



## **SPECIAL INVESTIGATING UNIT**

**ANNUAL**REPORT  
**2004/05**



**POISED TO STRIKE**  
*against corruption*

## SPECIAL INVESTIGATING UNIT SENIOR MANAGEMENT



### Front Row (left to right) :

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**Willie Hofmeyr**

Head of SIU

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Deputy Head of SIU

**Brian Amery**

Head of Finance

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Acting Regional Head: East London

# SPECIAL INVESTIGATING UNIT

ANNUAL REPORT 2004/05



**POISED TO STRIKE**  
*against corruption*

## VISION

Working together to rid society of corruption.

## MISSION

We are a state body that fights corruption through quality investigations and litigation.



## LETTER TO THE SPEAKER OF PARLIAMENT

The Honourable Speaker  
Ms Baleka Mbete  
Parliament of the Republic of South Africa

PO Box 15  
Cape Town  
8000

28 September 2005

Dear Madam

### ANNUAL REPORT OF THE SIU FOR 2004/05

On behalf of the Special Investigating Unit, established by Proclamation R118 of 2001 in terms of Section 2 of Act 74 of 1996, it gives me great pleasure hereby to submit to you the annual report for the period 2004/05 as envisaged by Section 4(1)(h) of Act 74 of 1996.

The report provides an overview of the SIU's performance, financial status and achievements during the year under review.

Yours faithfully



**WA Hofmeyr**  
**Head of the Special Investigating Unit**

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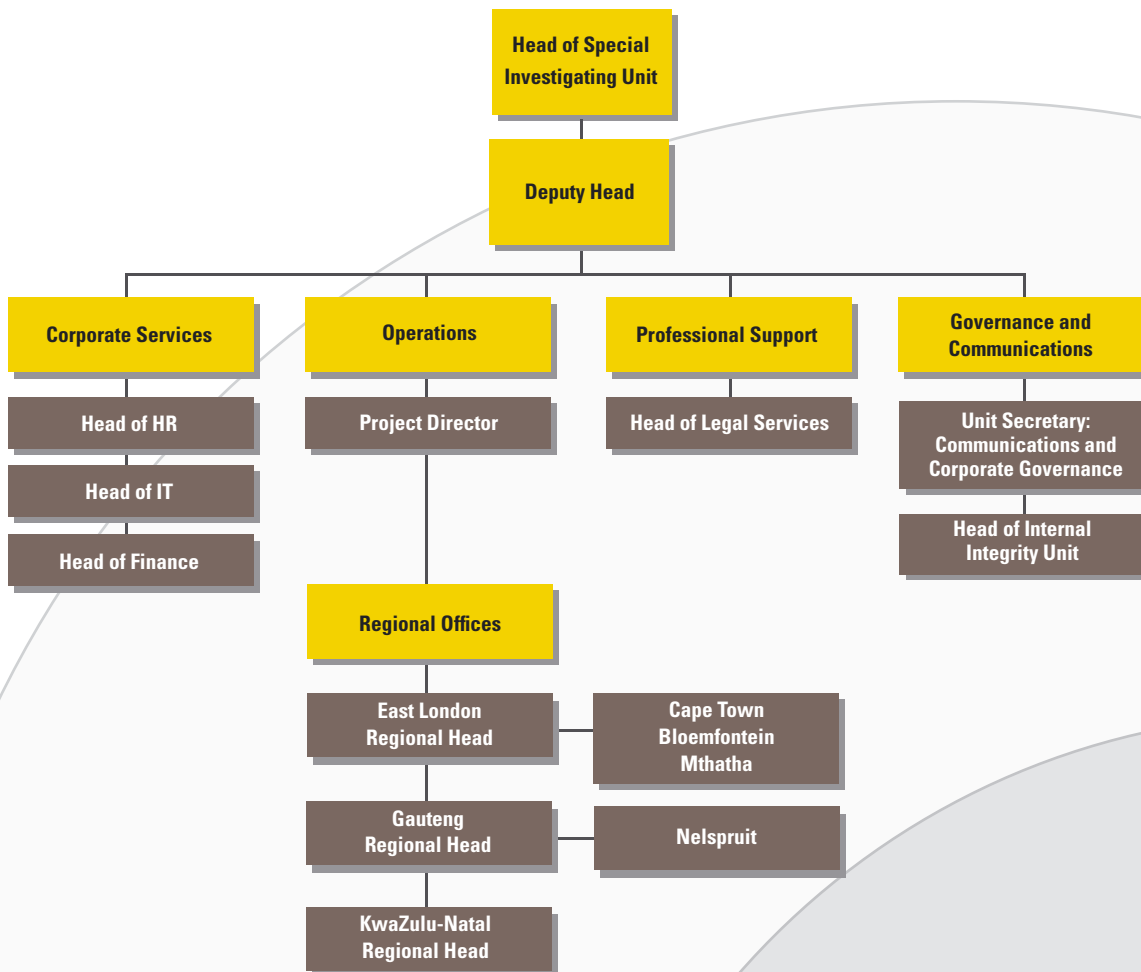


