, meet their expectations and ensure that they are always reasonably and speedily compensated for any pecuniary loss suffered as a result of any theft of money entrusted to an attorney.

## Acknowledgements

We thank our Board of Control and various committee members for their invaluable contribution during the year. I salute my executive team for their dedication and the tireless work to prepare for the implementation of the new Act this year. To our staff, your enthusiasm and commitment allows us to provide this valuable service to society. We thank you for your contribution.

### **Motlatsi Molefe**

*Chief executive officer*



## FINANCIAL REVIEW

### Financial position

The Fund generated a net operating surplus of R2 million for the year, being the outcome of a reduction in total income of 1%, and an increase in total expenditure of 20%. Trust interest earned, as the core income stream for the Fund, declined by 3% from R610.0 million to R590.7 million. While interest rates remained relatively stable, the amount of trust money in circulation reduced in 2018 in response to lower levels of business confidence. The primary cost drivers have been a 67% increase in theft claims and a 27% increase in the cost of professional indemnity insurance cover for practitioners.

The investment markets were in negative territory for 2018 and investment performance declined by 1.25% for the year ended 31 December 2018. In addition, it was necessary to withdraw investment income from the portfolios to fund operations, culminating in net withdrawals of R225 million. The net result is a 5.7% reduction in net asset value for the year.

Changes in the Fund's financial position for the year ended 31 December 2018 may be summarised as follows:

	2018 year Rm
Net Asset Value – 1 January 2018	4 847
Operating surplus	2
Decrease in market value – investment portfolios	(R278)
Net Asset Value – 31 December 2018	4 571

Funding of the Legal Practice Council in terms of S22(1)(b) commenced with effect from 1 November 2018. Such funding effectively replaces the agency commission previously paid to the regional law societies up to 31 October 2018.

### Financial sustainability

Financial sustainability is a key risk for the Fund. The Fund needs to grow in value to meet the demands of inflation, as well as to address growth in the size of the profession, this being the Fund's risk pool. Actuarial estimates indicate that, over the longer term, the Fund is required to grow in value by 8% per annum. Against this, actual asset growth over the past five years has only averaged 2% per annum.

The 2018 results bear notice. R225 million was withdrawn from the portfolios to fund operations, as compared to the actuarially determined maximum of R120 million which may comfortably be withdrawn each year. The Fund's actuary has determined that the Fund is likely to survive for a further 21 years at the current rate of withdrawals from the investment portfolios. The extent of the sustainability challenge is apparent from the growth in theft claims. The tables below demonstrate that the Fund's assets have increased in value by 10.4% over five years, while theft claims exposure has increased by 94% over that same period.

Five-year history of growth in net assets

Year	Total Net Assets (Rm)	Annual % growth	Cumulative % growth in assets
2013	4.114		
2014	4.324	5.1%	5.1%
2015	4.264	(1.4%)	3.6%
2016	4.403	3.3%	7.0%
2017	4.847	10.0%	17.8%
2018	4.542	(6.3%)	10.4%

Five-year history of growth in theft claims

Year	Claims paid (Rm)	Claims on record (Rm)	Cumulative % growth in claims on record
2013	81	368	
2014	97	417	13.3%
2015	113	456	23.9%
2016	107	544	47.8%
2017	103	579	57.3%
2018	172	714	94.0%

There are serious concerns regarding the Fund's ability to sustain its various established funding projects. The largest discretionary funding project is the professional indemnity insurance cover, provided free of charge to members of the profession via the Legal Practitioners Insurance Indemnity Fund. As discussed in the Report by the Chief Executive Officer, this funding is expected to reduce progressively as practitioners begin to make contributions.

### Claims

The Fund's key area of focus remains the provision of appropriate cover to victims of theft of trust monies by attorneys and to compensate such victims in a timely and caring manner. For the year under review the Fund saw a sharp increase in the value of theft claims registered with the Fund. In 2018, claims to the value of R475 million were filed with the Fund, an increase of 54% from 2017. The number of claims notified in 2018 were 1 025, an increase of 15% from 2017. Of the value of claims notified, 44% or R208 million were in respect of Conveyancing claims, followed by RAF related claims of R78 million and Estate related claims of R49 million.

The cost of theft claims paid in 2018 increased by 67% and is broadly aligned to the growth in claims on record. The cumulative value of claims paid increased to R171 million (2017: R103 million). The bulk of the claims paid in 2018 was in respect of Conveyancing claims (43%) followed by RAF (27%), and Litigation (14%).

The Fund ended the year with 1 333 claims on record, with a combined value of R714 million, an increase of 23% from 2017.

### Litigation

The Fund currently has 12 litigation matters outstanding with a combined value of R11.9 million. For the year under review the Fund was successful in one litigation matter worth R6.6 million and lost one matter worth R3.1 million.

### Recoveries

The Recoveries Unit has concluded eight repayment agreements with defaulting attorneys during 2018, for the recovery of an aggregate amount of R563 494. This amount comprises mainly the legal costs incurred in connection with the striking-off of errant practitioners. Six defaulting attorneys were handed over to our panel of attorneys for the recovery of claims and legal costs. The Unit recovered an amount of R5 299 680 during 2018, the bulk of which is derived from compensation court orders. Civil proceedings are under way to recover large amounts of money from former directors who are jointly and severally liable with their firms to repay the stolen trust funds.

## INVESTMENTS AND TRUST INTEREST INCOME REPORT

### Investment management

In a dynamic business environment, the close relationship between trust interest income and investment assets is carefully managed to ensure the Fund's long-term sustainability. When trust interest income exceeds the operational requirements of the Fund in any year, the surplus is invested. When operational expenses exceed trust interest income, withdrawals are made from investment assets. Reference to the performance of trust interest income is relevant since the Fund's investment assets are a product of trust interest income, capital appreciation, dividends and interest from investments.

### Investment strategy

The Fund has a liability focused investment strategy that comprises of a core portfolio and asset specific satellite portfolios. The core portfolio is designed to at least match the growth in the Fund's liabilities and has a target return of CPI plus 5% that must be achieved over a rolling three-year period. To attain this objective, a rigorous strategic asset allocation framework has been constructed and the assumptions of the framework are reviewed for consistency on a regular basis. It is accepted that asset allocation is the greatest driver of investment performance.

Capital preservation and consistent growth of investment assets is paramount to the sustainability of the Fund. In addition to the long-term strategic asset allocation of the Fund, a tactical asset allocation overlay provides the Fund with an additional mechanism that addresses short term market volatility thereby mitigating against drawdown risk. Tactical asset allocation also provides the Fund with the necessary flexibility to its investment strategy by enhancing capital protection, thereby contributing to the achievement of short, medium and long-term investment objectives. Tactical asset allocation is also a cost-effective mechanism that enables the Fund to alter its strategic asset allocation mix through the use of futures, without incurring trading and market impact costs that are associated with liquidating investment assets. Four tactical asset allocation meetings chaired by the Investment Executive were held during the financial year ended 31 December 2018.

During the year under review, a motivation to the Department of Justice to create enabling regulatory provision that increase the equity limits of the Fund from 60% to 75% and for the first time to explicitly include offshore assets in the asset mix of the Fund was accepted and gazetted at the end of October last year. In addition, an asset allocation decision to include emerging markets as part of the offshore asset class diversification was confirmed during the year under review. Effective negotiations of management fees resulted in a 7.29% decrease in management fees during the period under review. In addition, the stringent management of transaction costs in investment portfolios has resulted in a net saving of R3.4 million over the past 3 years.

The following decisions were implemented during the year under review;

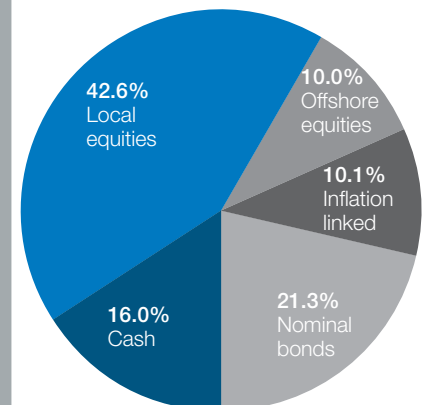
- Review of the strategic asset allocation mix for better alignment of the strategy.
- A flexible fixed interest mandate in the amount of R200 million
- A total of R250 million was set aside for an unconstrained local equity mandate.
- The investment constraint of no capital loss over a rolling 12-month period was removed.
- Allocation of 10% of an offshore portfolio into emerging markets to further diversify the investment portfolio.

It is envisaged that the abovementioned decisions will provide the Fund with superior risk adjusted returns in the medium to long term that are consistent with capital preservation and growth of investment assets as approved by the Board of Control.

### Asset allocation

Strategic asset allocation is the greatest driver of investment performance. During the year under review, the Fund continued to implement a strategic asset allocation framework approved by the Board of Control. As at 31 December 2018, total investment assets under management stood at R4 547 million, net of the R225 million withdrawn for the purposes of providing third party funding approved by the Board of Control.

As at 31 December 2018, the Fund had the asset allocation mix reflected below.



In summary, the Fund's asset allocation mix comprised of;

- Local equities
- Offshore equities
- Local inflation linked bonds
- Local nominal bonds
- Money market instruments and cash

Local equities, inclusive of listed property stood at 42.6% (44.1% in 2017) of the Fund's total assets and offshore equities stood at 10.0% (8.8% at the end of 2017) of the Fund's total assets, with the balance in fixed interest instruments comprising of cash and money market instruments at 16.0% (15.0% in 2017), nominal bonds at 21.3% (20.7% in 2017) and inflation linked bonds at 10.1% (11.8% in 2017) respectively. The overweight position in nominal bonds and underweight position relative the strategic benchmark proved to be beneficial to the Fund during the year under review.

### Offshore investment assets

As previously reported, the Board of Control recognises that despite the Fund's local currency denominated liabilities, the offshore assets are crucial to the Fund for the following reasons;

- Diversifying the investment universe of the Fund.
- Investing in companies in dynamic sectors that are not locally available.
- Diversifying earnings from the concentrated the local market.
- Enhancing the value of the Fund when measured in local currency.

## INVESTMENTS AND TRUST INTEREST INCOME REPORT (CONTINUED)

The Board of Control recognised that offshore assets in the strategic asset allocation mix would also contribute to the long-term investment performance of the Fund.

As at 31 December 2018, the Fund held a total of R448.3 million in offshore investment assets. The initial investment in the OMIGSA portfolio in the amount of R250 million made in August 2016, now stands at R298.7 million. Up to 10% of the OMIGSA portfolio is invested in emerging markets. An initial investment of R100 million placed with Vunani in November 2014, had increased in value to R149.5 million. This portfolio was largely invested in the developed markets during the financial year ended 31 December 2018. The decision to expand the universe of asset classes at the disposal of the Fund has contributed to diversification of risk and the preservation of capital. It must be noted that the Fund is still underweight offshore assets relative to its peers with a similar liability profile.

### Investment performance

The financial year under review was the most challenging post the global financial crisis of 2008, and this was reflected in both local and international markets in terms of volatility and performance. The Fund's investment assets delivered -1.25% at the composite level. Sound asset allocation with specific reference to an overweight position in nominal bonds and an underweight position in inflation linked bonds relative to their respective strategic benchmarks, contributed to investment performance during the period under review. Dynamic tactical asset allocation also mitigated against significant drawdown risk in the composite portfolio, considering the below average performance for both local and global markets.

Since inception, the Fund composite investment portfolio has delivered a compounded return of 9.06% per annum relative to its peers who have achieved a compounded return of 7.89% despite having more flexible asset allocation frameworks.

The adjacent table shows how the Fund performed relative to its strategic asset allocation (SAA) midpoint and its peer group.

### Investment performance of the Fund's composite portfolio

Investment period	Composite portfolio	SAA midpoint	Peer group
1 Year	-1.25%	-2.39%	0.32%
3 Years	5.56%	5.47%	4.11%
5 years	5.39%	6.32%	6.05%
Since inception	9.06%	9.14%	7.89%

Despite the restrictive investment freedom of the Fund, its risk adjusted performance since inception remains superior to that of its peers who have greater investment freedom.

The Fund earned a total of R236.8 million in investment income during the period under review compared to R230.5 million in previous year. This comprised of R82.3 million in dividends (R65.3 million in 2017), and R164.8 million from interest bearing investments (R165.2 million in 2017). The interest earned is a direct reflection of higher allocated weight of interest-bearing instruments due to risk aversion from highly volatile equity markets during the year under review, and the impact of rising interest rates.

### Investment withdrawals and liquidity management

Cash at hand has been kept to a minimum to benefit from the yield differentials between current, call and money market accounts. Active management of the relationship between the Fund's current account and call account was established in 2016, has increased the average yield in surplus cash by an average of 300 basis points in a side-pocket account, opened specifically to earn a better yield than on a call account. This resulted in the Fund minimising cash at hand in return for a higher yield. A total of R225 million was withdrawn from investment portfolios during the year under review. The same amount was also withdrawn in the 2017 financial year. The withdrawals have largely been used to pay for professional indemnity cover that is provided to practitioners. It must be noted that this level of withdrawal is in excess of actuarially recommended limit of R150 million per annum and this might bring to bear sustainability challenges to the Fund in the medium term.

### Investments outlook

The focus of the investment strategy remains the preservation of capital through the enhancement of risk adjusted investment

returns through a strategic asset allocation framework that is resilient to changes in local and global financial markets. The main priorities of the year ahead are to review the strategic asset allocation of the Fund to ensure that assets held reflect the opportunity and risk profile of the Fund. It must be noted that asset allocation is the greatest driver of investment performance.

The operationalisation of the increase in the equity limit that the Fund may invest, together with the opportunity to increase investment in offshore assets will be considered after a strategic planning session that will take place early in 2019. Included in the strategic planning session is the review of the strategic asset allocation and the performance of the Fund's investment assets, relative to the changes in the liability profile of the Fund and, for the first time, the opportunities and threats of the Fund's revenue stream and how that affects the investment strategy and the sustainability of the Fund will be considered. The implementation of the unconstrained equity mandate and the rebalancing of the investment portfolio will take place during the first quarter of 2019. In addition, the gradual increase in offshore assets will take place in phases.

It is envisaged that the Fund's investment assets will continue to perform in line with the set investment objectives. The implementation of the above-mentioned portfolios will result in a well-balanced portfolio that capitalises on opportunities in the market. The prospects of emerging markets are looking favourable in 2019, and it is expected that emerging markets will deliver better returns compared to developed markets. The Fund should be able to capitalise on this expectation through its exposure to emerging markets given the broader investment freedom provided in the investment regulations. Local equity markets are expected to perform better than last year's performance.

### Trust interest portfolio management

The Fund's revenue model is premised on the ability of practitioners to have exclusive control of trust accounts, and the duration of trust balances in attorney's trust accounts. The strategic management of these two principles is critical to the growth in trust



interest income and the preservation and growth of investment reserves. The trust interest portfolio management practice referred to in last year's annual report has become the key driver of the Fund's revenue maximisation efforts. Its key attribute is to bring low performing trust accounts towards the efficient performance frontier, resulting in better yield on a portfolio trust accounts held at each bank and a fairer application of recoverable and non-recoverable bank charges that are strictly associated with the administration of each trust account. Research conducted during the year under review identified factors that introduced drag

to trust account performance. To address these factors, the Fund engaged and will continue to engage all stakeholders, inclusive of Banks, Practitioners, Regulators, the Accounting Profession and the Auditing Profession in this regard. The Fund also remains vigilant in the management of disruptive technological innovations that have a negative impact on the exclusive control of trust accounts by practitioners and the duration of trust balances in trust accounts. Co-created solutions with all participants in the trust interest value chain is considered a top priority for the long-term sustainability of the Fund's primary revenue stream.

