



**LEGAL  
PRACTITIONERS  
FIDELITY FUND**

SOUTH AFRICA



## Our strategic aspirations



**Sustainable value to protect the public**



**Competitive and rewarding environment for employees**



**Exemplary customer service**



**Trusted legal profession**



For more information on our strategic initiatives and performance, refer to the report by the Chief Executive Officer on page 11.

### Glossary of terms

<b>AMTS</b>	Automated Monthly Transfer System
<b>BLA</b>	Black Lawyers Association
<b>ICAS</b>	A wellness service offered to employees for Covid support
<b>IRBA</b>	Independent Regulatory Board of Auditors
<b>IRMS</b>	Integrated Risk Management System
<b>JAAC</b>	Joint Attorneys and Accountants Committee
<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>LSSA</b>	Law Society of South Africa
<b>NADEL</b>	National Association of Democratic Lawyers
<b>OSH</b>	Occupational Safety and Health
<b>PI cover</b>	Professional Indemnity Insurance cover
<b>PPE</b>	Personal Protective Equipment
<b>RAF</b>	Road Accident Fund
<b>SAA</b>	Strategic Asset Allocation

### 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)

### 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.

#### Capitals



##### Intellectual capital

Our systems and brand as well as the knowledge of our employees.



##### Human capital

Our dedicated and committed employees.



##### Financial capital

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



##### Manufactured capital

The buildings we own and aspects such as formulated articles for legal publications, our support programmes, our training courses and the work done to improve components of legislation.



##### Social and relationship capital

Our service to the public, our relationships and collaborative efforts with key stakeholders and our support and funding of the legal profession.



##### Natural capital

We have a low environmental impact. Our buildings comply with Occupational Safety and Health Administration (OSHA) standards and have a gold environmental status.



## About this report

The Legal Practitioners' Fidelity Fund (LPFF or the Fund) is pleased to present its 2021 integrated annual report.

### Materiality process

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

### Scope and boundary

The report covers all the operations of the LPFF. There has been no change in the scope and boundary of this report relative to the 2020 report. There has also been no change in the size of the Fund during the current reporting period, other than through normal operating activities.

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 all stakeholders.

### Frameworks and assurance

The information included in the integrated annual report is selected and prepared by management, with input and oversight from the Board. The completeness and accuracy of the information are reviewed by the executive team, relying on the combined assurance process. The information has been provided in accordance with the accounting policies as set out in the Fund's financial statements, the King Code of Corporate Governance (King IV™) and the International Integrated Reporting Council's (IIRC) framework (the Framework).

The financial statements included in the integrated annual report are reviewed by the external auditors and recommended by the Audit Committee to the Board for approval. Other sources of assurance are as follows:

Business process	Nature of assurance	Status	Provider
<b>Financial/operational</b>			
Annual financial statements	External assurance	Assured	BDO South Africa
Internal audit	Internal assurance	Assured	Incorporated Nexia SAB&T
<b>Empowerment</b>			
Broad-based Black Economic Empowerment	Black Economic Empowerment Scorecard	In place	Authentic Rating Solutions Pty Ltd
<b>Ethics</b>			
Whistleblowing hotline	External assurance	In place	Deloitte Tip-Offs Anonymous (Pty) Limited
Anti-fraud policy	Internal assurance	In place	Compliance Officer

### Forward-looking statements

This report may contain forward-looking statements, with respect to LPFF's future performance and prospects, which have not been audited. 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 the 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 the LPFF acknowledges its responsibility to ensure the integrity of this report and confirms that the integrated annual report addresses all material matters and provides a balanced overview of the Fund and its prospects. The Board has therefore approved the 2021 Integrated Annual Report for publication.

On behalf of the Board

**TS Kekana**  
Chairperson

**BM Molefe**  
Chief Executive Officer

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## LPFF at a glance

The Legal Practitioners’ Fidelity Fund (LPFF) is a fidelity guarantee fund which exists in terms of the Legal Practice Act to protect the public against loss, resulting from 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.

The Fund’s sustainability and ability to serve the public relies on its ability to respond and adapt to internal and external trends and challenges in the South African regulatory and legal environments.

### Our mission

**We protect**

- Promote access to, and confidence in, the administration of justice by ensuring that victims of such theft are promptly and fully compensated for their loss.
- Provide, in the public interest, professional indemnity (PI) insurance cover to practitioners against claims arising out of the conduct of members of the legal profession.
- 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.

**We promote**

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

**We 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.

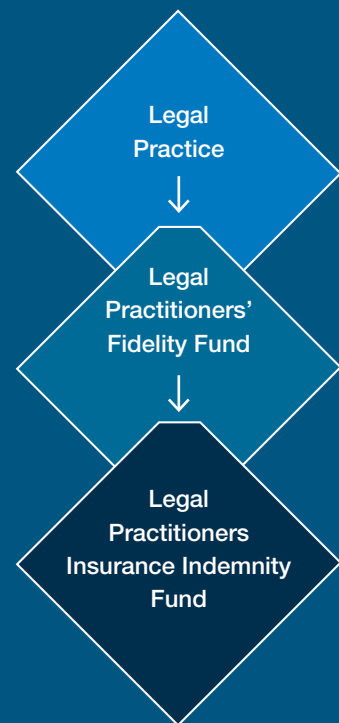
### Purpose of the Fund

The primary purpose of the Fund is to reimburse clients of legal practitioners who may suffer pecuniary loss due to the theft of money or property entrusted to an attorney in the course of his/her practice as such, or where an attorney acts as executor or administrator in a deceased estate, or as a trustee in an insolvent estate.

**We have been bringing justice to victims of trust fund theft since 1941 and are building integrity and trust in the legal profession**

### Our niche

The Fund operates under the auspices of the Legal Practice Act, 28 of 2014, which came into effect on 1 November 2018.



Everything we do is underpinned by our values:





## How we contribute to society

### The value we created over the past 15 years

**R1.7bn**

of claims paid

**R1.8bn**

spent on PI insurance cover

**R92.7m**

of bursaries for law students

**7 650**

claims paid

**R1.3bn**

spent on practitioner support

**R2.4bn**

spent on Regulators and Profession

**R7.5m**

spent on staff training

#### Our actions



Safeguard the public against theft and fraud



Sponsor funding of regulatory activities in the legal profession



Grow our assets to support our objectives



Provide inspection services to regulators in large or complex matters



Provide the public with an ethical platform to lodge complaints with TRUSTLINE



Provide PI insurance cover to FFC holding partitioners



Offer bursaries to law students at institutions of higher learning

#### How we preserved value in 2021

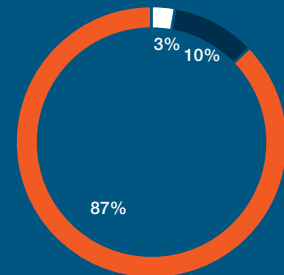
- Effective asset allocation protected the investment portfolio
- Disciplined cost management limited expenses
- Streamlined claims processes, sped up resolution

#### Value conceded in 2021

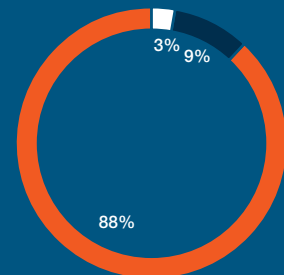
- Having to use reserves to support the decline in trust interest income
- Acceleration in theft claims

#### How we measured up in 2021

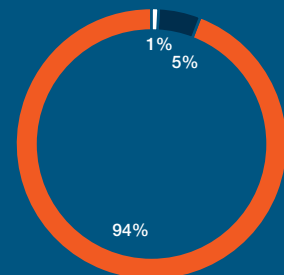
Overall time taken to finalise a claim



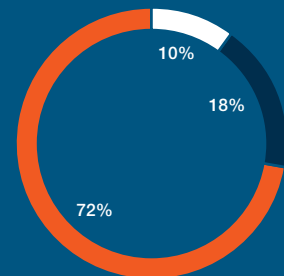
Conduct and attitude of claims staff



Accessibility to claims handlers



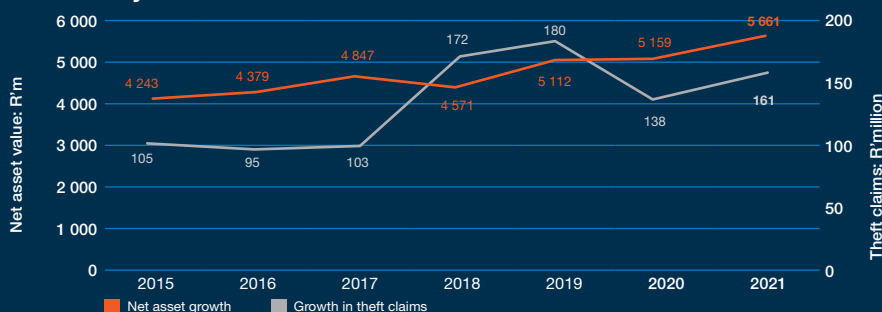
Overall response times



Legend: Poor (White), Good (Dark Blue), Excellent (Orange)

### Legal Practitioners' Fidelity Fund in numbers

#### Growth in key indicators



**R5.8bn**

Total value of the Fund

**108**

Number of employees

## Performance highlights for 2021

### Societal impact

1 142

Claims notified  
2020: 936

366

Claims paid  
2020: 411

140

Students awarded bursaries for LLB and post graduate studies  
2020: 208

R10.4m

of bursaries awarded to LLB and post graduate students  
2020: R8.3m

18 783

Fidelity Fund Certificates paid for and issued

### Governance impact

The Fund is committed to good governance through ethical and effective leadership

Employees are dedicated and committed to safeguarding the society at large

### Financial impact

R591.0m

Total growth in the fund  
2020: R46.1m

R92.5m

Net operating deficit  
2020: R1.6m

R595m

Value of claims notified  
2020: R556m

R161m

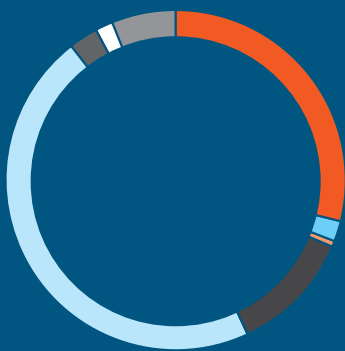
Value of claims paid  
2020: R137m

### Environmental impact

The Fund's impact on the environment is low due to the nature of the business. We do not actively manage electricity and water consumption, however, we do focus on reducing usage with initiatives like using low energy lighting with movement sensors in our head office building in Centurion. Furthermore, we have an agreement with our service providers to only invest with businesses that take ESG seriously. We do not measure our carbon footprint and currently don't have any recycling initiatives.

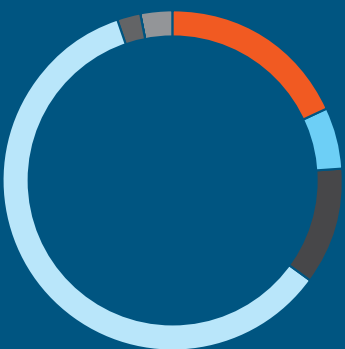


### Value of claims notified by area of practice



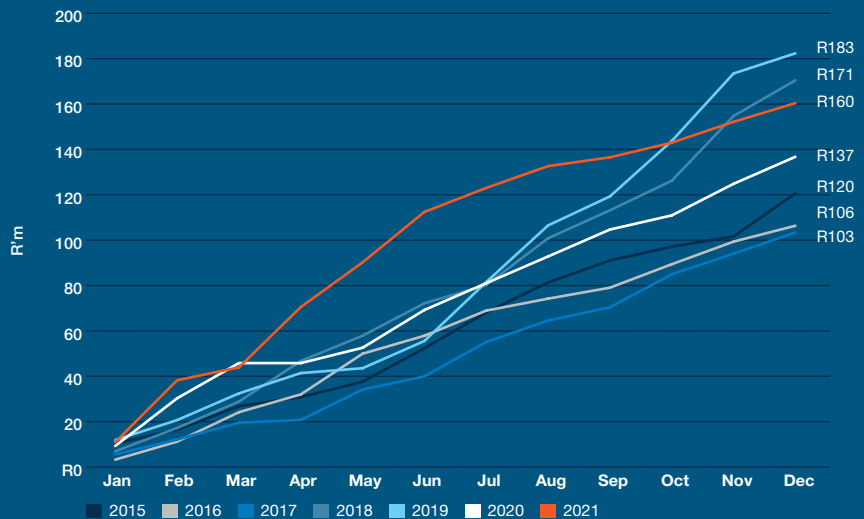
RAF:	R173 024 991
Litigation:	R12 098 769
Investments:	R2 858 000
Estates:	R69 939 085
Conveyancing:	R275 389 245
Commercial:	R16 965 772
Bridging Finance:	R10 106 619
Other:	R35 521 278

### Value of claims paid by area of practice

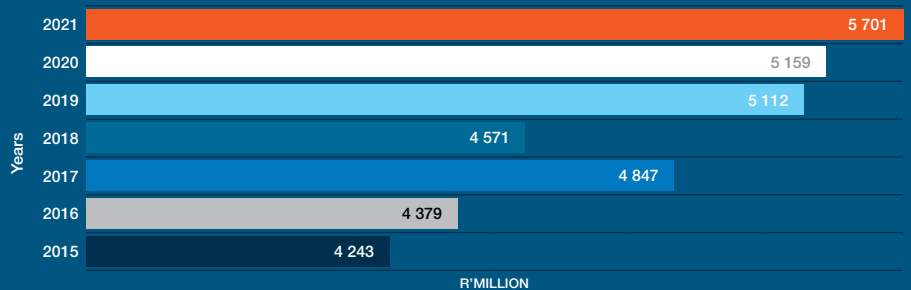


RAF:	R29 220 450
Litigation:	R9 237 164
Estates:	R17 923 863
Conveyancing:	R95 926 595
Commercial:	R3 565 525
Sequestrations/Liquidations:	R161 119
Other:	R4 558 051

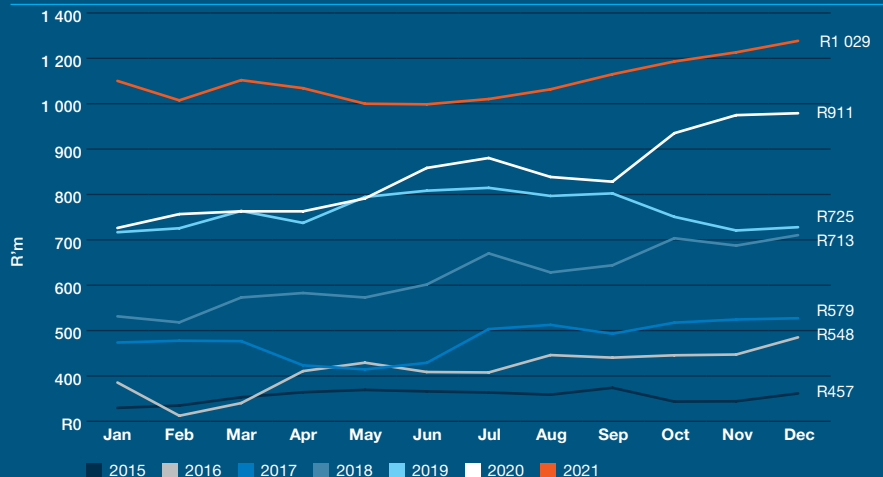
### Cumulative claims paid



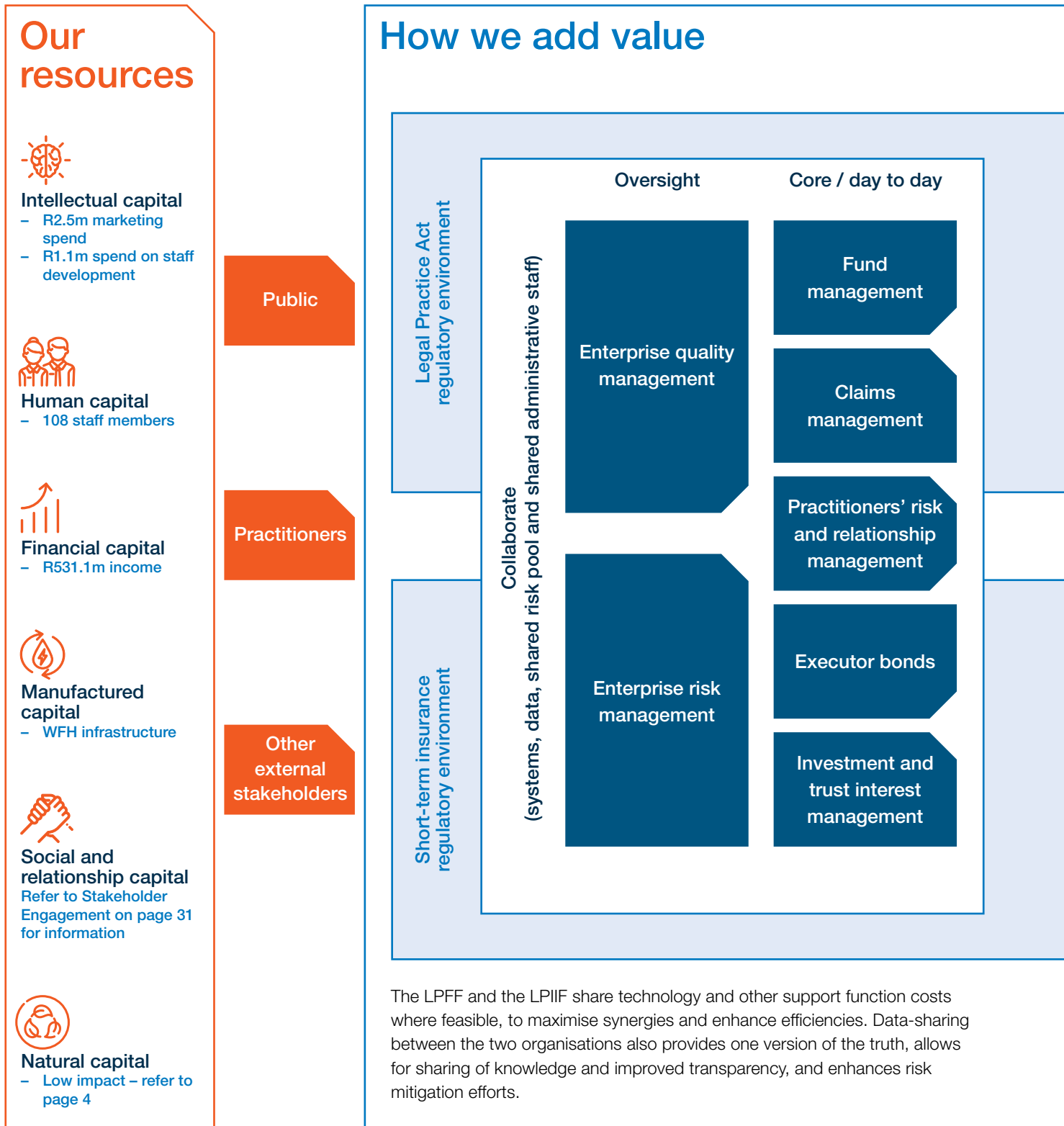
### Growth in net assets



### Contingent claims



## Our business model





### Shared resources with LPIIF

#### Support / back office

Procurement and  
supplier  
management

ICT  
management

Human  
capital  
management

Facilities  
management

## Our outputs

- Public protection
- A more resilient legal system
- Job creation
- Well-trained employees

## Our outcomes

- Public has confidence to utilise legal services
- R84.6m total staff costs
- R185.5m contribution to LPC
- R92.7m contribution to LPIIF
- R161m claims paid

## 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 and 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 monies
- Management of criminal investigation and prosecution processes
- Recovery of claims and costs paid from liable practitioners
- Obtain representations made by practitioners through the FFC applications and Statement on Trust Accounts
- Review reports in respect of trust account practices
- Review and assist with the write-up of 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

- Practitioner interventions and related programmes
- Provision of insurance cover for legal practitioners

### Creating awareness

- Maintain the TRUSTLINE (whistleblowing)
- 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

## Our operating context and trade-offs

### Our role in the legal profession

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


### Continued impact of the Covid-19 pandemic

The LPFF responded with agility in 2020 to put in place measures that allowed its operations to continue uninterrupted, with most staff working from home in combination with certain days in the office in compliance with Covid-19 regulations. To facilitate uninterrupted delivery of service, management prepared a Covid-19 Response Framework, which the Board approved.

The greater impact of the pandemic on operations in 2021 stemmed from significantly lower interest earned on Trust accounts, both due to lower interest rates flowing from 2020, and lower collection from legal practitioners. When taken together with much higher claims, this had a notably negative impact on profitability and reserves. This raised an alarming concern for future sustainability if this trend continues in upcoming years. The Fund's traditional revenue stream is expected to remain depressed until interest rates improve, and the level of economic activity improves i.e. trust balances increase.









### Regulatory and compliance changes

The Compliance Support programme that was rolled out in 2015 and became compulsory and all new firms has now been concluded, with the last inspections undertaken in the past year.







 For more information, refer to the Report by the Chief Executive Officer and Corporate Governance.

### Trade-offs





The LPFF's mission is to serve as a leading contributor to civil society by protecting access to, and confidence in, the administration of justice. To achieve this, we are constantly reviewing the use and allocation of the resources available to us to ensure maximum effectiveness. Below are a few of the primary trade-offs that we have to make in our aim to maximise our value-add for stakeholders:

Trade-off	Trade-off description	Strategic focus areas	Capitals impacted
<b>Industry contributions to PI cover</b>	The sustainability of the LPFF funding model will receive a significant boost if practitioners were to contribute to the cost of PI cover. This benefit needs to be weighed against the increased costs for the practitioners.		
<b>Technology investment</b>	The LPFF must constantly weigh up the benefit of improved efficiencies using technology, versus the cost of implementation.		
<b>Social investment</b>	The Fund could play a vital role in supporting social upliftment and development in the country through socially responsible investment. While the desired social impact requires no debate, the challenge remains the additional burden placed on already overstretched financial resources.		
<b>Managing competing demand on resources</b>	The competing obligations of the Fund, namely the settlement of misappropriation claims, the allocation made to the Legal Practice Council, as well as the annual contribution to the Fund's professional indemnity insurance, taken together with the weaker financial performance of the Fund, are alarming cause for concern around sustainability going forward.		

### Our capitals impacted

-  Intellectual capital
-  Human capital
-  Financial capital
-  Manufactured capital
-  Social and relationship capital
-  Natural capital

### Our strategic aspirations

-  Sustainable value to protect the public
-  Competitive and rewarding environment for employees
-  Exemplary customer service
-  Trusted legal profession



## Chairperson's report



It gives me great pleasure to present this overview of the activities of the Fund for the 2021 financial year, on behalf of the Board of the Legal Practitioners' Fidelity Fund (the Board).

2021 marked a first for the Fund in that, for the first time, the Board of the Fund was constituted differently, with various stakeholders included. The discourse, of course, changed and was enriched by the alternative perspectives the presence of these new stakeholders brought to the Board.

### Transition

The transition from the old Board to the new has not been easy. As we took office, there were already several burning issues to deal with. These were driven primarily by the need to balance the interests of the Fund against the expectations of the stakeholders, like the legal profession whose sustainability is intricately linked to the Fund. This, whilst the Fund itself was also battling with sustainability issues of its own.

The change of guard on the Board could also not have come at a worse time, as the country and the world itself was battling the effects of a weak economy and the Covid-19 pandemic. The operations of the Fund were negatively affected by this and the implications thereof will be felt over the long term. Over just two years during the pandemic, the Fund's revenues declined by almost 40%, rendering the fight for sustainability even more difficult, given the competing demands for resources that the Fund faces with each passing year.

The Board appointed eight new Committees, all with new Chairs. The Board retained only two members from the outgoing Committees, one for the Policy, Governance, Ethics and Social Committee and the other for the Investment Committee.

### Board oversight and sustainability

Our mission is well-established – the Fund exists to protect the public against loss as a result of theft of trust funds and, through the Legal Practitioners Insurance Indemnity Fund, to provide Professional Indemnity insurance cover to the profession. The protection provided by the organisation encourages the public to use services provided by legal practitioners with confidence. These two elements are further augmented by the requirement of Section 22(1)(b), which requires the Fund to make an annual appropriation to the Legal Practice Council. The Board had to occupy itself with finding ways of satisfying these three important, and sometimes competing, elements while protecting its long-term sustainability.

To achieve this, the Board concentrated much of its attention in 2021 on the crafting of a three-year strategy intended to ensure that the Fund is sustainable over the long term, despite all the financial obligations imposed on it by the Legal Practice Act. I am delighted to report that the three-year strategy was completed and management mandated to commence with its implementation in the hope that this will lead to the Fund achieving its goals.

**In 2021, the independent actuarial report confirmed that the Fund was still sustainable BUT that it had to manage competing interests to its resources more carefully to remain sustainable in the long term.**

## Chairperson's report (continued)

Perhaps more pleasing to report for 2021, is that, despite the negative impact on the Fund of financial markets affected by the pandemic worldwide, the Fund experienced a good recovery as the markets across the world recovered. Unfortunately, the strong investment performance was not mirrored by strong interest revenues. On the contrary, the depressed interest rates continued well into 2021, with the first sign of recovery, a 25 basis point increase – seen in November 2021. The trend is most concerning and, unless this situation reverses, the Fund is certainly getting closer to finding itself triggering the provisions of Section 73(3) of the Legal Practice Act.

The implication of triggering this section is that the Fund would be conceding the fact that it is uncertain whether it can fulfil its obligations under the Act, including the payment of claims and subventing the Legal Practice Act, which would pose a significant risk for both the public and regulators. More importantly, such action would trigger the levying of regulatory levies on practitioners at a time when most practitioners are struggling because of poor economic conditions.

These risks and some others are enumerated in the Risk Management Report and relate primarily to the financial stability and sustainability of the Fund, as well as the Fund's capacity and resources to carry out duties and responsibilities as they relate to both the Fund and the Legal Practice Council.

 **Refer to page 58 of the Risk Management Report.**

In terms of Section 22(1) (b) of the new Act, the Fund fulfilled its requirement to fund regulatory activities by paying R185.5 million to the Council in 2021. This appropriation to the Legal Practice Council was the only significant cash outflow towards the legal profession, as in 2021 the Fund did not contribute towards the premium for PI indemnity cover. This was a result of the fact that, working together with the Board and management of the LPIIF, the Prudential Authority which regulates the LPIIF on request, exempted the LPIIF from including catastrophe risk in the calculation of its solvency ratio, which then put them on a healthier footing solvency-wise.

 **Refer to page 16 of the Financial Review for more information.**


This obligation, combined with a stagnant economy, and exacerbated by the ravages of Covid-19 and a steep decrease in the pay-out, put the spotlight firmly on measures to ensure the Fund's financial sustainability. Whilst it was anticipated that at least some advocates will be taking out Fidelity Fund Certificates, there are not many, and when adding the default rate in the payment of subscriptions by practitioners of almost 20%, the financial position of the Legal Practice Council has worsened and its demands on the Fund are increasing.

The Section 86(4) income stream is working well, although it declined in 2021 due to interruptions in the economy brought about by Covid-19. The proposed contribution regime towards PI indemnity cover remains deferred because of concerns raised about the operations of the LPIIF and, as such, the Board has established a task team that is looking into all aspects of this business, including whether the business model is optimal or not. The LPIIF will continue to operate until this task team completes its work and comes up with recommendations.

The investigation into how the LPIIF could be made less reliant on the Fund was also completed in 2020 and will be part of the work of the task team.

### Stakeholder engagement

The new Board had new challenges which required extensive engagements with other stakeholders from the legal profession, the Independent Regulatory Board of Auditors, the Legal Practice Council, Elections service providers, the public, as well as the Department of Justice. I would like to thank management and staff for their commitment to managing the considerable public information campaign that was associated with changes brought about by the change from the old to the new guard. More importantly, I would like to thank our Ministerial representatives who have made our relationship seamless and more direct.

 **Refer to page 31 for more detail on the Stakeholder engagement section.**

### Governance

In 2021, as already alluded to above, the Board of the Fund changed drastically in form and composition. In so saying, I might add that the Board appointed different sub-Committees to ensure that each area of the business is looked into exhaustively and proper oversight is given to them. Each Committee is populated in the majority by members of the Board and further strengthened by one or two independent experts appointed to advise the Committees.

The Board in 2021 continued to provide oversight over the operation of the Fund in line with acceptable codes of good practice.

 **Refer to page 37 for more detail under the Governance section.**

### Acknowledgements

Finally, it remains for me to extend my heartfelt gratitude to the members of the Board and its Committees and the management and staff who so ably steered the Fund during 2021. To our stakeholders, including the Regulators, thank you for walking with us through the transition from the old to the new. It remains my honour and privilege to serve you all.

**Thabang Kekana**  
Chairperson



## Report by the Chief Executive Officer



The LPFF Board is now constituted of nine members who have diverse skills and who, rather than in the past where Boards faced ordinary business-related problems, had to contend with problems that were occasioned by both internal and external factors. Not only this, but all of them were also new to the Board, and at least four of them were even new to the legal environment in which the Fund is located. This meant that at the Board level there was hardly any institutional knowledge, which made the working of the Board all the harder. It is against this background that our new Board operated in 2021, and the LPFF thanks them for their resilience and commitment to serving the best interests of the organisation and its stakeholders under these trying circumstances.

The challenges I alluded to above also added additional pressure on the management team to bring the Board up to speed with all critical information needed to exercise proper oversight over management and the organisation. The Covid-19 pandemic continued to affect the operations requiring agility to continue operations, uninterrupted. Productivity levels within the Fund's operations remain high, if not better than before. The Fund stood by its aspirations of delivering excellent service to all stakeholders as is enshrined in its mission and objective.

## The transformation of the governance regime in the Legal Practitioners' Fidelity Fund in South Africa came to full fruition in 2021

### Our strategic intent

The effect of Covid-19 on the levels of revenue of the Fund, as well as the health and safety of staff, remained a serious matter of concern. As a result of the impact of the Covid-19 pandemic, as well as a weakened economy and other related factors, the Fund was unable to collect the budgeted revenue in terms of both Trust interest income and investment income. The budgeted Trust interest income was R493 million, of which the Fund only collected R276 million, due to lower interest rates. In terms of investment income, the Fund had budgeted an amount of R254 million of which R236 million was collected.



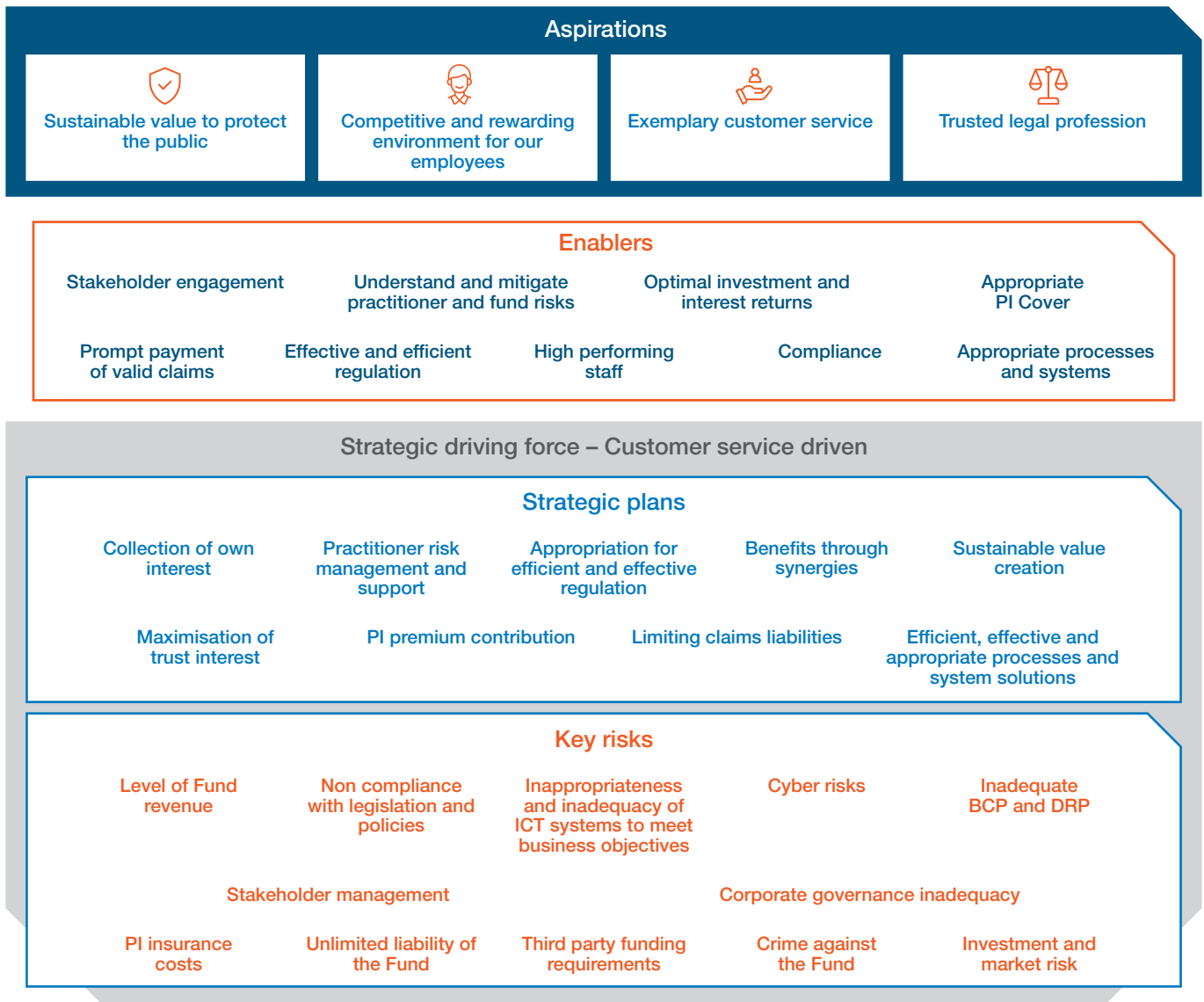
**For more on our investment income, refer to Investments and trust interest report on page 20**

It is important to note that the duration of trust balances and credit interest rates are beyond the control of the Fund.

This is a serious challenge to the sustainability of the Fund going forward, given the rising claims paid in previous years, as well as the current trend of claims, as they continue to rise. The competing obligations of the Fund namely, the settlement of misappropriation claims and the allocation made to the Legal Practice Council in terms of Section 22 (1)(b) of the LPA, albeit reduced, are an alarming cause for concern around sustainability going forward when considered against the weak financial performance of the Fund in 2021. This is against the backdrop of the Fund's traditional income stream being a function of interest rates, which are at their lowest in many a year. The effect of the recent interest rate hike has been negated by the fact that not all practitioners are on the monthly automated transfer system, so its effect is felt later because some practitioners pay in manually.

# Report by the Chief Executive Officer (continued)

## Our strategic intent



At the end of the 2021 financial year, the Fund commissioned sustainability reports as required by Section 72 and 73 of the Legal Practice Act to evaluate its continued sustainability. Both reports by independent actuarial firms Quantscape and Truesouth indicated that the Fund remains sustainable, but also critically continue to warn of the fact that the Fund ought to manage the competing interests to its resources carefully to be sustainable over the long term. The debate on the sustainability of the Fund is a

matter that is paid close attention to by the Board of the LPPF. To preserve its funds, the Board only allocated a reduced amount of R185.5 million to the LPC in 2021 and nothing at all in respect of the annual premium for Professional Indemnity cover for the legal profession, in respect of the insurance year 2021/2022.

I have already referred to the effect of Covid-19 on the health and safety of employees and the response framework

that was set up by management and the Board. With Covid-19 still with us, information technology systems and platforms are so much more paramount in the operations of the Fund and the training and development of staff. All employees of the LPPF, old and new, were provided with the necessary PPEs to ensure their safety and health on the one hand, and Information Technology tools to enable them to continue to work remotely. The monitoring of the Health and Safety standards was done every month in 2021,



and each of the three sites from which the Fund had its operations were hovering around a 99% rating in respect of compliance to the Occupational Health and Safety Act, inclusive of the Covid-19 regulations. ICAS was still available to staff in 2021 to ensure that those infected and affected by the pandemic have counselling support together with their families. In 2021, despite the emergence of Covid-19, several staff members had their development successfully concluded both on a practical as well as the academic side.