## LIST OF ABBREVIATIONS

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AFU:	Asset Forfeiture Unit
AG:	Auditor-General
Agri-Eco:	Free State Agriculture and Development (Pty) Ltd
AOD	Admission of Debt
APOPS:	Asset Procurement and Operating Partnership
BEE:	Black Economic Empowerment
DCS:	Department of Correctional Services
DLTC:	Drivers' Licence Testing Centres
DoH:	Department of Housing
DoJ&CD:	Department of Justice and Constitutional Development
DoT:	Department of Transport
DPLG:	Department of Provincial and Local Government
DPP:	Director of Public Prosecutions (part of NPA)
DPW:	Department of Public Works
DSD:	Department of Social Development
DSO:	Directorate of Special Operations/Scorpions (part of NPA)
HRM&D:	Human Resource Management and Development
IT:	Information Technology
JACTT:	Joint Anti-Corruption Task Team
KZN:	KwaZulu-Natal
MEC:	Member of the Executive Council
NaTIS:	National Traffic Information System
NIA:	National Intelligence Agency
NPA:	National Prosecuting Authority
OAG:	Office of the Auditor-General
PERSAL:	Government Personnel Salaries System
RAMP:	Repair and Maintenance Programme
RRU:	Rapid Reaction Unit
SAPS:	South African Police Service
SIU:	Special Investigating Unit
SIU Act	Special Investigating Units and Special Tribunals Act, Act 74 of 1996
SOCPEN:	Social Pension System
WPP:	Witness Protection Programme

# STRUCTURE OF THE SPECIAL INVESTIGATING UNIT



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## INTRODUCTION

### BACKGROUND TO THE SIU

The Special Investigating Unit (SIU) is an independent statutory body that is accountable to Parliament. It was established by the President, conducts investigations at his request, and reports to him on the outcomes. It receives its budget through the Department of Justice and Constitutional Development.

The SIU was created in terms of the Special Investigating Units and Special Tribunals Act, Act 74 of 1996 (SIU Act). The SIU was initially headed by former Judge Willem Heath. Judge Heath resigned in June 2001 after the Constitutional Court ruled that a judge could not head the SIU. The SIU then formally ceased to exist.

The President established a new SIU by Proclamation R118 on 31 July 2001 and appointed Mr Willie Hofmeyr as its head.

### Vision and Mission

During the past year the SIU adopted a new vision and mission:

#### **Vision:**

Working together to rid society of corruption

#### **Mission:**

We are a state body that fights corruption through quality investigations and litigation

The new vision captures the commitment of the SIU to work together with government and other law enforcement agencies to fight corruption in our society.

The mission captures the mandate of the SIU to investigate fraud, corruption and maladministration, and to institute civil litigation to recover losses suffered by the state, or prevent further losses.

### The role of the SIU

The SIU functions in a manner similar to a commission of inquiry in that the President refers cases to it by issuing a proclamation.

It may investigate any matter set out in Section 2 of the SIU Act, namely:

- serious maladministration in connection with the affairs of any state institution;
- improper or unlawful conduct by employees of any state institution;
- unlawful appropriation or expenditure of public money or property;
- any unlawful, irregular or unapproved acquisitive act, transaction, measure or practice that has a bearing on state property;
- intentional or negligent loss of public money or damage to public property;
- corruption in connection with the affairs of any state institution;
- unlawful or improper conduct by any person who has caused or may cause serious harm to the interest of the public or any category thereof.