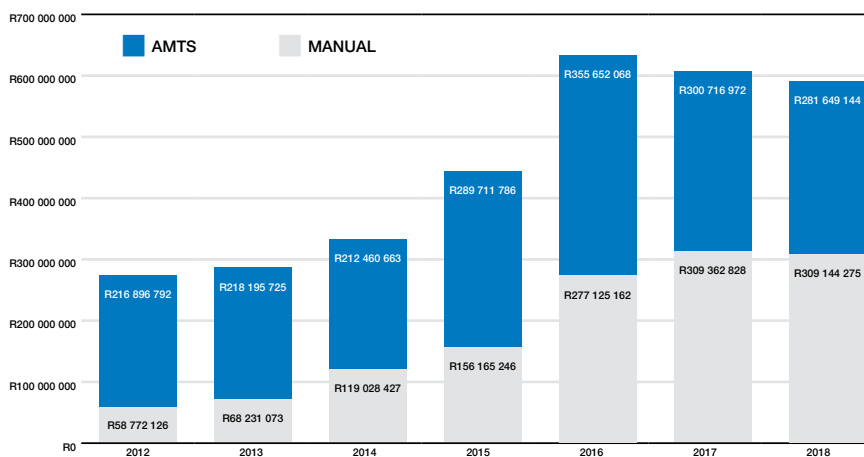
### Automated Monthly Transfer System (AMTS)

The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to R9.51 billion at the end of December 2018. During the year under review the number of accounts participating in the AMTS increased from 8 454 accounts at the end of December 2017 to 8 909 accounts at the end of December 2018. As at 31 December 2018, a total of R309.1 million had been collected via the automated monthly transfer system compared to R309.3 million during the 2017 financial year. Over the past six years, the Fund has seen a strong performance in trust interest income collected via the automated monthly transfer system, from an average of R5.68 million per month in the 2013 financial year to an average of R25.7 million per month at the end of December 2018. This growth has been on the strength of the number of accounts participating in the AMTS, the lifting of the blanket exemption imposed by the Board of Control, growth in trust account balances and rising interest rates.

### Trust interest income

The Fund's revenue stream is provided for by Section 78 (1) of the Attorneys Act 53 of 1979 (now Section 86 (2) of the Legal Practice Act 28 of 2014) and Section 78 (2)(a) of the Attorneys Act 53 of 1979 (now Section 86 (3) of the Legal Practice Act 28 of 2014). Trust interest income earned on these accounts vests with the Fund. Trust interest income decreased by 3.16% during the year under review compared to trust interest receipts from 2017. This is the second consecutive year that trust interest income has decreased. A total of R590.7 million (R610.0 million in 2017) in trust interest income was received during the twelve-month period ended 31 December 2018.

### Manual and automated trust interest payments to the fund



### Distribution of trust interest receipts to the Fund

The chart above illustrates the breakdown of trust interest received via the AMTS, and trust interest paid over to the Fund manually. Trust interest paid via the automated monthly transfer system (AMTS) increased to 52.3% during 2018 compared to 50.3% in the 2017 financial year. Manual payments continue to decrease as more and more practitioners choose to remove the administrative burden

of manual payments, and accordingly choosing to use the automated monthly transfer system that is a co-creation of the Fund, practitioners and the banking industry. The lifting of the blanket exemption by the Board of Control on 1 March 2016 has contributed to the gradual dominance of AMTS interest receipts which have had a concomitant effect on the monthly liquidity of the Fund.

### Trust Balances held in Section 78 (2) (a) accounts (now Section 86 (3) of the LPA).

It can be reported that a proof of concept has been validated as a viable option in the maximisation of trust interest after the implementation of a strategy that encouraged practitioners to invest surplus trust monies in Section 78 (2)(a) accounts. The pilot project that encourages practitioners to invest surplus excess trust balances in Section 78 (2)(a) accounts where a higher yield is earned, was initiated in August 2016. As at 31 December 2018, a total of R249.2 million had been invested in Section 86 (3) accounts compared to R142 million at the end of 2017. This amount earns an additional 350 basis points compared to the same balance in a current account. This initiative provides the Fund with a competitive advantage, reduces the reliance on rising interest rates as the only driver of the revenue and has the potential to boost the Fund's primary source of revenue subject to the allocation of appropriate resources.

## INVESTMENTS AND TRUST INTEREST INCOME REPORT (CONTINUED)

### Section 86 (4) and Section 86 (5) of the Legal Practice Act 28 of 2014.

During the year under review intensive engagements with the banking industry took place, to ensure that the operational readiness of the banking industry to sweep a portion of interest earned on Section 86 (4) accounts to the Fund. In anticipation of the implementation of Chapter 6 of the Legal Practice Act on 1 November 2018, the Board of Control granted a dispensation for the payment of Section 86 (5) interest as provided for in the Legal Practice Act to ensure that the payment of this interest is synchronised with the tax year. This effectively means that Section 86 (4) accounts will be operationalised from 1 March 2019. Significant progress in the development of banking products that allow the payment of interest earned on Section 86 (4) accounts to the Fund has made. The banking industry have been collaborative in the co-creation of these accounts and in the communication of this new revenue stream to practitioners. The Fund has also communicated with the Legal Practitioners profession, SAICA and IRBA about the new revenue stream and service level agreements that have been jointly developed with the banking industry to ensure that all stakeholders are fully informed about the provisions of the S86 and Section 63 (1) (g) of the of the Legal Practice Act.

The new revenue stream from Section 86 (4) accounts has been budgeted at R40 million in the 2019 financial year. Whilst this presents an opportunity for additional revenue, it also comes with significant risks that may erode the overall revenue model of the Fund over time.

### Unidentifiable/Unclaimed Trust Money

As at 31 December 2018, the total unidentifiable/unclaimed trust money collected since inception in 2006, stood at R95.8 million, including reimbursements compared to R73.3 million at the end of 2017. The total unidentifiable/unclaimed trust money collected during the year under review was R22.5 million, compared to R11.7 million in the 2017 financial year. The Fund's Trust Interest Portfolio Managers drive these collections. Payment of unidentifiable and unclaimed trust monies to the Fund is now legislatively mandatory in the Legal Practice Act 28 of 2014 dispensation.

### Trust interest income – outlook

As previously reported, the growth in the Fund's primary revenue stream – trust interest income, requires the recognition of the impact of technology on practitioners, banks and the Fund's business models. The complexity of the trust interest value chain is increasing and only a robust trust interest portfolio management strategy that aligns interests of all participants in trust interest value chain is most suitable to attenuate the emerging variety through the design of appropriate initiatives inclusive of incentives to maximise trust interest. The Board of Control and the specialist Treasury Committee of the Board of Control support the investigation of appropriate strategies that maximise trust interest revenue. The management of the Fund's revenue stream is paramount to the sustainability of the Fund. Trust interest portfolio management will be applied to increase the operational efficiency of all attorneys' trust accounts since trust interest vests with the Fund. The trust interest portfolio managers will drive the execution of the trust interest maximisation initiative.

The finalisation of the service level agreements with all banks that hold trust accounts is expected by the end of the first quarter of 2019. In addition, Section 86 (4) accounts will be operationalised on 1 March 2019 and will for the first time bring a new revenue stream to the Fund. Whilst the quantum of the new revenue is not reasonably quantifiable, the banking industry has developed appropriate banking products that sweep 5% of interest earned in Section 86 (4) accounts as provided for by Section 86 (5) the Legal Practice Act 28 of 2014 to the Fund's nominated accounts. This is the first time that the Fund will be earning some trust interest accounts from investment accounts where an underlying transaction exists.

As much as this is an opportunity for the Fund to earn additional income, the implementation carries significant risk inclusive of disintermediation risk that likely will be driven by yield sensitive consumers of the legal service and practitioners alike. The Board of Control has considered and accepted the opportunities that this new revenue stream will provide as well as the risk it poses to the Fund revenue stream.

Resources required for trust interest portfolio

management will be enhanced during 2019 to ensure that the all opportunities related to the enhancement of the Fund's revenue stream are capitalised on. Collaboration with the Banking industry will continue to ensure that banking products address the provisions of the Legal Practice Act. In addition, direct engagements with the top 100 contributors of trust interest income to the Fund are earmarked for the year ahead.

The understanding of the industry structure is paramount to the implementation of strategic initiatives that yield results. To this end, a concerted effort has been placed in understanding each participant in the trust interest value chain and this has expanded the stakeholder universe. The Fund's presence at various industry forums has become paramount since to strategic directions of individual participants in the trust interest value chain have a concomitant effect on total trust interest received by the Fund in the medium to long term. The key outcome has been that conferences and industry forums enable the Fund to keep its strategic antenna up and accordingly influence how its strategic objectives are able to respond to the rapidly changing business environment.

## NURTURING OUR HUMAN CAPITAL

The HR Strategy intends to drive all people management practices, initiatives and processes to support the LPFF's goals, values and objectives. Furthermore, the HR value chain is a deliberate approach to align, acquire, reward, develop, deploy and retain best talent; to promote a values-driven, learning and high-performance culture, as well as encourage diversity and transformation, and foster sound employee relations.

### Talent management and development

The company has adopted an integrated talent management approach to ensure a continuous supply of skills and talent from both external and internal sources. During the period under review, the talent management strategy focused on facilitating succession management for critical and scarce positions (for Top Management), pipeline development and retention of key talent.

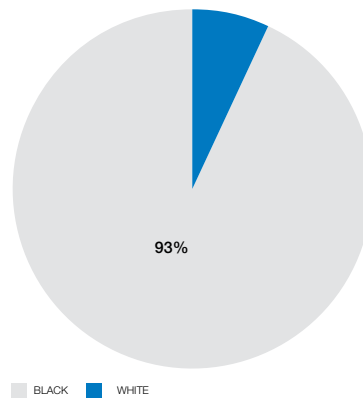
In line with the strategic goal to strengthen employee's capabilities in times of significant change, the company provided various training interventions to employees, aligned to their personal development plans. Throughout the year, all training and development activities were recalibrated and, specifically, a new set of ICT training interventions were included, targeted at ICT projects that are currently being implemented.

**The Fund invested R1 329 820 on direct training for employees and sponsored 10 employees through the Fund's bursary scheme, of which 9 successfully graduated.**

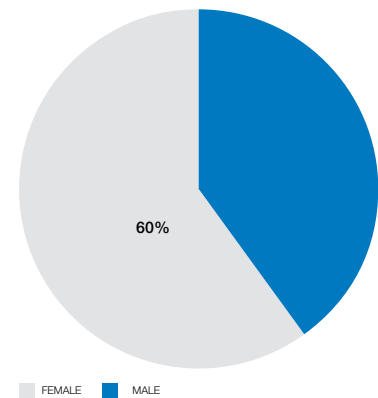
### Talent acquisition

As we strive to achieve our strategic goals, the Fund has maintained a carefully balanced approach of internal and external talent acquisition. While the Fund seeks to fill job openings internally whenever possible, it is also committed to bringing in the necessary skills and capabilities from external hires that will help position the organisation for long-term success. In 2018 fifteen appointments were made, which brings the total staff complement to 104. The race and gender of the new appointments are indicated below:

Race



Gender



In 2018 the company had four terminations; two voluntary terminations and two people who approached the end of their contracts.

### Change management

This year has been an exciting year as we made a significant progress on our ICT transformation journey guided by our strategic goals. As we embarked on this transformation journey, we knew significant changes will need to occur that will require collaboration and commitment from everyone in the organisation.

Change management continues to be an integral part of the successful delivery of our key change map and a communication plan has been developed to ensure successful transition of our staff to the ideal state. The following organisational change management initiatives were implemented:

- The change management strategy/ communication plan was developed and implemented for all ICT and other strategic projects (Transition to LPFF Act)
- Change readiness surveys were conducted throughout the project (to determine change readiness levels).
- A stakeholder analysis was conducted for each ICT solution.
- A change champion network was established.
- Various communication platforms were established to boost awareness of changes happening within the organisation.

## NURTURING OUR HUMAN CAPITAL (CONTINUED)

### Employee engagement

At LPFF we are aware that for employees to be committed, productive and passionate about their jobs, they need to feel valued. Feeling valued also increases morale, productivity and participation because employees feel empowered to communicate openly. To this end, we ensure that our employees understand their respective roles within the company, their contribution to the overall company objectives and what is happening in the company.

Regular employee engagement involves two-way communication with employees, which includes:

- Chief Executive Officer staff briefings (particularly focusing on changes in the organisations)
- Regular meetings with heads of departments,
- Internal communication campaigns to drive important messages across the company, such as safety, ethics and wellness, among others.
- We also make use of various mediums of communication (posters, internal newsletters, memos and flyers), digital media such as (Email, television Screens, SharePoint, website and text messaging) and social media (Twitter and Facebook).

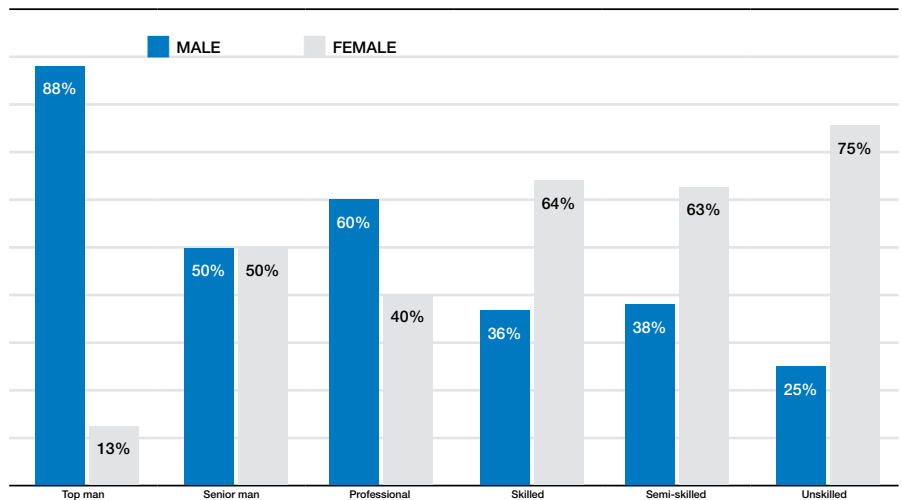
### Performance management

LPFF's approach to performance management comprises three main steps: defining expectations and setting objectives at the beginning of the performance year, holding regular feedback conversations throughout and reviewing performance at the end of the performance year. As the Fund seeks to deliver on its strategic objectives, management of employees' performance is critical. The Fund therefore enhanced the performance management in 2018 and took a more holistic approach utilising a fully integrated process to capture employees' skills, experience, potential, career aspirations and development needs.

### Employment equity

The employment equity status to date reflects that 93% of staff in the organisation are black and 60% are female. At top management levels 88% are black and 13% are black female; at senior management level we have equal gender participation. The below graph below reflects the employment equity status to date.

#### LPFF employment equity



### Employee wellness

LPFF's core long-term employee health and wellness strategy is offering preventive medical screening such as, blood pressure, HIV/AIDS, cholesterol, fitness and nutrition habits. In addition, the Employee Assistance Program (EAP) supports staff as they deal with issues in their personal or professional lives. Confidential 24/7 support hotlines, by psychologists or therapists, offer advice on family relationships, stress management, financial matters and other issues.