**For more on our Human Resources Strategy, refer to the Human Capital section on page 29**

### **Financial sustainability**

As already alluded to above, the pandemic had a devastating effect on the Fund's primary source of income – Trust interest income. A simple comparison on a year-on-year basis for the years 2020 and 2021 will show that Trust interest revenue received in 2020 was R443.06 million, against R276.30 million in 2021. This represents a 38% decrease in Trust income during the year under review. Concerning Investment income, the Funds earnings were in line with the previous year. An amount of R235.17 million was received in 2020 and R236.42 million in 2021, representing an increase of about 0.5%. The financial demands on the Fund have, on the other hand, not changed, but rather increased, putting pressure on the sustainability of the Fund, which I have already noted above.

### **Practitioner support and investigations**

#### **Fidelity Fund Certificates**

Necessary upgrades to the Fidelity Fund Certificates issuing system were concluded by the end of September 2021 and the system was ready and available to practitioners to start applying for their 2022 Fidelity Fund Certificates by 1 October 2021.

## **14 599 Fidelity Fund Certificates issued for 2022**

Following the opening of the system in October 2021 for the 2022 issuances, 11 520 Certificates were issued by 31 December 2021. As of 31 January 2022, 14 599 certificates were issued for the 2022 period.

#### **Inspections in terms of the Legal Practice Act**

The team uses its practitioner risk management framework to identify legal practices posing a risk to the Fund and obtains inspection mandates from the Board. With the new Board taking office, the inspections were halted, as the Board required adequate training to understand and appreciate the framework before issuing mandates for further inspections. No new inspections were identified or conducted for the 2021 period. The Board's training on inspection is scheduled for the beginning of April 2022.

#### **Compliance Support Programme**

The Compliance Support Programme, which comprised of support and inspections, was rolled out in January 2015 in the KwaZulu-Natal jurisdiction and was extended to the Free State jurisdiction in April 2017, as a compulsory programme for new firms. In 2018, the Board resolved to discontinue the programme, resulting in the last intake of new legal practices into the programme in September 2018.

## **Compliance Support Programme now concluded**

The last inspections that the team was required to conduct under the programme were for the 2020 period. During 2021, the team continued to undertake outstanding inspections for previous periods, up to the 2020 period. The team also conducted closing inspections for legal practices that remained in the programme and had not been exited. The team kept in communication with the affected Provincial Legal Practice Council offices regarding legal practices that were not responding to requests for documents to conduct outstanding inspections. As of 31 December 2021, 27 legal practices were not exited from the programme due to outstanding inspections, and these were reported to the affected Provincial Legal Practice Council offices.

#### **Investigations and cash-flow analysis**

The team continued 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. During the 2021 period, the team concluded nine cash-flow analysis reports as per mandate from our Prosecutions team.

#### **Engagements with the profession**

The team wrote five articles for the Practice Management column of De Rebus during the 2021 period. These articles aim to educate and empower legal practitioners in their quest to improve performance in the running of their trust legal practices. This is one of the risk management initiatives of the Legal LPFF.

## **Five articles contributed to De Rebus in 2021**

## Report by the Chief Executive Officer (continued)

### Prosecutions and recoveries

The Prosecutions Unit (the Unit) dealt with 252 criminal cases in 2021 of which 219 are still under investigation and 33 are set down for trial. The prosecution processes were successfully concluded in respect of seven cases in which the defaulting legal practitioners were convicted and given various sentences, including direct imprisonment. There are five cases in which the defaulting legal practitioners have been convicted but in respect of whom sentencing proceedings are still underway.

## 252 criminal cases investigated in 2021

The Unit registered 40 new criminal cases against the defaulting legal practitioners in 2021 relating to the theft of trust funds. In addition, 27 cases have been prepared and are in the process of being registered with the South African Police Services.

The Unit has ramped up efforts to recover the stolen trust funds as well as other costs associated with the striking off of errant legal practitioners. The Unit is vigorously pursuing those defaulting legal practitioners who have failed to comply with court orders directing them to repay the claims paid by the Fund. This has resulted in the Unit recovering just over R7.7 million in 2021. Those who have failed to pay as directed by the courts have had their cases referred back to court to have their suspended sentences converted to direct imprisonment.

The Unit continues to engage the various stakeholders through the Joint Stakeholders Committee to identify and resolve challenges relating to the investigation and prosecution of cases of theft of trust funds by legal practitioners.

### Curatorship

In 2021, the Fund engaged the LPC, intending to give effect to the 'curatorship' powers the two organisations have in terms of the Legal Practice Act 28 of 2014 (LPA), to minimise

the risk of further losses to the Fund and trust creditors or clients of trust account practices. The two organisations have been working towards streamlining the curatorship processes through an agreed end-to-end curatorship process. The process seeks to stamp out the risks which exist against the Fund and the LPC within the curatorship process and allows the collaboration of both organisations in the process as envisaged by the Act.

The Board has approved, through the new Fund business strategy, intervention at the curatorship stage to secure any assets of defaulting practitioners with the aid of the police and the Assets Forfeiture Unit. This is envisaged to go a long way in securing recoveries for the Fund from defaulting practitioners who, by the time their criminal prosecution is concluded, would often be without the means to pay back amounts owed. The Fund and the LPC are in the process of aligning the court orders for striking off and suspension to the Legal Practice Act. This exercise is expected to yield the uniform handling of the curatorship process throughout all the LPC provinces. In 2022, the LPC and the Fund are looking to consolidate the curatorship process, which is expected to lead to the automation of the function. The automation will facilitate the efficient sharing of information between the LPFF and the LPC, standardise curatorship processes, increase the pace at which curatorship matters are dealt with and easy generation of reports which result in the timeous implementation of remedial interventions, thereby proactively dealing with the associated risks.

### Information Technology (IT)

Information Technology implementation and rollout remain a strong enabler of our strategy going forward. The rollout of IT programs continued in 2021, making substantial progress in landing some of the mission-critical technology systems and the journey continues in 2022.

Covid-19 also brought with it new ways of working. The Fund had to adapt to this and adopted a hybrid model of working both from work and home. More importantly, it also forced the Fund to review its business continuity and disaster recovery plans in a manner that is no longer conventional. I am pleased to report that the Fund continues its

digitisation strategy in a manner designed to support the activities and mandate of the Fund by developing both its human capital and systems to ensure that we are prepared to meet the challenges. The upgrading and implementation of the IT work programmes are aligned to the Fund's investment in human capital and we are committed to providing employees with the tools to do their jobs accurately and successfully and to fulfil the expanded mandate of the Fund when it comes to the collection of interest, the sharing of data and the management of claims.



For more on our Information Technology, refer to the Governance section on page 43

### The Fund's reinsurance programme

The Fund's reinsurance programme was renewed for a further year on 1 July 2021. The stop-loss reinsurance policy has three layers of cover, with different participating reinsurers. The total cover for these years is R275 million.

- The first layer of coverage kicks in for total losses above R400 million and provides cover in the amount of R75 million. The self-insured portion is, therefore, R400 million.
- The second layer kicks in with respect to total losses exceeding R475 million and also provides cover in the amount of R75 million. Building up from the bottom, the Fund covers the first R400 million on its own, the next R75 million is covered by the first layer and the balance up to R550 million is covered by the second layer.
- The third layer kicks in with respect to losses exceeding R550 million and provides cover in the amount of R125 million. Building up from the bottom, the Fund covers the first R400 million on its own, the next R75 million is covered by the first layer; the next R75 million is covered by the second layer and the balance is up to R675 million is covered by the third layer.

The Fund's more specific programme, which protects the Fund of R75 million above the Fund's retention of R50 million in the event of loss arising from claims involving a single practice, was also renewed on the same date.



This programme has the effect of protecting the core programme against rapid erosion in the event of a huge single practice theft claim.

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 reinsurance programme remains a basic guarantee against the very real threat of a catastrophic claim and will mitigate against total or serious erosion of the assets of the Fund in the event of a serious deterioration in claims.

### Professional indemnity insurance

The Fund did not pay any premium for professional indemnity cover in 2021 because of an exemption given to the Legal Practitioners Indemnity Insurance Fund by the Prudential Authority to exclude catastrophe cover from the calculation of its solvency ratio. This exclusion will expire in November 2022 and might require the Fund to review the position further. However, the plan to have practitioners pay for cover themselves, as set out below, must be finalised after continued consultation again.

The Board has noted the proposals presented by LPIIF and accepted option 2 which to date has yet to be implemented for various reasons, including alleged non-consultation on this new regime. The Board, at its last meeting on 21st December 2020, reinforced the acceptance of this contribution regime by practitioners to start collecting for the 2022 insurance year in September 2022. However, the decision was halted to enable the Board to review the entire structure and business model of the LPIIF.

Year	Premium requirement	Assessed loss contribution	LPFF investment income contribution	LPFF requirement	Contribution per practitioner
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.

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 standard, with the LPIIF retaining FluidRock Africa to evaluate its effectiveness as a Board in 2021. They found governance to be in line with the benchmark for good governance. Recently, however, the Prudential Authority, a unit within the FCSA, raised questions about the composition of the Board of the LPIIF and requested that some of the issues it raised be addressed and as such, an overhaul process for the Board was commenced.

The LPIIF Directors are as follows:

<b>Mr MJ Haken</b>	Non-executive, Independent Chairman
<b>Mr TD Khanyile</b>	Non-executive, Independent and Chairman of the Audit and Risk Committees
<b>Mr MAAS Essa</b>	
<b>Mr J Lesejane</b>	Audit Expert
<b>Ms HK Dlepu</b>	
<b>Mr EA Moolla</b>	
<b>Mr SL Mgxaji</b>	

### Outlook

We look forward to improved economic conditions and the opportunity to strengthen our reserves. Difficult and courageous conversations need to take place to secure the long-term sustainability of the Fund and the vital services the LPFF offers to the legal fraternity and the public at large. These will again be pursued in 2022. In the meantime, we will continue to assist the profession timeously, efficiently and as cost-effectively as we can.

### Acknowledgements

Thank you to our employees for their dedication and commitment under challenging circumstances. It is in tough times that organisations demonstrate their resilience and I am privileged to have led the LPFF during the past year. I also extend my appreciation to the Board of directors for their valued advice and guidance and our stakeholders for their support.

**Motlatsi Molefe**

*Chief Executive Officer*

## Financial review

### Overview

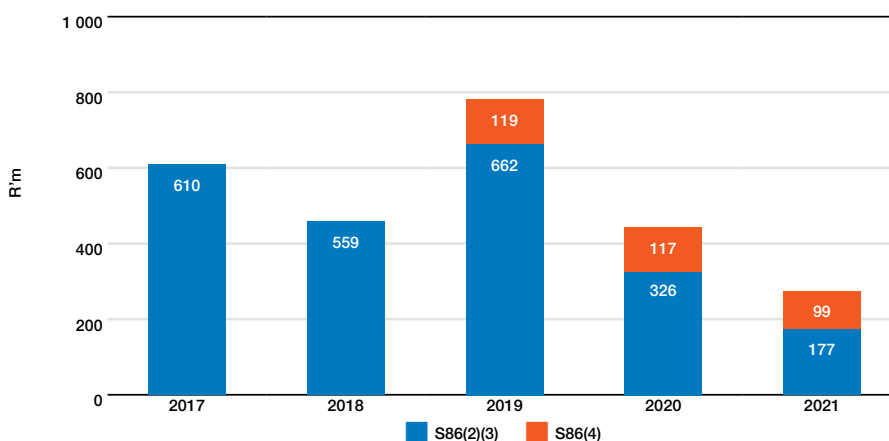
The impact of the Covid-19 pandemic in South Africa reached its peak towards the end of the previous financial year. Even though recent variants are seen as being less destabilising, the compounding impact and limited recovery time in between the pandemic waves may have a bigger impact going forward, especially in less resilient markets and economies such as South Africa.

The financial sustainability of the LPFF is the foundation and cornerstone from which we achieve our mandate. In the year under review, the LPFF weathered an extremely difficult macroeconomic landscape. Our immediate priority was to manage the short-term liquidity challenges, which proved exceedingly difficult given the LPFF's reliance on the interest earned from clients' monies held in trust by legal practitioners as its principal source of income. Trust interest income continued to decline in 2021 due to the dual impacts of lower trust income collected (especially from those that settle on a manual basis) and much lower prevailing interest rates.

The level of Trust interest income earned by the Fund is predominantly dependent on the following factors:

- The quantum and value of trust balances held by legal practitioners
- Prevailing interest rates as stipulated by the South African Reserve Bank
- The time or duration of such trust balances are held by legal practitioners and
- Timely payment of all Trust interest income that vests in the Fund being paid over by the legal practitioners in full, in terms of S86(2), (3), (4) and (5) of the Legal Practice Act

### Trust interest by LPA sections



Financial measures taken at the onset of the pandemic included steps to protect liquidity, improve cash flow and safeguard the resilience of LPFF's strong balance sheet. There was also an immediate need to be stringent in managing our investment portfolio, costs, and behaviour. Given the notable results achieved, we will strive to maintain these sound business practices going forward.

With little control over its leading source of income, the Fund's main response to the Covid crisis had to be targeted at expenditure management, and more specifically, at its two most substantial cost items:

- The LPFF did not make any payments to the LPIIF with respect to the annual PI contribution. This was because the Prudential Authority approved the exclusion of the CAT risk from the LPIIF's solvency assessment; a reprieve granted for only two years, expiring in November 2022. This exclusion reduced the LPIIF's required reserves which, in turn, meant that the LPFF did not need to make an annual contribution. The resulting cost savings against the previous year is R92.74 million.
- Due to the decline in Trust interest income collected in 2020, and the reduced forecast for 2021, the amount paid out in terms of S22(1)(b); being the annual appropriation to the Legal Practice Council, was also reduced by R22.30 million.

The impact of these decisions was savings of R115 million, or 15% of total expenditure, compared to the previous year.

In the last quarter of the period under review, the country was hit by the fourth wave of Covid-19 infections, which put further pressure on already distressed business sectors. This was partially offset by the 25 basis points increase in the repo rate announced by the South African Reserve Bank in November 2021.

### Performance against key financial indicators

In our drive to create financial value, we focus on core indicators to inform investment decisions. We use both financial and non-financial indicators to monitor our performance and track progress. These key performance indicators provide a measurable link to strategic initiatives. They focus on key financial performance indicators (trust interest income, investment income and investment assets).

**Trust interest income earned in 2021 was 38% lower than that of 2020, and 65% lower than pre-Covid levels**



## Our performance against financial KPIs:

### Key trackers for the Fund

	2021	2020	2019	% change	
	R'm	R'm	R'm	vs FY 20	vs FY 19
Trust interest Income	276	443	781	-38%	-65%
S86(2)(3)	177	326	662	-46%	-73%
S86(4)	99	117	119	-16%	-17%
Investment Income	236	235	249	1%	-5%
Operating expenses	140	118	153	19%	-8%
Claims and claims-related costs paid	175	141	195	24%	-10%

## Financial performance

### Revenue

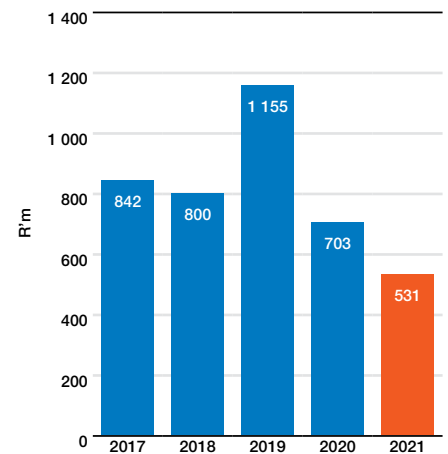
Total revenue decreased by 24% to R531.1 million (2020: R702.8 million). This decrease was mainly attributable to the 38% reduction in Trust interest income, to R276 million (2020: R443 million) on a gross basis, and R207 million (2020: R378 million) on a net basis, a 45% decline year-on-year.

The second-largest source of income, being investment income, remained resilient and in line with the previous year's performance, at R236.4 million.

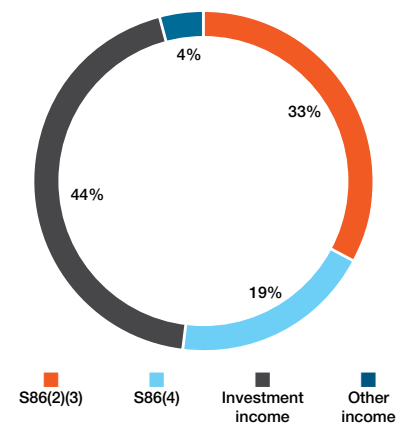
### Statement of financial position for the year ended 31 December 2021

	2021	%	2020
	R'm	change	R'm
Trust interest income	276	-38%	443
Contributions towards trust accounts	(69)	6%	(65)
<b>Net trust interest income</b>	<b>207</b>	<b>-45%</b>	<b>378</b>
Investment income	236	1%	235
Investment portfolio costs	(18)	16%	(16)
<b>Net investment income</b>	<b>218</b>	<b>-1%</b>	<b>219</b>
Realised gains on investments	73	26%	58
Other operating income	18	-26%	25
<b>Net income</b>	<b>516</b>	<b>-24%</b>	<b>679</b>
Attributable to claimants	(175)	16%	(151)
Attributable to profession and regulation	(289)	-28%	(402)
Board-related costs	(4)	-13%	(5)
Other expenses	(140)	13.4%	(124)
<b>Net (deficit)/surplus</b>	<b>(92)</b>	<b>5339%</b>	<b>(2)</b>

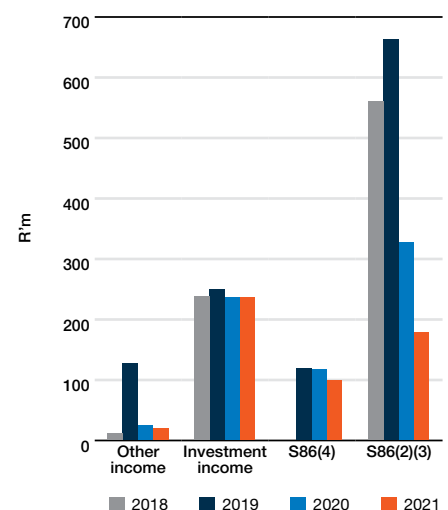
### Total revenue



### Income contribution by category 2021



### Source of income



## Financial review (continued)

### Expenditure

The focus on managing expenditure yielded positive results with the total expenditure of the Fund decreasing by R66.0 million, or 8.7%, to R696.7 million. Savings were achieved in costs attributable to the legal profession and regulators, which decreased by 28%, as well as an 12.9% decrease year-on-year on costs related to the Board. These savings were partially offset by higher costs attributable to claims, investment portfolio and operating costs. The anticipated spike in claims notified and paid due to the impact of Covid-19 materialised, albeit at lower rates than anticipated. Costs attributable to the investment portfolio increased slightly due to the significant increase in the growth of investment assets during the year under review.

Operating costs increased by 13.4% to R140.5 million (2020: R123.9 million). Of this increase:

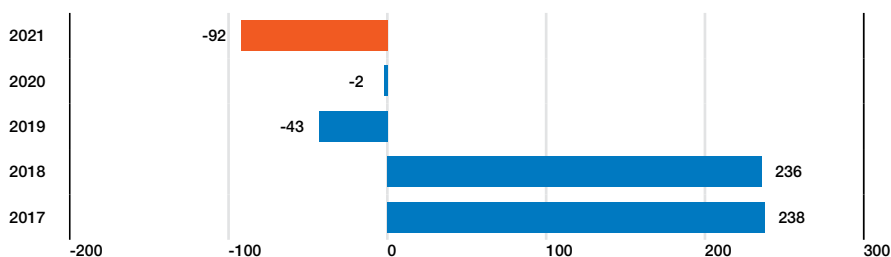
- 67% relates to the accelerated amortisation in the current year due to the application of IAS 38
- 25% relates to inflationary increases in overall operating expenses
- 5% relates to the actuarial increase in the in-year charge on the post-retirement benefit
- the balance of 3% relates to changing from mostly working from home in 2020 to a hybrid model adopted in 2021

### Expenditure by category

	2021	% of	2020	% of	% Change
	R'm	Expenditure	R'm	Expenditure	
Attributable to the profession and regulation	358	51%	467	61%	-23%
Attributable to claimants	175	25%	151	20%	16%
Operational costs	140	20%	124	16%	14%
Attributable to investment portfolio	18	3%	16	2%	16%
Board related costs	4	1%	5	1%	-18%
<b>Total Expenditure</b>	<b>696</b>		<b>762</b>		<b>-9%</b>

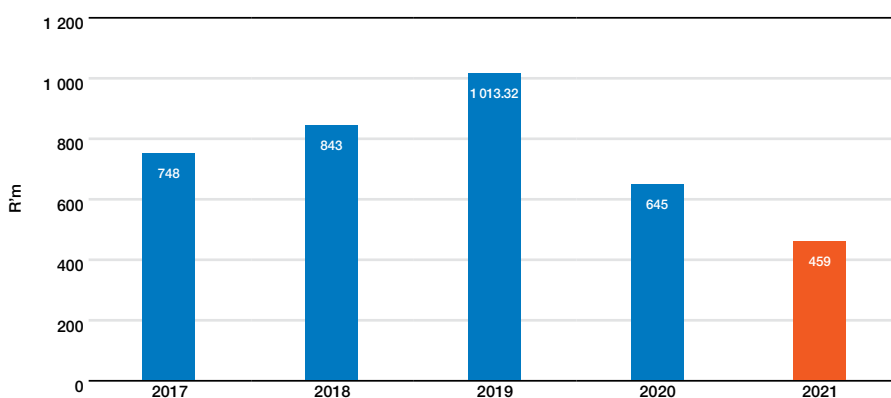
The Fund strives to achieve a financial surplus, which is vital for its ongoing financial sustainability. This key metric deteriorated during the year under review when the Fund recorded a net deficit of R92.5 million (2020: deficit of R1.6 million). The impact of the negative position results in increased drawdowns on the Fund's asset base to fund all the financial requirements of the Fund.

### Net surplus/(deficit) for the year



The sustainable earnings for 2021 adjusted for gains/(losses) on available for sale investments, amounted to a surplus of R459 million (2020: R645 million), representing a decrease of 29% from the previous year, and again highlighting the concerning movement since the start of the Covid pandemic.

### Sustainable earnings





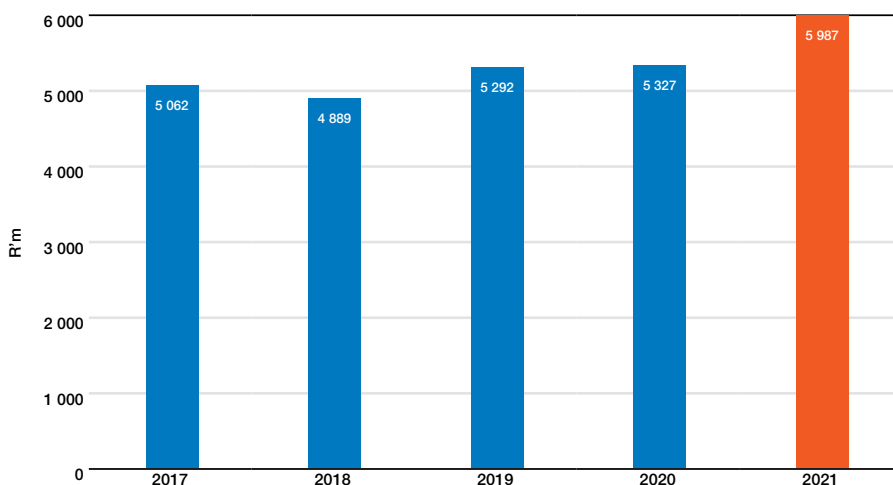
### Simplified Statement of Financial Position

The statement of financial position shows the position of the Fund's assets, liabilities, and equity as at 31 December 2021. It reflects what the Fund owns, owes, and its equity. The assets on our statement of financial position generate our total return through capital injection, fair value adjustments and investment income (dividends and interest). By law, the Fund is not permitted to borrow, and as such the liabilities and the equity reflect amounts owing accumulated net surplus, fair value reserves, unidentifiable/unclaimed trust balances reserve and operating accounts payable.

### Summarised statement of financial position

R'm	2021	2020	2019	2018	2017
Cash and cash equivalents	34	72	60	73	10
Investment assets	5 817	4 986	4 946	4 543	4 811
Other assets	137	269	286	273	241
<b>Total assets</b>	<b>5 988</b>	<b>5 327</b>	<b>5 292</b>	<b>4 889</b>	<b>5 062</b>
Retirement benefit obligations	36	31	33	27	24
Other liabilities	410	137	147	291	191
<b>Total liabilities</b>	<b>446</b>	<b>169</b>	<b>180</b>	<b>318</b>	<b>215</b>
<b>Total equity</b>	<b>5 542</b>	<b>5 158</b>	<b>5 112</b>	<b>4 571</b>	<b>4 847</b>

### Total assets



The Fund needs to grow in value, through its asset base, to meet its core mandatory responsibility of settling all current and future valid claims notified, arising from the theft of trust monies held by legal practitioners to the public. Secondary to this would be ensuring the operational sustainability of the Fund's operations and meeting the rest of its obligations. The Fund's risk pool is the size of the profession. It should also be noted that the risk of claims as a result of theft by legal practitioners, increases with the downturn in the economy. This inverse relationship creates a negative gap, with increases in claims and declines in total revenue.

To maintain the same SCR as in 2020, the Fund's total assets have to grow at least 31.3% per annum. There are no investable assets that can achieve this type of return. Consequently, the Fund needs to continue to maximise its risk-adjusted investment return so that the assets can go some way in providing the targeted SCR cover.

 Please refer to page 28 for more detail on the SCR.

Furthermore, the Fund must improve its net income markedly in future years, to remain sustainable. Specifically, the Fund needs to reduce subventions to practitioners. It is also imperative that the deteriorating claims experience of the past several years be reversed without delay. Historically, it took the Fund about a decade to recover to levels pre the 2008 market crash. It will likely take the Fund a similar period to recover from the pandemic, if not longer.

The competing demands by different stakeholders on the Funds' reserves continue to pose a major threat to the sustainability of the Fund. This challenge is also apparent from the growth in theft claims. The graph on the left demonstrates that the Fund's assets have increased in value by 12.4% year-on-year, whereas theft claims exposure has increased by 12.6% over that same period to R1.0 billion.

**Nozipho Ngema**  
*Fund Management Executive*

## Investments and Trust interest income reports

Section 54 (c) defines one of the key revenues of the Fund as interest earned on legal practitioners' trust accounts as defined in Sections 86 (2), (3) and (5)(a) and (b) of the Legal Practice Act 28 of 2014 (the Act). The relationship between Trust interest income and investments assets of the Fund is enshrined in Section 58 (2) of the Act; "the Board may invest money which is deposited in terms of Subsection (1) and which is not immediately required for the purposes mentioned in this Act". Accompanying regulations address how the abovementioned investments must be made.

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, surplus interest income is invested using the guiding principles contained in the investment regulations. When operational and statutory expenses exceed Trust interest income, withdrawals are made from investment reserves.

### Investment strategy and management

A liability focused investment strategy is in place and comprises a core portfolio, supported by satellite portfolios. The primary focus of the core portfolio is to at least match the growth in the Fund's liabilities. The required rate of return over a rolling three-year period is CPI + 5%. In addition, the Fund also has specialist satellite portfolios that require higher expected returns, thereby complementing capital preservation and growth of investment assets. The short-term market volatility contributes to drawdown risk and is managed through tactical asset allocation, a critical tool for preserving capital.

### Strategic asset allocation

Strategic asset allocation is the greatest driver of investment performance. During the year under review, the strategic asset allocation of the Fund was revised and placed on a path that is consistent with the expected asset class returns.

The table that follows outlines the Fund's strategic asset allocation ranges.

Asset Class	Recommended		
	Minimum	Midpoint	Maximum
SA Equity	35%	40%	45%
SA Bonds	12%	15%	18%
SA Inflation Linked Bonds	12%	15%	18%
SA Cash	8%	10%	12%
Offshore Equity	15%	20%	25%
<b>Total</b>		<b>100%</b>	

The new strategic asset allocation shifts are as follows:

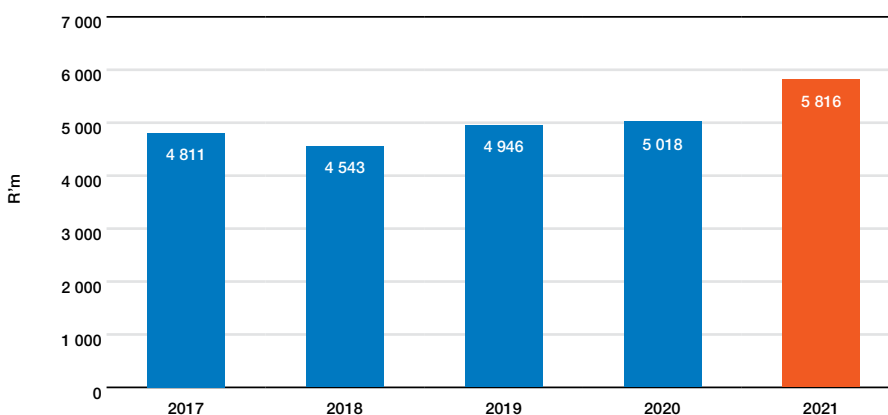
- The offshore asset allocation mid-point was increased from 17% to 20% of total investments.
- Cash was reduced from 13% to 10% of total investments.
- Local equities remained unchanged at 40% of total investments.
- Nominal bonds remained unchanged at 15% of the Fund's total assets.
- Inflation-linked bonds also remained unchanged at 15% of the Fund's total assets.

It is envisaged that the revised asset allocation mix will provide the Fund with the best risk-adjusted returns going into the future. Over 90% of investment returns can be attributed to asset allocation.

The key investment target of the Fund is CPI + 5% over a rolling five-year period. The investment target is best modelled as the most probable objective that is close enough to the growth of the liability profile of the Fund. In recent years the liabilities of the Fund have grown faster than the set investment performance target, a situation that has resulted in the deterioration of the Fund's solvency position. This was also against the backdrop of the declining Trust interest income which is cited in the Trust Interest Report.

The graph below shows the asset allocation of the Fund relative to the strategic benchmark:

### Investment assets

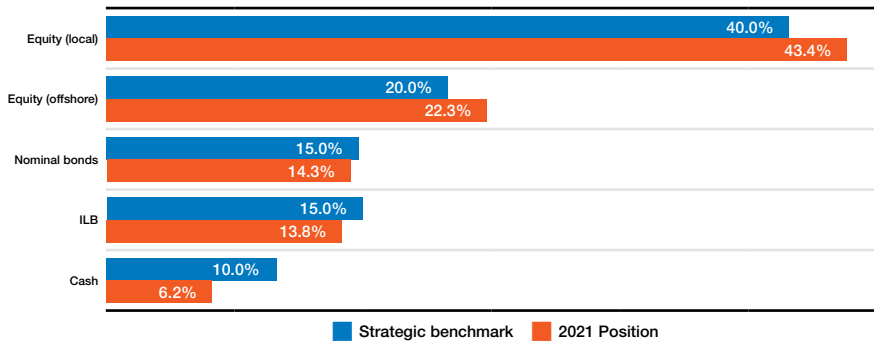


The investment growth over the past 5 years, net of withdrawals to provide PI cover and the annual appropriation, as provided by Section 22 (1) (b) of the Act, can be seen in the graph. Regular investment withdrawals reduce the asset base available to grow and therefore limit the size of interest and dividends receivable by the Fund in the future. As of 31 December 2021, the value of total investment assets under management was R5 816 million (R5 018 million on 31 December 2020). During the 2021 financial year, the portfolio added R798.4 million from capital appreciation, dividends and interest.

Investment assets growth during the year under review was largely driven by commodity stocks as well as financial stocks. The recovery during the year under review was from a low base set at the onset of Covid in 2020.

The graph below reflects the asset allocation of the Fund relative to the strategic benchmark:

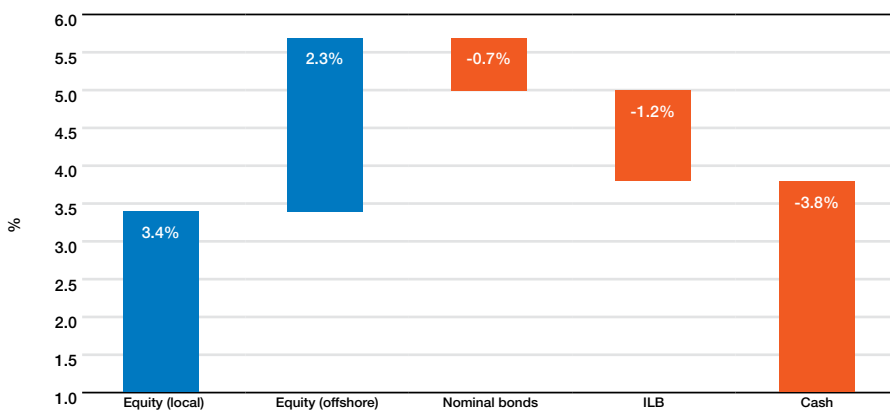
**Asset allocation position relative to strategic benchmark**



As of 31 December 2021, local equities, inclusive of listed property, comprised 43.4% (40.5% in December 2020) of the Fund’s total assets. Offshore equities represented 22.3% (18.4% in December 2020) of the Fund’s total assets, with the balance in fixed interest instruments comprising of cash and money market instruments at 6.2% (12.7% in December 2020), nominal bonds at 14.3% (14.8% in December 2020) and inflation-linked bonds at 13.8% (13.6% in December 2020) respectively.

The graph below reflects the asset allocation relative to the strategic benchmark as of 31 December 2021:

**Asset allocation percentage relative to the strategic benchmark**



During the period under review, the Fund was overweight on local and offshore equities, but underweight nominal bonds, inflation-linked bonds and cash relative to the strategic benchmark. Realignment to the strategic benchmark will be completed in the first quarter of 2022.

**Tactical asset allocation**

The Fund makes use of the tactical asset allocation after strategic asset allocation decisions have been adopted. The benchmark portfolio is selected based on long-term risk and return assumptions of the permissible investment universe, as provided by investment regulations of the Act.

Tactical asset allocation is viewed as a value-based investment strategy that is designed to realign the risk and return profile of the long-term strategic benchmark portfolio. During the year under review, the Fund leveraged its tactical asset allocation portfolio to cost-effectively adopt a strategic asset allocation stance that mitigated drawdown risk in the composite portfolio without incurring the trading and market impact costs associated with liquidating investment assets.

In addition, the Fund benefits from the enhanced flexibility that provided capital protection when financial markets were volatile. Capital preservation is critical to the achievement of medium- and long-term investment objectives. Four tactical asset allocation meetings, chaired by the Investment Executive, were held during the financial year.

**Investment performance of the composite portfolio**

During the financial year ended 31 December 2021, the Fund’s investment assets delivered a risk-adjusted return of 20.31% (6.27% in 2020) at the composite level.

Asset allocation was the largest contributor to the abovementioned investment returns, with tactical asset allocation mitigating significant drawdown risk in both local and international markets in the short term. The table on the right indicates how the Fund performed relative to its strategic asset allocation midpoint and its peer group.

Despite the restrictive investment freedom of the Fund, the risk-adjusted performance of the composite portfolio remained superior to that of its peers in all periods, which indicates a sound trade-off between opportunity seeking and risk management in the portfolio, as evidenced by its performance relative to the strategic asset allocation mid-point. Effective and efficient portfolio construction and implementation also contributed to the performance of the assets over the short, medium, and long term.