The SIU can also take civil legal action to correct any wrong-doing it discovers during an investigation. Thus the SIU can, for example, obtain court orders to:

- compel a person to pay back any wrongful benefit received;
- cancel contracts when the proper procedures were not followed;
- stop transactions or other actions that were not properly authorised.

The SIU litigates its cases in the Special Tribunal, a specialised court that deals specifically with its cases. This avoids some of the delays usually associated with civil litigation.

The focus of the SIU is the public sector, but it also deals with private sector accomplices. It can investigate private sector matters that cause substantial harm to the interests of the public.

As the focus of the SIU is on civil litigation, it does not have the power to arrest or prosecute suspects. When it uncovers evidence of criminal activity, it hands a court-ready docket to the SAPS and/or Directorate of Special Operations (DSO- "Scorpions").

The SIU works closely with the National Prosecuting Authority (NPA) to ensure that prosecutions take place as soon as possible. It also works with the Asset Forfeiture Unit (AFU) in cases where the powers of this unit are more suitable for recovering the proceeds of crime.



## INTRODUCTION

The performance of the SIU over the past three years can be illustrated as follows:

Performance measures	2003/04		2004/05		2005/06
	Target	Actual	Target	Actual	Target
• Evidence prepared for use in civil litigation	100	165	40	45	40
• Evidence prepared for use in criminal prosecutions	200	52	200	165	800
• Evidence prepared for use in disciplinary proceedings	300	114	330	207	660
• Evidence prepared for use in other remedial action	3 000	10 000	5 000	0	50 000

Performance measures	2003/04		2004/05		2005/06
	Target	Actual (audited)	Target	Actual (audited)	Target
Savings	R70m	R372.8m	R500m	R92m	R1 000m
Preventions				R3 435m	
Cash recoveries	R50m	R 13.7m	R 30m	R 12m	R 40m
Totals	R120m	R386.5m	R530m	R3 539m	R1 040m

The formula for calculating the present value of future savings has been agreed upon with the Office of the Auditor General. This formula is based on the assumption that a saving would on average be effective for a period of ten years and that the inflation factor for such period would be 4% per annum.



## MESSAGE FROM THE HEAD AND DEPUTY HEAD

**Mr. Willie Hofmeyr: Head of SIU**

### MESSAGE FROM THE HEAD AND DEPUTY HEAD

The past four years at the SIU has proved to be a challenging and rewarding experience. The SIU has made significant progress in establishing itself as a credible and efficient corruption-fighting institution.

Since its inception in 2001, the organisation has faced numerous challenges. The biggest challenge, initially, was the perceived uncertainty regarding the future of the SIU. The uncertainty resulted in the resignation of numerous staff members shortly before the resignation of Judge Heath.

During the first three years the SIU responded by implementing strategies aimed at stabilising and consolidating the organisation, and ensuring that it was able to continue investigations already underway and provide an effective service.

The success of its strategy is reflected in the fact that government doubled the budget of the SIU, and it has grown from 67 staff to about 200.

### Growth of the SIU

During the past year, the SIU moved into a new era in its history. There has been a strategic shift from stabilisation and consolidation to growth and the development of a new SIU.

This shift resulted mainly from the fact that departments are increasingly turning to the SIU rather than private forensic firms to assist them with the investigation of corruption. The fact that they are prepared to pay the cost of the investigation is an indication of how keen they are to use the services of the SIU, and of their commitment to root out corruption.

During the past year, the SIU finalised agreements for large new investigations with:

- the Department of Transport (DoT);
- the Department of Social Development (DSD); and
- the Eastern Cape Department of Local Government, Housing and Traditional Affairs.

The SIU's investigation profile is in line with government's approach to tackle corruption, which affects the lives of ordinary South Africans. Other emerging areas where the SIU may play a more significant role are in the departments of Housing and Local Government.

Nearly 300 additional staff members will be recruited for these projects during the next two years. These investigations also indicate satisfaction with the services of the SIU since two departments (Transport and Eastern Cape Local Government, Housing and Traditional Affairs) have requested new investigations as a result of previous successful investigations.

In 2001/02 the SIU received around R500 000 from departments as contributions to investigations. By 2006/07, this figure will grow substantially to nearly R100 million.