### Employee relations

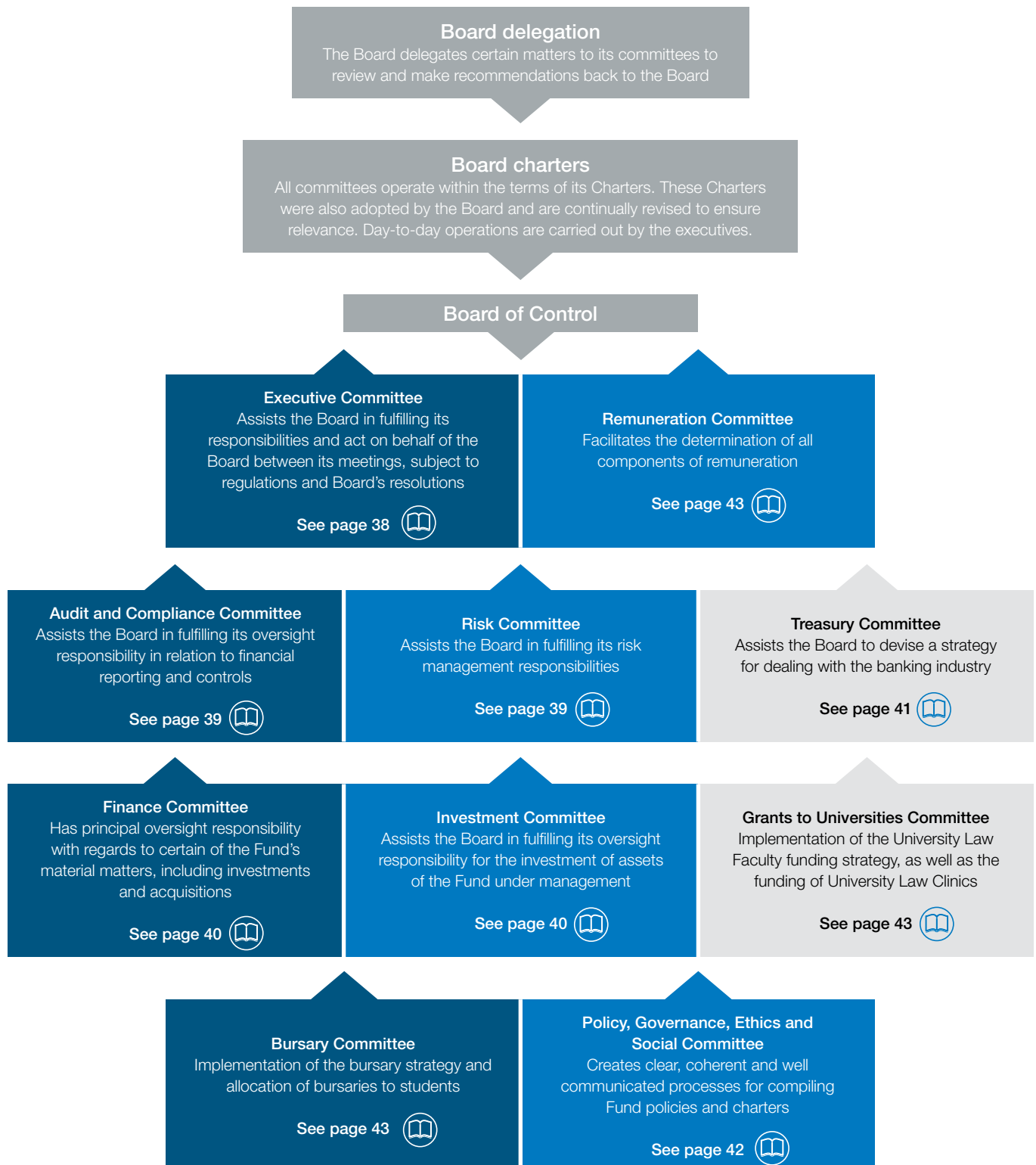
To mitigate the risk of labour disputes, we engage frequently with employees and the Employment Equity/Development Consultative forum. HR policies are reviewed and awareness sessions are conducted annually to ensure that we proactively address employee queries through established structures and processes. As a result, during the period under review we did not have any disciplinary hearings and all lodged grievances were successfully resolved.

### Health and safety compliance

We are proud to report that in a recent health and safety compliance audit conducted by MakroSafe on our Cape Town and Centurion offices, we received a total score of 95.6% for Cape Town and 92.5% for Johannesburg. We are taking steps to implement additional requirements to get to 100%.



## CORPORATE STRUCTURE



# CORPORATE GOVERNANCE

## Governance

The Board is committed to the promotion of good governance through the exercise of ethical and effective leadership, something that is fundamental in the King Code of Governance principles ("King IV"). In so doing, it aims to ensure that the Fund is, and is seen to be, creating sustainable development through integrated thinking, stakeholder inclusivity, and in realising that the organisation is integral to society and a good corporate citizen. The outcomes of such governance include an ethical culture, effective control, good performance, legitimacy and relevance. The Board confirms that at the date of this report the Fund has applied most of the recommendations of King IV.

The Board of Control adopted a charter on 27 July 2004, committing the Fund to the principles of good governance. Charters by which the Governance Committees were constituted were also adopted by the Board. These charters are continually revisited in order to ensure relevance and to meet with change in governance in a rapidly changing world.

## Board composition

The Board is made up of 16-member representatives of each of the four statutory law societies in South Africa referred to in the repealed Attorneys Act. Currently, the Board of Control is made up as follows: 25% representation by each of the Black Lawyers Association (BLA), and the National Association of Democratic Lawyers (NADEL), and 50% representation by members who do not represent either the BLA or NADEL (representatives in the latter category are commonly referred to as the 'statutory' representatives)

The term of office of the current Board will cease at the end of April 2019 whereupon the provisions of section 62 of the Legal Practice Act will be enforced. These provisions call for an election of five legal practitioners, the nomination by the Minister of two Board members and the designation by the Legal Practice Council of two members drawn from the auditing profession and nominated for such designation as Board members by IRBA. Each member of the Board will now serve a fixed period of three years, which

term may be renewed once. The provisions of the Legal Practice Act have fundamentally changed the nature and constitution of the Board of Control.

The term of office of all Board members would have ceased at the end of October 2018, except for the amendment referred to above and as such this Board served in office both in terms of the Attorneys Act and the Legal Practice Act. Two members, namely Mr Anthony Millar and Mr Leslie Mokgoro, have since vacated office in order to serve on the Legal Practice Council. Mr Mokgoro had to resign in order to participate in elections as the Act in terms of section 64(2) (e) prohibits members of the Council and any of its Committees to serve as members of the Board of Control of the Fund. Mr Millar, who was replaced by Mr Sibusiso Gule, was designated by the Fund to serve on the

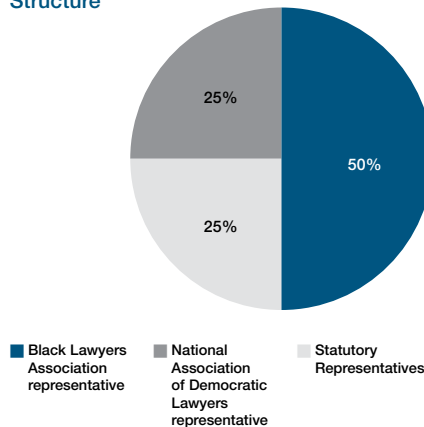
Council in terms of section 7(1) (e) of the Act. As at the end of December 2018 there was one vacancy which could not be filled because the nominating body, being the Law Society of the Free State had ceased to exist.

New areas of operations and functions of the Fund set out in the Legal Practice Act include the power to inspect books of account of practitioners and the involvement of the Fund in curatorship functions. Risk attendant to these functions and opportunities are all dealt with within a practitioner risk framework which was approved in 2018 and is due to be implemented from 2019.

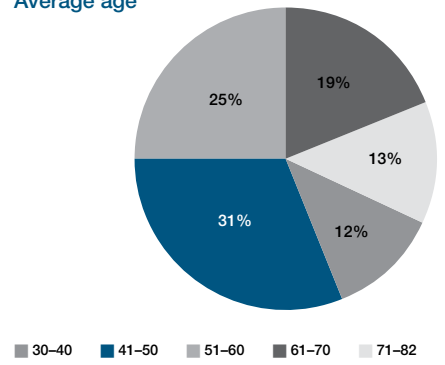
The activities of the Fund are highlighted in the various other reports accompanying this report and provide both insight into the activities of the Fund in 2018 and planning for the year ahead in line with the new dispensation.

## Board analysis

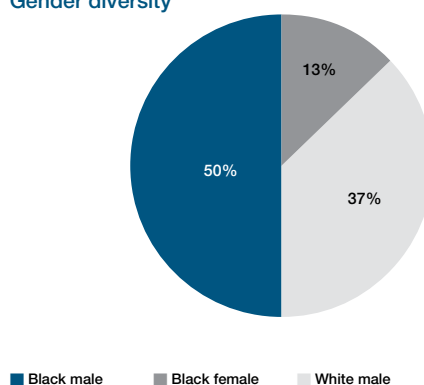
### Structure



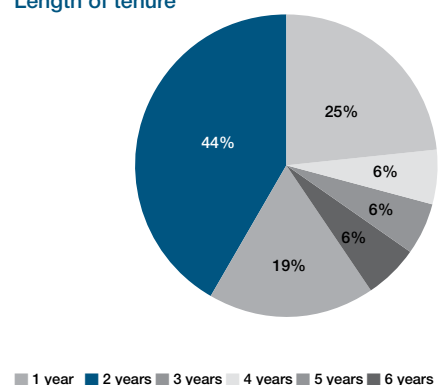
### Average age



### Gender diversity



### Length of tenure





## MEMBERS OF THE BOARD

### **SS Madiba (57)** Chairperson

**Appointed:** 2016

**Qualifications and experience:**

Mr Madiba has served on various of Councils and Circle Councils of the Law Society of the Northern Provinces/North West Attorneys Council. He currently occupies a number of portfolios including Deputy Chairperson of North West's Attorney's Council, Council member of the Law Society of the Northern Province, Chairperson of the Finance and HR Committee of the Law Society of Northern Province and EXCO member of NADEL Deputy Treasurer.

### **NS Khanyile (43)** Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Ms Khanyile has been the Managing Director and Partner at Tembe Kheswa Nxumalo Incorporated since 2002. She was admitted as an attorney in 1997 and as a Conveyancer in 2001. She holds a B Proc, LLB (University of Zululand) and LLM (University of KwaZulu-Natal).

She is a member of the Appeal Tribunal of the Film and Publications Board SA and was appointed the Vice President of the KwaZulu-Natal Law Society in 2013.

In May 2015 Ms Khanyile was honoured and acknowledged by the South African Women Lawyers Association KwaZulu-Natal for her contribution to society and her achievements in the legal profession.

### **P Pama (51)** Independent non-executive director

**Appointed:** 2012

**Qualifications and experience:**

Mr Pama qualified and was admitted as a Solicitor in England and Wales (not practising) in February 2010. Prior to that, he was admitted as a Notary in 2007 and an Attorney with right of appearance in the High Court in 1996. He commenced practice in 1993 with Burger & Pama and continued to practise as Mosdell Pama & Cox. In 1998 he opened an office in Plettenberg Bay where he is still practising. He also serves on the Cape Law Society special committee on mediation and on the National LLSA FICA Specialist Committee. He was appointed as Deputy Chairperson of the Bitou Municipal Planning Tribunal in 2018.

### **S Gule (57)** Independent non-executive director

**Appointed:** 2018

**Qualifications and experience:**

Mr Gule was the President of the Law Society of the Northern Provinces until October 2018. Prior to that, he served as the Vice President from 2015 to 2017. He also served as a Councillor of the Law Society of South Africa.

Mr Gule was the Chief Executive Officer of Norton Rose Fulbright South Africa until he retired from private practice in October 2018. He was Chairman from 2012 to 2018.

Prior to that, he focused on immigration, employment and labour law. He has vast experience in advising on all employment aspects and holds a BA LLB from University of KwaZulu-Natal.

### **A Millar (49)** (Resigned October 2018) Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Millar has been in practice since 1995, specialising in litigation. He was the President of the Law Society of the Northern Province and served until it was replaced by the Legal Practice Council. He resigned his seat on the Board in order to take a seat on the Council as the appointee of the Board. He also serves as a member of the Council of the Law Society of South Africa and has been called to act as a Judge of the Gauteng High Courts from time to time.

### **P Govindasamy (60)** Independent non-executive director

**Appointed:** 2013

**Qualifications and experience:**

Mr Govindasamy has been a director at Govindasamy, Ndzingy & Governder since 2011. Prior to that he was a sole practitioner (2006-2011) and partner (1995 – 2006) at the same firm. He holds a BA Law and LLB. He is a member of the Law Society of South Africa. He also serves on the Contingency Fee and Pro Bono Committees of the Law Society and the Local Organising Committee of the Africa Cup of Nations and the Confederation of African Football.

### **E Barry (74)** Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mr Barry established, together with 2 partners, the firm Barry, Botha & Breytenbach Inc in 1982 and now practices as a consultant to the firm. He is a past President and Vice President of the KwaZulu-Natal Law Society. He is a past Councillor of the Law Society of South Africa.

Mr Barry was appointed by the Minister of Justice in October 2011 as an alternate member of the Judicial Services Commission and in March 2009 as a member of the KwaZulu-Natal Sheriff's Advisory Committee. During his forty nine years of practice, Mr Barry has sat and still sits on many boards, often as Chairman. He holds a BA LLB from the University of KwaZulu-Natal.

## MEMBERS OF THE BOARD (CONTINUED)

### T Mhlokonya (37)

Independent non-executive director

**Appointed:** 2017

**Qualifications and experience:**

Mr Mhlokonya was admitted as an Attorney of the High Court in June 2007. He is Managing Director at Mhlokonya Attorneys. From 2010 to 2015, he was a manager at Moroka Attorneys. He is a member of the Free State Law Society Disciplinary Committee, the Black Lawyer Association and is the Small Claims Court Commissioner.

Mr Mhlokonya holds a LLB degree from Nelson Mandela Metropolitan University.

### K Alberts (82)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Alberts holds a BA Law and LLB from the University of Stellenbosch. He was admitted as Attorney of the High Court of South Africa in 1963. He joined the partnership with Van der Walt, Olivier & Alberts in 1969 and stayed with the firm until he retired as a director in 2002.

He served as a Councillor of the Cape Law Society from 2002 to 2017 and was the Eastern Cape representative of the Law Society of South Africa from 2005 to 2014. He was also the President of the Cape Law Society between 2013 and 2014.

### M Boqwana (48)

Independent non-executive director

**Appointed:** 2017

**Qualifications and experience:**

Mr Boqwana is a Director at Boqwana Burns Incorporated. He is an administrative and constitutional law lawyer with 21 years' experience. He has extensive experience in dispute resolution, commercial litigation, commercial law, corporate law and regulatory law.

Mr Boqwana holds a LLB, Bachelor of Law from Rhodes University as well as a postgraduate diploma on Securities Law from UNISA. He is member of the Northern Provinces Law Society of South Africa and National Association of Democratic Lawyers and is President of SADC Lawyers Association.

### B Maswazi (42)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Maswazi is a director at Mbabane, Maswazi Mkhosana Inc in East London and Mthatha. He holds a BProc degree from the University of Transkei and LLB from the University of Fort Hare. He is currently a NEC member in the Black Lawyers Association where he holds the position of Head: Policy and Legislation. He is the former councillor of the Cape Law Society. His speciality is Administrative Law, which includes Local Government Law.

### HC van Rooyen (60)

Independent non-executive director

**Appointed:** 2014

**Qualifications and experience:**

Mr van Rooyen has been a Director at Neymann van Rooyen in Welkom since 1989. He became a member of the Council of the Free State Law Society in 1994. He is also a member of the Management Committee at the LSSA and Co-chairperson. He was a member of several committees of the above structures over the years.

Mr van Rooyen holds a B.Proc and LLB from the University of the Free State.

### E Horn (62)

Independent non-executive director

**Appointed:** 2015

**Qualifications and experience:**

Mr Horn is a practising attorney and partner in the law firm Van der Merwe and Sorour. He joined as partner after he was admitted as an attorney in May 1982. He holds a BCom (Law) and LLB from the University of the Free State. He specialises in civil and commercial litigation (Supreme Court of Appeal, High Court and Magistrates Court) and administration of deceased estates.

### L Mokgoro (37)

(resigned October 2018)

Independent non-executive director

**Appointed:** 2017

**Qualifications and experience:**

Mr Mokgoro obtained his LLB degree at Vista University and commenced his professional career as a candidate attorney at Phatshoane Henney Inc. He became a director at this firm in 2006 and continues to provide practical labour law solutions, mediation and arbitration services. In 2007, he was awarded a LLM in Labour Law (Cum Laude) and in 2010 a LLM in Corporate Law, both at the University of the Free State.

### E Moolla (68)

Independent non-executive director

**Appointed:** 2016

**Qualifications and experience:**

Mr Moolla was admitted as an attorney in 1977 and holds a B Juris degree. He served various terms as an Acting Judge of the High Court of South Africa in Thohoyandou and Bloemfontein. He was a member of the KwaZulu-Natal Law Society from 2013 to October 2018. He has been the Chairman of PPS Investments for the past 11 years and is a member of the Takeover Regulation Panel of South Africa and serves on the Remuneration and Audit Committees.

Mr Moolla is also a Board member of Legal Aid South Africa and a member of the Audit Committee. He is also Chairman for at Intembeko Investment Administrators Proprietary Limited.



## K Mogale (48)

### Independent non-executive director

**Appointed:** 2015

#### Qualifications and experience:

Mrs Mogale was admitted as an attorney of high court of South Africa in December 1999. In June 2000 she was appointed as an associated at LF Mogale & Associates Attorneys and later appointed as a partner. Since August 2004, she has been running her own practice, Khanyisa Mogale Incorporated in Rustenburg.

She holds a BA degree from the University of the North and a LLB from the University of Durban Westville.