## Investments and Trust interest income reports (continued)

The table below outlines the investment performance of the Fund's composite portfolio:

Investment period	Composite portfolio	Strategic asset allocation midpoint	Peer group
1 Year	20.31%	19.51%	16.72%
3 Years	11.42%	11.64%	9.78%
5 years	8.78%	8.89%	7.52%
Since inception	9.58%	9.69%	8.20%

Section 54 (d) of the Legal Practice Act identifies investment income from investments as a key part of the Fund's income. During the year under review, the Fund earned a total of R236.4 million in investment income compared to R235.1 million in the previous year. This comprised of R103.9 million in dividends (R93.2 million in 2020), and R132.5 million from interest-bearing investments (R141.9 million in 2020). The interest earned is correlated to the weight of interest-bearing instruments and prevailing yields on fixed and money market instruments and cash.

### Offshore investments – a component of the composite portfolio

The proportion of offshore assets as a percentage of total in the strategic benchmark was increased to 20% during the year under review, and accordingly contributed to the overall performance of the portfolio through the following key fundamentals:

- Diversify the investment universe of the Fund.
- Invest in companies in dynamic sectors that are not locally available.
- Diversify earnings because of the concentration of the local market.
- Enhance the value of the Fund when measured in Rand terms when the local currency depreciates.

The rationale for this decision was the appreciation that asset allocation was the primary source of long-term investment performance and, in the absence of stellar local performance, the overall portfolio would not reap the benefits of diversification provided by offshore assets.

As of 31 December 2021, the Fund held a total of R1 129.9 million (R921.4 million in 2020, R746.2 million in 2019) in offshore investment assets. The initial investment in the OMIG ESG portfolio in August 2016 of R250 million, further capital injections post the seed investment increased to R705.5 million, R808.9 million at the end of December 2021, (R638.6 million in 2020, R526.4 million in 2019). In addition, an initial investment of R100 million and further capital injections placed with Vunani increased to R421.4 million as of 31 December 2021 (R270.4 million in 2020, R298.7 million in 2019). The Vunani global portfolio is predominantly invested in dynamic sectors that are not locally available and contributed to the diversification of earnings.

The performance of the abovementioned portfolios is outlined in the table below:

Investment period	Vunani Offshore	OMIG ESG
1 Year	22.64%	32.40%
3 Years	22.04%	25.50%
5 years	18.19%	18.08%
Since inception	18.03%	15.53%

Offshore assets have shown strong performance since the inception of each respective portfolio. The exploitation of this asset class has contributed to capital preservation and appreciation of the investment portfolio, thereby proving the benefits of diversification.

### Investment withdrawals and liquidity management

An established treasury management process is providing the Fund and its stakeholders with liquidity, as and when required, resulting in an effective transmission mechanism between Trust interest income received by the Fund and investments assets with a higher yield. 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 and call accounts has increased the average yield on surplus cash, by an average of 225 basis points.

A total of R195 million (R225 million in 2020) was withdrawn from the investment portfolios during the year under review. This was more than the actuarial recommendation of R150 million per annum. As previously reported, regular withdrawals exceeding the recommended limit has a negative impact on the solvency of the Fund.



## Looking ahead – Investments

### Macro-economic outlook

Returns for the 2022 financial year will be subdued relative to the 2021 performance results, largely because of rising inflation and rising interest rates across the globe. Valuations of assets in the developed world are already considered elevated, whilst there are pockets of opportunities in the local market. Geopolitical risks are expected to significantly increase commodity prices and monetary policy is likely to track higher oil prices in inflation. Should the geopolitical risks persist, it is likely to negatively impact global growth, giving rise to possible delays in monetary policy tightening. The local economy is partly shielded by high commodity prices and local economic fundamentals, which are also protecting the local currency.

The Reserve Bank has increased interest rates by 25 basis points in November 2021 and with another 25 basis points in January 2022, and more interest rates hikes are expected during this year. Economic growth remains a concern, with the economy expected to grow by 1.9% during the 2022 financial year. Strong fiscal consolidation is expected to drive conservative budgeting which will require adjustments to revenue assumptions and the expected growth in the gross domestic product.

Despite the identified risks, asset allocation will remain the greatest driver of investment performance. Tactical asset allocation is expected to minimise drawdown risk and at present derivative structures are in place to protect against the negative turn in financial markets.

### Asset allocation

To achieve growth during the year ahead, and beyond, the revised asset allocation will be implemented. From a tactical asset allocation perspective, interest rates and credit tail hedges are expected to play a role in the protection of the portfolio from drawdown risk through purchases of portfolio insurance. The prevailing economic environment is expected to provide an opportunity for fundamentally driven stock picking and thematic investing.

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

returns, by applying a strategic asset allocation framework that is resilient to changes in local and global financial markets.

### Value focused initiatives for the investment portfolio

The following key areas will be motivated and implemented during the 2022 financial year:

- Alignment of assets with the strategic benchmark.
- Increase the active equity asset allocation.
- Review of transaction costs of each portfolio.
- Performance review of the portfolios
- Statutory reports – Section 22 (1)(b), Section 72 (1) and Section 73 (1) reports.
- Asset transition management
- Liquidity management
- Unclaimed trust money portfolio.
- Dividend tax recoupment for dual-listed shares.
- Sustainability report.
- Portfolio construction.

Key decisions on the above will be presented by the Investment Executive as part of the Investment Committee's annual work plan.

### Trust interest portfolio management

The Fund's primary revenue stream is provided for Section 54 (c) – "interest paid to the Fund in terms of the Act". The products that generate Trust interest income in its various forms is addressed in Section 86 (2), Section 86 (3) and Section 86 (4) of the Legal Practice Act 28 of 2014.

The generation of Trust interest income is premised on the ability of practitioners to exercise exclusive control of trust accounts operated by practitioners, and the duration of trust balances in trust accounts. Stakeholder engagements are the cornerstone of the Fund's revenue. Several initiatives put in place during the onset of the pandemic are expected to drive the recovery of Trust interest income in an environment where interest rates are rising. A significant concern is the onset of disintermediation risk that has been highlighted over the years due to innovative value transfer mechanisms that are resulting in lower Trust interest flows to practitioners' trust accounts.

A portfolio approach to the management of

Trust interest income has provided the Fund with the most effective tool for segmentation of trust accounts, practitioners, banks, and geographic locations among others. This has been critical in the identification of opportunities and risks related to trust accounts.

### Drivers of Trust interest receipts

The record-low interest rates since the second half of 2020 continued to negatively impact Trust interest receipts in the 2021 financial year. During the year under review, credit interest rates on Legal Practitioners' trust accounts were the greatest driver of the underperformance of the Fund's primary revenue. On the other hand, bank charges detracted from the performance of trust accounts, as expected. This impact of bank charges is much more prevalent in low-interest-rate environments. Most trust accounts were not able to generate interest income adequate to offset bank charges.

Innovation in banking and payments has given rise to a significant decrease in the time that trust balances stay in trust accounts. The shorter the time trust balances are in trust accounts, the less Trust interest the Fund earns. A case in point has been the total abolishment of cheques as a method of payment which came into effect on 1 January 2021.

In addition, the rise of alternative value transfer mechanisms is evidenced in the rise of alternative accounts, smart contracts and bank guarantees which disintermediate traditional trust accounts. At the macro-economic level, the lower economic growth, relatively low business confidence and the performance of the property market have also weighed down the performance of Trust interest income. Economic recovery reached the pre-Covid level in late 2021.

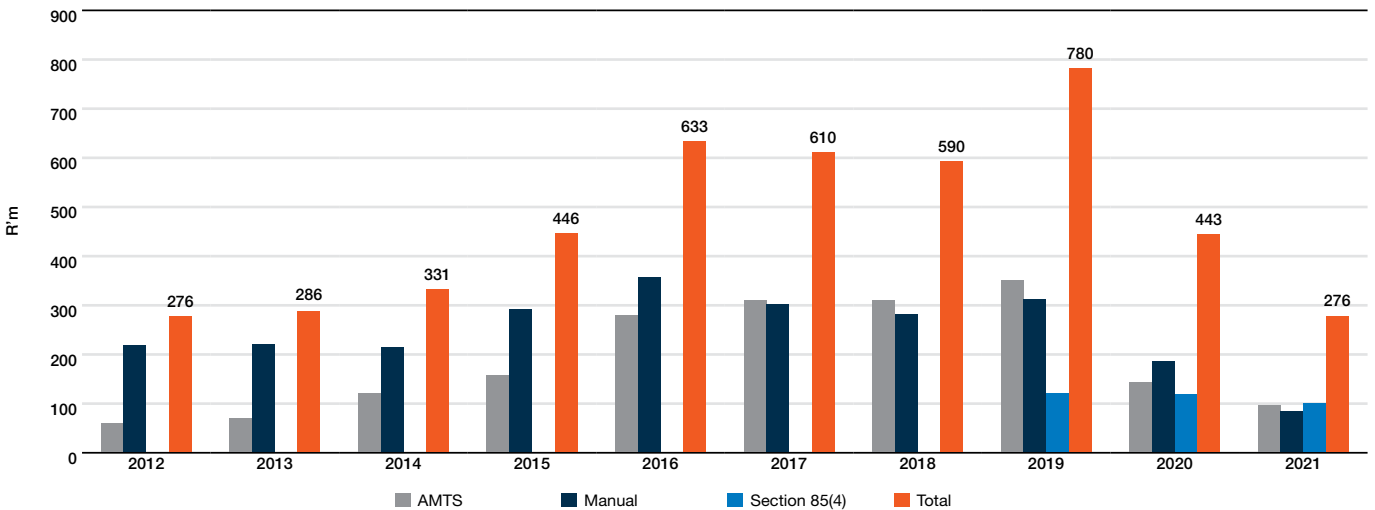
### Trust Interest income performance

A total of R276.3 million (R443.0 million in 2020, R780.1 million in 2019) in Trust interest income was received from S86 (2) and S86 (3) and Section 86 (4) accounts during the financial year ended 31 December 2021. This represents a 37.6% decrease compared to the 2020 financial year.

## Investments and Trust interest income reports (continued)

The graph below reflects the Trust interest receipts to the Fund:

### Trust interest receipts over a 10-year period

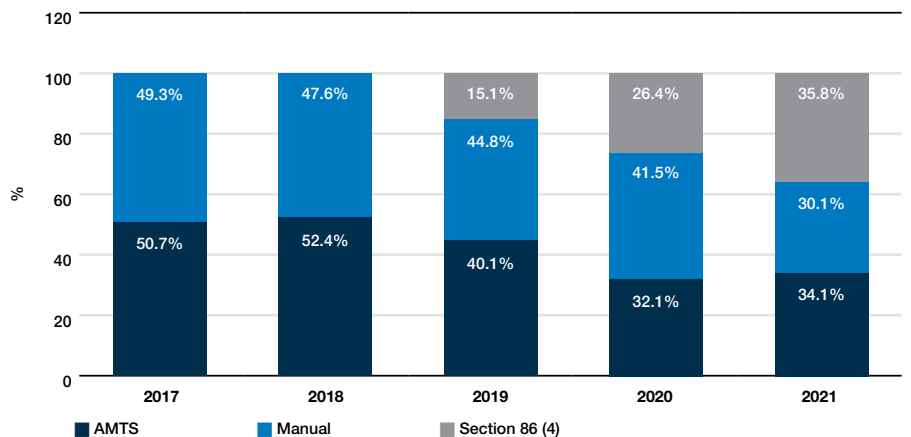


The total interest received during the 2021 financial year is equivalent to the amount received in the 2012 financial year despite the additional revenue from Section 86 (4) accounts introduced in March 2019. The trigger for the rapid decline in 2020 and 2021 was the onset of Covid. The Reserve Bank reduced the repo rate by a total of 300 basis points over six months. It is expected that going forward, interest rates will increase at a slower pace, a situation that will continue to put pressure on the Fund’s revenue in the short to medium term.

Despite the economic recovery experienced during the year under review, the individual contribution of most trust balances experienced negative returns on trust accounts after transaction costs.

The graph below reflects the profile of Trust interest receipts to the Fund:

### AMTS, Payments and Section 86(4) interest



Total interest earned from Section 86 (2) and Section 86 (3) accounts decreased from 73.6% in 2020 to close at 64.2% at the end of the year under review. The significant drop in manual payments from 44.78% of the total interest in 2019 to 30.08% of total interest received in 2021 is a cause for concern. The proportion of Section 86 (4) interest as a percentage of total interest earned increased from 15.13% in 2019 to 35.78% in 2021. On a stand-alone basis, Section 86 (4) interest declined by 15.6% during the year under review.

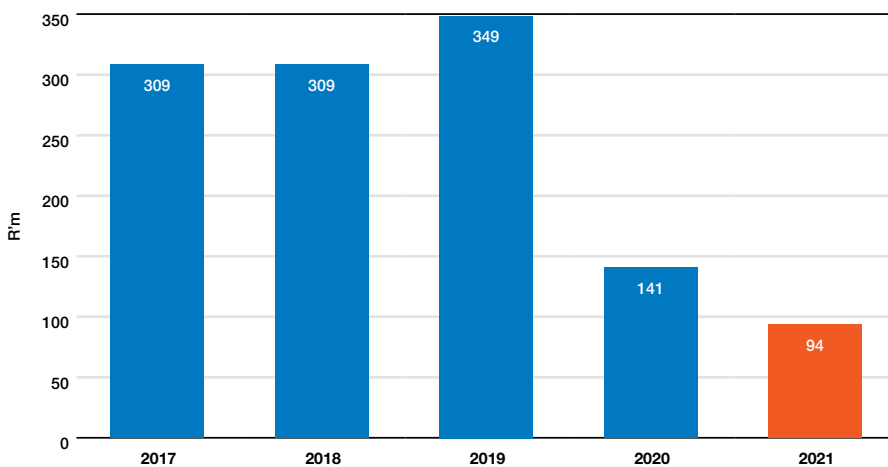


### Performance of the Automated Monthly Transfer System (AMTS)

The Fund has seen a steady increase in balances contained in accounts on the AMTS from R2.6 billion in 2012 to R13.8 billion at the end of December 2020 (R10.19 billion at the end of December 2019). During the year under review balances in AMTS accounts accelerated to R16.9 billion. Despite this increase in balances, Trust interest received from these balances decreased by 33.2% due to a significant portion earning a negative return after costs. Over the same period, the number of accounts participating in the AMTS increased from 9 367 in December 2020 to close at 10 294 accounts.

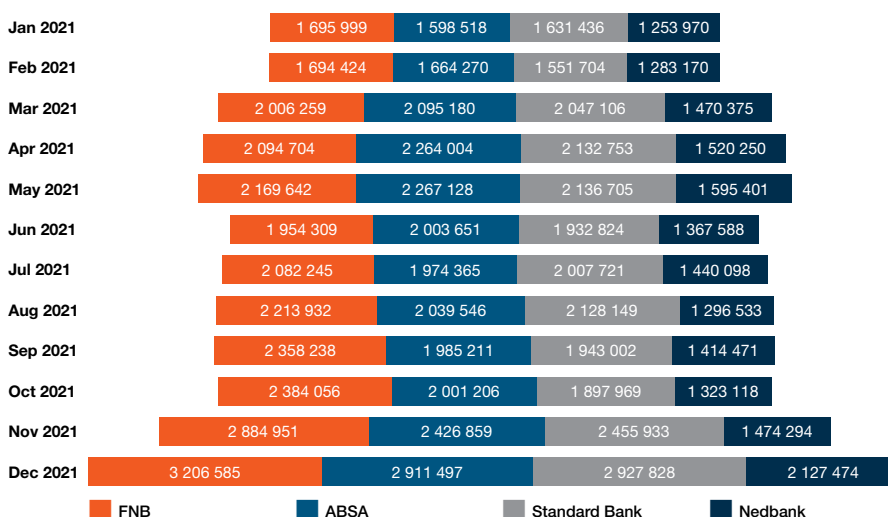
The graph below reflects the AMTS Trust interest receipts:

#### Automated Monthly Transfer System



As of 31 December 2021, a total of R94.3 million was paid over to the Fund via the AMTS compared to R141.1 million in 2020 and R349.3 million in 2019 respectively. The declining AMTS trajectory comes against a backdrop of a significant recovery in the average interest earned on an account participating on this platform from R532.01 per account in September 2020 to R1 085.43 per account at the end of December 2021.

The key contributing banks to the AMTS is reflected in the figure below:



The impact of the 25 basis points increase in November 2021 can be seen in the slight increase in interest income received in November and December of 2021. Four major banks are the biggest contributors to the AMTS. The AMTS improves the liquidity of the Fund and reduced the need to make investment withdrawals. It is against this background that the Treasury Committee will be considering the monthly automation of all Trust interest payable to the Fund. Should this proposal carry favour, there will be a need to amend the Legal Practice Act as well as the rules of the Legal Practice Council.

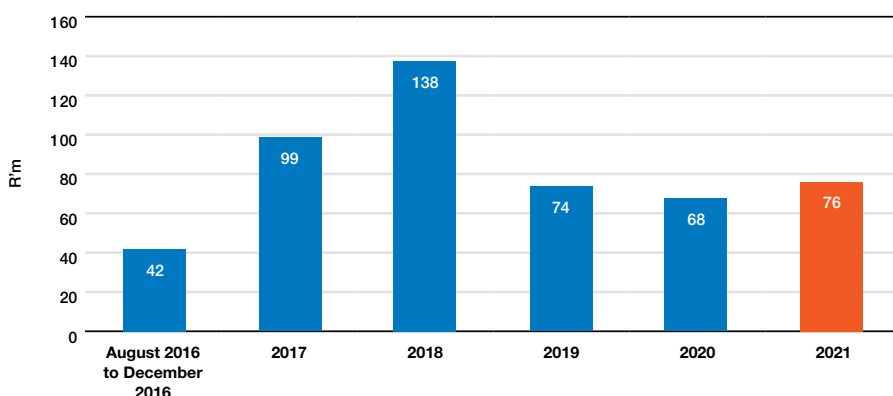
### Performance of the high yield Section 86 (3) balances

As of 31 December 2021, a total of R497.5 million had been invested in Section 86 (3) accounts, compared to R420.0 million in the prior year. This amount earns an additional 300 basis points, compared to the same balance in a current account.

## Investments and Trust interest income reports (continued)

The graph below reflects the Section 86 (3) investments:

### S86(3) Investments



The graph shows the progress made in Section 86 (3) investments because of the direct intervention by Trust Interest Portfolio Officers. This initiative provides the Fund with a competitive advantage over the banking sector, reduces the reliance on rising interest rates as the only driver of revenue and has the potential to boost the Fund's primary source of revenue. Accelerated scaling of this project is expected in the short and medium term. The Treasury Committee has accordingly approved this scaling as a key project for the 2022 financial year, and resources have accordingly been allocated to realise this.

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

Section 86 (4) accounts were operationalised on 1 March 2019, after extensive engagement with the banks, the Banking Association of South Africa, the Payments Association of South Africa, Law Societies, and other relevant stakeholders. During the year under review, the Fund received a total of R98.8 million compared to R117.1 million in 2020 and R118.6 million in 2019 from the S86 (4) accounts.

Section 86 (4) interest continues to provide the Fund with additional income. The implementation carries significant disintermediation risk that may likely be driven by yield sensitivity by members of the public, practitioners and emerging alternative value transfer mechanism from banks and non-banks such as the use of escrow accounts and bank guarantees.

The Board 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.

### Revenue-related stakeholder engagements

As of 31 December 2021, the Fund had a total of 13 banking arrangements with the banking industry as provided for by Section 63 (1) of the Legal Practice Act. The essence of the memoranda of agreements is to operationalize the strategic revenue generation and maximization imperatives and regulatory requirements as provided for by Section 63 (1)(g) the Legal Practice Act.

### Banking arrangements

1. ABSA
2. First National Bank
3. Standard Bank
4. Nedbank
5. Investec
6. Grindrod
7. Habib Overseas Bank
8. HBZ
9. Mercantile
10. Albaraka
11. Grobank (Bank of Athens)
12. GBS Mutual Bank
13. HSBC

The abovementioned co-created agreements provide an effective mechanism that facilitates the alignment of the interests of the Fund and the banking industry. In addition, the Fund can leverage its relationships in resolving friction

encountered in the banking products and the transmission of interest income as well as the exploitation of opportunities as and when they arise. The Fund continues to reap the rewards of this collaborative approach.

We continue to work closely with our stakeholders to co-create solutions and opportunities for consumers of legal services, practitioners, regulators, and the Law Society of South Africa.

From a revenue perspective, the trust account brings together the following stakeholders:

- The Legal Practice Council
- The Law Society of South Africa
- The Banking Association of South of Africa
- The South African Institute of Chartered Accountants
- The Independent Regulatory Body of Auditors

In recent years, the Fund has also expanded its involvement in various industry forums that are organised by the abovementioned key stakeholders to enhance the management and oversight of trust accounts. As a result, the relationship between the Fund and its stakeholders continues to strengthen with each year that passes.

Active steps have also been undertaken to balance exploitation versus exploration, with exploration geared towards opportunities that exist in adjacent industries and business models. This process is still in its infancy and will require buy-in from both internal and external stakeholders. At some stage, it will become imperative to make legislative amendments to enable the exploitation of opportunities that are critical to the long-term sustainability of the Fund's revenue model. At present, the revenue model of the Fund is not risk-based, a situation that gives rise to many challenges in various areas of the business.



## Unidentified and unclaimed trust money

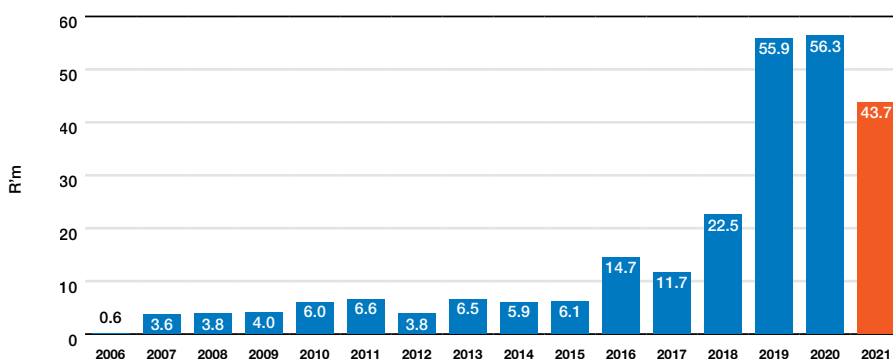
Payment of unidentifiable and unclaimed trust monies to the Fund is now mandatory, as provided for in the Legal Practice Act 28 of 2014. The following sections of the Act address how unclaimed trust money must be paid over to the Fund and provides policy guidance on how such monies should be treated once received by the Fund.

- **Section 87 (4) (a);** any money held in the trust account of a trust account practice in respect of which the identity of the owner is unknown or which is unclaimed after one year, must after the second annual closing of the accounting records of the trust account practice following the date upon which those funds were deposited in the trust account of the trust account practice, be paid over to the Fund by the trust account practice.
- **Section 87 (4) (b);** Nothing in this subsection deprives the owner of the money contemplated in paragraph (a) of the right to claim from the Fund any portion as he or she may prove entitlement to.

Before the implementation of chapter 6 of the Act, practitioners paid over unclaimed trust money to the Fund on the strength of a Board resolution. The introduction of Section 87 (4)(a) and (b) made it mandatory for practitioners to pay over unclaimed trust money. This is evidenced by the increased unclaimed and unidentifiable trust money received received since 2018.

The graph below reflects the history of unclaimed trust money received by the Fund:

### Unclaimed trust interest receipts



As of the 31st of December 2021, the total unidentifiable/unclaimed trust money collected since inception in 2006 stood at R251.7 million, inclusive of reimbursements, compared to R207.9 million at the end of 2020. The total unidentifiable and unclaimed trust money collected during the year under review was R43.7 million, net of reimbursements, compared to R56.3 million in the 2020 financial year.

## Looking ahead – Trust interest income

As previously reported, the success of the maximisation of Trust interest income requires the recognition that technology and adoption are shaping consumer expectations in terms of functional, reliable, convenient, and affordable financial services. This in return is shaping and reshaping the business models of various participants in the Trust interest value chain and significantly impacting the Trust interest receipts to the Fund.

The complexity of the Trust interest ecosystem is increasing. It is against this background that the Fund and its stakeholders need to co-create solutions that meet the expectations of practitioners and members of the public alike. Agility in the deployment of resources to address identified opportunities and risks has become paramount. Additionally, a cultural shift is required to challenge long-held industry assumptions to capitalise on opportunities that have been ushered in by the digital age. This cultural shift is paramount to the sustainability of the Fund.

## Trust interest opportunities

In the year ahead, we reasonably expect that:

- Credit interest rates to increase by 100 basis points in line with the changes in the repo rate.
- Bank charges to increase at the rate of inflation.
- Duration will hold steady or decrease depending on the rate of innovation in payment rails.
- Value transfer alternatives will continue to grow.
- The performance of the property market will be a key driver of Trust interest.
- Consumption of paid legal services – linked to business confidence.
- Pricing of trust balances – dynamic and influenced by credit interest rates.
- Effectiveness of manual payments – regulatory and operational.

The management of the Fund's revenue stream is paramount to the sustainability of the Fund. Trust interest portfolio management is applied to increase the operational efficiency of all attorneys' trust accounts since Trust interest vests with the Fund. The Fund's Trust Interest Portfolio Officers are driving the maximisation of Trust interest.

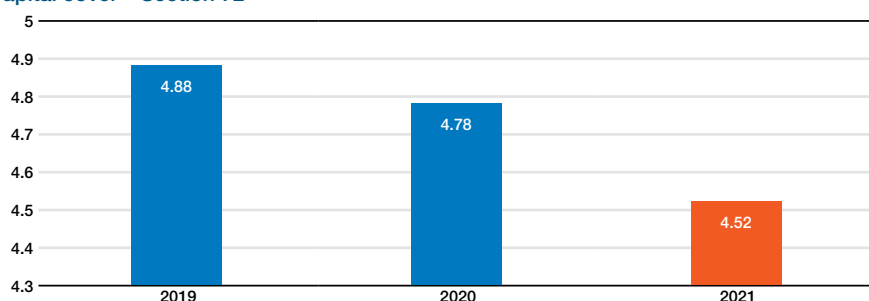
## Investments and Trust interest income reports (continued)

### Section 72 report – Certificate in respect of liabilities of Fund and investment of money in Fund

In terms of Section 72 of the Act, the Fund's actuary is required to issue a certificate in respect of liabilities of the Fund and investment of money. The actuary is required to express an opinion on the amount that will be required for the Fund's obligations in terms of Section 55 of the Act for the year ending 31 December 2023.

The graph below reflects the capital cover:

#### Capital cover – Section 72



The actuary has determined that, for the year ending 31 December 2021, the liabilities of the Fund stood at R1 195.8 million compared to R1 036.1 million at the end of the 2020 financial year (a 15.7% increase). The declining trend of the capital cover ratio over three years is a cause for concern and is consistent with the conclusion reached in the more realistic Section 73 report. Action items on addressing this trend are covered in the CEO's report.

### Section 73 report – Annual review by the actuary

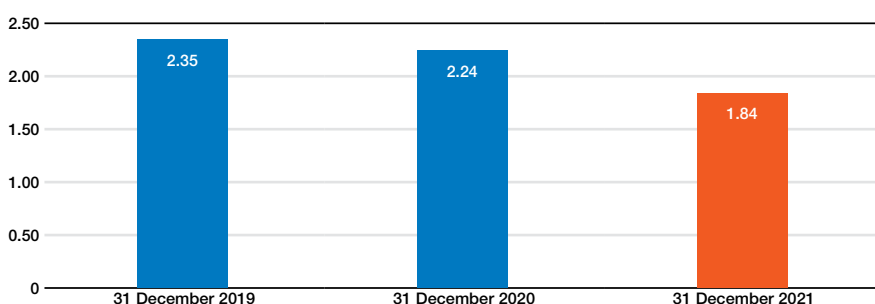
#### Solvency Capital Requirement (SCR)

The Fund actuary is required to establish the financial soundness of the Fund. It can be reported that the actuary has established that the Fund is financially sound based on the SCR cover ratio of 1.84 as of 31 December 2021 which is in line with the median for the general insurance industry. Two key distinctions that separate the Fund from the general insurance industry are important to note, namely:

- The Fund has the inability to raise capital in financial markets.
- The Fund is also unable to increase the credit interest rates earned or attorneys trust accounts (an implied premium) in the event of a deteriorating claims outlook.

The graph below reflects the SCR cover ratio over the past three years:

#### SCR cover ratio

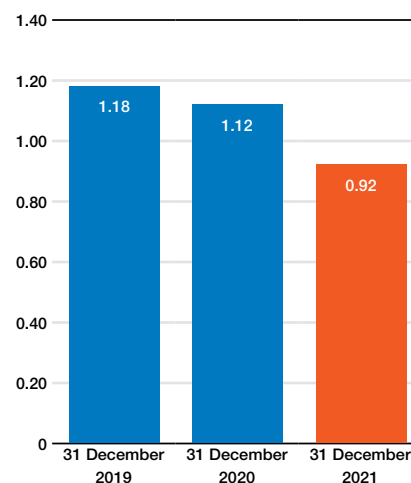


It is against this background that the declining trend of the SCR cover ratio since the inception of the Legal Practice Act 28 of 2014 is of great concern.

A more appropriate measure is the provision for a buffer to compensate for the Fund's inability to raise capital and increase credit interest rates in challenging economic times. For this reason, the Solvency capital plus buffer ratio gives a better picture of the financial soundness of the Fund. This more realistic measure has been used since the onset of the Legal Practice Act.

The graph below reflects the SCR over the past three years, including the buffer ratio:

#### Solvency capital requirement + buffer ratio



The SCR + Buffer cover ratio decreased from 1.12 from December 2020 to 0.92 as of 31 December 2021. For the first time, the Fund's SCR plus the Buffer cover ratio has dipped below 1 and for this reason, does not pass the more stringent test.

**Robert Burawundi**  
Investment Executive



## Nurturing our human capital

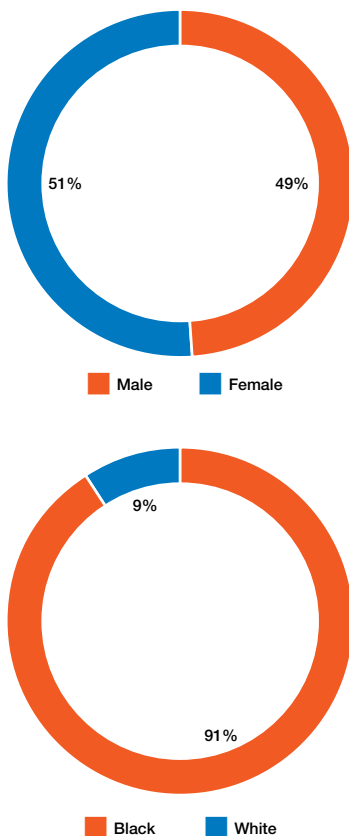
For the Fund to achieve its primary mandate and strategic objective efficiently, we require high-performing, innovative and diverse people with the right skills and experience. We focus on being an inclusive organisation, building and retaining critical skills and developing our leadership capabilities.

### Talent management

#### Staff development

Investing in skills development is beneficial to the organisation, as much as it is to the employees. Therefore, skills development has remained at the centre of organisational performance, growth, and success. For the period under review, the Fund invested R1.1 million towards this goal and 96 staff members received training on various topics, such as Protection of Personal Information Act (POPIA), Health and Safety, customer service and people management.

#### Race and gender of employees trained



### Candidate Attorneys Internship Programme

The Candidate Attorneys Internship Programme was introduced to provide young and aspiring LLB graduates with the opportunity to serve their articles and get the necessary exposure to be Admitted Attorneys.

## The Fund hosted 30 Candidate Attorney interns during 2021

#### Learnership programme

A total of 18 learners took part in the programme which ran for 12 months and focussed on the Paralegal and IT environments. The purpose of the programme was to provide the young people with the experience and necessary skills to enable them to find employment, whether within the Fund or in other organisations.

### External Bursaries Programme

The Fund provided bursary funding of R10.4 million in the financial year. Students were funded for studies in LLB and Postgraduate studies in the legal field. The Fund remains committed to achieving its objective of contributing to the transformation of the legal industry through investing in this programme.

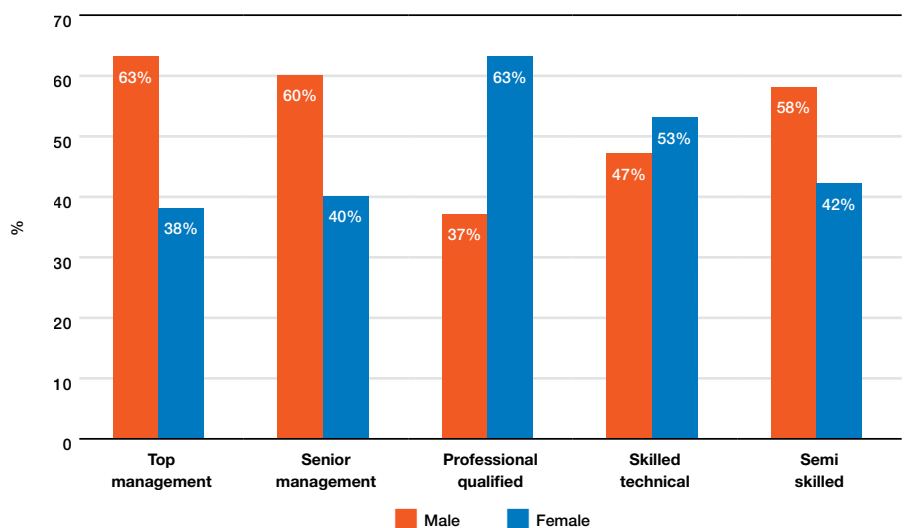
## 140 LLB and Post Graduate students received bursaries in 2021

### Talent movement

Vacant positions were generally put on hold in 2021 to contain costs. Only one appointment was made, and three contractual appointments were converted to permanent appointments. Our staff turnover rate at the end of the year was 0.09%, with only one employee terminating service due to ill health.

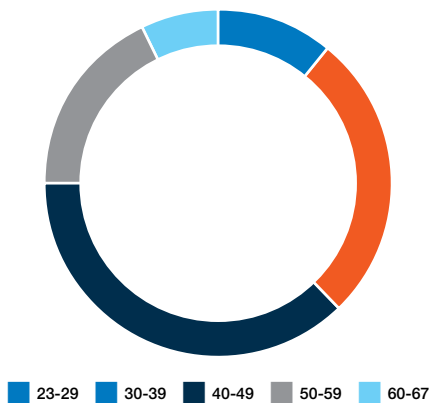
### Employment and gender equity

#### LPPF employment equity profile



## Nurturing our human capital (continued)

LPFF employee age analysis



**108**  
**Total employees**  
**51% female**  
**91% black**  
**47% black female**

**Top management**  
**100% black**  
**38% female**  
**2 with disabilities**

### Performance management

In addition to skills development, performance management is essential to building a workforce of the excellence required to achieve the LPFF’s strategic objectives. Effective performance management is based on a strong performance culture and a healthy workplace ecosystem, supported by individual and management capabilities and accountabilities. Through the efficient implementation of the Performance Management system, the Fund achieved its 2021 strategic objectives, and no interruption or negative impact on performance was experienced. The investment in technology contributed significantly to effectively and seamlessly managing employees’ performance, performance contracting, reviews and appraisals.

### Employee wellness and Covid-19

The health and well-being of our employees directly underpin the organisation’s ability to achieve its strategic goals and are essential components of organisational success. Recognising that healthy organisations achieve more, the Fund continues to implement the Employee Wellness Programme to improve the health and well-being of employees, and to ensure that employees are productive and capable to support the Fund’s strategic plan.

Given the ‘new normal’ that was brought about by the Covid-19 pandemic, the Employee Wellness Programme was intensified, covering various awareness initiatives and wellness topics, such as mental health awareness, family-related issues, financial issues, and legal matters. These programmes were implemented through various touchpoints, such as webinars, podcasts, online workshops, social media platforms, email communication and posters.

The Fund continued to provide counselling services to employees through the Employee Assistance Programme in dealing with bereavement, psychosocial issues resulting from Covid-19, financial issues and other wellness matters for employees and family members.