A further reason for the increase in the utilisation of the SIU's services is that it attempts to provide a one-stop service to departments. Essentially the SIU deals with the entire ambit of the corruption problem. This includes doing the necessary investigations, assisting with or facilitating criminal and disciplinary prosecutions, and making recommendations for systemic improvements, in addition to its core business of recovering and preventing losses of state assets. The SIU can provide forensic investigating services at a significantly lower cost than private sector forensic accounting firms that are the usual alternative for departments.

This approach to the delivery of the SIU's services requires strong partnerships with other law enforcement agencies and state institutions such as SAPS, NPA, DSO and the Office of the Auditor-General, to name a few. These partnerships are essential for the development of the one-stop service that is offered to departments. During the year under review the SIU once again maintained excellent working relationships at both a strategic and operational level with its sister agencies, especially SAPS and DSO.

An increase in the number of national investigations during this year (DSD and DoT) has prompted the SIU to establish more offices in the provinces and expand its national presence. During the period under



## MESSAGE FROM THE HEAD AND DEPUTY HEAD

**Mr. Faiek Davids:** *Deputy Head of SIU*

review the SIU has established a national office in Pretoria and has also increased its presence in Nelspruit and Cape Town. During 2005/06 further offices will be established in Polokwane and Bloemfontein. The establishment of an effective national presence is vital as the SIU seeks to provide improved service delivery to departments, and to further reduce the cost of investigations by cutting down on travelling time and costs.

### **Impact of growth on the SIU**

The SIU had to deal with many challenges to cope with the impact of its rapid growth during the period under review.

A critical challenge was the establishment of a new corporate identity that would distinguish the SIU more clearly from its partners in the law enforcement environment. It was also important for the public to be made more aware of the existence of the SIU, especially in view of the investigations being carried out at a service delivery level indicating government's greater commitment to tackling corruption. For this reason the SIU adopted a new brand in the form of the cobra logo and the slogan "Poised to strike against corruption". Thus far the brand has been warmly accepted and was unveiled to much acclaim at the National Anti-Corruption Forum in March 2005. It has certainly resulted in more members of the public referring information on corruption to the SIU.

The recruitment of the necessary skills to staff projects within the SIU has proved to be a major challenge. Populating project teams is at the heart of the effective delivery of services to departments. During the year under review the SIU was able to recruit 52 additional staff members. This represents an increase of about 40% in the total number of staff within one year. The SIU's staff component is expected to reach 550 by late 2006. The SIU realises the importance of a solid infrastructure to support this growth and will initiate an organisational design process during 2005.

A major risk when appointing many new staff members is the aspect of integrity. As more persons are appointed, internal integrity will be strengthened to ensure the integrity of the organisation and its members, ensuring that its investigation findings are credible and beyond

reproach. During the period under review the SIU has stepped up its capacity to conduct internal integrity through the recruitment of more personnel and improving the screening processes. The period under review has seen eight persons being disqualified for failing internal integrity screenings for the reason of, amongst others, lack of full disclosure of criminal records. The SIU has also increased its internal integrity monitoring capacity.

### **Training, development and employment equity**

Although the SIU has been able to recruit large numbers of new staff, it remains a challenge to increase the number of investigators with the expertise to investigate corruption. It is not a viable option to continue to recruit experienced investigators only from SAPS or DSO as this simply reduces the capacity within these agencies.

For this reason the SIU has introduced an intensive programme for new recruits where it puts candidates through a year-long training programme to develop them as SIU investigators. During 2004/05 some 22 new investigators were trained and the programme has been expanded to train an additional 44 investigators in 2005/06. The programme is also a vital part of promoting employment equity in the SIU.

In addition, during 2004/05 the SIU introduced personal development programmes to ensure a more scientific analysis of the training needs of its staff. It also provided more targeted training to address the identified needs. The SIU has launched a Potential Leadership Programme involving four SIU members, all from designated groups. These candidates can look forward to a comprehensive, accredited training programme during 2005/06 where the emphasis will be on honing their leadership capabilities for future use within the organisation.

The SIU has made significant strides in improving employment equity and designated groups currently make up 71% of its staff. It is hoped that this figure can be improved further during the current recruitment drive. Although the representation of designated groups within management has increased significantly from 14% to about 48% over the last four years, it remains a significant challenge.



## MESSAGE FROM THE HEAD AND DEPUTY HEAD

### Acknowledgments

The work of the SIU is critically dependent on the cooperation and support it receives from a variety of partners and sources.