## CP Fourie (64)

### Independent non-executive director

**Appointed:** 2015

#### Qualifications and experience:

Mr Fourie is senior partner in a firm of attorney practising in Pretoria. He is a former president of the Law Society for the Northern Province, a former chair of the Law Society of South Africa and a former chairperson of the LPFF. He is also a director of the LPIIF. He served as an acting Judge on several occasions and is a commissioner of the Judicial Service Commission.

Mr Fourie holds a BA (Law) and LLB from University of Pretoria.

## Key information: Board of Control

Chairman	Meetings	Remuneration
SS Madiiba (NADEL)	2/6	

#### Vice-Chair

E Horn (FSLs)	6/6	
CP Fourie (LSNP)	5/6	
N Khanyile (BLA)	6/6	

#### Members

EA Moolla (KZLNLS)	6/6	R81 350
ER Barry (KZLNLS)	6/6	R81 350
P Govindasamy (NADEL)	2/6	R47 350
AP Millar (LSNP)	3/6	R55 850
K Mogale (BLA)	6/6	R81 350
HC van Rooyen (FSLs)	6/6	R81 350
L Mokgoro (NADEL)	3/6	R46 998
M Boqwana (NADEL)	4/6	R64 350
P Pama (CLS)	5/6	R72 850
T Mhlokonya (BLA)	6/6	R81 350
JH Alberts CLS	5/6	R72 850
B Maswasi (BLA)	6/6	R81 350
S Gule (Alternate)	3/6	R34 000

#### Ex-Officio

M Molefe, AM Stansfield, J de Beer, J Losper, NE Kraai, M Tsogang, SD Maile, R Burawundi, P Ndima

All Board members were reconfirmed on a three-year term except that Section 62 of the Act has been amended to give the current Board a further six months in office after the commencement of the Act in October 2018. A process to elect new members of the Board will have to take place and as soon as such elections have taken place, the term of the existing members will be terminated, and the new Board will take control.

There continues to be a cohort of independent committee members not linked to the legal profession, thus infusing such committees with specialised skills and introducing a new discourse in order to assist the Fund in the future. The Legal Practice Act makes provision for ministerial as well as civil society representation on the Board of the Fund – a significant change in the governance structure of the Fund and a welcome development. Civil society will, for the first time, contribute to the steering of the Fund's business at the highest echelons.

The constitution of the Board ensures that there is an appropriate balance of power and authority within the Board such that no one individual or block of individuals dominates the Board's decision-making. In addition,

the Board's charter provides for members to take independent professional advice where necessary and at the Fund's expense, to ensure they are in the best position to carry out their duties and responsibilities. All members also have access to the advice and services of the Fund Secretary.

## Board of Control's responsibilities

The Board is responsible for the overall strategic direction of the Fund and for preparing a robust control framework. Such a framework establishes the policies, guidelines and benchmarks for a system of internal controls including the monitoring and reviewing of reporting presented to the Board and its sub-committees and delegation of authority through an approval framework.

The Board meets at least four times a year to review the performance of the Fund and to discuss strategic direction and implement such decisions. The roles of CEO and Chairman are clearly separated to ensure balance of power and authority. The members hold a diverse range of skills and business experience in law, finance and corporate governance, which will assist with sustained growth and successful operations in the long term. These factors are considered and assessed as part of the Board's annual evaluation of its members, sub-committees and its own function.

The Board also annually evaluates both the Chairperson and CEO's performance and ability to add value to the Fund.



**Profiles of the Board members can be found on page 35 – 37.**

## Diversity

LPFF is committed to ensuring ethical standards apply in all areas of business, with a focus on equal opportunities. The Fund recognises and embraces the benefits of having a diverse Board membership. The Fund believes a truly diverse board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between members. In the appointment of the new board under the Legal Practice Act, these differences will be considered and promoted by the Board in determining its optimum composition.

## MEMBERS OF THE BOARD (CONTINUED)

The Board currently comprises two females and thirteen males. There is a balance in age among members. The current membership has diverse regional splits, skills and backgrounds. The Board is comfortable that the current members are the most appropriate for their roles, in line with the broader diversity policy, however LPFF's future member appointments will continue to be considered with due emphasis on the benefits of diversity.

### Executive committee composition

The Board's Executive Committee (EXCO), comprising representatives of all constituent members of the profession, was formally constituted by resolution of the Board of Control adopted on 4 September 2000. The Board of Control has adopted a charter for EXCO. The Committee is made up of the Chair and three Vice-Chairs of the Board. During the period under review, the EXCO comprised:

- SS Madiba – Chairman
- E Horn
- NS Khanyile
- CP Fourie

### Management structure

During the period under review the Fund's Management comprised:

- M Molefe – Chief Executive Officer
- AM Stansfield – Fund Management Executive
- J Losper – Claims Executive
- J de Beer – Risk Management Executive
- P Ndimba – Senior Claims Manager
- R Burawundi – Investment Executive
- M Tsogang – Acting CIO
- N Kraai – Senior HR Manager
- SD Maile – Board Secretary

The Board is assisted in the performance of its duties by ten sub-committees. All sub-committees have formal charters outlining their roles and responsibilities, and the charters are reviewed and approved by the Board annually.

The Board is aware that such delegation of duties is not an abdication of the Board members' responsibilities. Full transparency and disclosure of committee deliberations is encouraged, and the chair of each committee provides feedback at each Board meeting

summarising the committee's discussions. The minutes of all committee meetings are also provided to all members.

The composition of each committee, and the attendance of each member at committee meetings, is indicated in the tables below. External advisors, management and executive members who are not members of specific committees may attend committee meetings by invitation, if deemed appropriate by the relevant committees and where such attendance would be of benefit to the committee.



## COMMITTEE REPORTS

### Audit and Compliance Committee Report

Chairman	Meetings
A Adhikari	2/3

Independent specialist members	Meetings
L Konar	3/3
N Ramataboe	3/3

Members	Meetings
K Mogale	1/3
EA Moolla	3/3
E Barry	2/3

Ex-officio
M Molefe, AM Stansfield, J de Beer, J Losper, SD Maile, R Burawundi, S Shange, M Tsogang

Remuneration	
A Adhikari	R19 850
L Konar	R73 500
N Ramataboe	R43 800
K Mogale	R7 600
EA Moolla	R22 800
E Barry	R15 200

#### Key responsibilities

Assists the Board in fulfilling its oversight responsibility relating to:

- the integrity of the Fund's financial statements and financial reporting process and controls;
- the performance of the internal auditors;
- the annual independent audit of the Fund's financial statements;
- the compliance by the Fund with legal and regulatory requirements, including the Fund's disclosure controls and procedures; and
- the evaluation of the management's process to assess and manage the Fund's enterprise risk issues.

#### Focus areas in 2018

Oversight of the change management process in the transition to a new legislative environment. Consideration of the development and implementation of new systems has featured significantly in the Committee agendas during 2018.

#### Focus areas in the coming year

The Committee will continue to execute its mandate. A key focus will be the enhancement of internal controls, building on findings contained in internal audit reviews and making use of the Committee's expertise.

#### Approval of the committee report

The Committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

#### Ashoek Adhikari

*Audit and Compliance Committee Chairman*

### Risk Committee

#### Composition

The Committee has four members, one of whom is a Board member and one, a risk management expert, who is not a member of the Board.

Chairman	Meetings
E Barry	4/4

Members	Meetings
R Badal	4/4
L Lobi	3/4
R Harichunder	3/4

#### Ex-officio

The Executive Managers, the Board Secretary and the Chair of the Audit and Compliance Committee, are ex-officio members of the Committee.

Remuneration	
E Barry	R29 200
R Badal	R24 200
L Lobi	R18 150
R Harichunder	R42 900

#### Key responsibilities

The Committee is an independent overseer and proposer of risk management recommendations to the Board for its consideration and approval. The Committee does not assume the functions, duties or responsibilities of the Board of Control (Board), of the Board's Executive Committee (Exco), nor of the Fund's Executive Managers (Management).

The Committee's primary responsibility is to assist the Board in discharging its risk management responsibilities by exercising ongoing oversight of risk management in the Fund by ensuring that Management identify, assess and manage, within the Fund's risk appetite and legislative framework, the risks which may affect the Fund's ability to achieve its strategic goals and objectives.

#### Focus areas in 2018

#### Assurances

The Committee received and reviewed risk reports from Management and from the Fund's independent actuary regarding the financial sustainability of the Fund.

The Committee received the Fund's internal and external audit tracking registers and assessed the appropriateness of Management's responses and corrective action plans.

The Committee also considered the results of the risk management maturity assessment performed by the Fund's internal auditors. Management needs to continuously develop and attain an appropriate level of maturity through innovative and consistent enterprise wide risk management initiatives.

#### Fraud and Corruption

The Committee constantly considers the Fund's anti-fraud strategy. This includes the existing trust line whistle-blowing toll-free hotline, where employees and the public are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices which they encounter while engaging with the legal profession. Flowing from this the Committee considers the Practitioner Risk Management Framework issues identified by the trust line. These issues are considered in all risk assessments and help the Fund with its on-going risk treatment strategies.

## COMMITTEE REPORTS (CONTINUED)

### IT Governance

The Committee oversaw IT governance which included the finalisation of Business Continuity and Disaster Recovery strategic plans.

The Committee also considered IT security and Cyber security plans. The Committee will monitor the Fund's IT security capabilities, to ensure security resilience. Vulnerability assessments will be performed during the 2019/20 financial year.

### Legal Practice Act

The Committee continues to monitor risks associated with the implementation of the Legal Practice Act as well as the impact of these risks on the strategic objectives of the Fund. The Committee continues to develop appropriate risk response and mitigating actions to treat the emerging and associated risks arising from the implementation of the Legal Practice Act.

### Risk Management

The Fund's risk management processes are outlined in its Enterprise Risk Management Framework (the ERMF) which is fundamental to the Fund's ability to manage risk. In this regard the Committee:

- Oversaw the implementation of the Integrated Risk Management System (IRMS) and ensured that the ERMF is delineated in the IRMS;
- Noted the Risk Management Maturity assessment of the Fund's risk management function and plans for improvement;
- Oversaw the continuous implementation of the Risk Management Plan to support strategic decision making.



**The key Fund risks as identified by the Committee are detailed in the risk report on page 45.**

### Approval of the committee report

The Risk Committee has discharged its responsibilities as set out in its terms of reference. Nothing has come to the Committee's attention that indicates there has been any material breakdown in the Fund's enterprise risk management during the year under review. The Committee is satisfied that management is actively managing risk and that there are appropriate control measures

and other interventions in place which will keep the Fund's risks, within tolerable levels.

The Committee records that continuous improvement is key to an effective functioning of the Integrated Risk Management System. (IRMS)

### E Barry

*Risk Committee Chairman*

### Finance Committee

Chairman	Meetings
HC van Rooyen	4/4

Independent Specialist Member	
Z Fihlani	3/4

Members	
E Barry	4/4
B Rangata	4/4

Ex-Officio	
M Molefe, AM Stansfield, R Burawundi, SD Maile, J Losper, S Shange	

Remuneration	
HC van Rooyen	R35 000
E Barry	R30 400
B Rangata	R30 400
Z Fihlani	R22 800

### Key Responsibilities

- Review and recommend approval of the annual financial budget;
- Ensure that all financial reports are prepared timeously and advise management on the content and frequency of all published financial information on the Fund;
- Review Board policies regarding financial management;
- Ensure that the Fund is operating at the highest level of financial transparency;
- Review the financial aspects of major transactions, new programmes and services, as well as any proposal to discontinue programmes or services.

### Focus areas in 2018

A key focus in 2018 was oversight of LPFF financial sustainability, with particular reference to the funding expectations of stakeholders. The impact of the Legal Practice Act on the income and expense structure was a large component of the Committee's work during the year.

### Focus areas in the coming year

Managing the funding expectations of the Legal Practice Council, in terms of the annual appropriation to be made to the Council in accordance with s22(1)(b) of the Act, will remain a key focus area in 2019. This work is key to the long-term financial sustainability of both the LPFF and the LPC.

A number of funding programmes previously conducted by the LPFF have become the responsibility of the Council. The oversight mechanisms to control such funding will continue to be exercised by the Committee for a period of time, in order to assist the Council.

Section 73 of the Act is new, imposing an obligation on the Board to report to the Minister if it becomes apparent that the LPFF assets are not growing at a sufficient rate to meet its future obligations. The Committee will be working closely with an independent actuary in this regard.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

### HC van Rooyen

*Finance Committee Chairman*

### Investment Committee

Chairman	Meetings
MIA Ganie	5/5

Independent Specialist Members	
E Letty	5/5
C Fivaz	3/5

Member	
EA Moolla	5/5

Ex-Officio	
M Molefe, R Burawundi, AM Stansfield, SD Maile,	

Remuneration	
MIA Ganie	R102 925
EA Moolla	R97 500
E Letty	R122 400
C Fivaz	R140 000



### Key Responsibilities

The primary responsibility of the investment committee is to ensure that the investment reserves are adequately managed in pursuit of investment objectives approved by the Board of Control. The committee continues to provide oversight of the Fund's investment assets and regularly reviews the effectiveness of the investment strategy in place and the validity of investment assumptions.

### Focus areas in 2018

The core-satellite investment philosophy provides a framework for implementing asset allocation that is consistent with the required rate of growth of investment. To this end the investment committee accepts that asset allocation remains the biggest driver of investment performance. This is a crucial process due to the liability focused investment strategy which seeks to grow investments at a rate that is greater than or equal to the growth of liabilities.

A regular sustainability report provided by the Fund's Actuary provides the committee with insights into how the liabilities of the Fund are developing relative to the investment reserves and trust interest income. Despite the existence of a robust investment strategy, the committee together with other governance structures of the Fund, regularly communicates to the Board of Control that there are limitations to the matching principle of investment returns relative the growth in liabilities given the risk tolerance of the Fund. There are specific growth rates of liabilities that cannot be matched by the available assets in the permissible investment universe. This means that the containment of costs is a useful complement to the sustainable growth of investment reserves.

The investment assets delivered a risk adjusted return of -1.25% during financial year ended 31 December 2018. It is pleasing to note that the new asset allocation structure was robust enough to prevent significant capital loss considering a financial year that had volatile financial markets. The total value of the investment assets was R4 547 million as at 31 December 2018. Key decisions made, as reflected in the Investment Executive's report, provided not only a dynamic asset class mix but also contributed to the minimisation of drawdown

risk on the Fund's investment portfolio within a conservative risk budget.

The Board of Control approved the withdrawal of a total R225 million from investment portfolios. It must be noted that regular withdrawals impact the long-term sustainability of the Fund. The committee continues to work with management and stakeholders in the protection of the Fund's capital and the building of the Fund asset base in order to ensure its long-term sustainability and the delivery of the Fund's public mandate. The Fund continued to manage its risk in the most cost-effective manner that took into account the impact of its risk management initiatives on its internal and external stakeholders. The role of risk management in the formulation and implementation of the strategic objectives approved by the Board of Control are built in the investment process. During the year under review, the Committee had a strategic planning session, held four physical meetings and also received further training to increase the effectiveness of discharging its fiduciary duties. There were no changes to the membership of the committee during the 2018 financial year.

### Focus areas in the coming year

The committee remains sensitive to the future governance of investment assets of the Fund and has communicated to the Board the special reporting provided in S73 (3) of the Legal Practice Act. This has seen the gradual development of a realistic valuation of liabilities which will be consistent with the solvency assessment management framework. It is envisaged that the size of the core portfolio and its mandate of CPI + 5% will continue to provide an adequate reserve for the first-tier liabilities.

The funding of the Legal Practice Council is still under consideration, and it is hoped that the quantum that will be agreed on by the Board and its stakeholders will consider the principle of preservation of capital and the Fund's long-term sustainability. For all intents and purposes, the agreed upon amount should not result in sustained investment withdrawals.

### Approval of the committee report

My sincere thanks to members of the Board of Control and the Investment Committee as well as management, with specific reference to the Investment Executive who has made significant contributions to the discharge of the committee's fiduciary responsibilities. The efforts of all concerned continue to contribute to the preservation of the Fund's asset base, and growing it over the medium to long term despite the risk attached to financial markets.