### Employee engagement and relations

The LPFF recognises that ongoing engagement with employees is necessary to understand, manage and respond to employee concerns and expectations. The human resources team, together with management, aims to resolve complaints and grievances as close to the source as possible and fosters an environment that always supports good faith bargaining, and provides guidance, training, and recommendations on managing performance, discipline, collective agreements and addressing concerns.

## Engaging with our stakeholders

The LPFF continuously engages with a range of interested parties to improve alignment with, and remain relevant to, the interests of its key stakeholders.

### Stakeholder map

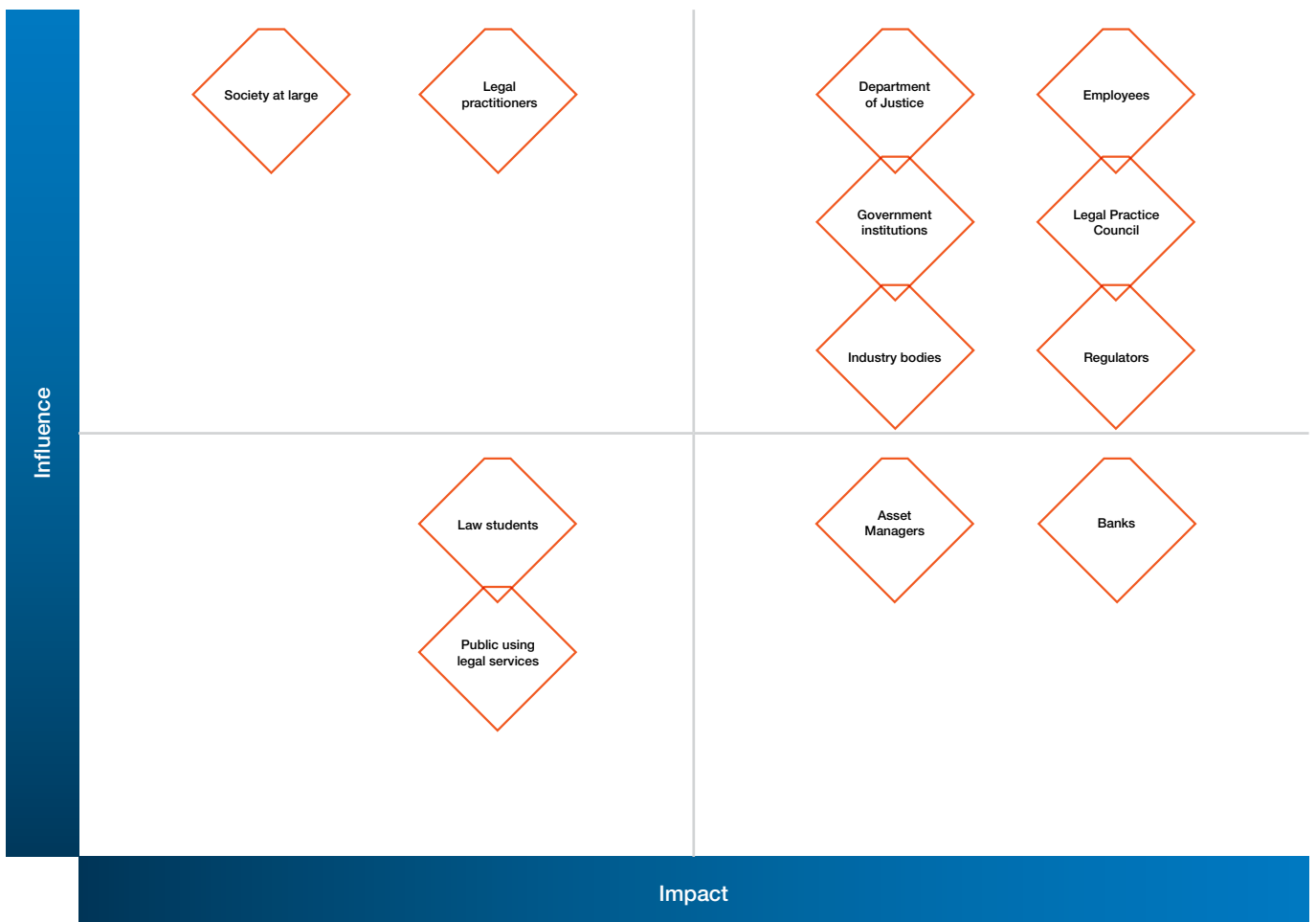
The Fund's public relations strategy revolved around engagement, education and sustaining what has been, and what will be, achieved. This encompassed addressing and ranking all stakeholders based on the impact they have on the Fund and their influence on the business of the Fund, as it shaped the targeting, messaging and the medium used to reach them. The diagram below reflects the ranking:

### Key stakeholder engagement activities in 2021

The public relations and communication department of the Fund continued to work with key influential stakeholders, departments and executives to implement a communication strategy which they called "Knowing your rights when using a legal practitioner". The strategy focuses on the Fidelity Fund Certificates and what it means to both the public and the profession.

To streamline liaisons with the community media, the Fund developed a concept of pre-recording interviews which were distributed to various community media. Throughout the year, the effort was centred around creating content and interviews with critical staff were recorded. An example of such an interview can be found on: <https://soundcloud.com/user-42052465/legal-practitioners-fidelity-fund-podcast>. The Fund drove the campaign through social media and received wide coverage, as indicated below:

Broadcast mediums	Sources	Reach
Broadcast media	567 Cape Talk, Capricorn FM, Mix FM, Motsweding FM, Power FM, Radio Khwezi, SA FM, Talk Radio 702	4 452 903
Online media	702 Unplugged, Business Report, Cape Times, GoLegal, IO Property, Risk Alert Bulletin, Web Bytes	2 487 618
Print media	Cape Argus, Daily news supplements, Notice to legal practitioners, Risk Alert, The Star Insider	276 237



## Engaging with our stakeholders (continued)

### Key stakeholder engagement activities in 2021 (cont)

- To educate and empower legal practitioners in their quest to improve performance in the running of their trust legal practices, the LPFF team wrote five articles for the Practice Management column of De Rebus, a monthly South African attorneys' journal. This is one of the risk management initiatives of the LPFF.
- We also wrote an article for the Risk Alert Bulletin, a risk management journal issued by the Legal Practitioners Insurance Indemnity Fund (LPIIF).
- The Prosecution Unit continued to engage the various stakeholders involved in the investigation and prosecution of cases of theft of trust funds, intending to expedite the prosecution of these matters.
- Management successfully engaged with the Ministry of Justice with regards to the capping of any individual claim lodged against the Fund.
- Liaison also took place with the Legal Practice Council with regards to reducing the annual contribution.
- The Human Resources team continuously engaged with management and employees to ensure consistent application of legislation, policies, rules and regulations within the workplace.

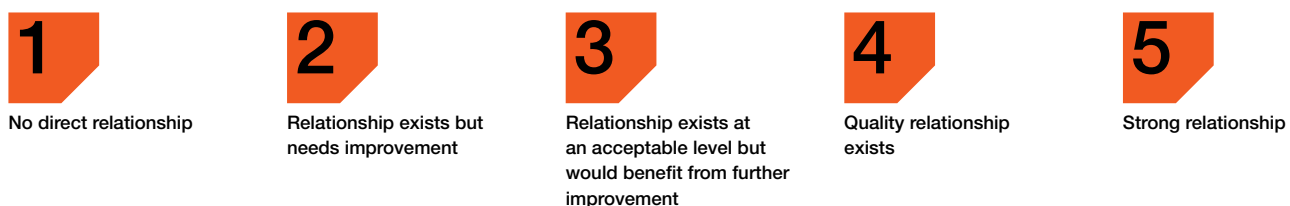
### Stakeholder management

As part of our stakeholder management process, each stakeholder group has been identified and the basis of the relationship formally defined. The quality of the relationship has been rated, the methods of engagement have been evaluated and issues raised by each stakeholder group have been noted and our response documented. A summary of the process has been included below.

### Assessment of the stakeholder relationship

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

#### Scale



Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
<b>Legal practitioners</b>  <b>Quality of relationship: 4</b>	The Fund takes over the risk of legal practitioners and trust account practices' conduct in respect of funds and property and receives an income and contributions in return. The Fund further contributes to their trust account related costs.	<b>Strategic:</b> Trust interest portfolio and practitioner risk management, annual trust account statements and assurance reports and Fidelity Fund Certificate applications. <b>Structural:</b> Communication on compliance with the Legal Practice Act and the rules of the LPC. <b>Operational:</b> Communication on practitioner risk and Trust interest through meetings, newsletters, websites, social media posts, podcasts, professional associations, legal practice and its provincial councils, legal forums, legal trade publications and e-mails.	<b>Issues raised:</b> <ul style="list-style-type: none"> <li>– Compliance with new regulations and requirements</li> <li>– Continual funding</li> <li>– Increased contributions</li> <li>– Transparency in respect of disciplinary findings</li> </ul> <b>Our response:</b> Provide explanations of changes in the regulatory environment and implications thereof through articles and ongoing engagement with legal practitioners	<b>Risks:</b> Misappropriation of theft claims  <b>Opportunities and future focus areas:</b> <ul style="list-style-type: none"> <li>– Gearing practitioners to create a compliant environment can assist them to reduce audit costs</li> <li>– Obtaining buy-in for Professional Indemnity insurance contribution</li> <li>– Maximising Trust interest and collections</li> <li>– Create communication tools and new mechanisms for support and development</li> </ul>



Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
<p><b>Public using legal services</b></p> <p>Quality of relationship: <b>1</b></p>	<p>The Fund exists to protect consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners in the course of their legal practices. This protection encourages the public to use the services of legal practitioners with confidence.</p>	<p><b>Strategic:</b> Awareness campaigns on the Fund's legal mandate.</p> <p><b>Structural:</b> Engagement with claimants through correspondence and enquiries.</p> <p><b>Operational:</b> Traditional and social media channels, via the website and through above and below the line advertising.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Timeous settlement</li> <li>– Scope and execution 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> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Educate and raise awareness about the services provided</li> <li>– Keep claimants informed of progress</li> <li>– Expediting claims processes</li> <li>– Continue to sustain awareness through vigorous communications</li> <li>– The LPFF has invested in robust ICT systems 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> </ul>	<p><b>Opportunities and future focus areas:</b></p> <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 the conversation in the industry.</li> <li>– Multi-media content for different touchpoints.</li> </ul>
<p><b>Industry bodies and voluntary associations</b></p> <p>Quality of relationship: <b>4</b></p>	<p>The Fund engages with the various industry bodies and voluntary associations to communicate matters of interest to these organisations and their members to align and implement strategic objectives or act against threats and risks against the profession and the Fund.</p>	<p><b>Strategic:</b> Direct engagement by the executive management team.</p> <p><b>Structural:</b> Direct engagement with members at meetings originating from invitations or requests by the Fund to address the body or association.</p> <p><b>Operational:</b> External stakeholder workshops, e-mails and websites.</p>	<p><b>Issues raised:</b> Resistance to inspections, payment of PI cover and curatorship</p> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Transparent communication with respect to the sustainability of the Fund.</li> <li>– Practise and compliance support.</li> <li>– Gradual phasing in of payment of premiums.</li> <li>– The Fund CEO addresses issues with the industry bodies at their monthly meetings.</li> </ul>	<p><b>Opportunities and future focus areas:</b> Engagement in the practitioner risk management model of the Fund.</p> <ul style="list-style-type: none"> <li>– Engagement in the PI contribution model of the Fund and the implementation thereof.</li> <li>– Engagement in strategic developments and risks.</li> <li>– Engagement with advocates practising with a Fidelity Fund Certificate and as a new category, as well as the impact on the Fund and the practitioner.</li> </ul>
<p><b>Employees</b></p> <p>Quality of relationship: <b>4</b></p>	<p>Staff is employed by the Fund to execute its statutory mandate.</p>	<p><b>Strategic:</b> Employment contracts, job descriptions.</p> <p><b>Structural:</b> Agreed on key performance areas, performance management and personal and professional development plans, provisioning of staff bursaries.</p> <p><b>Operational:</b> Ongoing performance management discussions, employee development plans and discussions, regular staff and team meetings and events, continuous business and strategy updates, training and development, e-mails, SharePoint, employee engagement application, LPFF intranet and website.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Skills development and training</li> <li>– Job security</li> <li>– Process changes</li> <li>– Communication with employees</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Regular and consistent communication, including information on potential new opportunities.</li> <li>– Ensuring support and enablement in skills development, especially given the new responsibilities under the Legal Practice Act.</li> <li>– Information and Communication Technology (ICT) transformation changes.</li> <li>– Various employee communication platforms were created to facilitate the need for increased awareness and information around changes in the organisation.</li> </ul>	<p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– A committed and enthusiastic staff complement improves productivity and leads to a more effective organisation.</li> <li>– Change management to re-invigorate staff on organisational changes.</li> <li>– Encourage employee well-being as an empathetic employer.</li> <li>– Improve communication to employees about the Fund's strategy, areas of concern, development and job requirements.</li> </ul>

## Engaging with our stakeholders (continued)

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
<b>Regulators</b>  <b>Quality of relationship:</b> <b>4</b>	<p>These entities regulate certain functions of the Fund and compliance is paramount. Regulators include, amongst others, the Financial Services Conduct Authority, National Credit Regulator and South African Revenue Services.</p>	<p><b>Strategic:</b> Compliance with laws and regulations.</p> <p><b>Structural:</b> Submission of statutory returns and information in terms of applicable laws and regulations.</p> <p><b>Operational:</b> Governance and compliance framework of the Fund, regular meetings as necessary, updates through regulatory returns, website and annual report.</p>	<p><b>Issues raised:</b> Compliance</p> <p><b>Our response:</b> Consult on concerns raised by stakeholders in respect of deviations in compliance to close any gaps.</p>	<p><b>Opportunities and future focus areas:</b> Mutual understanding and collaboration can strengthen the relationship.</p>
<b>Legal Practice Council</b>  <b>Quality of relationship:</b> <b>4</b>	<p>The Legal Practice Council is the regulator of the legal profession, and the Fund has a relationship with the Council as both entities have a common interest. The Fund is dependent on an efficient and effective regulator in managing its risks concerning claims and interest collections and supports the Council's regulatory activities through an annual appropriation.</p>	<p><b>Strategic:</b> Legal Practice Act and rules.</p> <p><b>Structural:</b> Executive Committee and Board, Fund representative on the Legal Practice Council.</p> <p><b>Operational:</b> Direct engagement on matters of common interest with legal practitioners and functions performed on behalf of the Fund, and funding requirements.</p>	<p><b>Issues raised:</b> Compliance</p> <p><b>Our response:</b> Consult on concerns raised by stakeholders in respect of deviations in compliance to close any gaps.</p>	<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>– The extent to which the LPC is reliant on the Fund for funding poses a risk.</li> </ul> <p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Mutual understanding and collaboration can strengthen the relationship and the industry.</li> <li>– Legal Practice Council must implement the PI contribution model in 2020 in respect of the 2021 fidelity fund certificate applications.</li> <li>– Work towards the improvement of the public's confidence and trust in the legal profession, thereby improving public perception of the industry.</li> </ul>
<b>Financial institutions (banks)</b>  <b>Quality of relationship:</b> <b>4</b>	<p>The Fund arranges with banks for the keeping of trust accounts and the investment of monies in separate savings accounts or other interest-bearing accounts, opened in terms of the Legal Practice Act by legal practitioners.</p>	<p><b>Strategic:</b> Accreditation of banking products that must comply with the Legal Practice Act.</p> <p><b>Structural:</b> Compliance frameworks derived from memoranda of understanding with 12 banking institutions.</p> <p><b>Operational:</b> Quarterly physical strategic episodes with accredited banks and multichannel communication in the regulated ecosystem.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– LPFF's strategic engagements</li> <li>– Design of banking products</li> <li>– Recoverable and non-recoverable bank charges</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Shaping the trust account context through proactive identification of opportunities and continuous improvement.</li> <li>– Affective transmission of trust income via designated channels and in the manner outlined in banking agreements.</li> <li>– Increased compliance with recoverable and non-recoverable bank charges resulted in increased revenue in the year under review.</li> </ul>	<p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Secure the future of the revenue of the Fund, given the declining duration of trust balances and a rapidly changing ecosystem.</li> <li>– Increase the capacity to identify all interest-bearing accounts.</li> <li>– Making the Fidelity Fund Certificate more accessible.</li> <li>– Bank reporting will facilitate the monitoring of balances.</li> <li>– Memoranda of agreements with banks are mutually beneficial, and regular reports are useful for planning purposes.</li> </ul>



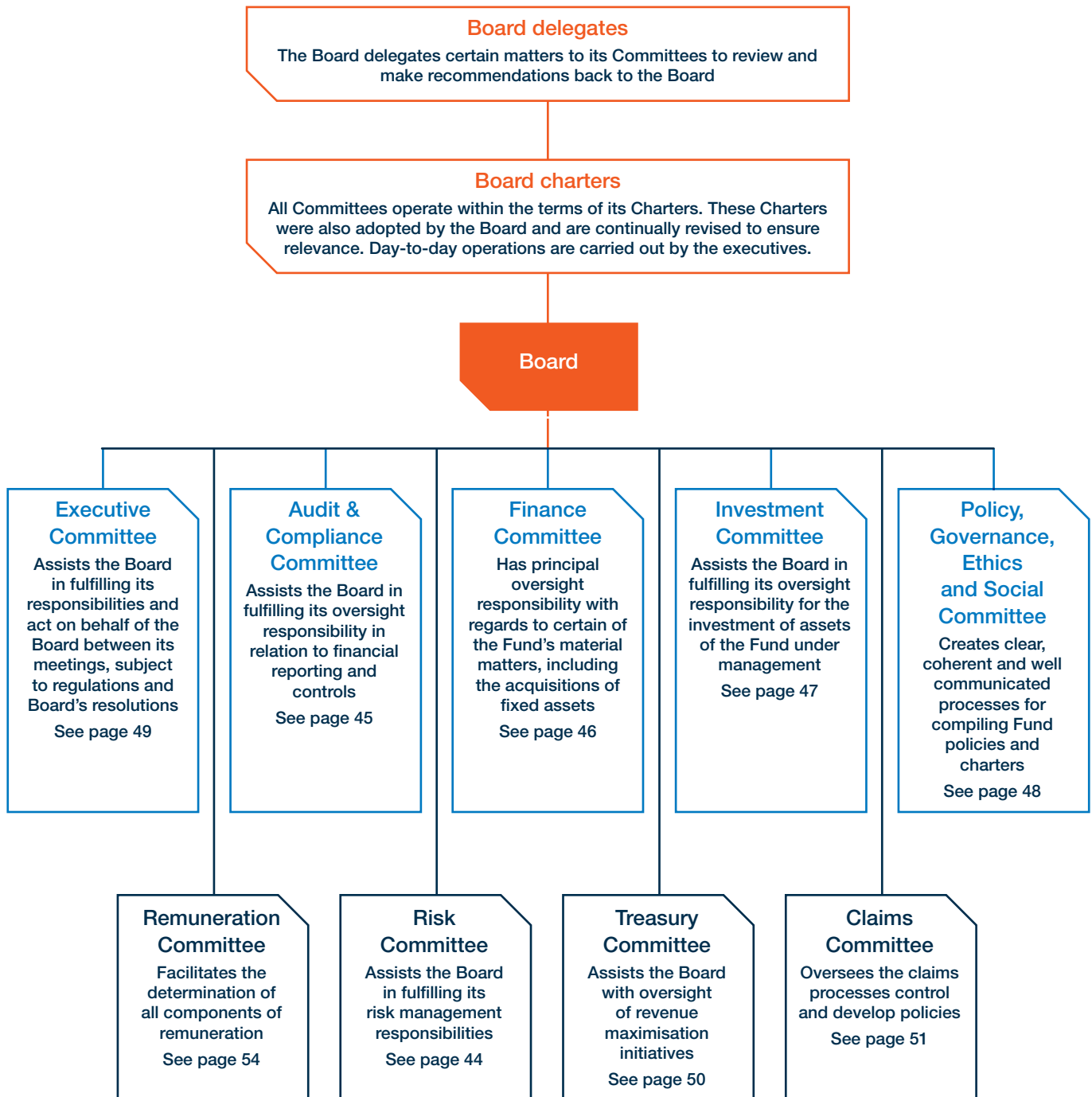
Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
<p><b>Government and other institutions</b> (South African Police Service, South African Institute of Chartered Accountants and Independent Regulatory Board for Auditors)</p> <p>Quality of relationship: <b>3</b></p>	<p>Compliance with legislative requirements is paramount to the operations of the Fund. Institutions provide assurances in respect of compliance by trust account practitioners or prosecute legal practitioners where criminal charges are laid.</p>	<p><b>Strategic:</b> Enabling relationships in executing the Fund's strategic objectives.</p> <p><b>Structural:</b> Represent the Fund's interest at formal meetings and task groups.</p> <p><b>Operational:</b> Regular interactions and formal management discussions, e-mails, websites, annual reports and training initiatives.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Compliance</li> <li>– Formalised and transparent correspondence</li> </ul> <p><b>Our response:</b></p> <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 a 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>	<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>– Gaps in audit standards.</li> <li>– Multiple regulators regulating the legal practitioners.</li> </ul> <p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Legislative amendments.</li> <li>– Accreditation of auditors.</li> <li>– Collaboration with SICA and IRBA.</li> <li>– Training of audit inspectors.</li> </ul>
<p><b>Department of Justice</b></p> <p>Quality of relationship: <b>3</b></p>	<p>The administration of the Legal Practice Act falls within the mandate of the Department of Justice, including oversight of the Fund's solvency and ability to continue to operate and execute its statutory mandate.</p>	<p><b>Strategic:</b> Report on solvency and ministerial representation on the Fund's Board in terms of the Legal Practice Act.</p> <p><b>Structural:</b> Board meetings and formal reporting and engagement with the Department.</p> <p><b>Operational:</b> Regular interactions and formal management discussions, e-mails, websites, annual reports.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Understanding of the Ministry of the Fund's business imperatives within the Legal Practice Act and its environment</li> <li>– Compliance</li> <li>– Formalised and transparent correspondence</li> <li>– Turnaround times for changes to legislation</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Cordial relationship with the Department.</li> <li>– Engage on matters affecting the Fund and the legal profession.</li> <li>– Consult on concerns raised by stakeholders.</li> </ul>	<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>– Legislation – the Fund reports to the Minister on its performance and if the assets do not grow in line with the liabilities, it will cause a mismatch and not enough of a buffer.</li> </ul> <p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Creation of a closer working relationship with the Department of Justice to ensure a conducive legislative environment, enabling the Fund to execute its statutory mandate.</li> <li>– Improve relationships with the office of the Minister.</li> <li>– Implement the PI contribution model.</li> <li>– Communication on the Fund's strategy and solvency objectives and risks.</li> </ul>
<p><b>Law students</b></p> <p>Quality of relationship: <b>3</b></p>	<p>The Fund may provide bursaries to students, candidate legal practitioners and legal practitioners for legal education and research.</p>	<p><b>Strategic:</b> Discretionary power in terms of the Legal Practice Act.</p> <p><b>Structural:</b> Engagements with universities and law faculties.</p> <p><b>Operational:</b> Formal meetings, regular communication, social media, online advertising and annual report.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Lack of funding</li> <li>– Access to employment opportunities</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Communication to increase understanding of funding implications.</li> <li>– Create awareness of the provisioning of bursaries to law students.</li> </ul>	<p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Collaboration with universities and other service providers.</li> <li>– Offering quality workplace training.</li> <li>– Create risk awareness amongst students as it relates to practising as a legal practitioner.</li> </ul>

## Engaging with our stakeholders (continued)

Stakeholder	Basis of relationship	Methods of engagement	Key issues raised and our response	Risks, opportunities and future areas of focus
<p><b>Society at large</b></p> <p>Quality of relationship: <b>4</b></p>	<p>The Fund exists to protect consumers of legal services against the loss resulting from the theft of money and property entrusted to legal practitioners during their legal practices. This protection encourages the public to use the services of legal practitioners with confidence.</p>	<p><b>Strategic:</b> Legal Practice Act statutory mandate.</p> <p><b>Structural:</b> Engagement and awareness campaigns.</p> <p><b>Operational:</b> 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 and annual report.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Lack of awareness</li> <li>– Accessibility</li> <li>– Transparency and public confidence in the legal profession</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– At every opportunity, engage on public platforms to build awareness of the Fund and the protection it offers.</li> <li>– Promotion of the whistle-blower platform offered through TRUSTLINE.</li> </ul>	<p><b>Opportunities and future focus areas:</b></p> <p>An effective engagement and awareness programme will engender trust in the legal profession. The following activities are planned:</p> <ul style="list-style-type: none"> <li>– Increased social media activity and responses</li> <li>– Creation of audience-specific content</li> <li>– Ongoing and sustained engagement on all platforms</li> <li>– Develop an awareness programme for law students</li> <li>– Liaise with the Legal Practice Council and other stakeholders to increase public awareness of the Fund</li> <li>– Create content relevant to, and specific to, different stakeholders.</li> </ul>
<p><b>Asset Managers</b></p> <p>Quality of relationship: <b>4</b></p>	<p>To implement the investment objectives as set out in the investment strategy of the Fund</p>	<p><b>Strategic:</b> Asset allocation and benchmark selection.</p> <p><b>Structural:</b> Mandates and service agreements, asset allocation limits, tactical asset allocation.</p> <p><b>Operational:</b> Due diligence and performance assessments and reporting.</p>	<p><b>Issues raised:</b></p> <ul style="list-style-type: none"> <li>– Strategic benchmark</li> <li>– Regular withdrawals impact the medium- to long-term growth of the Fund</li> <li>– Rebalancing the portfolio increased the cost of the portfolio</li> <li>– Responsible investing</li> </ul> <p><b>Our response:</b></p> <ul style="list-style-type: none"> <li>– Investment strategy is considered regularly, having regard for the Fund's liabilities and revising the strategic asset allocation accordingly.</li> <li>– Mandates are provided to asset managers to guide their actions with funds under management and consider the risk appetite and requirements in terms of investment regulations.</li> <li>– Asset managers provide performance reports and are monitored against performance targets and objectives quarterly.</li> <li>– Monthly reporting by asset managers.</li> <li>– A dedicated portfolio incorporates environmental, social and governance principles.</li> </ul>	<p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>– Inability to meet investment objectives.</li> <li>– Non-compliance with investment mandate.</li> </ul> <p><b>Opportunities and future focus areas:</b></p> <ul style="list-style-type: none"> <li>– Operational due diligence of asset managers to ensure alignment with the investment strategy.</li> <li>– Review of strategic asset allocation and rebalancing of the investment assets relative to strategic benchmarks.</li> <li>– Introduce scrip-lending.</li> </ul>

# Accountability

## Governance structure



## Members of the Board



**TS Kekana (54)**

**Independent Chairperson**

**Appointed:** 2020

**Qualifications:** Ms Kekana has a Certificate in Management of Petroleum Policy and Economics (Wits), an LLB (Vista) and a B Proc (UNIN).



**P Makatini (39)**

**Independent Vice-Chairperson**

**Appointed:** 2020

**Qualifications:** Ms Makatini is currently enrolled for a Post Graduate Diploma in Strategy and Innovation at the University of Oxford in the U.K. She holds a Masters of Management in Entrepreneurship and New Venture Creation (Wits), an Honours in Politics (UJ) and a BA in Communication Science (UNISA).



**Adv HS Janse van Rensburg (64)**

**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Adv van Rensburg holds an Advanced Diploma in Labour Law (UJ), a B Proc LLB and LLM (UNISA) and a BCom (UP).



**M Ntuyesi (50)**

**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Mr Ntuyesi holds an LLB (WSU) and a B Proc (WSU). He was admitted as an attorney in 1999 after completing his articles and attending the LSSA's School for Legal Practice in East London.



**N Likotsi (38)**

**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Ms Likotsi holds a Masters in Entrepreneurship (Wits) and a post graduate Certificate in Accounting (UJ). She also holds a National Diploma in Accounting (TUT).



**KL Mokoena (46)**

**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Mr Mokoena holds an Advanced Management Programme from the University of Oxford (England), a Master of Science in Finance (Banking) from the University of London (England), an M.B.A. (Wits), a BCompt. (Hons) – CTA, a Post Graduate Diploma in Auditing (Unisa), and a BCom. (Econometrics) and BCom (Accounting) (UDW).



**Z Nkosi (40)**

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**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Ms Nkosi holds a CA (SA), a BCom (Hons) – CTA (Unisa), BCom (Accounting Sciences) (UP) and is a registered SAICA Assessor.



**W Brown (46)**

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**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Mr Brown holds a Certificate in Advanced Business Rescue (Unisa), an Advanced Certificate in Insolvency Litigation (UP), an LLB (UCT) and a B.A (English) (UCT).



**CJ Ntsoane (45)**

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**Independent non-executive director**

**Appointed:** 2020

**Qualifications:** Mr Ntsoana holds an LLB (UL) and a B-Tech (Marketing) (TUT).

## Corporate governance

### Introduction

The Fund oversight vests in a Board of Control (Board), constituted in terms of the Legal Practice Act 28 of 2014. 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 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™.

### Managing ethics

The Fund consistently monitors its performance in relation to ethics. An ethics risk assessment is a crucial component in the governance of ethics as it assists an organisation in identifying key ethics risks and ethics opportunities. This enables the development of appropriate ethics strategies and management plans.

An independent assessment is done every three to four years to identify and measure the Fund's performance and status regarding ethics. This assists in enabling the Fund to monitor adherence to its ethical standards, as contemplated in King IV™.

### Key actions and initiatives undertaken in 2021 included, but were not limited to, the following:

- Ethics awareness and human rights training
- Employee acknowledgement of the Employee Code of Ethics and Conduct
- Ethics, human rights and governance-related training were provided to suppliers

### Future focus areas

- Revise ethics strategy: an ethics management plan will be developed for the next two to three years to continue to enhance our ethics culture, behaviour and management practices, and continue to act as an industry leader in ethics and good governance.

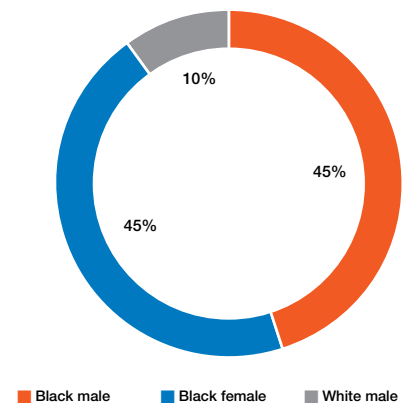
- In light of the ongoing requirements for social distancing and new ways of work, the Fund will continue to focus on delivering relevant and in-depth training on ethics and human rights to employees through new and innovative means to enable us to manage risks and opportunities proactively, and enhance an ethical and socially responsible culture within our organisation.

### Board diversity

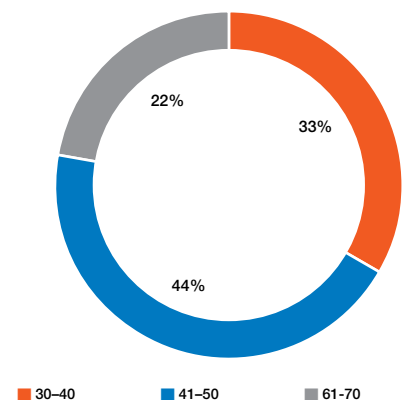
LPFF is committed to ensuring that ethical standards apply in all areas of the business, with a focus on equal opportunities. The Fund recognises and embraces the benefits of having a diverse Board membership and believe that a truly diverse Board will include, and make good use of, differences in the 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 have been considered and promoted by the Board in determining its optimum composition. The Board currently comprises four females and five 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.

The new Board comprises nine members and is representative of various stakeholders, including attorneys, one of whom is an advocate referred to in Section 34 (2)(b) and who has been elected by way of a democratic election. Two other members are experts in the financial field and have been designated by the Legal Practice Council and nominated independently by the Independent Regulatory Board for Auditors (IRBA). The last two members of the Board are nominees of the Minister of Justice.

### Race and gender



### Average age





## Board meeting attendance

Chairperson	Meetings
TS Kekana	8/8

Vice-Chair	Meetings
P Makatini	8/8

Members	Meetings
Adv HS Jansen van Rensburg	6/8 Apology
M Notyesi	6/8 Apology
W Brown	8/8
N Likotsi	7/8 Apology
KL Mokoena	7/8 Apology
Z Nkosi	8/8
CJ Ntsoane	8/8

By invitation
M Molefe, J Losper, Dr M Tsogang, SD Maile, R Burawundi, N Ngema

## Board'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 reports presented to the Board and its sub-Committees and delegation of authority through an approval framework.

The Board is also 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. The Board is also expected to carry out other functions as set out in Section 63(1) (a) to (k), as 63(2), 63(3), 63(4), 63(5), 63(6). These range from the consideration of claims, inspecting the practitioners' books of accounts, defending itself in legal proceedings, delegating consideration of claims to any of its employees and the appointment of the Executive Office of the Fund and other employees. These powers set out, are not exhaustive as there are still others set out in Section 63.

The Fund does not have a lead independent member but has elected a Vice-Chair. The Board meets at least four times a year to review the performance of the Fund and discuss strategic direction and implement such decisions. The roles of the CEO and Chairperson are clearly separated to ensure

the balance of power and authority. The members of the Board 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 function.

Due to the selection of the new Board, the Chairperson was not evaluated in 2021. The CEO's performance and ability to add value to the Fund was evaluated by the Policy and Governance Committee.

## Key areas of focus of the Board in 2021

- The appointment of Committees
- Holding a strategy session
- The appointment of the Board of Directors of the LPIIF
- The sustainability of the Fund
- Producing a business strategy

## Board evaluations

The new appointed Board took office in November 2020 and, as a result, there were no evaluations conducted for the Board or the sub-Committees in 2021. This process is scheduled to be performed in 2022.

## Delegation of Authority

The Board is satisfied that the delegation of authority framework contributes to role clarity and contributes to an effective arrangement by which authority and responsibilities are exercised.

## Board's statement on its mandate

The Board members believe that the Board fulfils its mandate as provided in the Board and Board Committee charters.

## Corporate governance

The Board adopted a charter on 27 July 2004, committing the Fund to principles of good governance. The Board also adopted the charters by which the governance Committees were constituted, and Board members embrace these as a framework against which to focus and measure performance. Charters are continually revisited to ensure relevance and to meet with 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 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. The principles that the Board adopted have been re-enforced within legislation and the Board has adhered to them in 2021.

The Board appointed nine new Committees, all with new Chairs. The Board retained only two members from the outgoing Committees, one for the Policy, Governance, Ethics and Social Committee and the other for the Investment Committee.

## Corporate governance services

The Board has employed a Board Secretary to help it access professional corporate governance services. The Board further retains the right, when necessary, to use the services of independent service providers.