A first acknowledgement must go to the ministers and MECs and their departments with whom the SIU is working. They have shown the commitment to fighting corruption within their institutions, and we believe that together we are building a significant capacity to root out corruption.

Secondly, the successes of the SIU would not have been possible without the excellent cooperation of its partners in law enforcement, especially SAPS, NPA, DSO and AFU. Their assistance has been vital and has impacted greatly on ensuring positive outcomes in relation to criminal matters involving predominantly government officials.

Thirdly, we wish to thank those donors who supported the SIU in the past year, specifically the Danish Embassy, the United States Embassy, the British High Commission and the German Government.

The funding support for increased infrastructure allowed the SIU to focus the bulk of its government grant on its core functions of investigations and providing corporate support.

Fourthly, we would like to extend our gratitude to the Presidency, and the Minister, Deputy Minister and the Department of Justice and Constitutional Development for the tireless support given to the SIU over the past year to ensure that it can do its work.

Lastly, and most importantly, we would like to thank our staff for their contribution to making 2004/05 such a successful and exciting year. The Auditor-General's unqualified audit report is in no small measure due to everyone's efforts. The sterling efforts and personal sacrifices by our staff and their families are greatly appreciated and have helped the SIU to move ever closer to achieving its vision of:

***"Working together to rid society of corruption"***



**Willie Hofmeyr (Head)**



**Faiek Davids (Deputy Head)**

# NATIONAL INVESTIGATIONS

## OVERVIEW OF SIU INVESTIGATIONS

During this period the SIU extended its operational focus significantly by initiating investigations into drivers' licence irregularities (National Department of Transport) and the receipt and payment of social grants (Department of Social Development).

The social grant investigation of the Department of Social Development (DSD) will result in the SIU dedicating 200 members to investigate the irregular payment of social grants to disentitled beneficiaries. DSD has conservatively estimated the annual loss due to irregular payment of social grants at approximately R1.5 billion. DSD's contribution will grow to an annual amount of R57 million to the SIU over the next three years to fund this investigation.

The Department of Transport (DoT) has agreed to make a significant contribution of R16.8 million annually for three years to fund a dedicated capacity of 75 SIU members on the DoT project. The presidential proclamation authorises the SIU to investigate the irregular issuing and conversion of drivers' and learners' licences nationally. The DoT project has prioritised 55 drivers' licence testing centres nationally, and the conversion of 43 000 foreign licences to South African drivers' licences.

Further to this proclamation the President authorised the SIU to investigate 12 additional municipalities in the Eastern Cape. This extends the SIU's local government focus, in respect of proclaimed matters, to 16 municipalities in four provinces. There are 284 municipalities nationally. The SIU's involvement in the Eastern Cape and the Western Cape has resulted in improved service delivery at some municipalities in those provinces.

The investigation of the Department of Justice and Constitutional Development (DoJ&CD) has been scaled down significantly and is currently only operational in KwaZulu-Natal.

The investigation of the Department of Correctional Services (DCS) continues to yield significant results and achievements, especially in relation to the medical aid and procurement-related matters.

The SIU is in discussion with the Department of Housing (DoH) regarding a possible investigation into the low-cost housing programme nationally. Currently the SIU is only involved in four provinces: the Eastern Cape, Northern Cape, Gauteng and KwaZulu-Natal.

## DEPARTMENT OF CORRECTIONAL SERVICES

The Jali Commission was established in September 2001. The Commission's brief included inquiring into reports of alleged incidents of corruption. In 2002 DCS requested the SIU to assist with the investigation of allegations of widespread corruption including the DCS's medical aid fund and procurement contracts.

The SIU's investigation started in 2002, under Proclamation R66 of 2002. The scope of the allegations and the period covered by the investigation have been extended through the issuing of further proclamations. The project commenced on 2002 and will continue for a period of three years. DCS has agreed in principle to extend the project after March 2006.

In terms of an agreement with DCS, the SIU receives an annual contribution of approximately R5.5 million per annum for three years from DCS to conduct the investigation and to employ a dedicated team of 25 staff members on the project. The capacity has since grown to 40 dedicated members with the SIU funding 15 members on the project.

The SIU is working closely with DCS, SAPS and NPA. The investigation is conducted in all nine provinces.

The main focus areas of the investigation have been extended since the initial brief and currently include the investigation of:

- allegations by correctional centre inmates;
- procurement of medication at DCS pharmacies;
- fraudulent claims against the medical aid fund;
- abuse of the First Auto Fleet card system;
- procurement contracts.