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

**MIA Ganie**

*Investment Committee Chairman*

### Treasury Committee

Chairman	Meetings
MIA Ganie	4/4

Independent Specialist Member	
PS Perumal	2/4

Members	
P Pama	4/4
M Ramataboe	4/4
W Phalatsi	4/4

Ex-Officio	
M Molefe, R Burawundi, AM Stansfield, SD Maile, M Mbatha, D Kayton	

Remuneration	
MIA Ganie	R29 200
P Pama	R24 200
M Ramataboe	R24 200
W Phalatsi	R24 200
PS Perumal	R12 100

### Key Responsibilities

- The committee's mandate is to provide oversight in the maximisation of trust income. Trust interest income vests with the Fund the moment it is generated. Over the years, the collection system has been refined to include monthly payments.
- The committee also focuses on improvements in existing trust interest collection system, as well as alternative systems that may become viable in the future.

## COMMITTEE REPORTS (CONTINUED)

### Focus areas in 2018

The Fund collected a total of R590.7 million during the financial year ended 31 December 2018, compared to R610.0 million collected during the 2017 financial year. Progress in trust interest collections increases the liquidity of the Fund and reduces the need to make regular withdrawals from investment reserves. The reports on trust interest receipts are conveyed to other governance structures including the Board of Control to ensure that decisions taken are consistent with the level of trust interest income the Fund is earning.

The Treasury Committee is still discussing possible incentives recommended by management to drive this initiative. It can be reported that committee is also considering a revised list of recoverable and non-recoverable bank charges. It must be noted that the list of recoverable and non-recoverable bank charges was last reviewed in 2009. Service level agreements with the banking sector will be a significant milestone for the Fund and will enhance the revenue collection capabilities of the Fund.

### Focus areas in the coming year

Section 86 (4) of the Legal Practice Act will come into effect on 1 March 2019. It is envisaged that additional revenue will be earned by the Fund from these accounts. Extensive communication with all stakeholders has been conducted. A strategic planning session of the committee will be conducted during the first quarter of 2019.

Disintermediation risk remains a key concern and adequate resources will be deployed to assist the Investment and Trust Interest Division in the management of the Fund's primary revenue stream.

### Approval of the committee report

My sincere thanks to members of the Board of Control, my fellow colleagues on the Treasury Committee and management, and the trust interest portfolio management team. The efforts of practitioners in the management of trust accounts and paying over trust interest to the Fund should also be highly commended. Without their efforts the Fund would not be able to serve its public mandate.

The committee confirms that it has functioned in accordance with its terms of reference for

the 2018 financial year and that its report to stakeholders has been approved by the Board.

### MIA Ganie

*Treasury Committee Chairman*

### Policy, Governance, Ethics and Social Committee

Chairperson	Meetings
K Matolo-Dlepu	6/6

Independent Specialist Member	
MJ Ndlovu	6/6

Members	
E Horn	6/6
K Mogale	5/6
S Gule	1/6*

Ex-Officio	
M Molefe, A Stansfield, SD Maile, J de Beer, R Burawundi, M Tsogang, J Losper	

Remuneration	
K Matolo-Dlepu	R43 800
E Horn	R36 300
K Mogale	R30 250
MJ Ndlovu	R85 800
S Gule	R6 050

\*S Gule was appointed on 1 November 2018 after K Matolo-Dlepu's resigned from the committee

### Key Responsibilities

- Assessment of policies for consistency or conflict with other policies;
- Facilitate compliance with the policies;
- Assist the Fund with development of responses to (draft) legislation relative to the Fund;
- Oversee Board's annual evaluation of its performance and that of the Board committees;
- Determine independence of the audit committee members and financial literacy criteria;
- Assess Board's contribution to the Fund;
- Evaluate social responsibility projects.
- Review and recommend to the Board for approval the code of conduct, anti-fraud policy and complaints and conciliation procedure
- Foster good corporate citizenship by monitoring the Fund's record of sponsorships and contribution to charities, compliance with consumer protections laws, employment and educational

development of its employees and effectiveness of the Fund's stakeholder engagement.

- Advocate ethics throughout the Fund's operations by determining clear ethical standards, overseeing the review of material risks and liabilities, obtaining independent assurance of the Fund's ethics performance and providing guidance on the Fund's OHS policy and strategy.

### Focus areas in 2018

The committee performed, among others, the following activities:

- Reviewed the Board and Exco charters and made recommendations with regards to Board member's functions, authority and independence, as well as executive authority of Exco members.
- Reviewed the Audit and Compliance Committee and advised on the non-executive Board membership status of the chairperson.
- Reviewed board members' involvement in the procurement process in terms of the Chain Supply Management Policy.
- The Committee received training on its social and ethics responsibilities by Mazars.
- Monitored progress against transformation targets and the employment equity plan,
- Monitored the Funds corporate social investment focusing primarily on:
  - The bursary scheme
  - Internship
  - Investment in employee learning and development
  - Supplier development programme
- Considered the Generally Accepted Compliance Practice Framework.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

### K Matolo-Dlepu

*Policy, Governance, Ethics and Social Committee Chairperson*



## Bursary Committee

Chairman	Meetings
I Klynsmith	2/2

Members	
B Martin	2/2
A Essa	1/2

Ex-Officio
M Molefe, A Stansfield, SD Maile, NE Kraai, L Decker, S Africa

Remuneration	
I Klynsmith	R10 000
B Martin	R10 000
A Essa	R5 000

### Key Responsibilities

Allocating bursaries to law students in order to increase the pool of legal practitioners, thereby promoting access to justice for the South African public.

### Focus areas in 2018

The Committee awarded LLB bursaries, as well as bursaries for postgraduate study, for years of study commencing in 2019. In doing so, the Committee was mindful of the accessibility of free tertiary education to the South African public, as provided for in terms of the National Student Financial Aid Scheme (NSFAS). During 2018 the NSFAS scheme commenced operations, with the result that demands on the LPFF have reduced substantially.

### Focus areas in the coming year

The Committee, with input from the universities, will monitor the progress of the NSFAS scheme and assess the extent to which the LPFF should continue to provide bursaries in the future.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

### I Klynsmith

*Bursary Committee Chairman*

## Grants to Universities Committee

Chairman	Meetings
JJ Maree	4/4

Members	
JHN Swart	3/4
D Bennett	3/4
P Govindasamy	4/4
D Ramoshaba	4/4

Ex-Officio
JJ Maree, JHN Swart, D Bennett, P Govindasamy, D Ramoshaba

Remuneration	
JJ Maree	
JHN Swart	
P Govindasamy	
D Ramoshaba	

### Key Responsibilities

- To provide targeted project funding to university law faculties, in order to maintain the professional standards of legal practitioners.
- To provide funding for university law clinics, in order to provide training ground for law students and access to justice for the public.

### Focus areas in 2018

The Committee considered project funding applications received from South African universities, awarded funding as appropriate, and monitored reports to ensure that funds had been applied towards their intended purpose. Funding for Law Clinics was awarded on a consistent basis to ensure that every university received appropriate support.

### Focus areas in the coming year

University funding programmes previously conducted by the LPFF have become the responsibility of the Legal Practice Council. The oversight mechanisms to control such funding will continue to be exercised by the Committee for a period of time, in order to assist the Council.

### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

### JJ Maree

*Grants Committee Chairman*

## Remuneration Committee

Chairman	Meetings
EA Moolla	4/4

Independent Specialist Member	
S Chaba	4/4

Members	
M Chauke	4/4
HC van Rooyen	4/4
K Alberts	4/4
S Chaba	4/4
H Dlepu	1/4

Ex-Officio
M Molefe, AM Stansfield, SD Maile, NE Kraai

Remuneration	
EA Moolla	R21 900
M Chauke	R18 150
HC van Rooyen	R18 150
K Alberts	R18 150
S Chaba	R57 200
H Dlepu	R6 050

## COMMITTEE REPORTS (CONTINUED)

### Key Responsibilities

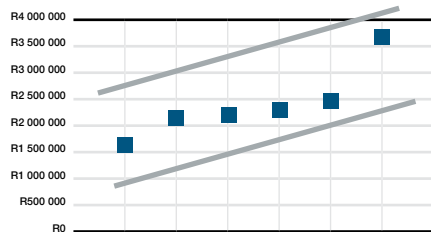
The Committee has access to independent surveys and consultants and provides a useful mechanism for facilitating the determination of all essential components of remuneration, and for establishing remuneration credibility with stakeholders.

### Remuneration report

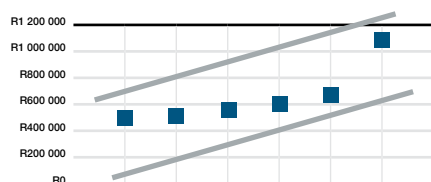
The remuneration of the Board, its Committees, executive management, middle management and general staff is determined by the Board of Control on the recommendation of the Remuneration Committee which consists of non-executive Board and other members, supported by a specialist member. The Remuneration Committee is independent of the Board's management. The work of the Committee is governed by a Board-approved Charter, and a remuneration policy and strategy framed largely along the lines recommended by King IV, also approved by the Board.

Executive remuneration is addressed using documented input by Deloitte Consulting and predicated on the need to ensure that the LPFF provides cost effective packages designed to attract and retain executives of the highest calibre, and which motivates them to perform to high standards thereby ensuring alignment with the LPFF and its stakeholders. Staff remuneration is addressed by the executive team, within parameters set by the Remuneration Committee and the Board.

#### Guaranteed remuneration – executives



#### Performance bonus – executives



Board and Committee members are remunerated by way of meeting attendance fees, with a retainer where appropriate. This regime fairly compensates Board and Committee members for their ongoing responsibilities in respect of the attendance of meetings and the work undertaken between meetings. Board and Committee remuneration is generally benchmarked below corporate rates of remuneration, as there is universal recognition of an element of service to the public, the profession and other stakeholders by those who serve on the Board and its Committees.

Succession planning at senior level is done in conjunction with the Policy, Governance, Ethics and Social Committee.

Mechanisms are in place to recognise, respond to and manage any potential conflicts of interest by way of a strong governance framework applicable to the work of the Committee and the LPFF generally.

#### Overview of the main provisions of the Remuneration Policy

Remuneration is benchmarked on the basis that senior staff are attracted from the corporate universe and return to such universe on leaving the LPFF. For all positions other than scarce skills, The LPFF applies the 50th percentile of the market on a "total cost to company" basis for remunerating competent employees. As the legal structure of the LPFF is not given to the establishment of a long-term incentive scheme, there is no long-term remuneration component. Remuneration consists only of a guaranteed pay component and a short-term incentive. The cumulative quantum of remuneration recognises this inherent limitation.

A comprehensive performance management system is applied to all members of management, as well as to general staff. Individual key performance metrics are agreed at the beginning of each year, aligned with organisational objectives, and progress is assessed at regular intervals. Remuneration decisions are predicated on performance scores.

### Implementation Report

During 2018 the Committee held three meetings to, inter alia, make recommendations to the Board on the framework of Board, Committee, executive and staff remuneration. Benchmarking of executive remuneration was comprehensively reviewed, with the assistance of Deloitte remuneration consulting.

Executive management attended meetings of the Committee by invitation. However, management was excused from attendance during the actual deliberation of the quantum of remuneration of the management team, save for the CEO who is a resource to the Committee in respect of the input required on the issue of management remuneration arising from the asymmetrical nature of that knowledge. However, the CEO was not present during the Committee's deliberation of the CEO remuneration.

The Committee's recommendations with regard to executive and staff remuneration for 2019, and performance incentives in respect of 2018, were approved by the Board after much deliberation. The executive team received an increase in pay averaging 7.7% for 2019, which includes a structural adjustment for a recent appointee. The recent appointee excluded, the rest of the executive team received an increase in pay averaging 6.5% for 2019. Other staff received an average increase of 6%, with a further 2% allocated to accommodate internal promotions. Remuneration of all staff is aligned with job grades.

The LPFF was fully compliant with its Remuneration Policy during the year.

#### Approval of the committee report

The committee confirms that it has functioned in accordance with its terms of reference for the 2018 financial year and that its report to stakeholders has been approved by the Board.

**EA Moolla**  
Remuneration Committee Chairman

# RISK MANAGEMENT

The Fund defines risk management as a process, effected by the Board, management and other personnel, applied in strategy setting and across the entity, designed to identify potential events that may affect the organisation, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of its objectives.

## Risk philosophy

The Fund does not seek to eliminate all risk; rather, it seeks to be risk-aware but not risk-averse, and to effectively manage the

uncertainty inherent in the environment. To this end, it seeks to identify, understand, assess, and respond to the risks and opportunities it faces, taking into account the impact on its people, standing, reputation, financial position, and performance. The entity further seeks to pursue prudent risks or opportunities that it believes will generate sufficient and sustainable performance and value, avoid intolerable risks, manage residual risk within defined levels, and be prepared to respond to risks or appropriate opportunities when necessary.

## Risk management process

Although risk management is a business process, it is not a process that functions in isolation. Risk management is also not a once-off activity but is performed daily, as part of ongoing operations. For risk management to be effective, it needs to be linked and integrated with all business processes, from strategic planning to all operational processes.

The risk management process consists of eight key components:

**Internal environment:** defines the risk philosophy, risk appetite, oversight structures, delegation of authority and codes of conduct  
**Strategy:** embed risk management principles into the strategic planning cycle and objective setting processes to ensure that objectives are consistent with the Fund's risk appetite and tolerances.

**Event identification:** develop a consistent and sustainable approach to identify events that could impact the organisation's ability to achieve corporate strategies and objectives.

**Risk assessment:** assess the likelihood and impact of events and associated risks on the Fund's strategic objectives.

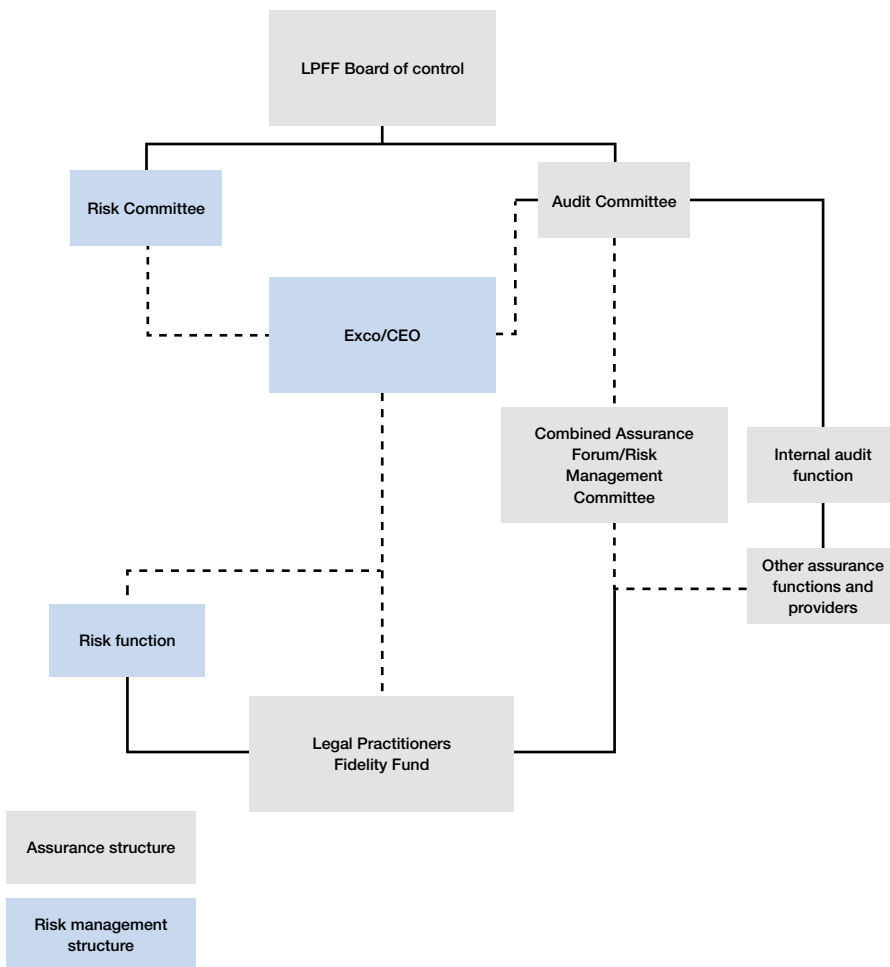
**Risk response:** determine how the organisation will respond to events and associated risks, including risk avoidance, reduction, sharing or acceptance.