## Executive Committee

The Board is required by the Legal Practice Act to appoint an Executive Committee. The Committee is made up of a Chair, Vice-Chair and two other Board members and during the year under review comprised:

- Ms TS Kekana (Chair)
- Ms P Makatini (Vice-Chair)
- Adv HS Janse van Rensburg
- Mr M Notyesi

## Corporate governance (continued)

### Management structure

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

<p><b>M Molefe</b> <b>Chief Executive Officer</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• LLM (Salford UK)</li> <li>• MBA (Regenesys Business School)</li> <li>• B.Proc (University of Limpopo)</li> <li>• MAP(Wits)</li> </ul> <p><b>Dr M Tsogang</b> <b>Chief Information Officer</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• PhD – Information Systems (UNISA)</li> <li>• Master of Commerce – Computer Science and Information Systems (NWU)</li> <li>• BCom Honours – Information Systems (NWU)</li> </ul> <p><b>C Dzinamarira</b> <b>Practitioner Risk Manager</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• LLB (Fort Hare)</li> </ul>	<p><b>N Ngema</b> <b>Fund Management Executive</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• CA(SA)</li> <li>• MBA (UJ)</li> <li>• BCom Accounting (Wits)</li> <li>• CTA (University of Natal)</li> <li>• H Dip Tax and Business Rescue (UJ)</li> </ul> <p><b>J Losper</b> <b>Claims Executive</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• MBA (University of Stellenbosch)</li> <li>• LLM (University of Stellenbosch)</li> <li>• LLB (University of Stellenbosch)</li> <li>• BCom Law (University of Stellenbosch)</li> <li>• PDFP (University of Stellenbosch)</li> </ul> <p><b>P Ndima</b> <b>Senior Claims Manager</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• B.Proc (UWC)</li> <li>• LLB (UWC)</li> <li>• MDP (Stellenbosch)</li> <li>• NMDP (UCT)</li> <li>• Compliance Management (UCT)</li> </ul>	<p><b>SD Maile</b> <b>Board Secretary</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• BJuris (University of Zululand)</li> </ul> <p><b>R Burawundi</b> <b>Investment Executive</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• MSc Innovation and Entrepreneurship (HEC-Paris)</li> <li>• Executive MBA (UCT)</li> <li>• BCom in Economics (UCT)</li> <li>• BCom (Hons) Financial Analysis and Portfolio Management (UCT)</li> <li>• Strategic Decision and Risk Management (Stanford Graduate School)</li> <li>• Mathematical Modelling of Derivatives (UNISA)</li> <li>• Oxford Fintech Programme (Said Business School)</li> </ul> <p><b>N Kraai</b> <b>Senior Human Resources Manager</b></p> <p>QUALIFICATIONS:</p> <ul style="list-style-type: none"> <li>• BA Human Resources (NWU)</li> <li>• Senior Leadership Diploma (GIBS)</li> </ul>
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### Board Secretary

The Board Secretary's primary role is to ensure that the Board is cognisant of its fiduciary duties and responsibilities. He plays a key role in guiding the Board members on the execution of their duties and keeping the Board aware of relevant changes in legislation and corporate governance best practices. Other key performance areas of the Board Secretary include overseeing the induction of new directors, orientation and ongoing education of directors. He is also Secretary to the Board Committees, and Board members have unfettered access to his services.

An assessment of the Board Secretary and Secretarial function is carried out on behalf of the Board by the Fund CEO twice a year. The results confirmed that the Board Secretary had the requisite level of knowledge and experience to discharge his duties and maintain an arms-length relationship with the Board.

### Succession planning

In 2021, succession management and career management have been identified as the critical focus areas for the business to ensure that the Fund is prepared and has robust bench strength for critical roles. The CEO and executive roles were identified as critical positions and a cover ratio was put in place.

### Compliance

The Board is responsible for the Fund's compliance with applicable laws, codes and standards. Compliance is an integral part of the Fund's culture in ensuring the achievement of its strategy. The Board has delegated the implementation of an effective compliance framework to a compliance officer. Supervision of compliance risk management is delegated to the Audit and Compliance Committee and Risk Committee, which reviews and monitors compliance. The Company complied with various codes and

regulations such as Acts, policies, charters and Board resolutions.

Internal quality audits are performed to assess compliance with legal and industry requirements.

### Penalties, sanctions or fines

During the year under review, no significant fines were levied for non-compliance with statutory and regulatory requirements and there were no censures. No fines were levied for non-compliance with any environmental laws and regulations either. The Fund was not party to any legal action for uncompetitive behaviour, and no requests were received or denied for information in terms of the Promotion of Access to Information Act.



## Monitoring the effectiveness of compliance management

The risk of non-compliance with statutory and regulatory requirements forms part of the identified risks and is assessed and responded to on an ongoing basis. The Audit and Compliance Committee reviews the compliance report at every meeting and areas of partial or non-compliance, if any, are reported to the Board. The Committee reviewed the effectiveness of the systems for monitoring compliance with laws and regulations and was satisfied that the sources of information and processes were adequate.

## Governance of Information Technology

Information Technology implementation and rollout remains a strong enabler of our strategy going forward. The rollout of IT programs continued in 2021 and we made substantial progress in the landing of some of the mission-critical technology systems. The technology implementation progress between 2020 and 2021 especially associated with Enterprise Resource Planning (ERP) and Integrated Claims Management Systems (ICMS) was impacted by the Covid-19 pandemic and business as usual work, as a result only a little progress was made. The journey continues in 2022 and the table below outlines the brief initiatives on the scorecard for completion in the year:

Work Programme	Description	Strategic Intent	Target Date	Completion Status
Hardware Refresh implementation	Refreshment of the old hardware and desktops for 2021	Implementation of a policy-based hardware refresh for both laptops and desktops	12/2021	100%
Annual Financial and Fiscal Commission (FFC) System Enhancement for 2022 application season	Preparation of the FFC Technical environment for the season 2022 applications	Re-platform the FFC capability for improved efficiency and effectiveness for 2022 applications	10/2021	100%
FortiSIEM Implementation	Implementation of security information and event management for cyber incident management	Provision of security monitoring capability	12/2021	100%
<b>Technology initiatives continuing in 2022 for wrap-up</b>				
Enterprise Resource Planning (ERP)	Design and implementation of ERP	Strategic business resources planning and management	12/2022	80%
Integrated Claims Management Systems (ICMS)	Design and implementation of Integrated Claims Management	Digitisation and improvement of the claims management capability	12/2022	80%
Fund Collection Management System (FCMS) gaps	Development and closure of further capability gaps	Enhancement of FCMS capability	12/2022	80%
Digital signature rollout	Implementation of DocuSign for digital signature across the enterprise	Provide the business with the capability to sign documents digitally and electronically	12/2022	10%

Once more, stakeholder involvement from both within and outside the Fund was critical for the success of the projects and the implementation of the Fund's strategy. The ICT systems and infrastructure will enable the Fund to achieve its objectives of managing risk through analysis and reliable business data and reports and is a pathway towards long-term sustainability. Predictive risk profiling and efficiencies play an important role in saving Fund resources.

### Effectiveness of technology and information management

The Board has delegated its governance responsibility to the Risk Committee and has capacitated it with an experienced and qualified IT Specialist to assist with proper oversight. The Committee has the responsibility to ensure the effectiveness and efficiency of IT Systems from a risk and strategic alignment perspective and to monitor the adequacy, efficiency, and effectiveness. The development and implementation of policies and procedures, and the enforcement thereof also provide the effectiveness of technology and information management. The Risk Committee receives reports from management quarterly and continues to monitor the progress, effectiveness, and governance of IT in the organisation.

### Focus for 2022 and beyond

The Risk Committee oversees and monitors the following to ensure the continued focus on the modernisation and digitisation towards enabling the business to deliver services to stakeholders and claimants:

- improvements of business continuity and disaster recovery;
- improvement of business data quality for efficient and effective reporting;
- cyber security Improvement and building cyber resilience;
- finalisation of the current technology projects;
- implementation of a digital workforce technology platform; and
- enhancement of the Information technology operating model and investment case as enabled by technology.

## Committee reports

### Board Committees

The composition of each Committee, and the attendance of each member at Committee meetings, is indicated in the blocks that follow. 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.

### Risk Committee

#### Composition

The Committee has six members, comprising of one Board member, two non-Board members, a risk management expert and an IT specialist.

Chairperson*	Meetings
K Mokoena	3/3
Members*	
Z Nkosi	2/3
C Ntsoane	3/3
N Likotsi	1/3
Independent Specialist Member	
M Chauke	2/3
M Matome	2/3

#### By invitation

M Molefe, R Burawundi, SD Maile, J Losper, Dr M Tsogang, N Ngema, N Kraai

\*Appointed May 2021

#### Key responsibilities

The Committee is an independent overseer of the risks facing the Fund emanating from its management process and operational activities. The Committee assesses and recommends risk management measures and initiatives to the Board for its consideration and approval.

The Committee's primary responsibility is to assist the Board in discharging its risk management responsibilities by exercising ongoing oversight of risk management policies and practices in the Fund by ensuring that Management identify, assess and appropriately 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 2021

- Reviewed the Risk Management Policy;
- Oversaw the renewal of firewalls licenses;
- Oversaw the penetration testing from the external environment as part of the vulnerability assessment of the internal environment;
- Continued to develop the risk register;
- Considered the trust interest risks reports;
- Considered the health and safety compliance reports;
- Considered the claims risks reports;
- Considered the Tip-Off Anonymous reports;
- Considered the operational loss events reports;
- Monitored the internal and external audit tracking register;
- Considered the potential risks that could be brought to bear on the Fund during the transitory phase of implementing the Legal Practice Act 28 of 2014;
- Considered the risks posed to the Fund by attorneys who practice without valid Fidelity Fund Certificates;
- Reviewed the Risk Committee charter;
- Considered the adjusted 2021 Fund's Covid-19 response plan;
- Considered the Fund's sustainability reports.



For more on our Risk Management and key risks, refer to page 58.

### Focus areas in the coming year

The Committee will continue to pay attention to:

- The Fund's sustainability;
- The shared supervisory oversight responsibility of the Fund and the LPC;
- Continued focus and strengthening of cybersecurity measures;
- Lagging effects of the Covid-19 pandemic on practitioners' operating practices;
- Risks posed by attorneys who practice without valid Fidelity Fund Certificates; and
- The risks posed by Advocates with Fidelity Fund Certificates.

The Committee is not aware of any material breakdown within the Fund's Enterprise Risk Management during the year under review. The Committee is satisfied that management is actively managing risk due to the appropriate control measures and other interventions which are in place and will keep the Fund's risk going forward within tolerable levels.

**K Mokoena**  
Committee Chairperson



## Audit and Compliance Committee Report

Chairperson	Meetings
Z Nkosi*	2/3
Independent specialist members	
H Daniels	1/3
Dr L Konar	1/3
Members	
N Likotsi*	2/3
K Mokoena*	2/3
K Mogale**	1/3
EA Moola**	1/3
E Barry**	1/3
A Adhikari**	1/3
M Ramataboe**	1/3

### By invitation

P Makatine, M Molefe, J Losper, SD Maile,  
R Burawundi, N Ngema,  
Dr M Tsogang

\*Appointed March 2021

\*\*Resigned March 2021

### 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 2021

In the conduct of its duties, the Committee has performed, among others, the following duties:

- considered and recommended for approval by the Board the audited financial statements for the year ended 31 December 2020. During the year under review the Fund's sources of revenue were 63% trust interest income, 33% investment income and 4% from other sources;
- considered and approved the remuneration of the independent external auditors;
- the contract of the external auditors having come to an end, the Committee recruited the replacement, namely BDO;
- considered internal and external audit reports;
- considered quarterly finance reports;
- considered and approved the internal audit plan;
- considered the internal and external audit tracking registers;
- reviewed the compliance report format;
- noted the policy bank and legislative environment of the Fund
- noted the claims reports, Human Resources reports, IT reports, risk reports and investment reports.

### Focus areas in the coming year

- overseeing the implementation of the audit plan;
- considering the audited financials;
- attending to the Committee's evaluation;
- considering the internal and external audit reports;
- monitoring the audit tracking register;
- monitoring compliance.

### Impact of King IV™

King IV recommends disclosing the date of the first appointment of the external auditor, which was in December 2010. King IV recommends that the Audit and Risk Committee take responsibility for oversight of the independence of the auditor as recommended by the Independent Regulatory Board for Auditors and assess factors that may influence the independence of the auditor. The Committee applies the independence test to the external auditor annually to ensure that reporting is reliable, transparent and fair representation for the use

of stakeholders and has satisfied itself with the auditor's independence.

### Internal Audit

Internal audit is a key internal assurance provider and provides the Board with a report of its activities which, along with other assurance provider sources, is used by the Board in reporting on and assessing the system of internal control and risk management.

### The Committee:

- Considered and recommended for approval to the Board the one-year internal audit plan and monitored the internal audit's adherence to the plan
- Received and reviewed reports from internal audit concerning the effectiveness of internal controls, systems and processes as well as the adequacy and appropriateness of management's corrective action plans.

### Internal Controls

Based on the information and explanations given by management and internal audit, as well as discussions with the independent external auditor on the results of their audits and the status in addressing the matters raised, nothing significant has come to the attention of the Audit and Compliance Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit and Compliance Committee is therefore of the opinion that the financial records may be relied upon for preparing the Financial Statements, and that accountability for assets and liabilities is maintained.

### Significant matters in the financial statements

The Committee is satisfied that there were no matters of significance in relation to the financial statements.

### Expertise and experience of the Fund Management Executive and finance function

The Committee has considered and has satisfied itself with the appropriateness of the expertise and experience of the Fund Management Executive, Miss Noziph Ngema.

## Committee reports (continued)

The Committee has furthermore considered and has satisfied itself, with the appropriateness of the expertise and adequacy of resources of the Fund's finance function and the experience of the members of management responsible for the financial function.

### Compliance

The Committee is responsible for reviewing any major breach of relevant legal and regulatory requirements. The Committee is satisfied that there has been no material non-compliance with laws and regulations and that it has complied with all its legal, regulatory and other responsibilities during the year under review.

### Mandate

Despite the disruption caused by the pandemic, the Committee is satisfied that it has fulfilled its mandate in all respects as set out in its terms of reference and has duly given effect to the focus areas identified for the year. The term of office of the Committee came to an end in October 2020 with the election of a new Board in terms of the Legal Practice Act. The incoming Board has extended the term of office of the Committee until the Board determines how it wishes to proceed with the sub-Committees. This is a laudable approach that allows for continuity and an orderly transition.

### Recommendation to the Board

The Committee has reviewed and considered the Integrated Annual Report, including the comprehensive annual financial statements, and has recommended it for approval by the Board.

The Committee confirms that it has carried out its responsibilities in accordance with its charter during the 2021 financial year.

I would like to take this opportunity to thank my fellow Committee members, management and service providers for their hard work, effort and support.

### Z Nkosi

*Committee Chairperson*

## Finance Committee

Chairperson*	Meetings
W Brown	3/3

Independent Specialist Member	Meetings
B Matsaneng**	2/3

Members*	Meetings
N Likotsi	3/3
Z Nkosi	3/3
Adv HS Janse van Rensburg	3/3

### By invitation

M Molefe, R Burawundi, SD Maile, J Losper, Dr M Tsogang, N Ngema, N Kraai

\*Appointed May 2021

\*\*Appointed September 2021

### 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.

- put in place efforts to secure the balances of trust funds held by curators;
- considered the 2022 draft budget and proposed some amendments referred it to the Board for approval;
- considered the Section 22 appropriation report for 2022 and recommended to the Board that an amount of R79 million be considered for appropriation with the acknowledgement that the amount is little;
- considered the sustainability report
- noted the claims reports, Human Resources reports, IT reports, investment reports and trust interest reports.

### Focus areas in the coming year

- the Committee will evaluate itself;
- consider the 2023 budget;
- consider the sustainability of the Fund;
- consider the quarterly financial reports;
- review its charter;
- consider the Sections 72 and 73 actuarial reports;
- continue to seek the balances of trust funds held by the curators;
- consider the Section 22 Appropriation for 2023.

The Committee confirms that it has carried out its responsibilities in accordance with its charter during the 2021 financial year.

### W Brown

*Committee Chairperson*

### Focus areas in 2021

In the conduct of its duties, the Committee has performed, among others, the following duties:

- considered quarterly financial reports;
- considered actuarial reports for both Sections 72 and 73 of the Legal Practice Act;
- considered submissions for the writing off of over R8 million debts of BLA, NADEL and the LSSA, the debt of which arose from Section 46(b) of the repealed Attorneys Act. Having noted that the debtors used the money for its intended purpose, namely legal education, the Committee proposed to the Board to scrap the debt in question;



## Investment Committee

### Chairperson

P Makatini\*

### Meetings

6/6

### Independent Specialist Members

C Fivaz

6/6

R Matenche\*\*\*

2/6

### Members

EA Moolla\*\*

1/6

I Ganie\*\*

1/6

E Letty\*\*

1/6

TS Kekana\*

6/6

W Brown\*

5/6

### By invitation

M Molefe, R Burawundi, SD Maile,  
Dr M Tsogang, J Losper, N Ngema

\*Appointed May 2021

\*\*Term ended March 2021

\*\*\*Resigned February 2022

### Key Responsibilities

The primary responsibility of the Committee is to ensure that the Fund's investment strategy preserves and grows investment assets to ensure the long-term sustainability of the Fund.

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 efficacy of investment assumptions and regularly considers and approves recommendations by management.

I am pleased to advise that the Investment Committee was reconstituted in line with all governance committees of the Board during the year under review.

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 core-satellite investment structure is in place, with the core designed to match the profile of liabilities and satellite portfolios providing access to superior returns on free assets.

Despite the robust investment strategy that is in place, the Committee together with other governance structures of the Fund, regularly communicate to the Board the limitations to the matching of investment assets to liabilities after considering the pace of the growth in liabilities which exceed possible returns of investment assets that are within the risk tolerance of the Fund. Members reconfirmed that the growth of the liability profile of the Fund far exceeded the growth of investment assets that are permissible in its investment universe. This means that the containment of costs is a useful complement to the sustainable growth of the Fund's investment reserves.

During the year under review, investment assets delivered a risk adjusted return of 20.31% (6.27% in 2020). As of 31 December 2021, the total value of the investment assets stood at R5.816 billion (R5.018 billion in 2020).



**For key decisions implemented in the year under review, refer to the Investment Executive's Investment and Trust interest reports on page 20**

It can be reported that the decisions implemented during the year under review provided, not only a dynamic asset class that capitalised on investment opportunities available, but also contributed to the minimisation of drawdown risk on the Fund's investment portfolio within a conservative risk budget. It is pleasing to note that the Fund's investment portfolio outperformed its strategic benchmark as well as its peer group which have much more investment freedom, an indication of good returns per unit of risk.

During the year under review, the Committee reviewed the strategic asset allocation of the investment portfolio, given the market recovery that was under way. At the strategic planning session held during the second half of 2021, key decisions were recommended to the committee by the Fund's actuary, performance consultants and management and were accordingly approved.

The Committee also commissioned the following three statutory reports on behalf of the Board, as well as the traditional Sustainability Report.

### 1. Section 22 (1)(b) report – Finances, expenditure, and accountability of Council.

- (1) The funds of the Council consist of—
  - (a) fees, including subscription fees payable in terms of this Act.
  - (b) an annual appropriation made by the Fund, the amount of which is determined by the Board after consultation with the Council; and
  - (c) any other monies received by the Council in terms of this Act or accruing to the Council from any other source.

### 2. Section 72 report – Certificate in respect of liabilities of Fund and investment of money in Fund.

- (1) The Board must appoint an actuary to make recommendations to it on or before 31 March in any year regarding the amount which, in that actuary's opinion, will be required during the next ensuing year ending on 31 December, for the purposes of meeting the obligations of the Fund in terms of Section 55, and the actuary must furnish the Board on or before the first-mentioned date with a certificate setting out the amount so recommended.
- (2) The Board must, within 30 days after receipt of the certificate referred to in Subsection (1), determine the amount required in the ensuing year for the purposes referred to in Subsection (1).
- (3) Any amount determined in terms of Subsection (2) that is not immediately required for the purposes referred to in Subsection (1) in any financial year must be invested in government and other securities as may be prescribed by regulation.

### 3. Section 73 report – Annual review by actuary

- (1) Within three months after the end of each financial year, the actuary referred to in Section 72 (1) must review the financial soundness of the Fund and submit an actuarial valuation report to the Board and the Minister.
- (2) The actuarial valuation report must contain—
  - (a) a statement—
    - (i) reflecting the actuarial value of the assets and liabilities of the Fund.

## Committee reports (continued)

- (ii) on the financial soundness of the Fund; and
- (iii) on whether in the financial year concerned, a surplus or deficit was present in the Fund and, if a deficit is present, specifying the amount required to enable the Fund to meet its obligations; and
- (b) an indication of—
- (i) the basis and method used to value the assets and liabilities of the Fund.
- (ii) any changes to the basis and method used to value the Fund as compared with the actuarial report of the previous year.
- (iii) any special consideration or restriction that the Board brought to the attention or made applicable to the actuary in performing the function in terms of this section; and
- (iv) any explanatory note on any matter relevant to obtaining a true and meaningful reflection of the financial state of the Fund.
- (3) The Board must submit a report to the Minister if, at any stage after having regard to the assets and liabilities of the Fund, the value of the assets of the Fund is insufficient or is not increasing at a sufficient rate to meet payments for benefits that may be reasonably anticipated, and the Minister must immediately submit that report to Parliament.

A sustainability report prepared by the Fund's actuary with management's input, provides the Committee, the Board, and its other Committees with insights into how the liabilities of the Fund are developing relative to the investment reserves and trust interest income.

A total of R185 million from investment portfolios which largely went towards the financing of the annual appropriation to the Legal Practice Council as required by Section 22 (1) (b) of the Legal Practice Act. It must be noted that regular withdrawals from investment assets negatively impact the long-term sustainability of the Fund, and the amount withdrawn during the financial year was more than the actuarially recommended R150 million. The Committee continues to work with the Board, management and stakeholders in the preservation and growth

of the Fund's investments 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 considered the impact of 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 are built in the investment process managed by the Investment Executive and is internally and externally audited each year.

### Looking ahead

The Committee will focus on providing oversight to the implementation of key decisions that are critical to the future performance of investment assets. The governance of investment assets of the Fund, with specific reference to the preservation of capital and the growth of investment assets, remains a priority of the Committee. The approved asset allocation is expected to deliver the expected returns that will grow the Fund's asset base.

The funding of stakeholders, as provided in the Legal Practice Act, will need to be critically evaluated for the Fund to remain a going concern. As reported in the past annual reports, regular investment withdrawals will jeopardise the sustainability of the Fund and a shrinking revenue base, coupled with increasing statutory expenses, will be a perfect storm in the short, medium, and long term. The Committee and the Board are seized with the responsibility to ensure that the Fund remains viable and can discharge its public mandate.

My sincere thanks to my colleagues on the Investment Committee, particularly the Investment Executive Robert Burawundi, the Board and management for their 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.

**P Makatini**  
*Committee Chairperson*

## Policy, Governance, Ethics and Social Committee

<b>Chairperson</b>	<b>Meetings</b>
CJ Ntsoane*	3/4

<b>Members</b>	<b>Meetings</b>
K Mogale**	1/4
E Horn**	1/4
S Gule**	1/4
Z Nkosi	3/4
P Makatini	3/4
M Ntsheshe	3/4

<b>Independent Specialist Member</b>	
Dr J Ndlovu	1/4
S Lewis	1/4

### By invitation

M Molefe, R Burawundi, SD Maile, Dr M Tsogang, J Losper, N Ngema, N Kraai

\*Appointed May 2021

\*\* Term ended March 2021

### Key Responsibilities

- Draft and review the policies of the Fund
- Draft and review governance charters
- Review the Fund's Code of Ethics periodically
- Oversee the annual evaluation of the governance structures
- Evaluate the CEO's performance
- Provide assistance and advise on corporate governance practices
- Review the composition of the governance structures

### Focus areas in 2021

The Committee performed among others, the following activities:

- Reviewed governance charters and all policies – existing and draft policies which are still work in progress
- Investigated the possibility of compensating the Board members for using their phones, airtime and data for the Fund's business
- Advertised and interviewed and recommended specialist members for the Audit Committee, Risk Committee, Investment Committee, Remuneration Committee and Finance Committee



- Conducted the performance review of the CEO of the Fund;
- Organised the induction of the new Board and the new specialist members of the Board's Committees
- Organised sustainability and risk workshops for the Board
- Organised Board training
- Ensured that the Board is registered as a member of the IODSA and entered into the relevant contract with them for ten months of 2022
- Agreed to do away with the concept of annual general meeting (AGM) and proposed that all the Board's meetings should be ordinary meetings
- Considered the filling of two vacancies on the Board of Legal Practitioners Development Fund (LPDF) and made the necessary recommendations for consideration by the Board of the Fund
- Considered the reconstitution of the Board of Directors of the Legal Practitioners Insurance Indemnity Fund (LPIIF) and resolved that it will be responsible, on behalf of the Board, to recruit new Board Directors through advertising and conducting interviews of candidates
- Produced the POPIA compliance framework and checklist

#### Focus areas in the coming year

- Evaluations of the Board and its Committees
- Training of Board members
- Reconstitution of the governance structures of the LPIIF
- Creating a process of developing policies
- Developing a mentoring programme for all Board members.

The Committee confirms that it has carried out its responsibilities in accordance with its charter during the 2021 financial year.

#### **CJ Ntsoane**

*Committee Chairperson*

### Executive Committee

Chairperson*	Meetings
TS Kekana	4/4
Vice-Chair*	
P Makatini	4/4
Members*	
Adv HS van Rensburg	4/4
M Notyisi	4/4

#### By invitation

M Molefe, R Burawundi, SD Maile, Dr M Tsogang, J Losper, N Ngema, N Kraai

*\*Appointed November 2020*

#### Key Responsibilities

- Provide assistance to the Board in fulfilling its responsibilities and act on behalf of the Board between meetings
- Ensure regular and detailed reports are submitted to the Board with respect to every aspect of the business of the Fund

#### Focus areas in 2021

- Considered how to reconstitute the Board's Committees
- Recommended to the Board the retention of Ms Cathy Fivaz in the new Investment Committee as a specialist member
- Assisted the Board with the arrangement of a Board strategy session
- Involved in the reconstitution of the Board of Directors of the Legal Practitioners Insurance Indemnity Fund (LPIIF)
- Recommended changes to the Home Loan Policy to minimise risk to the Fund which may arise in plot and plan projects and considered and approved home loan applications above R2 million
- Took over the responsibilities of the now-defunct External Bursary Committee
- Assisted with the reconstitution of the Board Committees and accepted that the Policy Committee will continue with its governance mandate
- Engaged the Legal Practice Council (LPC) to finalise the 2021 Board's honoraria in terms of Section 57 of the LPA
- Approved the draft training manual for Board members
- Proposed that work plans for the Committees be prepared for 2022
- Ensured that all relevant reports were submitted to the Board by Management.

#### Focus areas in the coming year

- Sustainability of the Fund
- Stakeholder management

#### **TS Kekana**

*Committee Chairperson*

## Committee reports (continued)

### Treasury Committee

#### Chairperson

N Likotsi\*

#### Meetings

2/2

#### Members

K Mokoena\*

1/2

M Notyesi\*

2/2

TS Kekana

2/2

Z Nkosi\*\*

1/2

#### By invitation

M Molefe, R Burawundi, SD Maile,  
Dr M Tsogang, J Losper, N Ngema

\*Appointed May 2021

\*\*Appointed November 2020

#### Key Responsibilities

- The Committee's mandate is to address key opportunities and challenges in the trust maximisation initiatives of the Fund, inclusive of stakeholder engagements and banking arrangements.
- The Committee also provides oversight to the practical implementation of Section 87 (4)(a) and (b) of the Act that provides for the receipt and reimbursement of unclaimed and unidentifiable trust moneys

I am pleased to advise that the Treasury Committee of the Fund whose mandate is to provide oversight to the maximization of its primary revenue stream – trust interest income, was reconstituted in line with all governance committees of the Board during the year under review. Members of the Committee have extensive experience in the legal profession, banking, accounting, and auditing.

Since Trust interest income vests with the Fund the moment it is generated, the committee acknowledges that the Fund is facing an existential threat to its long-established suis-generis income model which is largely dependent on the exclusive control of trust accounts by practitioners and the duration of trust balances in these trust accounts. The digital age is challenging these long-established industry norms which are under threat from rapidly shifting consumer expectations in the consumption of legal and

financial services, and well as the provision of alternative value transfer mechanisms that are shaping the Fund's business environment. As holders of trust accounts, practitioners are now also regulated by other pieces of legislation, some of which provide alternative vehicles for managing monies paid over to practitioners. Disintermediation risk remains a key concern and the Fund will need to rapidly adapt and set industry standards to remain viable.

The Committee is cognisant of the abovementioned shifts and supports management's recommendations that leverage customer-centric revenue maximisation initiatives. This orientation is a critical response to most consumer-centric legislation passed in recent years that are designed to ensure that consumers of legal services, as well as practitioners, are treated fairly. Many key stakeholders in the Fund's business environment have recognised the competitive advantage associated with treating customers fairly and have accordingly reaped the associated benefits through the design of systems, processes, products, and services that deliver this promise. It is through this lens, that the Committee is supporting the deployment of resources towards the exploration and exploitation of opportunities that are expected to enhance the Fund's primary revenue stream in the short, medium, and long term, all critical to its viability.

During the year under review, the Fund received a total of R276.2 million in total Trust interest income (R443.0 million in 2020, and R780.1 million in 2019). Lower than expected interest income gives rise to the need to withdraw from investment reserves and negatively impacts the solvency and sustainability of the Fund. The reports on trust interest receipts are conveyed to other governance structures, including the Board, to ensure that decisions taken are consistent with past, current and expected future levels of Trust interest income of the Fund.

Whilst noting the negative impact of historic low-interest rates that came into effect at the onset of Covid-19 and the accompanying lockdowns, the Committee also noted the recovery of economic activity in the 2021 financial year, albeit from a low base, the shifting payments landscape that is reducing

the duration of trust balances, competing legislations that provide choice to consumers of legal services, as well and shifting consumer preferences.

The Committee recognises the negative impact of the protracted level of low interest rates and their impact on the revenue of the Fund. Despite the low level of Trust interest income, the Fund is still required to meet annual statutory obligations together with the inflation-linked adjustments of transaction costs trust accounts. Low interest income gives rise to the need to make investment withdrawals. Protracted withdrawals contribute to the deterioration of the solvency position of the Fund in the medium to long term. From a policy perspective, the Committee resolved the following during the year under review.

- To provide relief, and certainty on the calculation of refunds of bank charges and audit fees, the Committee approved the amendment of the refund application form to include Trust interest earned on Section 86 (4) accounts as part of the refund calculation.
- The allocation of resources to support the expansion of the Section 86 (3) project which beneficial to the Fund in all interest rates cycles. In addition, the Committee also noted the recommendation to share some of the yield earned on Section 86 (3) accounts with practitioners. Whilst the sharing of interest is an opportunity, the Committee recognises that legislative amendments are required to exploit this opportunity.
- After considering standing legal opinions on unclaimed and unidentifiable trust money, the Committee decided to seek an accounting opinion to further enlighten it on this matter.
- The Committee also supported the transition to automated payments for all interest payable to the Fund.

The Committee recognises the importance of strong stakeholder engagements with all participants in the Trust interest value chain.




**Details of all the key stakeholders are outlined in the Investment Executive's Investment and trust interest reports on page 20**



Collaboration and co-creation with stakeholders will be key to the sustainability of the Fund. In addition, management with the full support of the Committee provides regular feedback on the outcomes from the direct engagements with stakeholders.

I would like to take this opportunity to sincerely thank all revenue-related stakeholders for their contributions to the resilience of the Fund's revenue model during the year under review,

- The Legal Practice Council;
- The Law Society of South Africa;
- The Independent Regulatory Body of Auditors;
- The South Africa Institute of Chartered Accountants;
- The Banking Association of South Africa; and
- The 13 banks that have entered banking arrangements with the Fund as provided by Section 63 (1) (g) of the Legal Practice Act 28 of 2014.

 **Details are available online at [www.fidfund.co.za](http://www.fidfund.co.za)**

I would also want to extend my gratitude to my fellow Committee members for their collegiality and support in providing oversight to the Fund's primary source of revenue. On behalf of the Committee, I would like to thank the Board for providing resources and approving key revenue maximisation initiatives, and management for building strong stakeholder relationships, for providing strategic initiatives for the Committee's consideration and for executing the approved revenue maximising initiatives.

The Committee is hopeful that the most recent upward adjustments of the repurchase rate and identified Trust interest maximisation initiatives will positively contribute to the improvement of Trust interest receipts to the Fund.

**N Likotsi**  
*Committee Chairperson*

## Claims Committee

**Chairperson**  
Adv HS Janse van Rensburg\* **Meetings** 3/3

**Members**  
K Mokoena\* 1/3  
W Brown\* 3/3  
N Likotsi\* 1/3  
CJ Ntsoane\* 3/3

**By invitation**  
M Molefe, SD Maile, J Losper,  
P Ndimba, Dr M Tsogang, R Burawundi,

*\*Appointed May 2021*

- Key Responsibilities**
- Guiding and assisting the Fund's Claims Department in matters referred to the Committee.
  - Developing, recommending and implementing policies and changes to legislation which will enhance the Board's ability to achieve its principal purpose.
  - Identifying and managing claims related risks.
  - Overseeing the management of internal controls and for preparing regular reports for presentation to the Audit, Risk and Finance Committee and to the Fund's Board and its EXCO.

## Focus areas in 2021

- Attended to the amending Sections 55, 56(1), 56(4), 57(1), 78(1), 79(1), 79(4), 79(5) of the Legal Practice Act 28 of 2014
- Addressed the criminal prosecution of defaulting attorneys

## Focus areas in the coming year

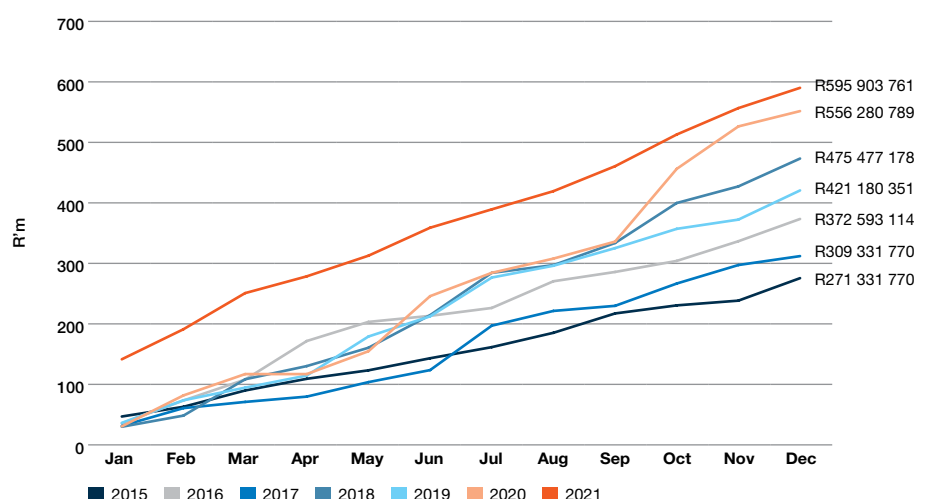
- Pursue the amendment of Sections 55, 56(1) 56(4), 57(1), 78(1), 79(1), 79(4), 79(5) of the Legal Practice Act 28 of 2014
- Pursue the capping of the claim's liability of the Fund
- Improve on the rate of convictions of defaulting attorneys
- Improve on the rate of recoveries

## Operational overview

### Cumulative value of claims notified

The graph below represents a comparison of the cumulative value of claims notified for the past five years at the end of the months below. For the year under review, the Fund saw a sharp increase in the value of theft claims registered with the Fund. In 2021, claims to the value of R595 903 761 were filed with the Fund, an increase of 6% from 2020.

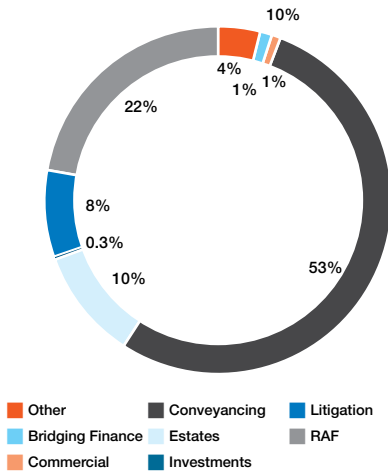
**Cumulative claims notified**



## Committee reports (continued)

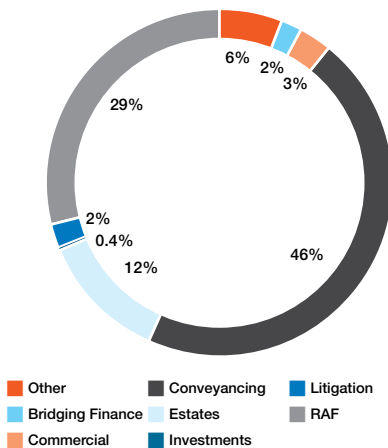
### Number of claims notified by area of practice expressed as a percentage of the total number of claims notified in 2021

The graph below represents the number of claims notified by area of practice, as expressed as a percentage of the total number of claims notified in 2021. The number of claims notified in 2021 was 1 142, an increase of 22% from 2020.