## NATIONAL INVESTIGATIONS

### Project progress

#### Allegations by correctional centre inmates

The Jali Commission unearthed numerous allegations of corruption and fraud in respect of DCS officials. The SIU has interviewed large numbers of inmates and DCS officials at almost all the correctional

centres throughout the country. It has yielded a number of criminal cases, prosecutions and disciplinary hearings. Some of the complaints received from inmates and the subsequent follow-up investigations have also led to further focus areas such as irregularities in the procurement of medication.

#### Statistical overview of correctional centre visits:

Total number of correctional centres	Correctional centres visited to date	Number of inmates interviewed	Number of DCS members interviewed	Number of complaints followed up	Number of criminal referrals	Number of disciplinary actions against DCS officials
179	161	103 496	16 927	8091	244	398

Some of the notable cases resulting from the correctional centre visits and the SIU's investigation include:

- the dismissal of the provincial commissioner in the Eastern Cape for submitting fraudulent travel claims – the criminal trial is still pending;
- the dismissal of the Head of the Middelburg Correctional Centre in the Eastern Cape and three DCS officials for facilitating the escape of inmates from the prison;
- the prosecution of four DCS officials at Groenpunt Correctional Centre on charges of theft and fraud of kitchen stock worth R476 000;
- the prosecution of a DCS official at Barberton Correctional Centre on 452 counts of fraud and corruption – the criminal trial is still pending;
- the prosecution of a DCS official at Pretoria Central Correctional Centre on 38 charges of theft and fraud relating to the abuse of a First Auto cards – the trial is pending;
- the conviction and sentencing of a DCS official at Zonderwater Correctional Centre on charges of the theft of scrap metal from DCS workshops on the premises – criminal charges against two further DCS officials are still pending.

#### Procurement of medication at DCS pharmacies

During the correctional centre visits a number of inmates complained of a lack of medicines supplied from prison pharmacies. The SIU's

investigation focused on **in-house pharmacies** and **correctional centres supplied by the nearest classified correctional centre pharmacy**. There are 14 classified correctional centre pharmacies in five provinces that supply correctional centres without in-house pharmacies.

Classified centres have a pharmaceutical store and supply medicines to several smaller centres (hospitals and primary health care resources) in their management area (unclassified centres). Classified centres procure medication from local pharmaceutical wholesalers.

The SIU's investigation has found the following procurement irregularities or fraudulent activities in the supply of medicines to correctional centres or in the dispensing of medicines to inmates:

- the supply to inmates of *grey medicine* (medicine that is illegally manufactured in country or smuggled into the country and repackaged by professional criminal syndicates);
- the repackaging of *expired medicine* and its dispensing to correctional centres;
- the *theft and repackaging* of state medicines and its subsequent retailing through private pharmacies;
- the *stockpiling of medicine* at some correctional centres that results in the expiry of medicines;
- flouting of procurement policies;
- forging of prescriptions by DCS officials.



### **Fraudulent claims against the DCS medical aid fund**

In 2001 the Jali Commission reported allegations of widespread corruption and fraud in respect of the DCS medical aid fund. Until 2003 DCS provided fully subsidised medical aid to DCS officials. Until then all savings or losses were passed onto DCS. The SIU is part of a joint investigation, which includes DCS, DSO, SAPS and the medical aid fund, into fraud committed in respect of the Medical Aid Fund.

The SIU's investigation uncovered three types of fraud committed against the medical aid fund:

- collusion between a medical practitioner and corrupt DCS officials through which fictitious services are charged to an innocent DCS official's account. The medical practitioner then submits false claims to the medical aid. The criminal proceeds are shared amongst the corrupt beneficiaries.
- the submission of excessive claims by medical practitioners where such services could not reasonably have been performed, for example, a medical practitioner who claimed for 200 consultations in one day.
- the fraudulent supply of non-medical goods by pharmacists, for example, groceries and goods, while claiming from the Medical Aid for the supply of medical goods.

### **Abuse of the First Auto Fleet card system**

The total DCS expenditure on fuel and maintenance for 2003/04 was R99.9 million, which constitutes a significant expenditure for the Department. An analysis of the claim patterns pointed to an abuse of the First Auto Fleet card system by officials within the Department.