**Risk reporting:** keep the risk management structures sufficiently informed.

**Communication and training:** raise the awareness of enterprise risk management across all levels of the organisation.

**Monitoring:** provide feedback regarding the adherence to and effectiveness of the ERM Framework and process.

## Risk management structure



## Legal practitioner risks

Legal practitioner risk management is an important subset of risk management, which focuses on the practitioner, firm and market risks to ensure that entrusted monies and property are appropriately safeguarded within the trust accounting practice, minimising risk to the consumer of legal services and thereby promoting access to, and confidence in, the administration of justice.

The Fund accepts that it cannot completely eliminate the risks from legal practitioners but can make the best use of the available resources to proactively reduce the posed

## RISK MANAGEMENT (CONTINUED)

risks to an acceptable level. Flexibility is required in setting the tolerance levels having regard for the operation of the legal market but responding accordingly. The Fund has a well-defined risk-based approach, with appropriate risk appetite and tolerances, describing the Fund's attitude to risk, including those that the Fund tolerate or find acceptable and the level at which risk becomes unacceptable. This ensures that risk mitigating activities and resources are prioritised and applied proportionally.

Risk control is the process by which the Fund applies its powers and available risk mitigating tools to manage issues, reduce risks or exploit opportunities. The efficient, effective and proportionate management of risks relies upon a clear understanding of the risks themselves and a consistent approach to assessment and evaluation.

The Fund has a formal governance structure and arrangements which set out the decisions that can be made, by whom and in what situations. The decision-making process in applying the course of action and supporting governance ensure a proportionate approach and appropriate oversight in evaluating and managing risks.

The legal practitioner risk management process can be summarised as follows:

- Identify risks based on a central risk index
- Assess risks in a consistent manner
- Monitor risk levels against tolerances
- Control unacceptable risk levels through the Fund's legal powers and risk mitigating tools
- Continuously evaluate effectiveness through monitoring results

### Inherent risk rating scales

LIKELIHOOD		IMPACT	
5	CERTAIN	5	CATASTROPHIC
4	LIKELY	4	CRITICAL/MAJOR
3	POSSIBLE	3	SIGNIFICANT/MODERATE
2	UNLIKELY	2	MINOR
1	RARE	1	MINIMAL/INSIGNIFICANT

In 2018, the top identified risks included:

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities
1	The Fund's claim liability was unlimited in terms of the Attorneys Act. In terms of section 55 of the Legal Practice Act, the Fund is liable to reimburse persons who suffer pecuniary loss, not exceeding the amount determined by the Minister from time to time in the Gazette, as a result of any money or other property given on trust to a trust account practice in the course of the practice of the attorney or an advocate referred in section 34(2)(b) as such. No such determination has been made by the Minister limiting the Fund's claim liability.	4	5	<p>The risk is outsourced through the Fund's reinsurance program.</p> <p>Assurances are obtained annually through the audit of the trust accounts in trust account practices ensuring compliance with relevant legislation and rules.</p> <p>Efficient and effective regulation by the Legal Practice Council, previously through the respective Law Societies are key to reduce the Fund's claims risk.</p> <p>Risk management processes relating to the successful prosecution of defaulting legal practitioners and the recovery of claims and related costs strives to create an effective deterrent to theft of entrusted monies and other property.</p> <p>A robust claims process ensures proper claims assessment and validation ensures compliance with legislation.</p>	<p>The introduction of a claims limit in the Legal Practice Act will contribute to the long term sustainability of the Fund whilst ensuring that the majority of claims are still paid by the Fund, limiting the devastating impact of single large claims.</p> <p>The implementation of the inspection processes through a risk based approach as defined in the Practitioner Risk Management Framework will allow the Fund to manage its risk on a proactive basis in conjunction with the Legal Practice Council.</p>



No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities
2	The Fund has a statutory mandate to fulfil in terms of the Legal Practice Act. Inadequate corporate governance structures and mechanisms may not support the Fund's strategy and objectives impacting on its sustainability arising from an inherent conflict of the legal profession's interests.	5	4	<p>The Fund adopted and implemented the King Codes 3 and 4.</p> <p>Board training, including induction training programs are in place and conducted on a continuous basis. The Board of Control and members are evaluated. The term of Board Members is determined legally.</p> <p>The Board of Control is served by the Board Secretary.</p>	<p>The Legal Practice Act address conflicts of interest in that board members cannot serve on the Legal Practice Council and its structures and vice versa.</p> <p>The Legal Practice Act also makes provision for the appointment of an Executive Manager and addresses the term of the Board Members.</p> <p>Engagements are taking place with stakeholders in order to retain institutional knowledge pending the establishment of the new Board of Control in terms of the Legal Practice Act.</p>
3	The exposure of the Fund to losses perpetrated through crime.	3	3	<p>The Fund implemented approved policies and procedures.</p> <p>Independent internal and external audit processes support assurance requirements within the Fund.</p> <p>Physical access controls and restrictions are in place at the respective offices of the Fund.</p> <p>Compliance reports are made to the relevant oversight Committees of the Board.</p> <p>Anti-fraud policy and strategy are in place.</p>	<p>A robust claims process includes thorough investigation of claims to ensure validity.</p> <p>Support the implementation of the anti-fraud policy and strategy through communication and awareness.</p>
4	The capability of the Fund and dependant stakeholders to continue operating after occurrence of an incident due to inadequate business continuity processes.	4	4	<p>The Fund's business continuity and disaster recovery processes and policies have been documented</p> <p>. Service providers are monitored and evaluated against service level agreements and contracts to ensure adherence to business continuity requirements.</p> <p>The Fund conducts continuous business continuity and recovery testing to provide assurances to oversight Committees.</p>	<p>The Fund's continuously improves the business continuity plan from tests results and outcomes.</p>
5	The non-adherence to applicable legislation, policies and procedures.	2	4	<p>Compliance monitoring and reporting is in place, reporting to the respective oversight Committees. This is supported by appropriate training to staff members, ensuring an understanding of the disciplinary processes in the event of non-compliance.</p> <p>TRUSTLINE supports the reporting of non-compliance within the Fund with appropriate protection for whistle-blowers within the approved policies and procedures.</p>	<p>Through the design and implementation of new enabling systems, controls are integrated to ensure compliance, monitoring and continuous improvement.</p> <p>Approvals framework and delegation of authority to be reviewed and updated in conjunction with the new Board of Control, once appointed, in compliance with the requirements of the Legal Practice Act.</p>

## RISK MANAGEMENT (CONTINUED)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities
6	The Fund and dependant stakeholders are exposed to losses as a result of information and communication technology systems being compromised.	4	4	<p>The Fund conducts periodic hardware and software audits, including penetration analysis and reporting.</p> <p>Sensitive information is encrypted to safeguard against unauthorised use.</p> <p>Firewalls are upgraded and existing policies are enhanced on a continuous basis, supported by reporting processes.</p> <p>Continuous end-user training and education creates awareness and mitigation is further supported by, but not limited to, appropriate password management, restricted internet access, e-mail gateway security, web filtering and antivirus software.</p>	The Fund continues to implement solutions as new cyber risks become known and creates awareness amongst staff through education and training.
7	The non-adherence to Occupational Health and Safety policies and legislation.	3	3	<p>Regular inspection of Fund's facilities and assets are conducted to ensure compliance. This is supported by an independent Health and Safety consultant/ assessor to provide assurances and guidelines in respect of compliance.</p> <p>Appropriate public liability insurances are in place.</p> <p>A Health and Safety Coordinator is in place.</p> <p>Emergency procedures have been implemented, which includes a fire protection program, personal protective equipment and gear as well as evacuation requirements.</p> <p>Appropriate policies were implemented, such as Occupational Health and Safety, anti-smoking policy, HIV and AIDS and leave policy.</p>	<p>The Fund continues to review of legislation to define all risks and exposures and creates awareness and compliance through induction training and campaigns.</p> <p>Preventative risk mitigation includes the replacement of the lifts and fire detection system in the Cape Town offices.</p>
8	The Fund receives funding requirements from third parties that affects its sustainability if it does not apply its own discretion in meeting such funding expectations.	4	4	<p>The Fund is reliant on independent actuarial guidance to manage its financial sustainability having regard for its statutory mandate and funding requirements from third parties.</p> <p>Budget and monitoring processes are in place with oversight from the Finance Committee.</p> <p>Affected third parties and stakeholders are sensitised to the Fund's sustainability and funding constraints.</p>	The amount of the appropriation to the Legal Practice Council will be determined by the Board of Control, having regard for the Fund's sustainability and the funding requirement, after consultation with the Legal Practice Council, as required in terms of the Legal Practice Act.



No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities
9	The Fund provides the base professional indemnity insurance cover to all legal practitioners holding a fidelity fund certificate through the Legal Practitioners Indemnity Insurance Fund. This premium has been escalating to such a level that it is one of the highest cost items to the Fund threatening its sustainability.	5	4	Professional indemnity insurance is provided through the Legal Practitioners Indemnity Insurance Fund NPC policy at no cost to the legal practitioner holding a fidelity fund certificate.	The Legal Practice Act allows for the payment of a contribution by the legal practitioner in respect of professional indemnity insurance before a fidelity fund certificate is issued for the following year. The Board of Control has resolved to phase the contribution in over a 5-year period, commencing in 2019 for the issuing of 2020 fidelity fund certificates.
10	The Fund's primary interest revenue from trust accounts held at trust account practices are susceptible to fluctuating interest rates and the extent and duration of monies held in such trust accounts.	5	5	<p>The Fund continues with strategic engagements with banks on trust account products, charges and interest rates and defining approved products in terms of section 63(1)(g) of the Legal Practice Act.</p> <p>Where the previous Law Societies collected interest from trust account practices as the Fund's nominee, the assurances in respect of the completeness and accuracy of such interest collected were obtained through annual audit certificates.</p> <p>The discretionary contributions to the audit cost in respect of trust account practice trust accounts and bank charges are reviewed on an ongoing basis to ensure relevance.</p> <p>Trust interest is maximised through a focused Trust Interest Portfolio Management process.</p>	<p>The Fund engages with stakeholders on practices that reduce transactions flows through trust account practices negatively impacting the Fund's core revenue.</p> <p>In terms of the Legal Practice Act, trust interest vests with the Fund. Engagement continues with the banks and stakeholders to improve the collection processes.</p> <p>The Fund continues to improve its Trust Interest Portfolio Management Strategies.</p> <p>The Fund is implementing section 86(5)(b) of the Legal Practice Act whereby 5% of the interest on section 86(4) trust accounts will vest with the Fund from 1 March 2019.</p> <p>From 1 March 2019 the Fund will be collecting trust interest.</p>
11	The Fund's investment returns are susceptible to changes in market conditions (economic, social, political, legal, regulatory fundamentals).	5	3	<p>The Investment Committee regular updates the Investment strategy and its charter to incorporate best practice.</p> <p>The Fund adopted a liability focused investment strategy and apply strategic asset allocation which is reviewed continuously to ensure adherence to the adopted strategy.</p> <p>Benchmarks are reviewed regularly to ensure relevance and compliance is assessed on a monthly basis.</p> <p>Investment decision analysis and quality reviews against best practice take place on an ongoing basis.</p>	The Investment Regulations were expanded on when it was made in terms of the Legal Practice Act, providing an opportunity for the Fund to improve its returns whilst managing the related risks.
12	Stakeholders are critical to the delivery of the Fund's strategic objectives and mandate and the alignment of stakeholder expectations to the Fund's objectives are therefore key. Any inadequate stakeholder engagement affects the successful implementation of the Fund's objectives.	4	4	The Fund continuously engages with all identified stakeholders through a defined engagement plan and relationship actions. These engagements include the Legal Practice Council, the Department of Justice and the profession and related organisations.	

## RISK MANAGEMENT (CONTINUED)

No.	Key risk description	Likelihood	Impact	Key controls	Further mitigating and opportunities
13	With the Fund's mandate defined in the Legal Practice Act, which replaces the Attorneys Act, the current Information Technology Systems are inadequate to support and achieve the Fund's objectives.	4	4	<p>The Fund defined its business model in line with the mandate as contained in the Legal Practice Act. In support of the implementation of the business model and delivering on its mandate, the Information, Communication and Technology strategy was defined and approved, outlining a roadmap on the implementation of appropriate system solutions, aligned with business requirements.</p> <p>Through this, enterprise architecture, business process management and program management capabilities were established.</p> <p>The Fund adopted and implemented governance structures ensuring appropriate oversight.</p>	Through effective project and program management implementation is monitored against actions, responsibilities, time lines and budget.
14	The Fund could face constrained skills and capacity in the future.	4	4	<p>The Fund embarked on an organisation design/transformation project defining its operating model in terms of the Legal Practice Act. Within this project the Fund implemented a change management plan managing the transition.</p> <p>New skills requirements were identified for the Fund in terms of the mandate contained in the Legal Practice Act through a skills audit. Skills gaps were identified and closed and career aspiration conversations were held for succession and pipeline development. In this process the Fund implemented succession management and employee developmental plans were agreed and implemented.</p> <p>A performance management system is in place.</p> <p>Employee retention measures include home loans and bursaries.</p> <p>Remuneration is appropriately benchmarked against the market.</p>	<p>The Fund will develop and implement a retention strategy, a talent management policy and a guideline for succession management, including cover ratios.</p> <p>The reward and recognition strategy will be reviewed.</p>



# ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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### Preparer

**Andrew Stansfield**

*Fund Management Executive*

### Published

8 April 2019

## BOARD OF CONTROL'S RESPONSIBILITIES AND APPROVAL

The Board of Control is required in terms of the Legal Practice Act 28 of 2014 to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with accounting policies as disclosed in note 1. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with accounting policies as disclosed in note 1 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board of Control acknowledges that it is ultimately responsible for the system of internal financial control established by the Fund and places considerable importance on maintaining a strong control environment. To enable the Board of Control to meet these responsibilities, the Board of Control sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Fund and all employees are required to maintain the highest ethical standards in ensuring the Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. While operating risk cannot be fully eliminated, the Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board of Control is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board of Control has reviewed the Fund's cash flow forecast for the year to 31 December 2019 and, in light of this review and the current financial position, it is satisfied that the Fund has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the Fund's annual financial statements. The annual financial statements have been examined by the Fund's external auditors and their report is presented on pages 54 to 55.

The annual financial statements set out on pages 56 to 73, which have been prepared on the going concern basis, were approved by the Board of Control on 18 March 2019 and were signed on its behalf by:

Signed on behalf of the Board of Control by:

**Mr S Madiba**  
Chairperson

**Mr CP Fourie**  
Vice Chairperson



# REPORT OF THE BOARD OF CONTROL

The Board of Control has pleasure in submitting their report on the annual financial statements of the Legal Practitioners Fidelity Fund for the year ended 31 December 2018.

## 1. Incorporation

The formerly named Attorneys Fidelity Fund was established as a juristic person by section 25 of the now repealed Attorneys' Act 53 of 1979. Section 53 of the Legal Practice Act, 2014 provides for the continued existence of the Fund as a juristic person under the name Legal Practitioners Fidelity Fund.

## 2. Nature of business

Legal Practitioners Fidelity Fund is established with the main purpose of reimbursing persons who suffer pecuniary loss as a result of theft of money or other property given in trust to a trust account practice in the course of practice of the attorney or an advocate referred to in the Act and operates principally in South Africa.

There have been no material changes to the nature of the Funds business from the prior year.

## 3. Review of financial results and activities

The annual financial statements have been prepared in accordance with the accounting policies described in note 1 and the requirements of the Legal Practice Act 28 of 2014. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the Fund are set out in these annual financial statements.

## 4. Board of Control and Management Structure Board of Control

The members of the Board of Control in office at the date of this report are as follows:

Name	Nationality
Mr S Madiba – Chairperson	South African
Mr CP Fourie – Vice Chairperson	South African
Mr E Horn – Vice Chairperson	South African
Mrs N Khanyile – Vice Chairperson	South African
Mr EA Moolla	South African
Mr ER Barry	South African
Mr P Govindasamy	South African
Mr AP Millar	South African
Ms K Mogale	South African
Mr HC van Rooyen	South African
Mr L Mokgoro	South African
Mr M Boqwana	South African
Mr P Pama	South African
Mr K Alberts	South African
Mr T Mhlokonya	South African
Mr B Maswazi	South African

### Management structure

The management structure of the Fund as at the date of this report is as follows:

Name	Position
Motlatsi Molefe	Chief Executive Officer
Andrew Stansfield	Fund Management Executive
Jerome Losper	Claims Executive
Jan de Beer	Risk Management Executive
Pumeza Ndima	Senior Claims Manager
Robert Burawundi	Investment Executive
Mostse Tsogang	Chief Information Officer
Nomonde Kraai	Senior Human Resources Manager
Shadrack Maile	Board Secretary

Members of the management structure serve as Ex-Officio members on the board and/or its sub committees.