### Value of claims notified by area of practice expressed as a percentage of the total value of claims notified in 2021

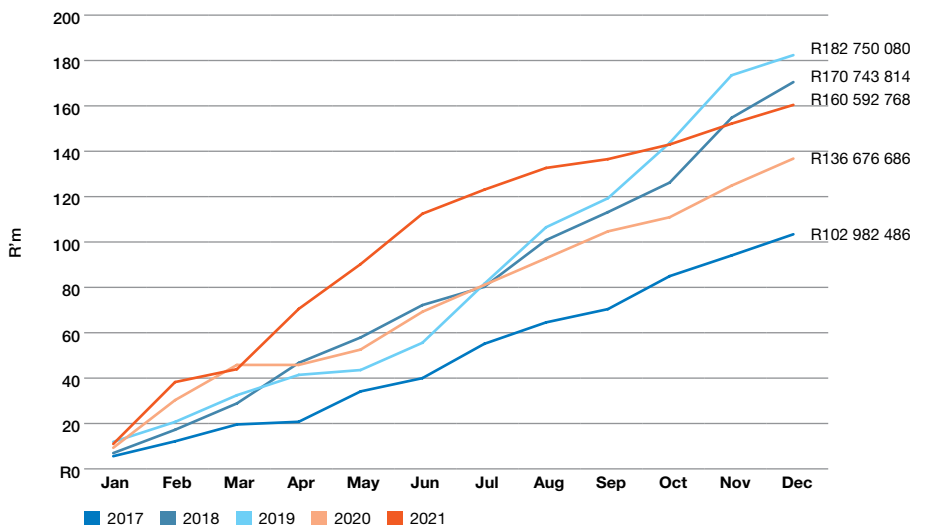
The graph below represents the value of claims notified by area of practice in 2021 as a percentage of the total value of claims notified in 2021. 47% of the value of claims notified (R275 389 245) were in respect of Conveyancing claims, followed by RAF related claims (R173 024 991) and Estate related claims (R69 939 085).



### Cumulative value of claims paid

The graph below represents the cumulative value of claims paid for the past five years at the end of any of the months below. The cumulative value of claims paid for in 2021 increased by 17% from 2020. This was mainly because of the backlog that we experienced in 2020 as a result of the pandemic.

#### Cumulative claims paid



### Claims rejected and NPW

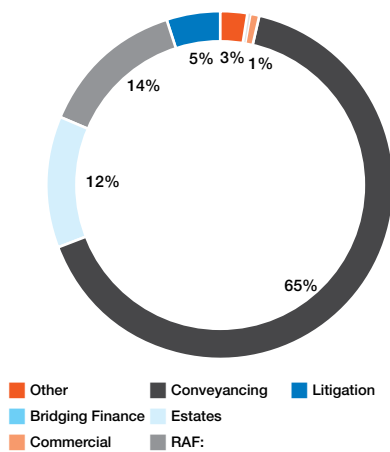
The table below shows the actual numbers and values of the claims rejected and claims that were marked “not proceeded with” (NPW) from 2009 to 31 December 2021. For the period under review, the Fund has repudiated 84 claims worth R92 119 688 and 432 claims worth R169 151 471 was marked NPW.

Note: If a claim does not comply with the provisions of Section 78 of the Legal Practice Act, the claim is rejected. The status NPW is selected when a claimant fails despite several requests to do so, to lodge a claim or provide required particulars.

Year	#	Rejected	#	NPW	Totals
2021	84	R92 119 688	432	R169 151 471	R261 271 159
2020	48	R75 037 094	318	R101 719 975	R176 757 069
2019	59	R106 987 885	399	R138 369 857	R245 357 742
2018	54	R66 649 767	391	R107 331 037	R173 980 804
2017	23	R17 608 936	378	R159 272 784	R176 881 720

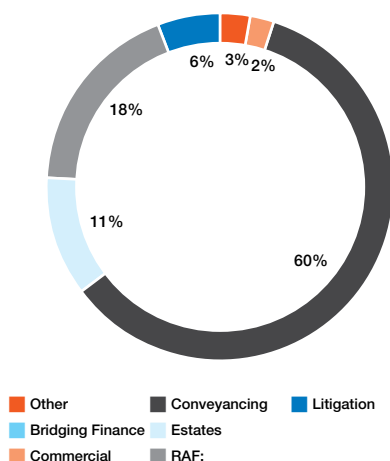
### Number of claims paid by area of practice expressed as a percentage of the total number of claims paid in 2021

The graph below represents the number of claims paid by area of practice, as expressed as a percentage of the total number of claims paid in 2021. 65% of the total number of claims paid were in respect of Conveyancing claims followed by Road Accident Fund (14%), and Estates (12%).



### Value of claims paid by area of practice expressed as a percentage of the total value of claims paid in 2021

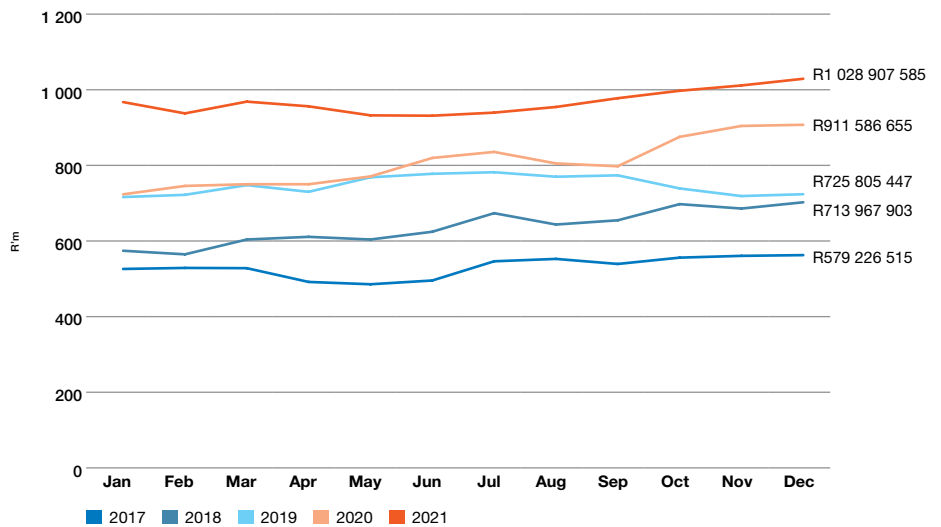
The graph below represents the value of claims paid by area of practice in 2021 as a percentage of the total value of claims paid in 2021. The bulk of the claims paid in 2021 was in respect of Conveyancing claims (60%) followed by RAF (18%), and Estates (11%).



### Contingent claims position

The graph below represents a comparison of the total value of claims on record with the Fund at the end of any of the months below. The Fund ended the year off with 1 696 claims on record with a combined value of R1 028 907 585, an increase of 20% from 2020.

#### Contingent claims



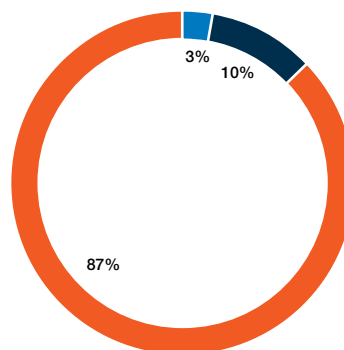
### Litigation

The Fund has 33 litigation matters still outstanding with a combined value of R151 185 120. For the year under review, the Fund was successful in 2 litigation matters worth R1 960 950.

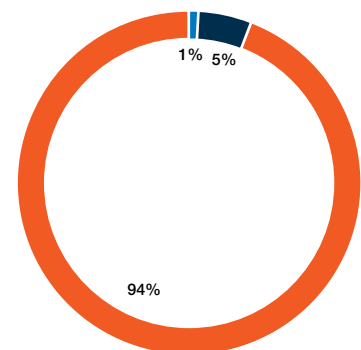
### Service excellence

The graphs below reflect the service delivery results which assesses the overall time taken to finalise a claim, conduct and attitude of claims staff, accessibility of claims handlers and overall response times by the Fund. The questions were rated on a scale of 1-4 (poor), 5-7 (good), and 8-10 (excellent). The overall result looks positive, however, there is still room for improvement.

#### Overall time taken to finalise a claim

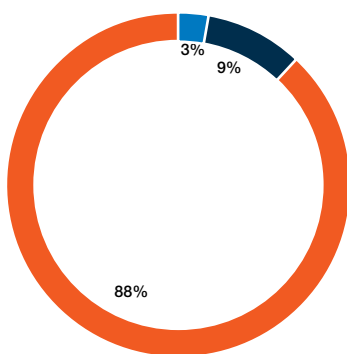


#### Accessibility to claims handlers



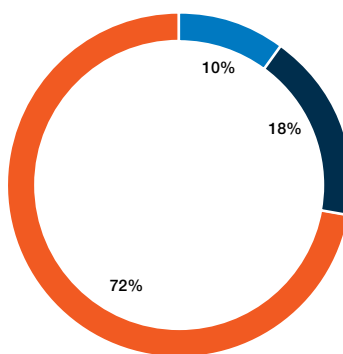
## Committee reports (continued)

Conduct and attitude of claims staff



■ Poor ■ Good ■ Excellent

Rate the overall response times by the Fund



### Remuneration Committee

Chairperson*	Meetings
M Ntyesi	3/3

Independent Specialist Member	Meetings
Dr Vuyo Mthethwa	1/3

Members*	Meetings
Ms P Makatini	3/3
Adv HS van Rensburg	3/3

#### By invitation

E Moolla, M Molefe, SD Maile, J Losper, P Ndima, Dr M Tsogang, R Burawundi, N Ngema, N Kraai

\*Appointed May 2021

#### Key Responsibilities

The Committee is responsible for advising the Fund on matters relating to the remuneration, as well as monitoring the review, development, and implementation of the remuneration policy, ensuring that there is fair consideration of remuneration matters, and recommend such for Board approval.

### The way forward

Our long-term strategy is to be recognised as a business unit that brings justice to victims of theft of trust funds by attorneys and restore integrity and trust into the attorneys' profession.

In the medium term, we will continue with our focus which is to add financial value to the Fund's business, promote effective governance and strong leadership by continuing to improve our services and maintaining compliance, build trusted business partnerships, be a trusted business unit, continue to build a client focus team and effectively manage our strategic and operational risk.

### In closing

The Committee confirms that it has functioned in accordance with its terms of reference for the 2021 financial year and that its report to stakeholders has been approved by the Board.

To the Fund's Board, management, employees and all our stakeholders thank you for all your support and the significant contributions during the past year.

#### Adv HS Janse van Rensburg and J Losper

Committee Chairperson

Claims Executive

#### Key focus areas for the Committee in 2021:

- The Committee finalised the 2020 performance incentives for Executives and staff for Board approval
- 2021 Salary increase and Performance Incentives consideration for Board approval

#### Focus areas in 2022:

- HR information for annual report management review
- Remuneration Policy review
- 2021 Salary increase and Performance Incentives consideration for Board approval
- Review and development of Human Resources policies
- Implementation of the human resources strategy and plan
- Succession management planning for the CEO and Executives
- CEO and Executives performance management

The Committee confirms that it has functioned in accordance with its terms of reference for the 2021 financial year and that its report to stakeholders has been approved by the Board.

#### M. Ntyesi

Remuneration Committee Chairperson

# Remuneration report

## Part I

### Remuneration governance

The LPFF Board oversees that the development, review and implementation of the remuneration policy and strategy are as recommended by King IV™ and ensures fair and responsible remuneration practices for the Board, its Committees, executive management, management, and the employees.

The Remuneration Committee consists of non-executive Board members, supported by a specialist member, and is governed by a Board-approved charter, remuneration policy and strategy.

The Remuneration Committee considers various factors when advising the Fund on matters relating to remuneration, such as relevant benchmarks, market conditions and documented input by Deloitte Remuneration Consulting on executive remuneration levels, to ensure that the LPFF provides competitive and cost-effective packages.

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. Members are remunerated through attendance fees per meeting, with a retainer where appropriate.

Mechanisms remain 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.

### Remuneration philosophy

The LPFF's remuneration philosophy is to use internally equitable and externally competitive yet affordable salary, benefits, and incentive structures to attract, retain and motivate qualified, skilled, and engaged employees to work towards achieving the Funds objectives.

The LPFF ensures that the employee remuneration is, as much as possible, benchmarked against industry peers and acceptable comparators. Benchmarks are derived from appropriate remuneration

surveys. The LPFF is committed to paying remuneration at levels that are competitive within the industry in which it operates (internally and externally).

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

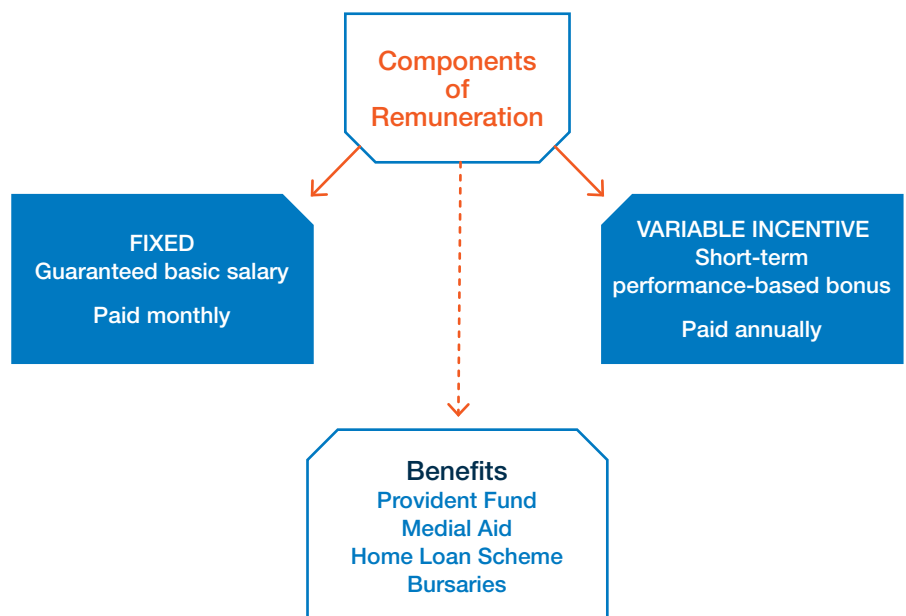
The purpose of this Policy is to implement the guiding principles of a standardised approach in the application of remuneration practices within the Fund as indicated below:

- Achieve stated objectives through increased employee productivity for the total employee spend.
- The LPFF aims to be market competitive in related labour markets. This is defined as the National general market based on graded information.
- Performance management forms an integral part of remuneration, and it influences both guaranteed packages and incentives.
- Ensure the sustainability of the Fund by attracting and retaining key talent.
- Adhere to best practices as defined in King IV.
- Expand the capabilities of our people, from both attraction of new talent and developing current talent, to sustain high performance.

Performance management at the Fund exists to support employees in optimising their performance in their current roles and to help people “unleash” their potential by supporting their ongoing development and growth. The performance management process is outlined as follows:

- The performance management system's objective is to drive the attainment of the strategic goals of the organisation. Key metrics are linked to annual business goals set at the CEO level and cascaded down to individual jobs in the organisation.
- Performance contracts, with key metrics, are negotiated before the beginning of each financial year.
- Formal performance reviews are held at least twice per annum.
- The outcome of the process is a rating that will influence annual package remuneration adjustments.

Performance incentives are awarded across all levels of the organisation.



## Remuneration (continued)

Performance bonuses are awarded to employees who met and exceeded the set performance targets of the performance cycle, as an incentive to reward and recognise employee performance and contribution to achieving the LPFF strategic objective. The size of the bonus is not set relative to the performance target but is determined relative to the state of the business and the performance of the employee within this business environment.

All executives are permanently employed with one-month notice periods, apart from the Chief Executive Officer, who has a five-year contract of employment that expires in October 2022.

The LPFF recognises that in its current strategic environment, the remuneration philosophy and policy and related practices are dynamic and shall therefore be revisited, reviewed, and revised annually to ensure that the LPFF keeps pace with changing market practices, organisational objectives, and industry context.

**The  
Remuneration  
Committee is  
satisfied that  
the Policy  
is achieving  
its current  
objectives**

### Part II – Implementation Report

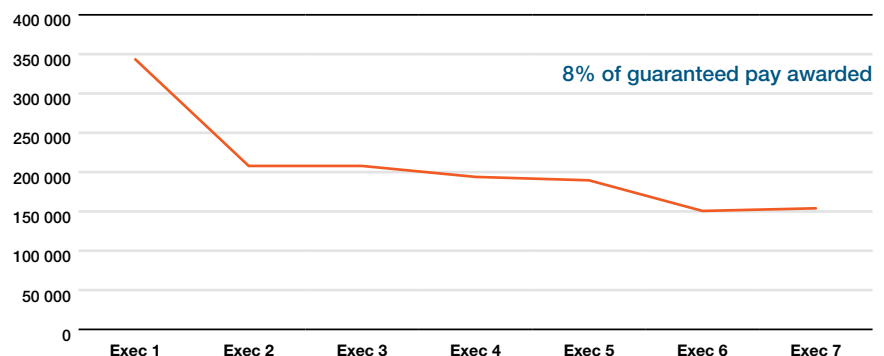
To ensure that the remuneration system of the LPFF has integrity and is legitimate, the implementation of practices and decisions are guided by the core remuneration principles, as set out in the remuneration policy, and the LPFF continues to be consistent in its application.

In 2021, the Remuneration Committee held a special meeting to, inter alia, make recommendations to the Board on the framework of Board, Committee, executive management, and staff remuneration. Benchmarking of executive remuneration was conducted and comprehensively reviewed, with the assistance of Deloitte Remuneration Consulting.

The Committee's recommendations regarding executive management and staff remuneration for 2021 was approved by the LPFF Board and the 2020 performance incentives were paid in September 2021. For 2021, the executive team and staff received an annual increase of 5% across all levels and no adjustments were made; in respect of 2021 performance incentives, the Board approved 8% of the executive's guaranteed pay and performance-based incentives for staff as recommended by REMCO.

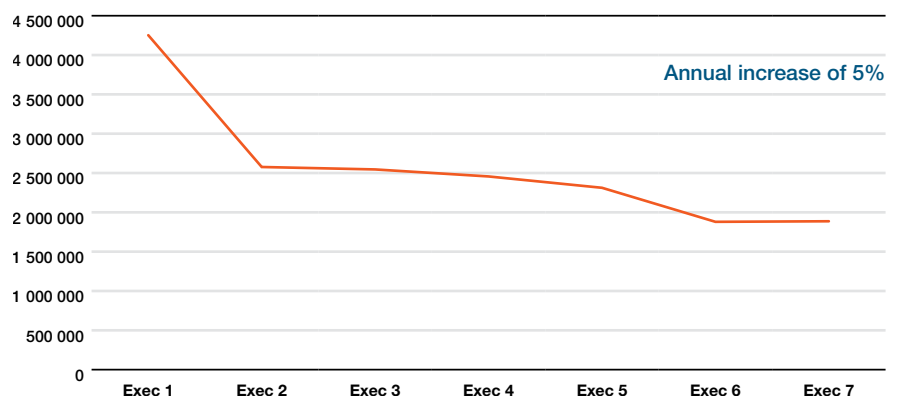
Illustrated below is the executive team's performance incentives:

#### 2021 Performance incentives – Executives



Illustrated below is the executive team's guaranteed remuneration:

#### 2021 Guaranteed remuneration – Executives



**Non-executive Directors fees**  
**A 5% increase was approved on non-executive director 2022 fees.**

The remuneration of the Board members and Committee members for 2021 follows below:

	Board	Audit & Compliance Committee	Risk Committee	Finance Committee	Investment Committee	Executive Committee	Treasury Committee	Governance Committee	Policy & Governance Committee	Claims Committee	Ad-Hoc Remuneration Committee	Assessment of Claims*	Total
<b>New Board Members</b>													
Ms T S Keikana	R28 938				R127 201	R571 638	R13 738	R6 869	R6 869		R8 289	R183 998	R940 671
Ms P Makatini	R33 279	R9 922	R11 093		R153 351	R246 518		R101 179			R15 798	R23 698	R761 451
Adv H Jansen Van Rensburg	R28 938			R25 884		R160 773				R24 867		R20 607	R900 236
Mr M Nkoyesi	R22 186					R184 889	R13 738	R71 094				R28 597	R350 327
Mr W Brown	R111 597				R103 685					R20 607	R6 869	R198 231	R470 785
Ms N Likotsi	R111 597	R17 256	R9 646	R25 884			R16 578			R6 869		R99 549	R287 379
Mr K Mokoena	R111 597	R17 256	R34 513				R6 869			R6 869		R247 908	R425 012
Mr CJ Ntsoane	R121 243		R30 253					R82 890		R20 607		R318 365	R673 358
Ms Z Nkosi	R111 597	R22 514	R23 384	R25 884			R6 869	R61 821				R28 109	R280 178
<b>Previous Board Members</b>													
Mr E Horn									R6 869			R77 433	R84 302
Ms K Mogale									R8 289				R8 289
Mr S Gule									R6 869			R1 288	R8 157
Mr EA Moolla		R9 922			R27 044						R7 899	R55 233	R100 098
Mr E Barry		R8 628										R37 482	R46 110
Mr XM Boqwana												R82 065	R82 065
Mr CP Fourie												R30 261	R30 261
Mr T Mhokonya												R97 266	R97 266
Ms N Kheswa												R38 402	R38 402
Mr P Pama												R50 162	R50 162
Mr K Alberts												R22 796	R22 796
Mr B Maswazi												R78 015	R78 015
<b>Independent Specialist members</b>													
C Fivaz**					R158 788						R6 869		R165 657
E Letty					R34 589								R34 589
L Konar		R27 793											R27 793
M Ramataboe		R16 568											R16 568
MJ Ndlovu									R81 145				R81 145
S Lewis									R16 229				R16 229
M Chauke			R32 458						R16 229		R6 869		R55 556
M Matome			R32 458						R23 098				R55 556
B Matsaneng				R32 458					R16 229				R48 687
MIA Ganie					R19 053								R19 053
A Adhikari		R11 257											R11 257
V Mthethwa									R16 229		R16 229		R32 458
H Daniels		R16 568							R19 053				R35 621
R Matenche													R52 470
	R680 972	R157 684	R173 805	R139 906	R676 181	R1 163 818	R57 792	R534 093	R79 819	R44 694	R97 030	R2 482 163	R6 287 957

\* The Assessment of Claims is considered by the 9 Board Members. Claims in excess of R200 000 and claims recommended for repudiation are referred to two Board Members, with delegated powers, for consideration and approval. The claims are sent to these Board Members on a rotational basis. The total claims forwarded to the Board Members is 273 with a combined value of R240 808 857.22, in respect of which they are compensated as set out in table above for the year under review, as a specialist.

\*\* Fees relating to Ms Fivaz represent accrued fees for the year under review, as a specialist.



## Risk management

The Fund defines enterprise risk management as a process that is:

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

### Risk philosophy

The Fund does not seek to eliminate all risks. Its approach is based on risk awareness, but not risk aversion, to effectively manage the uncertainty inherent in the environment. The Fund's Enterprise Risk Management (ERM) process identifies, understands, assesses, and responds to risks and opportunities, considering the impact on its people, standing, reputation, financial position, and performance. The Fund pursues 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.

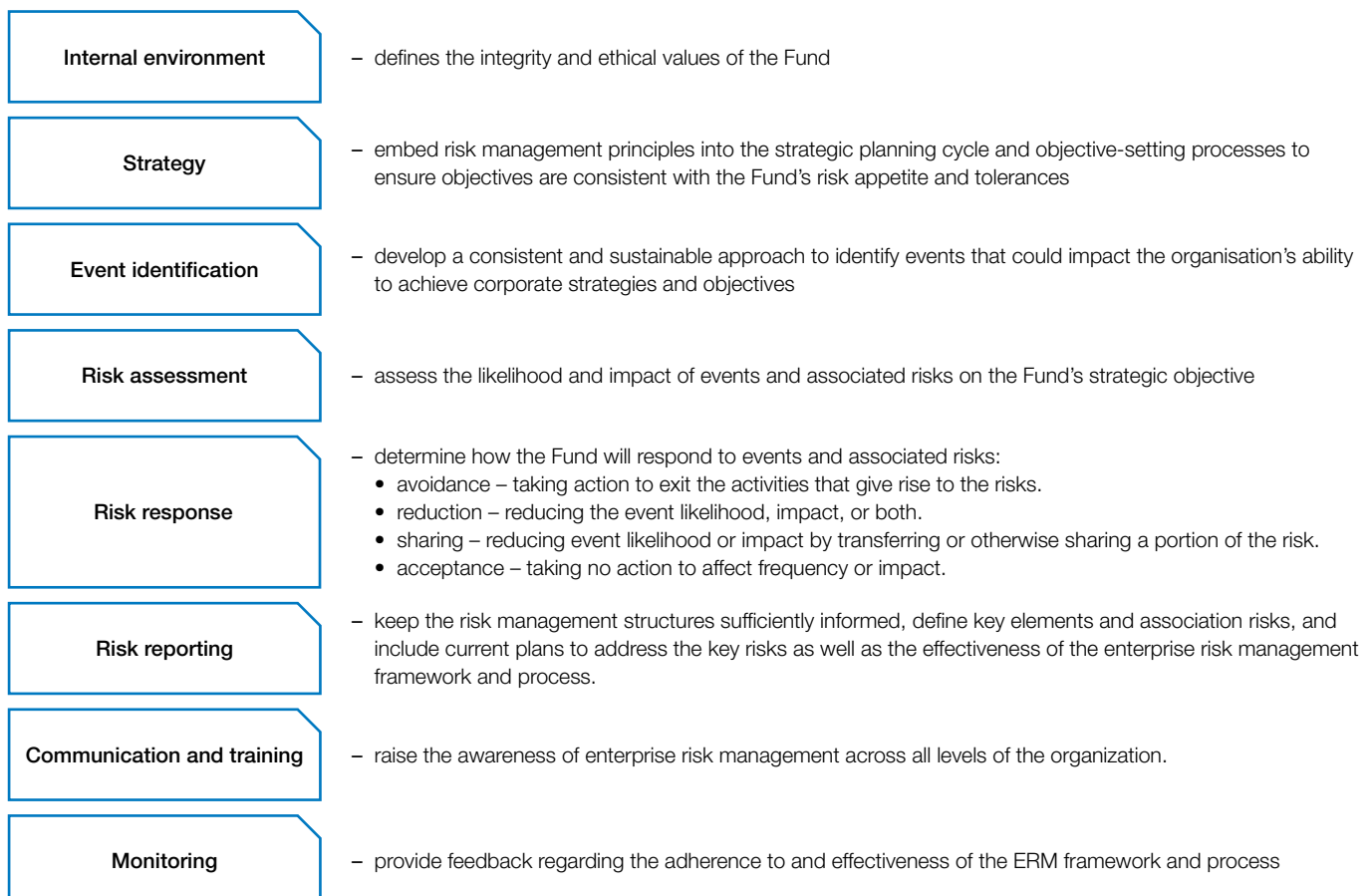
### Risk management process

Although the Fund's risk management is a business process, it does not function in isolation. Risk management is not a once-off activity but is performed daily as part of ongoing operations. For risk management to be effective, it needs to be integrated with all business functions, from strategic planning to a necessary and inherent component of all its operations.

### Role of the Board and its Committees

The Board is responsible for the implementation and oversight of the Fund's risk management process, and it expresses its opinion on the effectiveness of such processes. Through its Risk Committee, the Board assigns management accountability to design, implement and monitor risk management processes.

The risk management process consists of eight components:



When evaluating risks, the Fund reviews the likelihood of an impact and allocates ratings according to the following inherent risk rating scales:

Likelihood rating scale			Impact rating scale						
5	4	3	2	1	5	4	3	2	1
Certain	Likely	Possible	Unlikely	Rare	Catastrophic	Critical/Major	Significant/Moderate	Minor	Minimal/Insignificant
<b>Our capitals impacted</b>			Human capital	Financial capital	Manufactured capital	Social and relationship capital	Natural capital		

No.	Key risk description	Capitals Impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
1	<p><b>Risk description:</b> The increase in claims risk, increased liquidity risks within legal practices are contributing to the misappropriation of trust monies. The Fund has not only experienced an increase in the number and value of claims but is also exposed to significant risk in terms of its uncapped exposure to large single claims. The Fund's claim liability was unlimited 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 amount or property given on Trust to Trust account practice in the course of the practice of the attorney or an advocate referred in Section 34 (2)(b) as such. The Fund has been pursuing capping of claims as part of the determination required from the Minister.</p> <p><b>Strategic objective:</b> Reduce the unlimited liability per claim</p>	 Intellectual capital	 Impacted	 Impacted	<ul style="list-style-type: none"> <li>Accelerated economic downturn and impact of Covid-19 resulting in financial strain on legal practices, thus increasing the probability of misappropriation of trust monies.</li> <li>Increased liquidity risks within legal practices contribute to the misappropriation of trust monies.</li> <li>Reduced regulatory and disciplinary effectiveness by the Legal Practice Council.</li> <li>Regulatory model is not proactive and reacts to complaints from consumers of legal services.</li> <li>The Minister not gazetting the limit in respect of individual claims as required in terms of the Legal Practice Act (Reference: Strategy Objective 1.4 Dependancy)</li> <li>The assurance model in respect of trust account practitioners' compliance is not effective in addressing regulatory and Fund practitioner risk management requirements</li> </ul>	<ul style="list-style-type: none"> <li>The Fund does not meet its solvency capital requirement, may report in terms of Section 73(3) of the Legal Practice Act</li> <li>Increased regulatory funding cost</li> <li>Reputational damage to the Fund where it is unable to meet its claim liability</li> <li>The Fund's reinsurance program becomes unaffordable and/or it becomes uninsurable</li> <li>The consumer could lose trust in the legal profession as they are not compensated for the loss incurred</li> </ul>	<ul style="list-style-type: none"> <li>The successful prosecution of defaulters and the resulting deterrent in misappropriation by legal practitioners (preventative)</li> <li>The successful recovery of claims and related costs from defaulting attorneys, ensuring compliance with the reinsurance program, controlling re-admissions and deterring misappropriation by legal practitioners (preventative)</li> <li>Excuse legal practitioners to reduce claim values through the recovery of assets and create a deterrent to misappropriation by legal practitioners (preventative)</li> <li>Detailed claims assessment and validation process to ensure compliance with legislation (monitoring and corrective)</li> <li>Conduct inspections in terms of the Practitioner Risk Management Framework (preventative)</li> <li>Independent trust account audits aligned to the approved guideline issued by the Independent Regulatory Board of Auditors (preventative)</li> <li>Public awareness campaigns (preventative)</li> </ul>	<ul style="list-style-type: none"> <li>Engage with the Department of Justice to gazette the limit on individual claims</li> <li>Continue with the implementation of the Practitioner Risk Management Framework and conduct inspections in terms of the Legal Practice Act and the Rules</li> <li>Share risk through an appropriate re-insurance programme</li> <li>Engage with the Legal Practice Council to ensure that the regulatory and disciplinary processes prioritise the Fund's claim risks</li> <li>Through the annual appropriation ensure that the Legal Practice Council allocates adequate funds to exercise the regulatory mandate that reduces Claims risk</li> <li>Propose a legislative amendment to ensure the public display of fidelity fund certificates by legal practitioners – the link between FFC and theft; needs to be established for this to be effective</li> <li>Propose a legislative amendment to exclude Cryptocurrencies from the liability of the Fund (aligned with the reinsurance program)</li> </ul>



# Risk management (continued)

No.	Key risk description	Capitals impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
2	<p><b>Risk description:</b> Protect the safety and health of the Fund's staff and the public from possible infections with the Covid-19 virus at the Fund's offices</p> <p><b>Strategic objective:</b> improve disaster recovery and business continuity management and implement a safe working environment</p>	   	5	5	<ul style="list-style-type: none"> <li>Staff may not comply with disaster management regulations</li> <li>Staff exposure to possible infections or infected and/or showing symptoms at the Fund's facilities</li> <li>Fund health and safety policy may not adequately cover health and safety scenarios attributable to the pandemic to direct a safe working environment</li> <li>Staff may not be adequately informed and trained on the requirements of a safe working environment</li> </ul>	<ul style="list-style-type: none"> <li>Staff may get sick and resultantly lose a life</li> <li>Closure of Fund premises and lack of access by staff and the public</li> <li>Liability for compliance officers and Covid-19 response managers</li> <li>Unsafe working environment</li> <li>Increased compliance costs for creating and maintaining a safe working environment</li> </ul>	<ul style="list-style-type: none"> <li>Continuous Covid-19 response plan monitoring of preventative measures (preventative; monitoring)</li> <li>Maintaining sanitation, including surface cleaning</li> <li>Screening of visitors and staff, depending on availability of response plan based on latest regulations</li> <li>Continuous communication on social distancing where necessary and relevant</li> </ul>	<ul style="list-style-type: none"> <li>Continuous revision of staff rotation schedule – scenario plans required</li> <li>Continuous review and update of response plan based on latest regulations</li> </ul>
3	<p><b>Risk description:</b> Third-party demands on the Fund's financial resources – The Fund provides professional indemnity insurance cover to all legal practitioners holding a fidelity fund certificate without contributions. This premium has been escalating. The Fund also provides an annual appropriation to the Legal Practice Council.</p> <p><b>Strategic objectives:</b> to manage costs, improve enterprise risk management, generate income; improve the Legal Practice Act</p>	  	5	5	<ul style="list-style-type: none"> <li>Delay by the Board to impose contributions by legal practitioners as stipulated in the Legal Practice Act</li> <li>Unavailability of funding was required for risk-mitigating actions</li> <li>The Board previously resolved to delay the implementation of the agreed phased contribution by legal practitioners</li> <li>The Fund may not impose contributions from legal practitioners</li> <li>Increased PI risk attributable to the LPIIF through the conduct of legal practitioners</li> <li>Inability of the Legal Practice Council to generate adequate income</li> <li>Inability of Legal Practice Council and Board to generate annual contribution Section 74(3)</li> </ul>	<ul style="list-style-type: none"> <li>The Fund will become insolvent</li> <li>Providing free PI cover is not affordable and the LPIIF could be placed in run-down</li> <li>The Fund will breach its Solvency capital requirements if the current position continues</li> <li>Continued withdrawals from the Fund's investment portfolio</li> <li>Increase in legal practitioners practising without Fidelity Fund Certificates due to non-payment of contributions</li> <li>The Fund not meeting Solvency Capital requirements resulting in Section 73(3) reporting requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Approval of expenditure referred to the Finance Committee and the Board if it will be over the budget. The approval of expenditure is performed by the Board. The Board will consider the opinion of the actuaries before approval, then it will consider budget representations made in terms of the funding request</li> <li>Report by the actuary in terms of Section 72 and Section 73 of the Legal Practice Act</li> <li>Budget Approval (preventative)</li> <li>Reviewing and monitoring expenditure against budget through variance analysis and reporting to the Finance Committee and the Board (Monitoring)</li> <li>The Fund performs actuarial calculations to determine premium affordability and contribution requirements for consideration and approval of payment and contributions by the Board (preventative)</li> <li>A Fidelity Fund Certificate is issued where a legal practitioner has contributed in respect of PI cover (preventative)</li> <li>The PI cover is determined through actuarial calculations to ensure LPIIF compliance with Prudential requirements</li> <li>LPIIF premium reviewed and approved by LPIIF Board O25</li> </ul>	<ul style="list-style-type: none"> <li>Continuous transparent process in determining the annual appropriation to the Legal Practice Council</li> <li>Continuous engagement with the relevant stakeholders to sensitise them to Section 73 of the Legal Practice Act</li> <li>Frequent actuarial reviews to confirm sustainability and Solvency</li> <li>Implementation of a five-year plan, commencing in 2018 to restructure the LPIIF funding model. Strong resistance from the profession. Engagement plan implemented. The National Council is empowered to collect premium contributions from attorneys in terms of the Legal Practice Act. (action)</li> <li>Further engagements with Legal practices on the continued implementation of PI cover</li> <li>LPIIF Board must consider the LPIIF strategy which is intended to remove dependence on the LPIIF.</li> <li>Implementation of PI contributions by legal practitioners</li> </ul>