The SIU analysed around 500 000 transactions and found widespread vehicle misuse and petrol card theft. Currently two criminal cases are pending against DCS officials on 40 criminal counts of fraud and corruption. A further 60 potential criminal matters are being investigated.

The aim is to bring about a 10% reduction in the national expenditure incurred for fleet management. It is envisaged that DCS will in future have the capacity to conduct these investigations internally. The SIU

is in the process of transferring skills to DCS officials to conduct these investigations themselves.

### **Procurement contracts**

DCS referred a number of matters relating to possible non-compliance with procurement processes to the SIU for investigation.

### **Procurement of the Boulevard Hotel for DCS Training Academy**

The SIU was tasked to investigate whether any irregularities had occurred in the awarding of the tender for the short-term accommodation of a training academy to the owners of the Boulevard Hotel. The second issue related to fruitless or wasteful expenditure in connection with the contract and, if so, whether anyone could be held responsible for such expenditure. The expenditure amounted to R6.6 million. DCS failed to occupy the building for the full period of the lease, notwithstanding a contractual obligation to do so.

### **St Albans - Procurement of alleged inferior product**

The inmates at St Albans Correctional Centre were allegedly fed sub-standard, inferior and foreign dairy products (Whey Milk Powder). This was confirmed by the correctional centre authorities and additional fresh milk had to be obtained from the neighbouring DCS farms in order to remedy the situation.

### **Repair and Maintenance Programme (RAMP)**

The RAMP was initiated by the Department of Public Works (DPW) in 1999 as a part of the national project to attend to all state property that had been neglected and to upgrade the fixed assets. A number of concerns have been raised regarding the management and supervision of the programme. These include allegations of the improper awarding of tenders, BEE fronting, the payment of contractors without completion of any work, and other allegations of non-compliance with procurement processes.

### **Private Correctional Centre Contracts**

It is alleged that some members of the DCS's original Asset Procurement and Operating Partnership (APOPS) project team, who had been involved in the negotiations regarding the building of the two private correctional centres in Mangaung (Bloemfontein) and Louis Trichardt,

## NATIONAL INVESTIGATIONS

were recruited to senior positions at these private correctional centres. The total cost involved in the operation and maintenance are escalating at such a rate that it is exceeding the projected figures originally budgeted for in the tender proposal.

### Sybase Matter

The State Tender Board awarded a tender to Sybase SA (Pty) Ltd on recommendation from DCS. The cost of acquiring the database

amounted to R4 140 102. When DCS investigated the cost of replicating the database, it established that the replication of the database amounted to approximately R14 million. DCS is challenging the contract on the basis of non-compliance with certain tender processes.

### Results and Achievements

Focus areas	Actual recoveries 2004/05	Potential recoveries	Savings 2004/2005	Potential savings 2004/2005
Medical Aid	R12 013 121	R37 349 948	R85 000 000	R320 000 000
First Auto	R 247	R500 000		R8 000 000
Correctional centre visits	R216 434			
Correctional centre pharmacies		R1 600 000		R750 000
<b>Total</b>	<b>R12 229 802</b>	<b>R39 449 948</b>	<b>R85 000 000</b>	<b>R328 750 000</b>

Focus areas	Disciplinary referrals 2002 to 2005 DCS officials	Criminal referrals 2002 to 2005 DCS officials	Criminal referrals 2002 to 2005 Doctors
Medical aid	27	9	25
First Auto	24	1	
Correctional centre visits	118	119	
Correctional centre pharmacies	6	3	
<b>Total referrals</b>	<b>175</b>	<b>132</b>	<b>25</b>
Outcomes	Pending: 66 Acquit/resign/withdraw: 4 Guilty: 105 Dismissals: 10 Warnings: 95	Investigation pending: 96 On trial: 19 Convictions: 5 Withdrawn/Nolle: 11 Not guilty: 1	Investigation pending: 15 On trial: 8 Convictions: 1 Suicide: 1

## DEPARTMENT OF TRANSPORT

The national Department of Transport (DoT) approached the SIU in 2004 to conduct an investigation into the irregular issuing of drivers' licences.

Reports of the DoT Inspectorate, SAPS and National Intelligence Agency (NIA) confirmed that the unlawful issuing of drivers' licences at many drivers' licence testing centres (DLTCs) in South Africa had reached unacceptable levels. It was also alleged that officials and other parties applied different methods to disguise transactions relating to stolen vehicles and/or to launder stolen vehicles through the National Traffic Information System (NaTIS).