## 5. Events after the reporting period

The board is not aware of any material event which occurred after the reporting date and up to the date of this report.

## 6. Going concern

The board believes that the Fund has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The board has satisfied itself that the Fund is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The board is not aware of any new material changes that may adversely impact the Fund. The board is also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Fund.

## 7. Board of Control Committees

The board has established the following committees which were in operation during the year to assist it in the carrying out its oversight responsibilities:

- Executive Committee
- Audit and Compliance Committee Risk Committee
- Remuneration Committee Finance Committee Bursary Committee Treasury Committee Investment Committee
- Policy and Governance Committee Grants to Universities Committee

## 8. Auditors

SizeNtsalubaGobodo became a member firm of Grant Thornton International and changed its name to SNG Grant Thornton. They continued in office as auditors for the Fund for 2018.

At the AGM, the board will be requested to reappoint SNG Grant Thornton as the independent external auditors of the Fund and to confirm Mr Donovan Simpson as the designated lead audit partner for the 2019 financial year.

## 9. Secretary

The board secretary is Mr Shadrack Maile.

## INDEPENDENT AUDITORS' REPORT

### To the Board of Control of the Legal Practitioners Fidelity Fund

#### Opinion

We have audited the financial statements of the Legal Practitioners Fidelity Fund set out on pages 56 to 73, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Legal Practitioners Fidelity Fund as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with basis of accounting described in note 1 and the requirements of the Legal Practice Act 28 of 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the annual financial statements section of our report. We are independent of the Fund in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of annual financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

We draw attention to Notes 1.8 to the annual financial statements which indicates that the fund has only recognised revenue from interest on trust balances to the extent that these amounts had been collected by the Fund or the law societies. It is not feasible for the Fund to institute accounting controls over the collection of interest income from practitioners prior to the initial entry of the collections in the accounting records of the law societies or the Fund. Accordingly it was impractical for us to extend our examination beyond the receipts actually recorded and confirmed by the law societies.

We also draw attention to Note 1.10 to the financial statements which indicates that the fund has applied a cash basis of accounting insofar as they have recognised claims paid and refunds of trust account costs as the accrued amounts cannot be measured reliably. Consequently it was impractical for us to extend our examination beyond the actual claims and trust costs paid.

Our opinion is not modified in respect of both these matters.

#### Other information

The board is responsible for the other information. The other information comprises the Statement of the Board of Control's Responsibility, the Report of the Board of Control and the detailed income statement which we obtained prior to the date of this report. Other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge

obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, I conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Board of Control for the Financial Statements

The board is responsible for the preparation and fair presentation of the annual financial statements in accordance with the accounting policies described in note 1 and the requirements of the Legal Practice Act 28 of 2014, and for such internal control as the board determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the board is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.



As part of an audit in accordance with International Standards on Auditing, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board.

- Conclude on the appropriateness of the board's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**SNG Grant Thornton**  
**Donovan Simpson: Director**  
**Chartered Accountant (SA)**  
**Registered Auditor**

8 April 2019  
Cape Town

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

Figures in Rand	Note(s)	2018	2017
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	45 361 063	27 366 577
Investment property	3	43 000 000	43 000 000
Investments	4	3 863 473 058	4 079 228 018
Loans secured by mortgage bonds		45 280 830	44 334 916
		<b>3 997 114 951</b>	<b>4 193 929 511</b>
<b>Current Assets</b>			
Trade and other receivables	6	6 389 494	19 489 843
Investments	4	679 511 342	732 121 071
Prepayments		108 838 672	84 059 500
Interest receivable on investments		21 741 221	19 746 741
Loans secured by mortgage bonds – current portion		3 112 696	3 190 174
Cash and cash equivalents	7	72 570 360	9 744 402
		<b>892 163 785</b>	<b>868 351 731</b>
<b>Total Assets</b>		<b>4 889 278 736</b>	<b>5 062 281 242</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Reserves		24 305 999	258 532 377
Retained income		4 546 663 379	4 588 380 903
		<b>4 570 969 378</b>	<b>4 846 913 280</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Retirement benefit obligation	5	26 774 206	23 877 469
<b>Current Liabilities</b>			
Trade and other payables	9	288 648 846	188 783 077
Provisions	8	2 886 306	2 707 416
		<b>291 535 152</b>	<b>191 490 493</b>
<b>Total Liabilities</b>		<b>318 309 358</b>	<b>215 367 962</b>
<b>Total Equity and Liabilities</b>		<b>4 889 278 736</b>	<b>5 062 281 242</b>



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in Rand	Note(s)	2018	2017
Revenue	10	590 793 420	610 067 268
Other operating income	11	12 744 454	16 815 054
Operating expenses		(854 519 008)	(717 267 317)
<b>Operating loss</b>		<b>(250 981 134)</b>	<b>(90 384 995)</b>
Investment income	12	251 609 452	232 359 283
Other non-operating gains (losses)	13	(43 460 807)	94 418 038
<b>(Loss) profit for the year</b>		<b>(42 832 489)</b>	<b>236 392 326</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gain (loss) on defined benefit plan		1 114 960	2 562 390
Gross (Losses) gains on revaluation of investments		(277 687 185)	293 807 301
Reclassification adjustment relating to available for sale assets disposed during the year		43 460 807	(88 918 038)
<b>Total items that will not be reclassified to profit or loss</b>		<b>(233 111 418)</b>	<b>207 451 653</b>
<b>Other comprehensive income for the year</b>		<b>(233 111 418)</b>	<b>207 451 653</b>
<b>Total comprehensive (loss) income for the year</b>		<b>(275 943 907)</b>	<b>443 843 979</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

R	Fair value adjustment assets- available- for-sale reserve	Retained income	Total equity
<b>Balance at 1 January 2017</b>	<b>53 643 114</b>	<b>4 349 426 187</b>	<b>4 403 069 301</b>
Profit for the year	—	236 392 326	236 392 326
Actuarial gain on defined benefit plan	—	<b>2 562 390</b>	<b>2 562 390</b>
Total comprehensive income for the year	—	238 954 721	238 954 721
Reclassification adjustment relating to available for sale assets disposed during the year	(88 918 038)	—	(88 918 038)
Increase in market value of investments	293 807 301	—	293 807 301
<b>Total Changes</b>	<b>204 889 263</b>	<b>—</b>	<b>204 889 263</b>
<b>Balance at 1 January 2018</b>	<b>258 532 377</b>	<b>4 588 380 908</b>	<b>4 846 913 285</b>
Loss for the year	—	(42 832 489)	(42 832 489)
Other comprehensive loss	(234 226 378)	1 114 960	(233 111 418)
Total comprehensive Loss for the year	<b>(234 226 378)</b>	<b>(41 717 529)</b>	<b>(275 943 907)</b>
Reclassification adjustment relating to available for sale assets disposed during the year	43 460 807	—	43 460 807
Gross (losses) gains from fair value of investments	(277 687 185)	—	(277 687 185)
<b>Total changes</b>	<b>(234 226 378)</b>	<b>—</b>	<b>(234 226 378)</b>
<b>Balance at 31 December 2018</b>	<b>24 305 999</b>	<b>4 546 663 379</b>	<b>4 570 969 378</b>



## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

R	Note(s)	2018	2017
<b>Cash flows from operating activities</b>			
Cash generated from operations	15	(155 145 675)	(230 568 624)
Interest income		169 214 868	166 962 002
Dividend income		82 394 584	65 397 281
<b>Net cash from operating activities</b>		<b>96 463 777</b>	<b>1 790 659</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(21 452 412)	(3 172 988)
Increase in investments		—	(75 000 000)
Withdrawal of investments		225 000 000	300 000 000
Net investment income reinvested		(236 316 976)	(215 792 989)
Net repayments (advances) in loans secured by mortgage bonds		(868 436)	(6 860 411)
<b>Net cash from investing activities</b>		<b>(33 637 824)</b>	<b>(826 388)</b>
<b>Total cash movement for the year</b>		<b>62 825 953</b>	<b>964 271</b>
Cash at the beginning of the year		9 744 402	8 780 131
<b>Total cash at end of the year</b>	7	<b>72 570 356</b>	<b>9 744 402</b>

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. Significant accounting policies

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, except for IAS 18: Revenue, IAS 37: Provisions and contingencies and the Legal Practice Act, 2014. The principal accounting policies applied in the preparation of these annual financial statements are set out below.

### 1.1 Basis of preparation

The Legal Practice Act, 2014, does not stipulate the accounting framework to be adopted by the Fund. The Board of Control has chosen to use International Financial Reporting Standards (IFRS) as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its annual financial statements.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the Funds functional currency.

These accounting policies are consistent with the previous year.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

#### Fair value estimation

Fair value of financial instruments traded in active markets (such as trading and available for sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price.

Fair value of investment property is determined by an independent valuation performed once every two years.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

#### Key sources of estimation uncertainty Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included in note 8 Provisions.

### 1.3 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### Fair value

Subsequent to initial measurement investment property is measured at fair value.

A gain or loss arising from a change in fair value is included in net profit or loss for the period in which it arises.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible assets which the Fund holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Fund, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Fund.



The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	50 yrs
Furniture and fixtures	Straight line	5 yrs
Motor vehicles	Straight line	4 yrs
Office equipment	Straight line	5 yrs
IT equipment	Straight line	3 yrs
Computer software	Straight line	3 yrs

The Fund has decided not to review the residual value, useful life and depreciation method of each asset at the end of each reporting year as it considers the costs of such exercise to far exceed the benefits.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

## 1.5 Financial instruments

### Classification

The Fund classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

### Initial recognition and measurement

Financial instruments are recognised initially when the Fund becomes a party to the contractual provisions of the instruments.

The Fund classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

### Subsequent measurement

Dividend income is recognised in profit or loss as part of other income when the Funds's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends received on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Fund's right to receive payment is established.

### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### Loans to secured by mortgage bonds

These financial assets are classified as loans and receivables.

### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators

## ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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. These are initially and subsequently recorded at fair value.

### 1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### Operating leases – lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the

leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed under revenue in profit or loss.

### 1.7 Employee benefits

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

#### Defined benefit plans

The Fund undertakes to pay medical aid premiums for staff once they had retired from service. The present value of this defined benefit obligation, as determined by an independent actuarial valuation carried out each year, is recognised as the post retirement medical aid obligation on the statement of financial position. The defined benefit obligation and the related current service costs are determined using the projected unit credit method.

Actuarial gains and losses are recognised in the year in which they arise, in other comprehensive income.

### 1.8 Provisions and contingencies

Provisions are recognised when:

- the Fund has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised

for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If the Fund has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

Contingencies are disclosed in note 17.

### 1.9 Revenue

Revenue comprises:

- net interest on practitioners' trust account balances;
- interest on law societies' collecting accounts; and
- Initial contributions.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable in respect of interest on practitioners' trust account balances.



Interest on practitioners trust account balances is recognised, when it has been collected by the Law Societies and the Funds has been notified of the amounts collected.

Interest on investments is recognised in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the Fund's right to receive payment has been established.

#### **1.10 Cash basis of accounting**

Claims payable are accounted for once the requisite investigations are complete and claims are approved and paid as it is not possible to reliably measure accrued amounts prior to this. Refunds of trust account costs are accounted for after these costs are settled by the law societies and the fund has been notified of the amounts payable as it is not possible to reliably measure these costs prior to the notification from the law societies.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

### 2. Property, plant and equipment

	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	5 000 000	—	5 000 000	5 000 000	—	5 000 000
Buildings	17 049 977	(1 449 261)	15 600 716	17 049 977	(1 108 262)	15 941 715
Furniture and fixtures	10 603 491	(8 099 545)	2 503 946	9 366 645	(6 352 603)	3 014 042
Motor vehicles	1 642 986	(1 402 471)	240 515	1 642 986	(1 157 482)	485 504
IT equipment	6 566 879	(4 682 158)	1 884 721	5 705 752	(3 639 086)	2 066 666
Computer software	20 131 165	—	20 131 165	858 650	—	858 650
<b>Total</b>	<b>60 994 498</b>	<b>(15 633 435)</b>	<b>45 361 063</b>	<b>39 624 010</b>	<b>(12 257 433)</b>	<b>27 366 577</b>

#### Reconciliation of property, plant and equipment – 2018

	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	15 941 715	—	(340 999)	15 600 716
Furniture and fixtures	3 014 042	1 236 847	(1 746 943)	2 503 946
Motor vehicles	485 504	—	(244 989)	240 515
IT equipment	2 066 666	943 050	(1 124 995)	1 884 721
Computer software	858 650	19 272 515	—	20 131 165
	<b>27 366 577</b>	<b>21 452 412</b>	<b>(3 457 926)</b>	<b>45 361 063</b>

#### Reconciliation of property, plant and equipment – 2017

	Opening balance	Additions	Depreciation	Total
Land	5 000 000	—	—	5 000 000
Buildings	16 282 715	—	(341 000)	15 941 715
Furniture and fixtures	4 603 921	51 656	(1 641 535)	3 014 042
Motor vehicles	550 815	210 684	(275 995)	485 504
IT equipment	1 000 224	2 051 998	(985 556)	2 066 666
Computer software	—	858 650	—	858 650
	<b>27 437 675</b>	<b>3 172 988</b>	<b>(3 244 086)</b>	<b>27 366 577</b>

Registers with details of land and buildings are available for inspection at the registered office of the Fund.



### 3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	43 000 000	—	43 000 000	43 000 000	—	43 000 000

#### Reconciliation of investment property – 2018

	Opening balance	Total
Investment property	43 000 000	43 000 000

#### Reconciliation of investment property – 2017

	Opening balance	Fair value adjustments	Total
Investment property	37 500 000	5 500 000	43 000 000

A registers containing details of the investment property is available for inspection at the registered office of the Fund.

#### Details of valuation

The effective date of the last revaluations was Sunday, 31 December 2017. The revaluation was performed by an independent valuer, Nina L Vass, a professional Associate Valuer (Reg. No. 7278). Nina L Vass is not connected to the company and has recent experience in location and category of the investment property being valued.

The valuation was based on the application of the capitalisation of nett income method to determine a fair market value.

	2018	2017
<b>Amounts recognised in profit and loss for the year</b>		
Rental income from investment property	(5 355 936)	(5 345 104)
Direct operating expenses from rental generating property	9 528 472	8 126 661
	<b>4 172 536</b>	<b>2 781 557</b>

### 4. Investments

#### Available-for-sale

Listed shares	2 404 337 499	2 564 286 581
Money market	678 995 295	731 605 024
	<b>3 083 332 794</b>	<b>3 295 891 605</b>

#### Held to maturity

Bonds	1 459 135 559	1 514 941 437
Liquid funds and notice deposits	516 047	516 047
	<b>1 459 651 606</b>	<b>1 515 457 484</b>

#### Total other financial assets

	<b>4 542 984 400</b>	<b>4 811 349 089</b>
<b>Non-current assets</b>		
Available-for-sale	2 404 337 499	2 564 286 581
Held to maturity	1 459 135 559	1 514 941 437
	<b>3 863 473 058</b>	<b>4 079 228 018</b>

#### Current assets

Available-for-sale	678 995 295	731 605 024
Held to maturity	516 047	516 047
	<b>679 511 342</b>	<b>732 121 071</b>
	<b>4 542 984 400</b>	<b>4 811 349 089</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Investments (continued)

#### Details of listed investments

The listed investments held by the Fund at financial year end date, categorised into the JSE sectors are as follows:

	2018	%	2017	%
Basic materials	336 415 718	13.99	367 636 955	14.34
Financials	693 992 733	28.86	746 894 857	29.13
Telecommunications	107 812 595	4.48	136 029 886	5.30
Technology	3 998 302	0.17	5 920 508	0.23
Consumer goods	141 684 728	5.89	200 990 235	7.84
Consumer services	461 052 025	19.18	420 733 666	16.41
Healthcare	72 743 681	3.03	87 047 985	3.39
Industrials	137 043 674	5.70	167 553 036	6.53
Local commodities	1 524 480	0.06	4 733 898	0.18
Foreign unit trusts	448 069 563	18.64	426 745 555	16.64
	<b>2 404 337 499</b>	<b>100.00</b>	<b>2 564 286 581</b>	<b>100.00</b>

#### Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost.