No.	Key risk description	Capitals Impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
4	<p><b>Risk Description:</b> Diminishing Trust interest revenue. Susceptibility of the Fund's revenue to fluctuations in interest rates and the value and duration of monies held in trust under the exclusive control of the legal practitioner, further offset by high transaction and assurance costs. Not all Trust interest income that vests with the Fund is paid over to the Fund. Change in transaction models (Escrow and Guarantees)</p> <p><b>Strategic objectives:</b> to generate income; enhance the return on trust accounts and improve the Legal Practice Act</p>		5	5	<ul style="list-style-type: none"> <li>Reduction in interest rates; decline in interest rate by 300 basis points and the estimated decline of Trust interest income to R300 million.</li> <li>Reduction of the underlying value and shorter duration of trust funds held in terms of Section 86 (2), 86 (3) and 86 (4)</li> <li>High assurance costs on trust accounts which becomes unaffordable to legal practitioners with diminished benefit to the Fund</li> <li>Dependence on Legal Practice Council to impose sanctions on non-compliant firms</li> <li>Manual interest payment processes by legal practitioners</li> <li>The Fund Collection Management System is not fully implemented</li> <li>Competition within trust account environments</li> <li>Inability to change rate of interest earned on Section 86 (4) (Strategic objective 1.1 dependency 2 i)</li> </ul>	<ul style="list-style-type: none"> <li>Utilisation of the Funds asset base to cover declining interest rates</li> <li>Incomplete interest collections resulting in financial loss</li> <li>Unable to initiate regulatory processes where Trust interest income is not correctly recorded</li> <li>Incorrect determination of audit and bank charges refunds to firms</li> <li>LPC not able to approve audit reports</li> </ul>	<ul style="list-style-type: none"> <li>Concluded agreement with financial institutions in terms of Section 63(1)(g) of the Legal Practice Act and ensure compliance through monitoring of transactions, bank charges, interest rates and interest received (preventative, detective and monitoring)</li> <li>Review of calculation of audit fee reimbursement on legal practitioner trust accounts (preventative and monitoring)</li> <li>Independent assurance provided by registered auditors</li> </ul>	<ul style="list-style-type: none"> <li>Continuous engagements with stakeholders on practices that reduce transaction flows</li> <li>Continuous design of appropriate incentives for maximising Trust Income</li> <li>Continuous improvement of Trust Interest Portfolio Management Strategies</li> <li>Effective management of own collection systems</li> <li>Revise budgets considering the decline in interest rates</li> <li>Scenario planning considering further rate reductions and increased claims risks</li> <li>Implementation of Fund Collection Management System based on project timelines</li> </ul>

# Risk management (continued)

No.	Key risk description	Impact Likelihood	Capitals Impacted	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
5	<p><b>Risk description:</b> Safeguard staff and members of the public against possible infection from the Covid-19 pandemic at the Fund's premises</p> <p><b>Strategic objective:</b> Improve disaster recovery and business continuity management</p>	5	  	<ul style="list-style-type: none"> <li>Staff and offices may be affected by Covid-19</li> <li>Lack of multi-skills by employees useful to perform multiple duties</li> <li>Potential inflexibility and unreliability of the current leave policy to cover employees during this pandemic period</li> <li>Inadequate Group life cover and dread diseases policies</li> <li>Inadequate health and safety of employees at work facilities may create worry and anxiety among employees</li> <li>Incident operations escalation procedures to provide additional resources may not be adequate</li> </ul>	<ul style="list-style-type: none"> <li>Team not effective under all circumstances to deliver on objectives including the ability to work remotely</li> <li>Reduced available capacity</li> <li>Illness may cause a significant decrease in available resources due to a lockdown of the office</li> <li>Worry and anxiety among employees may result in low morale and reduced output</li> <li>Unproductivity of staff and not adding value to the Fund</li> </ul>	<ul style="list-style-type: none"> <li>Framework and response plans implemented (preventative and monitoring)</li> <li>Physical access restrictions and security, monitored daily (preventative and monitoring)</li> </ul>	<ul style="list-style-type: none"> <li>Long-term succession plan in respect of the key status to be provided</li> <li>Each divisional head to provide assurances and succession plans</li> </ul>
6	<p><b>Risk description:</b> Cyber risk threats – exposure of the Fund to losses as a result of malicious and non-malicious cyber threats</p> <p><b>Strategic objective:</b> Implement IT-based information management</p>	4	  	<ul style="list-style-type: none"> <li>Possibility of staff connecting to unsecured network environments offsite.</li> <li>Increase in cyber attack attempts and possible loss of data</li> <li>Cyber attacks as a global phenomenon is a source of:                             <ul style="list-style-type: none"> <li>Unauthorised VPN access</li> <li>Unauthorised devices on the Funds network</li> <li>Identity theft can compromise the security</li> <li>Public facing systems is a possible source of cyber risk</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Reputational damage and loss of trust in the Fund</li> <li>Loss of personal information of firms, practitioners, claimants and other stakeholders</li> <li>Encryption of systems held at ransom</li> <li>Data can be destroyed</li> <li>Financial loss</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of recommendations from internal and external auditors to improve general and application control environment (preventative and corrective)</li> <li>Encryption of sensitive information (preventative)</li> <li>Regular controlled penetration testing, review of results and implementation of recommendations to address exceptions and gaps identified (preventative, corrective, monitoring)</li> <li>End-user education and awareness (preventative)</li> <li>Passwords life cycle management (preventative)</li> <li>Upgrade of firewalls and enhancement of existing policies (preventative and monitoring)</li> <li>Email gateway security – Mimecast (preventative, corrective, and monitoring)</li> <li>Antivirus (preventative, corrective, monitoring)</li> <li>Web filtering restricting internet access and the download and installation of applications (preventative)</li> <li>Physical access restrictions to Fund premises, monitored daily (preventative and monitoring)</li> <li>All VPN connections are authenticated via username &amp; password (preventative)</li> <li>All Fund's devices Laptops are loaded with Fortinet Firewall Client for connection and are authenticated (preventative)</li> <li>The software cannot be replicated to another device and requires active directory authentication (preventative)</li> <li>Daily monitoring of technology infrastructure performance and monitoring of suspicious activities and react to treats (preventative and monitoring)</li> </ul>	<ul style="list-style-type: none"> <li>Continuous implementation of the security plan (Blue code implementation and further cyber risk education) (Motse Tsogang)</li> <li>Restructuring network topology with regard to various offices (Tlisseto Toloane)</li> <li>Disabling unauthorized external devices (Kevin Shelton)</li> <li>Define and implement demilitarisation of networks for public-facing systems (Motse Tsogang and Tlisseto Toloane)</li> <li>Formulate and test cyber risk response plan (Motse Tsogang and Tlisseto Toloane)</li> <li>Renewal of cyber risk insurance (Motse Tsogang and Nozipho Ngema)</li> <li>Education and awareness of VPN users of risks. (Tlisseto Toloane)</li> <li>Restricting unauthorised access to VPN. (Kevin Shelton)</li> <li>Restrict the use of open WIFI facilities. (Kevin Shelton)</li> <li>Biometric access success rate review (preventative, monitoring) (Motse Tsogang; Nelisiwe Thloaele; Thomas Mutsimba)</li> </ul>









No.	Key risk description	Capitals Impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
7	<p><b>Risk description:</b> Inappropriate and inadequate IT Systems to meet business objectives; effective IT systems utilisation and continuous improvement to address business objectives</p> <p><b>Strategic objective:</b> People and technology – implement Digital Workforce Platform and IT-based information management</p>		4	5	<ul style="list-style-type: none"> <li>– Project timelines delayed</li> <li>– Ongoing changes in business requirements</li> <li>– Clearly defined results fat the scoping stage of projects</li> <li>– Project cost and budget limitations</li> <li>– Lack of understanding of business requirements</li> <li>– Constraints on IT personnel on the rollout of projects</li> <li>– Lack of participation by business in IT Projects</li> <li>– "BAU" work takes precedence over projects</li> <li>– Availability and skill of users to define business requirements</li> <li>– Unapproved data and information policy</li> </ul>	<ul style="list-style-type: none"> <li>– Possible misalignment of IT project to business requirements</li> <li>– Possible project cost overruns</li> <li>– Business may not able to meet its deliverables as defined in its mandate</li> </ul>	<ul style="list-style-type: none"> <li>– IT Project governance implemented to ensure delivery of the project expectations, aligned with the IT strategy (preventative, corrective and monitoring)</li> <li>– IT Project methodology adopted and implemented (preventative, corrective and monitoring)</li> <li>– Document Enterprise Business requirements for appropriate and adequate ICT systems to meet business objectives. (preventative, corrective and monitoring)</li> <li>– Business needs analysis regarding existing ICT capability to meet business demands. (preventative, corrective and monitoring)</li> </ul>	<ul style="list-style-type: none"> <li>– Continuous review and update of the implementation roadmap (CIO) (Monthly)</li> <li>– Project Steering Committee continues to meet to ensure delivery of project objectives inclusive of IT, business and external stakeholders (Senior Management and Executive) (Monthly)</li> <li>– Continuous enterprise architecture planning (CIO and Business Analysts/Enterprise Architect) (Quarterly)</li> </ul>
8	<p><b>Risk description:</b> to prevent crime perpetrated against the Fund and minimise exposure of the Fund to losses perpetrated through fraud resulting from collusive criminal behaviour</p> <p><b>Strategic objective:</b> to improve disaster recovery and business continuity management, and improve the inspection process</p>		4	4	<ul style="list-style-type: none"> <li>– Lack of appropriate and unclear delegation of authority</li> <li>– Inadequate segregation of duties</li> <li>– Lack of skilled and knowledgeable staff to identify fraud and schemes</li> <li>– Impersonating authorising signatories of the Fund</li> <li>– Incidents may not be investigated to identify route causes</li> <li>– Failure to review policies and procedures</li> <li>– Lack of compliance monitoring</li> <li>– Collusion between staff and/or external parties</li> </ul>	<ul style="list-style-type: none"> <li>– Financial loss to the Fund</li> <li>– Reputational damage</li> <li>– Loss of assets</li> </ul>	<ul style="list-style-type: none"> <li>– Staff trained and educated in respect of its approved policies and procedures (preventative)</li> <li>– Staff awareness of the Fund's anti-fraud policy and strategy (preventative)</li> <li>– Compliance checks and reviews by management (monitoring and corrective)</li> <li>– Investigation and implementation of internal and external audit findings and subsequent follow up to confirm effectiveness (monitoring, corrective and preventative)</li> <li>– Insurance policies in place</li> <li>– Physical access restrictions to Fund premises, monitored daily (preventative and monitoring)</li> <li>– Implementation of disciplinary action outcomes (preventative, monitoring and corrective)</li> <li>– Investigation and review of TRUSTLINE tip-offs anonymous reported incidents and implementation of corrective measures (detective and monitoring)</li> <li>– Segregation of duties defined in approved processes and procedures (preventative)</li> <li>– Authorised signatory profiles and authorities defined in online banking systems (preventative)</li> </ul>	<ul style="list-style-type: none"> <li>– Finalise and implement the delegation of authority</li> <li>– Quarterly verification of physical assets</li> <li>– Finalise review of online profiles and authorities</li> </ul>

# Risk management (continued)





No.	Key risk description	Capitals impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
9	<p><b>Risk description:</b> Effective stakeholder engagement is critical to ensure that the Fund is aligned with what stakeholders expect and that stakeholder reasonable expectations are met</p> <p><b>Strategic objective:</b> To educate consumers of legal services, improve alignment with legal profession structures and improve communication</p>		4	4	<ul style="list-style-type: none"> <li>No agreement with the legal profession on implementation of the Practitioner Risk Management Framework</li> <li>Significant financial risks affecting stakeholder relationships including the LPC funding expectations and the financial impact of the Fund strategies on legal practitioners (Strategic objective 3.6 dependent 1 derived)</li> <li>Lack of public awareness of the Fund and its purpose</li> </ul>	<ul style="list-style-type: none"> <li>The Fund's strategic objectives cannot be implemented or are delayed</li> <li>Trust is eroded between stakeholders</li> <li>Increased reputational damage</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders engagement plan implementation (preventative, corrective and monitoring)</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Management Plan must be reviewed and updated for consideration by the new Board, in line with the Fund's strategy</li> <li>Escalate awareness campaigns to legal practitioners, claimants and the public</li> </ul>
10	<p><b>Risk description:</b> Investment risk – susceptibility of the Fund investment returns to changes in market conditions (economic, social, political, legal, regulatory fundamentals) and withdrawals to meet the Fund's liabilities</p> <p><b>Strategic objective:</b> Enhance the return on trust accounts and generate income</p>		5	3	<ul style="list-style-type: none"> <li>Losses arising from changes and significant fluctuations in market conditions</li> <li>Declined in economic conditions (Local and foreign)</li> <li>Downgrade by rating agencies</li> <li>Non-compliance with investment regulations</li> <li>Non-adherence to the Fund's investment strategy and mandates</li> <li>Continued capital withdrawals to meet Fund liabilities as its trust interest income is declining and insufficient to meet the obligations</li> </ul>	<ul style="list-style-type: none"> <li>Fund's assets not growing at the rate to meet increased liabilities and obligations</li> <li>The Fund not meeting Solvency Capital requirements resulting in Section 73(3)</li> <li>The Fund may be exposed to risk outside its statutory mandate in that it is not compliant with investment regulations</li> <li>Asset managers not meeting investment mandate</li> <li>Fund may become insolvent</li> </ul>	<ul style="list-style-type: none"> <li>Risk Consultants and Investment Executive perform quarterly due diligence on all asset managers and report to the Investment Committee, ensuring compliance and adherence to mandates and implementation of recommendations (preventative, detective, monitoring and corrective)</li> <li>Independent performance assessment of each manager (preventative, detective, monitoring and corrective)</li> <li>Implemented and monitored compliance with strategic and tactical asset allocation as adopted by the Investment Committee and recommendation and input from Fund actuary (preventative)</li> <li>Regular review of benchmarks and compliance by management (preventative, detective, monitoring and corrective)</li> </ul>	<ul style="list-style-type: none"> <li>Continuous review of asset allocation limits</li> <li>Quarterly review of strategy and tactical asset allocation</li> <li>Investment Committee resolved to maintain the current investment philosophy and to review the strategic asset allocation in 2021</li> <li>Sustainability report</li> <li>Monthly solvency calculations (starting March 2020)</li> </ul>

No.	Key risk description	Capitals Impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
<b>11</b>	<p><b>Risk description:</b> Constrained staff capacity to deliver on the Fund's mandate. The current skills are appropriate for the current environment, yet may not be completely appropriate, suitable and available for the future.</p> <p><b>Strategic Objective:</b> Manage people and technology capacity</p>		<b>3</b>	<b>4</b>	<ul style="list-style-type: none"> <li>Illness may cause high absenteeism</li> <li>Lack of staff wellbeing and available programs</li> <li>Inability to attract and retain staff due to inappropriate remuneration and incentive policies that are not related to the market</li> <li>The culture of the organisation is not aligned with personal growth and objectives</li> <li>Incident operations escalation procedures to provide additional resources may not be adequate</li> <li>Existing staff does not have the relevant skills and knowledge to support operational requirements</li> <li>Inadequate training and educational programs aligned with future business requirements</li> <li>Limited career opportunities and progression</li> <li>Inadequate business unit planning for training of staff</li> <li>Senior management capacity for coaching and mentoring of successors</li> <li>Inadequate individual performance support</li> <li>Lack of motivation of staff</li> <li>Low staff morale</li> </ul>	<ul style="list-style-type: none"> <li>High absenteeism rate/reduced available capacity;</li> <li>Lack of multi-skills by employees useful to perform multiple duties</li> <li>Loss of key staff</li> <li>Unable to attract and retain talent</li> </ul>	<ul style="list-style-type: none"> <li>Strategic planning incorporates resource and skills planning approved by the Board (preventative and monitoring)</li> <li>Employee developmental plans based on new required competencies and positions required (preventative)</li> <li>Performance Management system operational (monitoring and corrective)</li> <li>Retention strategies with regards to Home loans, skills and development and market-related remuneration (preventative)</li> </ul>	<ul style="list-style-type: none"> <li>Continuous development and fully implement Talent Management policy (Ongoing)</li> <li>Development and implementation of Retention strategy (Nomonde Kraai) (End of Quarter 2)</li> <li>Review of cover ratio for succession purposes and implementation for succession purposes (Nomonde Kraai and Senior Management) (End of Quarter 2)</li> <li>Continuous review of operational status and the update of succession management (preventative, corrective and monitoring) (Nomonde Kraai and Senior Management)</li> <li>Workforce planning (Nomonde Kraai) (Annual plan)</li> <li>Continuous re-skilling of employees on future technology capabilities (Nomonde Kraai; ICT)</li> <li>Implementation of succession management guidelines (Nomonde Kraai and Senior Management) (End of Quarter 3)</li> <li>Development and implementation of a staff engagement plan (Quarter 2, 2022)</li> </ul>
<b>12</b>	<p><b>Risk description:</b> Failure of business continuity and disaster recovery plans; the inability of the Fund to continue to operate after the occurrence of an incident due to the failure of the business continuity plan</p> <p><b>Strategic objective:</b> Improve disaster recovery and business continuity management</p>		<b>4</b>	<b>3</b>	<ul style="list-style-type: none"> <li>The organisation may not be effective under all circumstances to deliver on business objectives</li> <li>Connectivity for staff under strain to work remotely and effectively</li> <li>Unplanned scenario disrupts business operations</li> <li>Lack of consistent testing of the adequacy of the BC and DR plan</li> <li>Service provider fails to support in terms of agreements</li> </ul>	<ul style="list-style-type: none"> <li>Reputational damage</li> <li>Reduced service delivery</li> <li>Loss of data and information</li> <li>Financial losses (assets and restoration costs)</li> <li>Inability to meet operational obligations which may result in financial losses</li> </ul>	<ul style="list-style-type: none"> <li>Continuous monitoring and review of compliance to service level agreements and contracts for adherence to Business Continuity Requirement (preventative and monitoring)</li> <li>Continuous BCP and DRP processes and testing (preventative)</li> </ul>	<ul style="list-style-type: none"> <li>Review and improve the business continuity plans, retaining evidence of testing results and actions (CIO and ICT Manager) (End of Quarter 3)</li> <li>Reassess requirements having regard for solutions implemented as a result of the Covid-19 pandemic (ongoing and ad-hoc) (Senior management)</li> </ul>

# Risk management (continued)

No.	Key risk description	Capitals impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
13	<p><b>Risk description:</b> Non-adherence to Occupational Health and Safety policies and legislation</p> <p><b>Strategic objective:</b> Improve corporate governance, disaster recovery and business continuity management</p>	   	3	3	<ul style="list-style-type: none"> <li>Increased risks arising from OHSA not being followed and when there are possible changes to existing regulations they may not be filtered through and compiled with</li> </ul>	<ul style="list-style-type: none"> <li>Financial losses due to fines, penalties, compensatory damages, and jail time</li> <li>Potential liability towards staff, tenants, and visitors</li> <li>Injury and loss of life</li> </ul>	<ul style="list-style-type: none"> <li>Regular inspection of Fund's facilities and assets (including vehicles) for compliance (preventative and monitoring)</li> <li>Independent Health and Safety consultant/assessor appointed to confirm compliance (monitoring, corrective and preventative)</li> <li>Implementation of Health and Safety consultant/assessor recommendations to resolve non-compliance (corrective and preventative)</li> <li>Health and Safety representatives and co-ordinators continuously trained in required processes and procedures (preventative)</li> <li>Implementation of emergency evacuation plans and procedures, tested at required intervals (preventative)</li> <li>Implementation of disciplinary action outcomes (preventative, monitoring and corrective)</li> <li>Reviewing that service and maintenance of facilities and assets are executed in accordance with scheduled service and maintenance in register and service level agreements (monitoring and detective)</li> <li>Implementation of recommendations from accident investigations (corrective and preventative)</li> <li>Education and training of staff in relevant policies (preventative)</li> </ul>	<ul style="list-style-type: none"> <li>Continuous review of legislation to define all risks and exposures.</li> <li>Continuous employee wellness-screening</li> <li>Continuous OHS Awareness Campaigns</li> <li>Health and Safety induction.</li> </ul>
14	<p><b>Risk description:</b> Non-adherence to applicable legislation, policies and procedures</p> <p><b>Strategic objective:</b> Improve corporate governance</p>	   	2	4	<ul style="list-style-type: none"> <li>Non-compliance with statutory requirements, regulations, policies and procedures</li> <li>Staff not trained or educated in compliance requirements</li> <li>Non-compliance with POPI Act</li> </ul>	<ul style="list-style-type: none"> <li>Reputational damage</li> <li>Financial losses due to fines, interest and/or penalties</li> <li>Personal liability</li> <li>Criminal prosecution</li> <li>Civil prosecution</li> </ul>	<ul style="list-style-type: none"> <li>Regular compliance monitoring and reviews by management (preventative, corrective and monitoring)</li> <li>Audit and Compliance Committee reviews adequacy and appropriateness of compliance programs (monitoring)</li> <li>Review and investigate TRUSTLINE tip-offs</li> <li>anonymously-reported incidents and implementing the appropriate actions and controls in line with the Fund's policies and procedures (detective and monitoring)</li> <li>Policies and procedures in place (preventative)</li> <li>Implementation of disciplinary action outcomes and training (preventative, monitoring and corrective)</li> </ul>	<ul style="list-style-type: none"> <li>Continuous implementation of recommendations from the internal audit reviews (Board Secretary and Senior Management) (Ongoing)</li> <li>Enable the compliance function in the integrated risk management system (Risk and Compliance)</li> <li>Develop and implement approvals framework/delegation of authority</li> </ul>



No.	Key risk description	Capitals impacted	Likelihood	Impact	Risk Causes/Identification	Risk Consequences/Analysis	Key Controls	Further mitigations and opportunities
15	<p><b>Risk description:</b> Inadequate institutional knowledge may affect the ability of the Fund's strategic objectives</p> <p><b>Strategic objective:</b> Improve corporate governance</p>	   	1	1	<ul style="list-style-type: none"> <li>- Interference by member organisations and the regulator on the decisions and activities of the Board</li> <li>- Board members not being independent</li> <li>- Conflicts of interest</li> <li>- Lack/inadequacy of clearly formulated delegation of authority policy covering all Fund operations</li> <li>- Committees may operate outside their approved charters</li> </ul>	<ul style="list-style-type: none"> <li>- Decisions not made in the interest of the Fund</li> <li>- Decisions are delayed</li> <li>- Stakeholder engagements could be strained and objectives misaligned</li> <li>- Non-compliance with the Legal Practice Act</li> </ul>	<ul style="list-style-type: none"> <li>- The Board and Committee charters are reviewed and approved annually (preventative and monitoring)</li> <li>- Composition, term and election of the Board are outlined in the Legal Practice Act and the Rules (monitoring)</li> <li>- Board and committee member evaluation (monitoring)</li> <li>- Board secretary and compliance officer activities (preventative and monitoring)</li> <li>- Board Committee compositions require specialist members to execute mandates (preventative, monitoring)</li> </ul>	<ul style="list-style-type: none"> <li>- Stakeholder engagement (CEO)</li> <li>- Training including induction of the new Board and Committees (Board Secretary)</li> <li>- Board training conducted to improve board member knowledge of the Fund's business environment, governance, standards, best practice and compliance (preventative)</li> <li>- Retention of skills and knowledge in committees (Policy Committee and the Board)</li> <li>- Formulate delegation of authority policy and adoption thereof (Board Secretary and Senior Management)</li> </ul>

# Annual Financial Statements

for the year ended 31 December 2021

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## General information

<b>Country of incorporation and domicile</b>	South Africa
<b>Members of the Board</b>	Ms T Kekana – Chairperson Ms P Makatini – Vice-Chairperson Mr W Brown Mr M Ntyesi Ms Z Nkosi Mr K Mokoena Ms N Likotsi Mr CJ Ntsoane Adv H Jansen Van Rensburg SC
<b>Auditor</b>	BDO South Africa Incorporated Chartered Accountants (SA) Registered Auditors
<b>Secretary</b>	Shadrack Maile
<b>Level of assurance</b>	These financial statements have been audited in compliance with the applicable requirements of the Legal Practice Act 28 of 2014.
<b>Preparer</b>	The financial statements were independently compiled by: Lisa Roodt CA (SA)
<b>Issued</b>	30 March 2022

## Board's Responsibilities and Approval

The Board 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 financial statements and related financial information included in this report. It is their responsibility to ensure that the 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 the Fund's accounting policies as set out in these financial statements. The external auditor is engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with the Fund's accounting policies as set out in these financial statements consistently applied and supported by reasonable and prudent judgements and estimates.

The Board acknowledge that it is ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong control environment. To enable the Fund to meet these responsibilities, the Board 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 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Board has reviewed the Fund's cash flow forecast for the year to 31 December 2022 and, in light of this review and the current financial position, they are 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 financial statements. The financial statements have been examined by the Fund's external auditors and their report is presented on pages 72 to 73.

The financial statements set out on pages 72 to 101, which have been prepared on the going concern basis, were approved by the Board on 25 March 2022 and were signed on its behalf by:

Signed on behalf of the Board by:



**Ms T Kekane**  
*Board Chairperson*



**Mr M Molefe**  
*Chief Executive Officer*



**Ms Z Nkosi**  
*Chairperson of Audit & Compliance Committee*



# Report of the Board

The Board has pleasure in submitting its report on the financial statements of the Legal Practitioners' Fidelity Fund for the year ended 31 December 2021.

## 1. Incorporation

Section 53 of the Legal Practice Act 28 of 2014 provides for the existence of the Fund as a juristic person under the name Legal Practitioners' Fidelity Fund.

## 2. Nature of business

The Legal Practitioners' Fidelity Fund was 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 Fund's business from the prior year.

## 3. Review of financial results and activities

The financial statements have been prepared in accordance with the Fund's accounting policies as set out in these financial statements and the requirements of the Legal Practice Act 28 of 2014. The accounting policies have been applied consistently compared to the prior year. There has been a restatement of the unidentified and unclaimed trust monies as described in the notes to the financial statements.

Full details of the financial position, statement of financial performance and cash flows of the Fund are set out in these financial statements.

## 4. Board and Management Structure

### Board

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

Name	Nationality
Ms T Kekana Chairperson	South African
Ms P Makatini Vice-Chairperson	South African
Mr W Brown	South African
Mr M Notyese	South African
Ms Z Nkosi	South African
Mr K Mokoena	South African
Ms N Likotsi	South African
Mr CJ Ntsoane	South African
Adv H Jansen Van Rensburg SC	South African

### Management Structure

Name	Position
Mr M Molefe	Chief Executive Officer
Ms N Ngema	Fund Management Executive
Mr J Losper	Claims Executive
Mr R Burawundi	Investment Executive
Dr M Tsogang	Chief Information Officer
Ms P Ndimma	Senior Claims Manager
Ms N Kraal	Senior Human Resources Manager
Mr S 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 other material event which occurred after the reporting date and up to the date of this report.

## 6. Going concern

The greater impact of the pandemic on operations this year stemmed from significantly lower interest earned on Trust accounts, both due to lower interest rates flowing from 2020 and lower collection from legal practitioners. When taken together with much higher claims, this had a notably negative impact on profitability and reserves. This raised an alarming concern for future sustainability if this trend continues in upcoming years. The Fund's traditional revenue stream is expected to remain depressed until interest rates improve, and the level of economic activity improves i.e. trust balances increase.

The Board believes that the Fund has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis.

## 7. Board 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
- Treasury Committee
- Investment Committee
- Claims Committee
- Policy and Governance Committee

## 8. Auditors

BDO South Africa Incorporated were appointed as auditors of the Fund effective from the current financial year. The appointment is for a period of five years.

## 9. Secretary

The board secretary is Mr Shadrack Maile whose business and postal address is as follows:

### Postal address:

PO Box 3062, Cape Town  
South Africa, 8000

### Business address:

5th Floor, Waalburg Building  
28 Wale Street, Cape Town  
South Africa, 8001



## Independent Auditor's Report

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

#### Opinion

We have audited the financial statements of the Legal Practitioners' Fidelity Fund (the fund) set out on pages 74 to 101, which comprise the statement of financial position as at 31 December 2021, the statement of financial performance and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of Legal Practitioners' Fidelity Fund for the year ended 31 December 2021 are prepared, in all material respects, in accordance with the basis of accounting described in Note 1 to the financial statements 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 (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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 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 corresponding sections of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the fund's own accounting policies to satisfy the financial information needs of the fund's stakeholders. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

#### Other Information

The Board are responsible for the other information. The other information comprises the information included in the document titled "Legal Practitioners' Fidelity Fund Financial Statements for the year ended 31 December 2021", which includes the Board's Report as required by the Legal Practice Act 28 of 2014. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we 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 for the Financial Statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with those accounting policies set out in Note 1 of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Board either intends 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 Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 fund'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 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.

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.

*BDO South Africa Incorporated*

**BDO South Africa Incorporated**  
Registered Auditors

**Fatima Rhoda**  
*Director*  
*Registered Auditor*

30 March 2022

6th Floor 119-123 Hertzog Boulevard  
Foreshore  
Cape Town, 8001

## Statement of Financial Position

As at 31 December 2021

Figures in Rand	Notes	2021	Restated 2020	Restated 2019
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	2	66 770 269	68 720 087	69 997 921
Intangible assets	3	—	17 089 726	25 282 686
Loan secured by mortgage bonds	4	57 983 741	48 923 198	51 682 476
Investments at fair value	5	5 225 045 228	4 408 790 298	4 323 731 234
		<b>5 349 799 238</b>	<b>4 543 523 309</b>	<b>4 470 694 317</b>
<b>Current Assets</b>				
Loan secured by mortgage bonds – current portion	4	4 059 068	3 371 428	3 796 972
Trade and other receivables	6	1 689 463	2 158 280	741 291
Investments at fair value	5	591 283 920	610 150 010	661 351 449
Prepayments	6	5 888 474	96 093 999	94 970 642
Cash and cash equivalents	7	34 041 793	71 956 764	60 505 772
		<b>636 962 718</b>	<b>783 730 481</b>	<b>821 366 126</b>
<b>Total Assets</b>		<b>5 986 761 956</b>	<b>5 327 253 790</b>	<b>5 292 060 443</b>
<b>Equity and Liabilities</b>				
Investment revaluation reserve		823 873 985	140 656 629	155 192 192
Retained income		4 717 294 902	4 809 973 506	4 805 632 538
		<b>5 541 168 887</b>	<b>4 950 630 135</b>	<b>4 960 824 730</b>
<b>Liabilities</b>				
<b>Non-Current Liabilities</b>				
Retirement benefit obligation	8	35 733 000	31 478 000	32 584 424
Unidentified and unclaimed trust monies	9	251 726 434	207 992 569	151 678 341
		<b>287 459 434</b>	<b>239 470 569</b>	<b>184 262 765</b>
<b>Current Liabilities</b>				
Trade and other payables	10	158 133 635	137 153 086	146 972 948
<b>Total Liabilities</b>		<b>445 593 069</b>	<b>376 623 655</b>	<b>331 235 713</b>
<b>Total Equity and Liabilities</b>		<b>5 986 761 956</b>	<b>5 327 253 790</b>	<b>5 292 060 443</b>



## Statement of Financial Performance and Other Comprehensive Income

For the year ended 31 December 2021

Figures in Rand	Notes	2021	2020
Revenue	11	276 297 110	443 062 777
Other operating income	12	18 388 891	24 616 424
Other operating expenses		(696 703 998)	(762 420 539)
<b>Operating loss</b>		<b>(402 017 997)</b>	<b>(294 741 338)</b>
Investment income	13	236 424 771	235 155 172
Other non-operating gains	14	73 108 622	57 952 545
<b>Deficit for the year</b>		<b>(92 484 604)</b>	<b>(1 633 621)</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial (loss) gain on defined benefit plan		(194 000)	5 974 589
Gains on revaluation of investments		756 325 978	43 416 982
Reclassification of adjustment relating to available for sale assets disposed during the year		(73 108 622)	(57 952 545)
<b>Total items that will not be reclassified to surplus or deficit</b>		<b>683 023 356</b>	<b>(8 560 974)</b>
<b>Other comprehensive income (deficit) for the year</b>		<b>683 023 356</b>	<b>(8 560 974)</b>
<b>Total comprehensive income (deficit) for the year</b>		<b>590 538 752</b>	<b>(10 194 595)</b>

## Statement of Changes in Equity

For the year ended 31 December 2021

Figures in Rand	Investment revaluation reserve	Retained income	Total equity
<b>Balance at 01 January 2020</b>	<b>155 192 192</b>	<b>4 805 632 538</b>	<b>4 960 824 730</b>
Deficit for the year	—	(1 633 621)	(1 633 621)
Other comprehensive income	(14 535 563)	5 974 589	(8 560 974)
<b>Total comprehensive deficit for the year</b>	<b>(14 535 563)</b>	<b>4 340 968</b>	<b>(10 194 595)</b>
<b>Balance at 01 January 2021</b>	<b>140 656 629</b>	<b>4 809 973 506</b>	<b>4 950 630 135</b>
Deficit for the year	—	(92 484 604)	(92 484 604)
Other comprehensive income	683 217 356	(194 000)	683 023 356
<b>Total comprehensive deficit for the year</b>	<b>683 217 356</b>	<b>(92 678 604)</b>	<b>590 538 752</b>
<b>Balance at 31 December 2021</b>	<b>823 873 985</b>	<b>4 717 294 902</b>	<b>5 541 168 887</b>



## Statement of Cash Flows

For the year ended 31 December 2021

Figures in Rand	Notes	2021	2020
<b>Cash flows from operating activities</b>			
Cash used in operations	16	(221 119 492)	(234 434 553)
Interest income		132 499 756	141 928 910
Dividend income		103 925 015	93 226 262
<b>Net cash from operating activities</b>		<b>15 305 279</b>	<b>720 619</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(325 581)	(1 409 727)
Purchase of other intangible assets	3	(1 900 126)	(604 082)
Advances of loans secured by mortgage bonds		(13 388 618)	—
Repayments of loans secured by mortgage bonds		4 896 118	3 184 822
Investment income reinvested		(281 235 908)	(271 754 868)
Withdrawal of investments		195 000 000	225 000 000
<b>Net cash used in investing activities</b>		<b>(96 954 115)</b>	<b>(45 583 855)</b>
<b>Total cash movement for the year</b>		<b>(37 914 971)</b>	<b>11 450 992</b>
Cash at the beginning of the year		71 956 764	60 505 772
<b>Total cash at end of the year</b>	7	<b>34 041 793</b>	<b>71 956 764</b>

# Accounting Policies

For the year ended 31 December 2021

## 1. Significant accounting policies

The financial statements have been prepared in accordance with the Fund's accounting policies as set out in these financial statements.

### 1.1 Basis of preparation

The Legal Practice Act 28 of 2014, does not stipulate the accounting framework to be adopted by the Fund. The Board has used entity specific accounting policies in deciding on the most appropriate accounting policies to adopt.

The 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, and is the Fund's functional currency.

These accounting policies are consistent with the previous year.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of financial statements 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 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.

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

#### Treatment of unclaimed and unidentified trust monies as a non-current liability

Significant judgement has been applied by management based on past payout history and probability of future payments within the next 12 months.

### 1.3 Property, plant and equipment

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, 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

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.



Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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.

#### 1.4 Intangible assets

Intangible assets are initially recognised at cost.

Expenditure on research is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

#### 1.5 Financial instruments

Financial instruments held by the Fund are classified in accordance with the below:

Broadly, the classification possibilities, which are adopted by the Fund, as applicable, are as follows:

##### Financial assets which are equity instruments:

- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

##### Financial assets which are debt instruments:

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows).

##### Financial liabilities:

- Amortised cost.