#### Fair value hierarchy of available-for-sale financial assets

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs which are not based on observable market data.

	2018	2017
<b>Level 1</b>		
Listed investments	2 404 337 499	2 564 286 581
Cash and money market instruments	678 995 295	731 605 024
	<b>3 083 332 794</b>	<b>3 295 891 605</b>

The Fund has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2018 and 2017, as all the financial assets were disposed of at their redemption date.



R	2018	2017
<b>5. Retirement benefit obligation Defined benefit plan</b>		
It is the policy of the company to pay medical aid premiums for staff whilst in service and to continue this payment once the staff retire from service. The number of staff who are entitled to this benefit is 86 (2017: 86). 8 new employees joined the scheme and 1 person exited during the year. The contributions based liability for post retirement medical aid contributions as determined by an independent actuarial valuation as the financial year end is R26 774 206 (2017 – R23 877 469). This liability has been provided in full. The commitment in respect of future service will be provided by annual allocations against income. The next actuarial valuation will take place at 31 December 2019.		
Details of the plan are as follows:		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(26 774 206)	(23 877 469)
<b>Movements for the year</b>		
Opening balance	23 877 469	22 692 000
Net expense recognised in profit or loss	2 896 737	1 185 469
	<b>26 774 206</b>	<b>23 877 469</b>
<b>Net expense recognised in profit or loss</b>		
Current service cost	2 132 187	2 056 735
Interest cost	2 397 262	2 169 314
Actuarial loss	(1 114 960)	(2 562 390)
Contributions	(517 752)	(478 190)
	<b>2 896 737</b>	<b>1 185 469</b>
<b>Key assumptions used</b>		
Assumptions used on last valuation on Monday, 14 January 2019.		
Discount rates used	9.93%	10.15%
Health care cost inflation rate	7.39%	8.02%
Net effective discount rate	2.37%	1.97%
<b>6. Trade and other receivables</b>		
Sundry loans	34 801	6 221
Sundry receivables	4 297 100	382 815
Interest collected by law societies not yet paid over to the Fund	2 057 593	19 100 807
	<b>6 389 494</b>	<b>19 489 843</b>
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	2 127	5 609
Bank balances	72 568 233	9 738 793
	<b>72 570 360</b>	<b>9 744 402</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 8. Provisions

#### Reconciliation of provisions – 2018

	Opening balance	Additions	Total
Leave provision	2 707 416	178 890	2 886 306

#### Reconciliation of provisions – 2017

	Opening balance	Utilised during the year	Total
Leave provision	2 874 354	(166 938)	2 707 416
Provision for AIF underfunding	185 000 000	(185 000 000)	—
	<b>187 874 354</b>	<b>(185 166 938)</b>	<b>2 707 416</b>

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### 9. Trade and other payables

	2018	2017
Trade payables	75 102 530	72 747 151
Unidentified amounts received on take over of law societies' collecting accounts	46 476 178	—
VAT payable	24 062 766	—
Amounts received from curators of defaulting attorneys to be offset against future claims	24 739 967	25 811 438
Unidentified and unclaimed trust monies	95 825 640	73 366 026
Unidentified amounts received by the Fund	22 441 765	16 858 462
	<b>288 648 846</b>	<b>188 783 077</b>

### 10. Revenue

Interest on trust account balances	<b>590 793 420</b>	<b>610 067 268</b>
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### 11. Other operating income

Conference Centre and AIF recoveries	1 134 918	989 505
Foreign exchange profit (loss)	5 447	(261 976)
Initial contributions from practitioners	292 367	368 070
Rental income	5 355 936	5 345 104
Recoveries	5 878 395	10 359 758
Sundry income	77 391	14 593
	<b>12 744 454</b>	<b>16 815 054</b>



R	2018	2017
<b>12. Investment income</b>		
<b>Dividend income</b>		
Listed investments – Local	82 394 584	65 397 281
<b>Interest income</b>		
<b>From investments in financial assets:</b>		
Bank and other cash	62 833 702	66 121 455
Government bonds	104 486 314	99 050 541
Loans secured by mortgage bonds	1 894 852	1 790 006
<b>Total interest income</b>	<b>169 214 868</b>	<b>166 962 002</b>
<b>Total investment income</b>	<b>251 609 452</b>	<b>232 359 283</b>
<b>13. Other non-operating gains (losses)</b>		
Realisation adjustments to available for sale financial assets disposed of during the year		
Fair value gain (loss) – Investment property	(43 460 807)	88 918 038
	—	5 500 000
	<b>(43 460 807)</b>	<b>94 418 038</b>
<b>14. Taxation</b>		
No provision has been made for taxation. In terms of section 60(1) of the Legal Practice Act, 2014, the revenue of the Fund is exempt from the provisions of any law relating to payment of income tax or any other tax or levy by the State.		
<b>15. Cash used in operations</b>		
Surplus (deficit) for the year	(42 832 489)	236 392 326
<b>Adjustments for:</b>		
Depreciation and amortisation	3 457 926	3 244 086
Losses (gains) on disposals, scrappings and settlements of assets and liabilities	43 460 807	(88 918 038)
Dividend income	(82 394 584)	(65 397 281)
Interest income	(169 214 868)	(166 962 002)
Fair value gains	—	(5 500 000)
Movements in retirement benefit assets and liabilities	4 011 697	3 747 859
Movements in provisions	178 890	(185 166 938)
<b>Changes in working capital:</b>		
Trade and other receivables	13 100 349	(1 325 862)
Prepayments	(24 779 172)	—
Trade and other payables	99 865 769	39 317 226
	<b>(155 145 675)</b>	<b>(230 568 624)</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

R	2018	2017
<b>16. Commitments</b>		
Operating leases – as lessor (income)		
Minimum lease payments due		
– within one year	2 297 466	2 285 533
– in second to fifth year inclusive	4 230 310	4 090 999
	<b>6 527 776</b>	<b>6 376 532</b>

The Fund's is held partly to generate rental income. Rental of the property is expected to generated rental yields of 6% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

### 17. Contingencies

Claims against the Fund at year end amounting to R 712 668 282 (2017: R576 898 718) represent the gross amount of all claims reported to the Fund and not settled by financial year end. All claims are subjected to thorough investigation before being approved and paid, repudiated or otherwise disposed of. No provision is made for claims incurred but not reported to the Fund by financial year end date.

The liability of the Fund is for the first R150m (2017: R150m) of claims notified per annum. Insurance cover is in place for the next R425m (R2017: R425m) per annum. The insurance cover is for the period 1 July 2018 to 30 June 2019 and the 2017 cover was for the period 1 July 2017 to 30 June 2018.



R	2018	2017
<b>18. Related parties</b>		
<b>Relationships</b>		
Entities funded by the Fund	Attorneys Insurance Indemnity Fund Legal Practice Council	
Law Societies	Law Society of the Free State Law Society of KwaZulu-Natal Cape Law Society Law Society of the Northern Provinces	
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
Law Society of the Free State	(2 753 207)	—
Law Society of KwaZulu-Natal	(1 905 894)	1 661 491
Cape Law Society	(3 891 554)	15 407 389
Law Society of Northern Province	(37 093 027)	1 991 699
<b>Related party transactions</b>		
Revenue – Trust Account interest		
Law Society of the Free State	20 021 969	17 408 458
Law Society of KwaZulu-Natal	87 203 304	93 433 782
Cape Law Society	130 166 643	140 266 842
Law Society of Northern Province	353 401 501	359 010 718
<b>Agency fees paid</b>		
Law Society of the Free State	8 400 497	7 904 304
Law Society of KwaZulu-Natal	9 173 334	13 499 147
Cape Law Society	16 055 824	19 982 264
Law Society of Northern Province	44 437 474	51 167 359
<b>Insurance premiums paid</b>		
Attorneys Insurance Indemnity Fund	190 746 592	168 119 000
<b>Rental income</b>		
Attorneys Insurance Indemnity Fund	2 088 000	1 926 000
<b>Appropriation</b>		
Legal Practice Council	21 498 500	—

## 19. Remuneration paid to Key Management

### Executive Management

Remuneration to the Executive Management team for services rendered during the year was R18 382 075 (2017: R16 755 220).

The executive management team comprised 6 members (2017: 6 members)

### Board of Control

The honoraria paid to members of the Board of Control for the year ended 31 December 2018 amounted to R6 583 125 (2017: R5 886 812)

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 20. Risk management

#### Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, and cash flow interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance.

The Fund has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income and funds and reserves of either an instantaneous increase or decrease of 1% (100 basis points) in the market interest rate for interest bearing instruments or a 5% strengthening or weakening on the JSE All share index for equity instruments prices applicable at 31 December 2018. The following assumptions have been made:

- all variables are held constant;
- all sensitivity analysis is calculated on the clean market value, dividend and interest are not accounted for;
- all sensitivity analysis is calculated at stock level and then rolled up to the portfolio level; and
- Beta, being the measure of an asset's risk in relation to the market, is between 0.90 and 1.0. This implies that the physical market value of the equities will be almost identical to the movements in the market (JSE All Share index).

	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share index	5% increase in JSE All Share index
<b>At 31 December 2018</b>				
Surplus for the year	176 700 289	(176 700 289)	116 097 146	(116 097 146)
Investment fluctuation reserve	176 700 289	(176 700 289)	116 097 146	(116 097 146)
<b>At 31 December 2017</b>				
Surplus for the year	187 633 238	(187 633 238)	124 944 465	(124 944 465)
Investment fluctuation reserve	187 633 238	(187 633 238)	124 944 465	(124 944 465)

The sensitivity analysis excludes the impact of the interest rate risk on employment benefit obligations. The above analysis is for the illustrative purposes only, as in practice, market rates and changes in the All Share index rarely change in isolation.

#### Liquidity risk

The Fund's risk to liquidity is a result of the funds available to cover future commitments when due at reasonable cost. The Fund manages liquidity risk by managing cash flows on a monthly basis which is evidenced by its liquidity resources and utilised borrowing facilities.

#### Interest rate risk

As the Fund has significant interest-bearing assets, the Fund's income and operating cash flows are substantially dependent of changes in market interest rates. The interest bearing assets and liabilities are analysed in the tables below:



### Cash flow interest rate risk

<b>Financial instrument</b>	<b>Current interest rate</b>	<b>Due in 1 year and less</b>	<b>Due in 2 to 5 years</b>	<b>Due in over 5 years</b>	<b>Total</b>
Government and other bonds	Fluctuating	20 012 684	321 373 827	1 117 749 048	1 459 135 559
Trade and other receivables – normal credit terms	Interest free	115 228 166	—	—	115 228 166
Loans secured by mortgage bonds	3.88%	3 112 696	12 415 734	32 865 096	48 393 526
Cash in current banking institutions	Linked to prime	72 570 360	—	—	72 570 360
Cash investments on call and notice deposits	Linked to prime	732 121 071	—	—	732 121 071
Trade and other payables	Interest free	(288 648 846)	—	—	—

### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments, accrued income and trade debtors. The Fund only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

<b>Financial instrument</b>	<b>2018</b>	<b>2017</b>
Loans secured by mortgage bonds	48 393 526	47 525 090
Trade and other receivables	115 228 166	103 549 343
Cash and cash equivalents	72 570 360	9 744 402

The Fund may invest in derivative financial instruments solely for the purpose of reducing investment risk and not for speculative purposes.

Trade receivables comprise largely of interest collected by Law Societies and not yet paid over to the Fund and mortgage loans to staff. The Law Societies are agents of the Fund for the collection of trust interest from practitioners. The financial position and performance of the Law Societies is monitored by the Board of Control by virtue of the appointment of members to the Board representing each Law Society.

In order to manage credit risk on mortgage loans to staff, mortgage bonds are registered over the properties and the debtors cede their life and property insurance policies to the Fund.

At year end, the Board of Control did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

## SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2018

### Detailed Income Statement

R	Note(s)	2018	2017
<b>Revenue</b>			
Interest received on trust balances		590 793 420	610 067 268
<b>Other operating income</b>	11	12 744 454	16 815 054
<b>Expenses (Refer to page 28)</b>		(854 519 008)	(717 267 317)
<b>Operating loss</b>		(250 981 134)	(90 384 995)
Investment income	12	251 609 452	232 359 283
<b>Other non-operating gains (losses)</b>		(43 460 807)	94 418 038
<b>(Loss) profit for the year</b>		(42 832 489)	236 392 326



## Detailed Income Statement

R	Note(s)	2018	2017
<b>Other operating expenses</b>			
Actuary fees		(40 000)	(37 000)
Agency fees paid		(78 067 131)	(92 553 074)
Audit fee refunds to practitioners		(71 889 160)	(60 348 961)
Bank charge refunds to practitioners		(60 178 089)	(43 035 766)
Bank charges		(220 451)	(174 380)
Bursaries		(7 187 096)	(10 963 417)
Business development		(106 137)	(1 137 674)
Claims paid		(172 328 564)	(103 742 100)
Claims related costs		(25 309 291)	(23 706 988)
Computer expenses		(169 263)	—
Computer network maintenance and software expense		(6 266 574)	(4 565 607)
Conference center expense		(115 079)	(112 244)
Consumables		(655 721)	(342 786)
Depreciation, amortisation and impairment		(3 457 926)	(3 244 086)
Employee costs		(69 309 165)	(57 790 427)
Entertainment		(698 406)	(477 062)
External audit fees		(328 210)	(306 774)
Fees – practice support		(106 137)	(1 177 646)
Flowers		(33 569)	(30 408)
Governance training		(23 771)	(91 200)
Grants to law clinics		(4 469 100)	(4 419 100)
Grants to university law faculties		(3 604 540)	(2 958 185)
Honoraria – Board and Committees		(6 583 125)	(5 886 812)
Insurance – short term		(510 412)	(341 502)
Internal audit fees		(328 527)	(815 061)
Investment management fees		(12 381 190)	(13 472 224)
KwaZulu-Natal audit reform costs		—	(237 848)
Lease rentals on operating lease		(625 599)	—
Legal education: LSSA; De Rebus; LEAD; BLA & Nadal		(76 009 000)	(76 009 000)
Legal expense and consulting		(11 272 955)	(7 976 126)
Marketing and public relations		(1 351 007)	(1 249 898)
Motor vehicle expenses		(211 426)	(133 820)
Municipal expense		(930 852)	(751 744)
Claimant costs – Fund contributions		(1 805 445)	(2 175 794)
Organisational re-design project		—	(3 110 893)
Other expenses		(473 217)	(519 375)
Packaging		(37 400)	—
Post retirement medical aid expense		(4 011 697)	(3 747 859)
Postage		(171 296)	(146 192)
Printing and stationery		(1 004 973)	(763 467)
Professional indemnity insurance for practitioners		(190 746 592)	(168 119 000)
Reinsurance of Fund		(2 191 808)	(3 976 769)
Repairs and maintenance		(1 582 570)	(1 094 338)
Security		(128 728)	(109 433)
Subscriptions		(525 711)	(391 231)
Appropriation to Legal Practice Council		(21 498 500)	—
Telephone and fax		(730 918)	(682 979)
Travel expense		(7 769 952)	(8 356 070)
Waalburg building operating costs		(7 072 728)	(5 984 997)
		(854 519 008)	(717 267 317)

# ADMINISTRATION

## Legal Practitioners Fidelity Fund

**Country of incorporation and domicile** South Africa

**Members of the Board of Control**

- Mr SS Madiba – Chairperson
- Mr CP Fourie – Vice Chairperson
- Mr E Horn – Vice Chairperson
- Mrs NS Khanyile – Vice Chairperson
- Mr EA Moola
- Mr ER Barry
- Mr P Govindasamy
- Ms K Mogale
- Mr HC van Rooyen
- Mr M Boqwana
- Mr P Pama
- Mr K Alberts
- Mr T Mhlokonya
- Mr B Maswazi
- Mr S Gule

**Registered office** 5th Floor Waalburg Building 28 Wale Street  
Cape Town 8001

**Auditor** SNG Grant Thornton  
Chartered Accountants (S.A.) Registered Auditors

**Secretary** Shadrack Maile





**LEGAL  
PRACTITIONERS  
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SOUTH AFRICA