Note 21 Financial instruments and risk management presents the financial instruments held by the Fund based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## Accounting Policies (continued)

For the year ended 31 December 2021

### 1.5 Financial instruments (continued)

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Fund are presented below:

#### Loans receivable at amortised cost

##### *Classification*

Loans secured by mortgage bonds are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Fund's business model is to collect the contractual cash flows on these loans.

##### *Recognition and measurement*

Loans receivable are recognised when the Fund becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

##### *Impairment*

The Fund recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Fund measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Fund considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

##### *Significant increase in credit risk*

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the Fund compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The Fund considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the Fund has reasonable and supportable information that demonstrates otherwise.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.



#### ***Definition of default***

For purposes of internal credit risk management purposes, the Fund consider that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the Fund considers that default has occurred when a loan instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### ***Write off policy***

The Fund writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the Fund recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### ***Measurement and recognition of expected credit losses***

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default, taking the time value of money into consideration.

The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. The exposure at default is the gross carrying amount of the loan at the reporting date.

Lifetime ECL is measured on a collective basis in cases where evidence of significant increases in credit risk are not yet available at the individual instrument level. Loans are then grouped in such a manner that they share similar credit risk characteristics, such as nature of the loan, external credit ratings (if available), industry of counterparty etc.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

If the Fund has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Fund measures the loss allowance at an amount equal to 12 month ECL at the current reporting date, and visa versa.

An impairment gain or loss is recognised for all loans in profit or loss with a corresponding adjustment to their carrying amount through a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

#### ***Credit risk***

Details of credit risk related to loans receivable are included in the specific notes and the financial instruments and risk management (note 21).

### **Trade and other receivables**

#### ***Classification***

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 6).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Funds's business model is to collect the contractual cash flows on trade and other receivables.

#### ***Recognition and measurement***

Trade and other receivables are recognised when the Fund becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

## Accounting Policies (continued)

For the year ended 31 December 2021

### 1.5 Financial instruments (continued)

#### *Impairment*

The Fund recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The Fund measures the loss allowance for trade and other receivables which do not contain a significant financing component at an amount equal to lifetime expected credit losses (lifetime ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

#### *Definition of default*

For purposes of internal credit risk management purposes, the Fund considers that a default event has occurred if there is either a breach of financial covenants by the counterparty, or if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the Fund considers that default has occurred when a receivable is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

#### *Measurement and recognition of expected credit losses*

The Fund makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

#### *Write off policy*

The Fund writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Fund recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

#### *Credit risk*

Details of credit risk are included in the trade and other receivables note (note 6) and the financial instruments and risk management note (note 21).

### Investments in equity instruments

#### *Classification*

Investments in equity instruments are presented in note 5. They are classified as at fair value through other comprehensive income.

The designation as at fair value through other comprehensive income is never made on investments which are either held for trading or contingent consideration in a business combination.

#### *Recognition and measurement*

Investments in equity instruments are recognised when the Fund becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition, at fair value. Transaction costs are added to the initial carrying amount.

Investments in equity instruments are subsequently measured at fair value with changes in fair value recognised in other comprehensive income (and accumulated in equity in the reserve for valuation of investments), depending on their classification. Details of the valuation policies and processes are presented in note 22.



Dividends received on equity investments are recognised in profit or loss when the Fund's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in investment income (note 13).

### **Investments in debt instruments at fair value through other comprehensive income**

#### ***Classification***

The Fund holds investments in government and corporate bonds (note 5) which are at fair value through other comprehensive income.

#### ***Recognition and measurement***

Investments in debt instruments at fair value through other comprehensive income are recognised when the Fund becomes a party to the contractual provisions of the instrument. The investments are measured, at initial recognition and subsequently, at fair value. Transaction costs are included in the initial measurement of the financial instrument.

Details of the valuation policies and processes are presented in note 22.

Interest received on debt instruments at fair value through other comprehensive income are included in investment income (note 13).

#### ***Impairment***

Investments in debt instruments at fair value through other comprehensive income are not subject to impairment provisions.

### **Trade and other payables**

#### ***Classification***

Trade and other payables (note 10), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

#### ***Recognition and measurement***

They are recognised when the Fund becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs.

Trade and other payables expose the Fund to liquidity risk and possibly to interest rate risk. Refer to note 21 for details of risk exposure and management thereof.

#### ***Cash and cash equivalents***

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

### **Derecognition**

#### ***Financial assets***

The Fund derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## Accounting Policies (continued)

For the year ended 31 December 2021

### 1.6 Leases

The Fund assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Fund has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

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 other operating income in profit or loss.

### 1.7 Impairment of non-financial assets

The Fund assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Fund estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.



## 1.8 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.

## 1.9 Contingencies

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 18.

## 1.10 Revenue

The Fund recognises revenue from the following major sources:

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

Interest on practitioners' trust account balances is recognised when the amounts had been received into the bank account of the Fund.

## 1.11 Investment income

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.

## 1.12 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 review and approval by the Legal Practice Council 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 Legal Practice Council.

## 1.13 Unidentified and unclaimed trust monies reserve

Unidentified amounts are those amounts that had been received into the bank account of practitioners and which the practitioners could not identify the client. The practitioners hold onto the funds and if after two years they had not yet identified the client, the funds must be paid over to the Legal Practitioner Fidelity Fund.

Unclaimed amounts relate to unknown monies that have been transferred to the Fund by legal practitioners.

The period set for the monies to be classified as unclaimed or unidentifiable is two (2) years of which the attorneys have tried to locate the clients. The unclaimed/unidentifiable monies cannot vest in the next of kin unless the client has died, and a death certificate produced as proof. The payment of the unclaimed benefits to the Fund by practitioners is compulsory in terms of section 87(4)(a) and (b). Unidentified and unclaimed monies paid over to the Fund, are accounted for as part of Non-current liabilities and distributed to the appropriate claimants once adequate proof of their entitlement to the monies is provided to the Fund.

## Notes to the Annual Financial Statements

For the year ended 31 December 2021

### 2. Property, plant and equipment

Figures in Rand	2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	38 900 000	—	38 900 000	38 900 000	—	38 900 000
Buildings	27 171 151	(3 074 337)	24 096 814	27 171 151	(2 530 914)	24 640 237
Furniture and fixtures	13 284 515	(10 497 953)	2 786 562	13 278 017	(10 022 834)	3 255 183
Motor vehicles	1 642 986	(1 642 985)	1	1 642 986	(1 604 923)	38 063
IT equipment	9 861 197	(8 874 305)	986 892	9 552 618	(7 666 014)	1 886 604
<b>Total</b>	<b>90 859 849</b>	<b>(24 089 580)</b>	<b>66 770 269</b>	<b>90 544 772</b>	<b>(21 824 685)</b>	<b>68 720 087</b>

#### Reconciliation of property, plant and equipment

2021				
Figures in Rand	Opening balance	Additions	Depreciation	Total
Land	38 900 000	—	—	38 900 000
Buildings	24 640 237	—	(543 423)	24 096 814
Furniture and fixtures	3 255 183	6 498	(475 119)	2 786 562
Motor vehicles	38 063	—	(38 062)	1
IT equipment	1 886 604	308 579	(1 208 291)	986 892
	<b>68 720 087</b>	<b>315 077</b>	<b>(2 264 895)</b>	<b>66 770 269</b>

#### Reconciliation of property, plant and equipment

2020				
Figures in Rand	Opening balance	Additions	Depreciation	Total
Land	38 900 000	—	—	38 900 000
Buildings	25 183 660	—	(543 423)	24 640 237
Furniture and fixtures	3 097 724	589 910	(432 451)	3 255 183
Motor vehicles	134 465	—	(96 402)	38 063
IT equipment	2 682 072	819 817	(1 615 285)	1 886 604
	<b>69 997 921</b>	<b>1 409 727</b>	<b>(2 687 561)</b>	<b>68 720 087</b>

### 3. Intangible assets

	2021			2020		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	34 075 504	(34 075 504)	—	32 175 378	(15 085 652)	17 089 726

#### Reconciliation of intangible assets

2021				
Figures in Rand	Opening balance	Additions	Amortisation	Total
Computer software	17 089 726	1 900 126	(18 989 852)	—

During the 2021 financial year the Fund revisited its accounting treatment of the costs related to the ICT projects.

The costs were previously capitalized and amortised over a period of three years. At 31 December 2021, it was found that the treatment is inconsistent with the requirements of IAS 38.

The accounting treatment was corrected in the current year through the acceleration of future amortisation at 31 December 2021.

#### Reconciliation of intangible assets

2020				
Figures in Rand	Opening balance	Additions	Amortisation	Total
Computer software	25 282 686	604 082	(8 797 042)	17 089 726

Figures in Rand	2021	2020
Loans secured by mortgage bonds	62 042 809	52 294 626
<b>Split between non-current and current portions</b>		
Non-current assets	57 983 741	48 923 198
Current assets	4 059 068	3 371 428
	<b>62 042 809</b>	<b>52 294 626</b>

#### Terms of the homeloan scheme

The homeloans are granted to employees of the Fund and are secured by a mortgage bond registered at the deeds office in favour of the Legal Practitioners' Fidelity Fund.

The loans have a repayment period of 25 years and the interest rate applied is 2.38% p.a.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

Figures in Rand	2021	2020
<b>5. Investments at fair value</b>		
Investments of the Fund are measured at fair value through other comprehensive income as follows:		
Money market instruments at fair value through other comprehensive income	591 283 920	610 150 010
Debt instruments at fair value through other comprehensive income	1 575 502 926	1 460 246 283
Interest receivable on investments	31 308 234	33 358 225
Equity investments at fair value through other comprehensive income	3 618 234 068	2 915 185 790
	<b>5 816 329 148</b>	<b>5 018 940 308</b>
<b>Debt instruments at fair value through other comprehensive income</b>		
Bonds	1 575 502 926	1 460 246 283
Interest receivable on investments	31 308 234	33 358 225
<b>Money market instruments at fair value through other comprehensive income:</b>		
Money market instruments	591 283 920	610 150 010
<b>Equity investments at fair value through other comprehensive income:</b>		
Listed shares	3 618 234 068	2 915 185 790
	<b>5 816 329 148</b>	<b>5 018 940 308</b>
<b>Split between non-current and current portions</b>		
Non-current assets	5 225 045 228	4 408 790 298
Current assets	591 283 920	610 150 010
	<b>5 816 329 148</b>	<b>5 018 940 308</b>
The revaluation of investment balances to market value at year end has not been recycled to profit/loss (P/L) during the year.		
The market value movement in the investment balances is only reflected in profit/loss (P/L) once the underlying asset has been disposed.		
<b>6. Trade and other receivables</b>		
<b>Financial instruments:</b>		
Trade receivables	2 230 798	916 409
Loss allowance	(980 265)	—
Trade receivables at amortised cost	1 250 533	916 409
Sundry loans	21 869	17 041
Sundry receivables	417 061	1 091 557
<b>Non-financial instruments:</b>		
VAT	—	133 273
Prepayments	5 888 474	96 096 999
<b>Total trade and other receivables</b>	<b>7 577 937</b>	<b>98 255 279</b>
<b>Split between non-current and current portions</b>		
Current assets	7 577 937	98 255 279
<b>Financial instrument and non-financial instrument components of trade and other receivables</b>		
At amortised cost	1 689 463	2 025 007
Non-financial instruments	5 888 474	96 230 272
	<b>7 577 937</b>	<b>98 255 279</b>



## 6. Trade and other receivables (continued)

### Exposure to credit risk

Trade receivables inherently expose the Fund to credit risk, being the risk that the Fund will incur financial loss if customers fail to make payments as they fall due.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

A loss allowance is recognised for all trade receivables, in accordance with the accounting policies set out in these financial statements, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The Fund measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by the accounting policies set out in these financial statements.

In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables.

Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

### Figures in Rand

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Cash on hand	22 518	14 578
Bank balances	33 503 228	71 426 139
Short-term deposits	516 047	516 047
	<b>34 041 793</b>	<b>71 956 764</b>

### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, can be assessed by reference to external credit ratings or historical information about counterparty default rates.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

### 8. Retirement benefits

#### Defined benefit plan

It is the policy of the Fund 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 68 (2020 – 68). 4 new employees joined the scheme, 4 members exited and no members retired during the year.

The contributions based liability for post-retirement medical aid contributions as determined by an independent actuarial valuation as at the financial year-end is R35 733 000 (2020 – R31 478 000). 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 2022.

Figures in Rand	2021	2020
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	35 733 000	31 478 000
	<b>35 733 000</b>	<b>31 478 000</b>
<b>Movements for the year</b>		
Opening balance	31 478 000	32 584 424
Actuarial loss/(gain) recognised directly in other comprehensive income	194 000	(5 974 589)
Net expense recognised in (profit) or loss	4 061 000	4 868 165
	<b>35 733 000</b>	<b>31 478 000</b>
<b>Net (income)/expense recognised in profit or loss</b>		
Current service cost	2 091 000	2 308 256
Interest cost	3 308 000	3 262 833
Contributions	(788 000)	(702 924)
Removal of death in service benefit	(550 000)	—
	<b>4 061 000</b>	<b>4 868 165</b>
<b>Key assumptions used</b>		
Assumptions used on last valuation as at year-end was:		
Discount rates used	10.60 %	10.64 %
Health care cost inflation	7.18 %	6.86 %
Net effective discount rate	3.19 %	3.54 %

#### Defined contribution plan

The Fund is under no obligation to cover any unfunded benefits.

#### Sensitivity results

The liability at the valuation date was recalculated to show the effect of:

- 1% increase and decrease in the assumed rate of health care cost inflation;
- 1% increase and decrease in the discount rate;
- one-year age reduction in the assumed rates of post-employment mortality;
- one-year decrease in the assumed average retirement age; and
- 10% decrease in the assumed proportion of in-service members that remain members at retirement.

Table 8.1: Summarises the results of the sensitivity analysis

Table 8.1: Sensitivity analysis on the accrued liability (R Millions)

2021					
Assumption	Change	In-service members	Continuation members	Total	% Change
Central assumptions		26.902	88.31	35.733	
Health care inflation rate	+1%	32.117	9.552	41.669	17%
	-1%	22.754	8.194	30.948	-13%
Discount rate	+1%	22.799	8.181	30.980	-13%
	-1%	32.133	9.579	41.712	17%
Post-employment mortality	+1 yr	26.259	8.501	34.760	-3%
	-1 yr	27.536	9.164	36.700	3%
Average retirement age	-1 yr	29.217	8.831	38.048	6%
Continuation of membership at retirement	-10%	24.212	8.831	33.043	-8%

2020					
Assumption	Change	In-service members	Continuation members	Total	% Change
Central assumptions		22.186	9.292	31.478	
Health care inflation rate	+1%	26.574	10.084	36.658	16%
	-1%	18.701	8.595	27.296	-13%
Discount rate	+1%	18.753	8.584	27.337	-13%
	-1%	26.567	10.108	36.675	17%
Post-employment mortality	+1 yr	21.689	8.970	30.659	-3%
	-1 yr	22.675	9.614	32.289	3%
Average retirement age	-1 yr	24.049	9.292	33.341	6%
Continuation of membership at retirement	-10%	20.035	9.292	29.327	-7%

Note to Table 8.1: The post-employment mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is one percentage point greater than the long-term assumption made, the liability will be 16% higher than that shown.

Table 8.2: Summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2021.

Table 8.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 31 December 2021.

Assumption	Change	Current SVC. cost	Interest cost	Total	% Change
Central assumptions		2 091 000	3 308 000	5 399 000	
Health care inflation rate	+1%	2 561 000	3 860 000	6 421 000	19%
	-1%	1 724 000	2 863 000	4 587 000	-15%
Discount rate	+1%	1 745 000	3 137 000	4 882 000	-10%
	-1%	2 536 000	3 498 000	6 034 000	12%
Post-employment mortality	-1 yr	2 133 000	3 395 000	5 528 000	2%
Average retirement age	-1 yr	2 180 000	3 507 000	5 687 000	5%
Continuation of membership at retirement	-10%	1 889 000	3 080 000	4 969 000	-8%

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

### 8. Retirement benefits (continued)

Table 8.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 31 December 2020.

Table 8.2 : Sensitivity Analysis on Current-Service and Interest Costs for year ending 31 December 2020.

Assumption	Change	Current SVC. cost	Interest cost	Total	% Change
Central assumptions		2 308 300	3 262 800	5 571 100	
Health care inflation rate	+1%	2 875 600	3 837 000	4 980 000	20%
	-1%	1 872 100	2 803 900	6 310 800	-16%
Discount rate	+1%	1 895 600	3 084 400	4 980 000	-11%
	-1%	2 849 100	3 461 700	6 310 800	13%
Post-employment mortality	-1 yr	2 360 300	3 349 500	5 709 800	2%
Average retirement age	-1 yr	2 420 500	3 445 600	5 866 100	5%
Continuation of membership at retirement	-10%	2 087 500	3 026 500	5 114 000	-8%

Figures in Rand	2021	2020
<b>9. Unidentified and unclaimed trust monies liability</b>		
Unidentified and unclaimed trust monies liability	251 726 434	207 992 569
Opening balance	207 992 569	151 678 341
Amounts received in current year	47 648 147	56 901 406
Amounts identified and settled in the current year	(3 914 282)	(587 178)
<b>Closing balance 31 December</b>	<b>251 726 434</b>	<b>207 992 569</b>
<b>10. Trade and other payables</b>		
<b>Financial instruments</b>		
Trade payables	65 285 567	75 176 233
Amounts received from curators of defaulting attorneys to be offset against future claims	48 427 046	24 864 455
Leave pay	4 262 260	4 050 088
SARS for PAYE and UIF	4 155 638	—
Deposits received	386 772	362 262
Unidentified amounts received by the Fund*	34 835 905	32 700 048
<b>Non-financial instruments</b>		
VAT	780 447	—
	<b>158 133 635</b>	<b>137 153 086</b>
<b>Financial instrument and non-financial instrument components of trade and other payables</b>		
At amortised cost	157 353 188	137 153 086
Non-financial instruments	780 447	—
	<b>158 133 635</b>	<b>137 153 086</b>

\* The balance relates to unidentified amounts received directly by the Fund through the business bank account, the Fund is in the process of clearing these amounts by identifying the true source of the funds.



Figures in Rand	2021	2020
<b>11. Revenue</b>		
<b>Revenue earned from trust balances</b>		
Interest on trust account balances S86(2)(3)	177 440 753	325 898 455
5% share of interest S86(4)	98 856 357	117 164 322
	<b>276 297 110</b>	<b>443 062 777</b>
<b>12. Other operating income</b>		
Conference centre and LPIIF recoveries	174 936	318 562
Recoveries from defaulting practitioners	7 734 076	12 734 069
FFC Contributions	3 798 045	5 106 035
Rental income	6 655 849	6 113 770
Sundry income	25 985	343 988
	<b>18 388 891</b>	<b>24 616 424</b>
<p>The Fund's property is held partly to generate rental income. Rental of the property is expected to generate 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. Due to the impact of the COVID-19 regulations on businesses especially in the legal services, the Fund did not effect annual escalations on all existing tenant leases.</p>		
<b>13. Investment income</b>		
<b>Dividend income</b>		
<b>Equity instruments at fair value through other comprehensive income:</b>		
Listed investments – Local	103 925 015	93 226 262
<b>Interest income</b>		
<b>Investments in financial assets:</b>		
Bank and other cash	29 477 267	40 171 827
Government bonds	101 560 392	99 163 253
Loans secured by mortgage bonds	1 462 097	2 593 830
<b>Total interest income</b>	<b>132 499 756</b>	<b>141 928 910</b>
<b>Total investment income</b>	<b>236 424 771</b>	<b>235 155 172</b>
<b>14. Other non-operating gains (losses)</b>		
Gains (losses) on disposals of investments		
Realised gains on available for sale assets disposed of during the year	73 108 622	57 952 545

**15. Taxation**

No provision has been made for taxation. In terms of section 60(1) of the Legal Practice Act 28 of 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.

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

Figures in Rand	2021	2020
<b>16. Cash used in operations</b>		
Deficit for the year	(92 484 604)	(1 633 621)
<b>Adjustments for:</b>		
Depreciation and amortisation	21 254 748	11 484 603
Gains on disposals of investments	(73 108 622)	(57 952 545)
Dividend income	(103 925 015)	(93 226 262)
Interest income	(132 499 756)	(141 928 910)
Movements in retirement benefit assets and liabilities	4 255 000	4 868 165
<b>Changes in working capital:</b>		
Trade and other receivables	468 817	(1 416 989)
Prepayments	90 205 525	(1 123 357)
Trade and other payables	20 980 550	(9 819 865)
Net unidentified and unclaimed trust monies	43 733 865	56 314 228
	<b>(221 119 492)</b>	<b>(234 434 553)</b>

### 17. Prior period errors

During the financial year the Fund reclassified the unidentified trust monies liability from a non-distributable reserve to a non-current liability.

The reclassification constitutes an error in the prior period.

The correction of the error(s) results in adjustments as follows:

	2021	2020	2019
<b>Statement of Financial Position</b>			
<b>Equity</b>			
Reserves	251 726 434	207 992 569	151 678 341
<b>Non-current Liabilities</b>			
Unidentified and unclaimed trust monies	(251 726 434)	(207 992 569)	(151 678 341)

### 18. Contingencies

Claims against the Fund at year-end amounting to R1 025 796 750 (2020 – R911 052 655) represent the gross amount of theft 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 Fund's reinsurance program was renewed for a further year on 1 July 2021. The stop-loss reinsurance policy has three layers of cover, with different participating reinsurers. The total cover for these years is R275 million.

- The first layer of coverage kicks in for total losses above R400 million and provides cover in the amount of R75 million. The self-insured portion is, therefore, R400 million.
- The second layer kicks in respect of total losses exceeding R475 million and also provides cover in the amount of R75 million. Building up from the bottom, the Fund covers the first R400 million on its own, the next R75 million is covered by the first layer and the balance up to R550 million is covered by the second layer.
- The third layer kicks in respect of losses exceeding R550 million and provides cover in the amount of R125 million. Building up from the bottom, the Fund covers the first R400 million on its own, the next R75 million is covered by the first layer; the next R75 million is covered by the second layer and the balance is up to R675 million is covered by the third layer.



## 19. Related parties

### Relationships

#### Entities funded by the Fund

Legal Practitioners Indemnity Insurance Fund NPC (LPIIF)  
Legal Practice Council

#### Members of key management

Mr M Molefe  
Ms N Ngema  
Mr J Losper  
Ms P Ndimba  
Mr R Burawundi  
Mr M Tsogang  
Ms N Kraai  
Mr S Maile

#### Figures in Rand

### Related party transactions

#### Insurance premiums paid to

Legal Practitioners Indemnity Insurance Fund NPC

2021 2020

92 736 404 185 472 807

#### Rental Income received from

Legal Practitioners Indemnity Insurance Fund NPC

4 140 541 3 796 360

#### Appropriation paid to

Legal Practice Council

185 500 000 222 999 998

#### Amounts included as part of trade and other receivables

Legal Practitioners Indemnity Insurance Fund NPC

417 061 1 091 557

## 20. Remuneration paid to key management

### Executive Management

Remuneration to the Executive Management team for services rendered during the year was R23 247 173 (2020 – R21 624 890).

The executive management team is comprised of 8 members (2020 – 9 members).

The detail of the remuneration paid to the Executives is available at the LPFF's Offices on request

### Board

The honoraria paid to members of the Board for the year ended 31 December 2021 amounted to R4 989 397 (2020 – R4 580 062).

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

### 21. Financial instruments and risk management Categories of financial instruments

#### Categories of financial instruments

#### Categories of financial assets

2021						
Figures in Rand	Note(s)	Equity investments at fair value through other comprehensive income	Money market instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Amortised cost	Total
Loans secured by mortgage bonds	4	—	—	—	62 042 809	62 042 809
Investments at fair value	5	3 618 234 068	591 283 920	1 575 502 926	—	5 785 020 914
Trade and other receivables	6	—	—	—	1 689 463	1 689 463
Cash and cash equivalents	7	—	—	—	34 041 793	34 041 793
		<b>3 618 234 068</b>	<b>591 283 920</b>	<b>1 575 502 926</b>	<b>97 774 065</b>	<b>5 882 794 979</b>

2020						
Figures in Rand	Note(s)	Equity investments at fair value through other comprehensive income	Money market instruments at fair value through other comprehensive income	Debt instruments at fair value through other comprehensive income	Amortised cost	Total
Loans secured by mortgage bonds	4	—	—	—	52 294 626	52 294 626
Investments at fair value	5	2 915 185 790	610 150 010	1 460 246 283	—	4 985 582 083
Trade and other receivables	6	—	—	—	2 025 007	2 025 007
Cash and cash equivalents	7	—	—	—	71 956 764	71 956 764
		<b>2 915 185 790</b>	<b>610 150 010</b>	<b>1 460 246 283</b>	<b>126 276 397</b>	<b>5 111 858 480</b>

#### Categories of financial liabilities

2021			
	Note(s)	Amortised cost	Total
Trade and other payables	10	157 353 188	157 353 188

2020			
	Note(s)	Amortised cost	Total
Trade and other payables	10	137 153 086	137 153 086

## Pre tax gains and losses on financial instruments

### Gains and losses on financial assets

2021	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	13	101 560 392	30 939 364	132 499 756
Dividend income	13	103 925 015	—	103 925 015
<b>Net gains (losses)</b>		<b>205 485 407</b>	<b>30 939 364</b>	<b>236 424 771</b>

2020	Note(s)	Fair value through other comprehensive income	Amortised cost	Total
Recognised in profit or loss:				
Interest income	13	99 163 253	42 765 657	141 928 910
Dividend income	13	93 226 262	—	93 226 262
<b>Net gains (losses)</b>		<b>192 389 515</b>	<b>42 765 657</b>	<b>235 155 172</b>

## Financial risk management

### Overview

The Fund is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

The Board has overall responsibility for the establishment and oversight of the Fund's risk management framework. The board has established the Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The committee reports quarterly to the Board on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Fund's Audit and Compliance Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Compliance Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Compliance Committee and the Risk Committee.

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 2021. The following assumptions have used:

- 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)

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

### 21. Financial instruments and risk management (continued)

At 31 December 2021	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Deficit for the year	(924 846)	924 846	(4 624 230)	4 624 230
Investment revaluation reserve	(8 221 204)	8 221 204	(41 106 019)	41 106 019

At 31 December 2020	1% fall in interest rate	1% rise in interest rate	5% decline in JSE All Share Index	5% increase in JSE All Share Index
Surplus for the year	3 745 924	(3 745 924)	132 142 182	(132 142 182)
Investment revaluation reserve	3 745 924	(3 745 924)	132 142 182	(132 142 182)

#### Credit risk

Credit risk is the risk of financial loss to the Fund if a practitioner or counterparty to a financial instrument fails to meet its contractual obligations.

The Fund is exposed to credit risk on loans receivable, debt instruments at fair value through other comprehensive income, trade and other receivables, lease receivables, cash and cash equivalents and loan commitments.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The Fund only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees.

Credit risk exposure arising on cash and cash equivalents is managed by the Fund through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determines whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer is employed, period for which the customer has been employed, external credit references etc. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account. Trade receivable and contract assets which do not contain a significant financing component are the exceptions and are discussed below.

Where necessary, the assessment for a significant increase in credit risk is made on a collective basis. Management typically adopt this approach when information relevant to the determination of credit risk is not available on an individual instrument level. Often, the only information available on individual instruments which could indicate an increase in credit risk, is “past due” information. It is typical that more forward-looking information is generally more readily available on a collective basis. Therefore, making the determination on a collective basis, helps to ensure that credit loss allowances are determined on the basis of lifetime expected credit losses before they reach the point of being past due. Forward looking, macro-economic information is applied on a collective basis when it is readily available without undue cost or effort. When loss allowances are determined on a collective basis, management determines the loss allowances by grouping financial instruments on the basis of shared credit risk characteristics.

The maximum exposure to credit risk is presented in the table below:

Figures in Rand	Notes	2021			2020		
		Gross carrying amount	Credit loss allowance	Amortised cost / fair value	Gross carrying amount	Credit loss allowance	Amortised cost / fair value
Loans secured by mortgage bonds	4	62 042 809	—	62 042 809	52 294 626	—	52 294 626
Debt instruments at fair value through other comprehensive income	5	1 575 502 926	—	1 575 502 926	1 460 246 283	—	1 460 246 283
Interest receivable on investments	5	31 308 234	—	31 308 234	33 358 225	—	33 358 225
Trade and other receivables	6	2 669 728	(980 265)	1 689 463	2 025 007	—	2 025 007
Cash and cash equivalents	7	34 041 793	—	34 041 793	71 956 764	—	71 956 764
		<b>1 705 565 490</b>	<b>(980 265)</b>	<b>1 704 585 225</b>	<b>1 619 880 905</b>	<b>—</b>	<b>1 619 880 905</b>

All loans advanced to employees are secured by mortgage bonds. These repayments are all up to date with no past due amounts. As a result there are no expected credit losses.

#### 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 unutilised borrowing facilities.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2021				
Figures in Rand	Notes	Less than 1 year	Total	Carrying amount
<b>Current liabilities</b>				
Trade and other payables	10	157 353 188	157 353 188	157 353 188

2020				
Figures in Rand – 2020	Notes	Less than 1 year	Total	Carrying amount
<b>Current liabilities</b>				
Trade and other payables	10	137 153 086	137 153 086	137 153 086

## Notes to the Annual Financial Statements (continued)

For the year ended 31 December 2021

### 21. Financial instruments and risk management (continued)

#### Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

Financial instrument	Current interest rate	Due in 1 year and less	Due in 2 to 5 years	Due in over 5 years	Total
<b>Assets</b>					
Government and other bonds	Fluctuating	17 562 395	346 975 605	1 210 964 926	1 575 502 926
Trade and other receivables – normal credit terms	Interest free	1 689 463	–	–	1 689 463
Loans secured by mortgage bonds	Linked to prime	4 059 069	16 052 522	41 931 218	62 042 809
Cash in current banking institutions	Linked to prime	34 041 793	–	–	34 041 793
Cash investments on call and notice deposits	Interest free	591 283 920	–	–	591 283 920

### 22. Fair value information

#### Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the Fund can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Figures in Rand	Note(s)	2021	2020
<b>Levels of fair value measurements</b>			
<b>Level 1</b>			
<b>Recurring fair value measurements</b>			
<b>Assets</b>			
<b>Equity investments at fair value through other comprehensive income</b>			
Listed shares	5	3 618 234 068	2 915 185 790
Money market instruments		531 565 575	610 150 010
<b>Total equity investments at fair value through other comprehensive income</b>		<b>4 149 799 643</b>	<b>3 525 335 800</b>
<b>Debt instruments at fair value through other comprehensive income</b>			
Corporate and government bonds		1 529 187 289	1 460 246 283
<b>Total level 1</b>		<b>5 678 986 932</b>	<b>4 985 582 083</b>
<b>Level 2</b>			
<b>Recurring fair value measurements</b>			
<b>Assets</b>			
<b>Equity investments at fair value through other comprehensive income</b>			
Money market instruments	5	59 718 345	–
<b>Debt instruments at fair value through other comprehensive income</b>			
Corporate and government bonds		46 315 637	–
<b>Total level 2</b>		<b>106 033 982</b>	<b>–</b>
<b>Total level 1 and level 2</b>		<b>5 785 020 914</b>	<b>4 985 582 083</b>



### **23. Going concern**

The greater impact of the pandemic on operations this year stemmed from significantly lower interest earned on Trust accounts, both due to lower interest rates flowing from 2020 and lower collection from legal practitioners. When taken together with much higher claims, this had a notably negative impact on profitability and reserves. This raised an alarming concern for future sustainability if this trend continues in upcoming years. The Fund's traditional revenue stream is expected to remain depressed until interest rates improve, and the level of economic activity improves i.e. trust balances increase.

The Board believes that the Fund has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis.

### **24. Reclassifications during the year**

Certain account balances have been reclassified during the current year to accurately reflect the nature of those balances in the statement of financial position.

The reclassifications improve the fair presentation of the financial statements in line with the accounting policies of the Fund.

## Supplementary information

For the year ended 31 December 2021

Figures in Rand	2021	2020
<b>Revenue</b>		
Interest on trust account balances S86(2)(3)	177 440 753	325 898 455
5% share of interest S86(4)	98 856 357	117 164 322
	<b>276 297 110</b>	<b>443 062 777</b>
<b>Other operating income</b>	<b>18 388 891</b>	<b>24 616 424</b>
<b>Expenses (Refer to page 103)</b>	<b>(696 703 998)</b>	<b>(762 420 539)</b>
<b>Operating loss</b>	<b>(402 017 997)</b>	<b>(294 741 338)</b>
Investment income	236 424 771	235 155 172
<b>Other non-operating gains (losses)</b>		
Gains on disposal of assets or settlement of liabilities	73 108 622	57 952 545
<b>Deficit for the year</b>	<b>(92 484 604)</b>	<b>(1 633 621)</b>



Figures in Rand	2021	2020
<b>Other operating expenses</b>		
Appropriation to Legal Practice Council	(185 499 997)	(222 999 998)
Audit fee refunds to practitioners	(68 377 082)	(65 251 723)
Auditors remuneration – external auditors	(808 202)	(478 000)
Auditors remuneration – internal audit	(1 944 674)	(957 547)
Bad debts	(980 265)	(475 221)
Bank charges	(376 215)	(322 614)
Bank charges refunded to practitioners	(697 196)	(133 617)
Bursaries	(10 354 871)	(8 282 018)
Claimant costs – Fund contributions	(1 206 108)	(1 814 974)
Claims paid	(160 525 768)	(138 064 717)
Claims related costs	—	(640 314)
Computer network maintenance and software expense	(8 860 891)	(11 503 558)
Conference centre expenses	(1 940)	(16 497)
Consumables	(240 954)	(426 084)
Depreciation, amortisation and impairment	(21 254 748)	(11 484 603)
Employee costs	(84 556 889)	(72 704 091)
Entertainment	(19 605)	(96 673)
Flowers	(1 627)	(7 337)
Honoraria – Board and Committees	(4 989 397)	(4 580 062)
Insurance – short term	(724 695)	(616 846)
Investment management fees	(18 448 251)	(15 916 478)
Lease rentals on operating lease	(1 531 265)	(2 535 374)
Legal education: LSSA; De Rebus; LEAD; BLA & Nadel	—	15 203 650
Legal expense and consulting	(8 530 418)	(8 174 045)
Marketing and public relations	(2 467 312)	(1 937 006)
Motor vehicle expenses	(94 541)	(111 558)
Municipal expenses	(1 176 749)	(1 224 136)
Other expenses	(3 678 641)	(2 713 147)
Post – retirement medical expenses	(4 255 000)	(4 868 165)
Postage	(158 322)	(212 358)
Printing and stationery	(1 080 478)	(1 124 927)
Professional indemnity insurance for practitioners	(92 736 404)	(185 472 807)
Reinsurance of Fund	(4 300 691)	(3 828 168)
Relocation costs	—	(15 650)
Repairs and maintenance	(1 390 557)	(1 486 395)
Security	(20 796)	(82 638)
Subscriptions	(275 433)	(616 794)
Telephone and fax	(984 471)	(906 100)
Training	(242 251)	—
Travel expense	(449 114)	(1 153 521)
Waalburg building operating costs	(3 462 180)	(4 388 428)
	<b>(696 703 998)</b>	<b>(762 420 539)</b>

## Administration

### Country of incorporation and domicile

South Africa

### Registered office

5th Floor Waalburg Building  
28 Wale Street  
Cape Town  
South Africa  
8001

### Business address

5th Floor Waalburg Building  
28 Wale Street  
Cape Town  
South Africa  
8001

### Postal address

Legal Practitioners' Fidelity Fund  
PO Box 3062  
Cape Town  
South Africa  
8000

### Bankers

First National Bank  
Standard Bank

### Auditor

BDO South Africa Incorporated  
Chartered Accountants (S.A.)  
Registered Auditor

### Secretary

Shadrack Maile

### Website

[www.fidfund.co.za](http://www.fidfund.co.za)





**LEGAL  
PRACTITIONERS  
FIDELITY FUND**  
SOUTH AFRICA