The SIU had previously conducted an investigation into the unlawful issuing of drivers' licences in Limpopo from 1994 to 1999, and recommended that approximately 11% of the 240 000 drivers' licences that had been audited be cancelled.

Proclamation R5 of 2005, published on 31 January 2005, mandated the SIU to commence with an investigation into the issuing of licences, including professional driving permits and learners' licences that do not comply with the applicable legislation.

Some of the key aims of the project include:

- cancelling irregularly issued licences and removing unqualified drivers from the roads;
- initiating disciplinary action against officials engaging in irregular or unlawful conduct and ensuring their removal where appropriate;
- improving the administrative systems and processes.

## Project progress

The SIU received funding of R16.8 million per annum from DoT to conduct the investigation and to employ a dedicated team of 75 staff members on the project. The project commenced on 1 March 2005 and will continue for an initial period of three years. The SIU is working closely with DoT, SAPS, NIA and the National Prosecuting Authority (NPA). A national steering committee has been established to coordinate the activities of the different law enforcement agencies involved in the investigation.

Due to the large number of licences to be investigated by the SIU, the investigation will be conducted in phases.

**Phase 1** covers transactions at the 55 prioritised DLTCs during 2004.

**Phase 2** will extend the period of review of auditing the licences issued at the 55 prioritised DLTCs to cover previous years. It will also investigate the remaining prioritised conversions (46 830 transactions), as well as the irregularities identified through the data interrogation process.

To date the investigation team has focused on the conversion of foreign licences to the South African credit card format drivers' licence and the investigation of allegations of irregularities and/or criminal offences referred to the SIU. Investigations are currently being conducted at DLTCs in Gauteng, the Eastern Cape, KwaZulu-Natal, the Western Cape and Mpumalanga.

## NATIONAL INVESTIGATIONS

### Results and Achievements

Province	Files scanned	Files audited	Invalid licences identified	Disciplinary matters referred to DoT	Number of criminal referrals	Number of pending arrests	Number of arrests		Number of prosecutions
							Private individuals	Officials	
Western Cape	1 709	1 250	1	2	2			2	2
Gauteng	77 796	969	683	10	666	665	4	12	3
Eastern Cape	67 158	9 765	451	1	1	1			
KwaZulu-Natal	73 142	148	21	1	17	17	3		3
North West	55 042	506	345	6	6	2			
Free State	299	224	39		27	25			
Mpumalanga	56 364	1 251		1	12	3	11	3	9
Northern Cape	23 302	182	35		4	21	1		
Limpopo	52 837	19	1 349						
<b>Total</b>	<b>408 967</b>	<b>14 314</b>	<b>2 924</b>	<b>21</b>	<b>733</b>	<b>734</b>	<b>19</b>	<b>17</b>	<b>17</b>

### Department of Social Development

In terms of the Social Assistance Act, Act 59 of 1992, the Department of Social Development (DSD) has the overall national responsibility to pay pensions, grants and other forms of social assistance. The provinces administer the payments on an agency basis.

Over the past few years, there has been an enormous increase in the number of beneficiaries as government introduced a child support grant, and disability grants became more widely accessible. Losses have conservatively been estimated at approximately R1.5 billion per annum or 2.6% of the allocated budget of R56 billion. Indications are that the losses could be substantially higher.

As a result the Minister of Social Development, Dr Zola Skweyiya, approached the SIU in 2004 to investigate and redress any impropriety, including fraud, corruption and maladministration in relation to the administration of the social grant system.

Proclamation R18 of 2005, published on 6 April 2005, mandated the SIU to investigate:

- The payment and/or receipt of social grants or benefits by unqualified beneficiaries.
- The irregular or unlawful conduct of governmental officials and/or agents responsible for the administration and/or payment of social grants or benefits.

The investigation will be conducted in phases and the SIU and DSD have agreed on prioritising the following areas or activities for phase 1 and 2:

- Analyse the Social Pension (SOCPEN) databases and identify undue beneficiaries for forensic investigation and removal from the system.
- Investigate government officials registered on SOCPEN.
- Concentrate on high-risk social grants (old age grants, disability grants, child support grants and care-dependency grants).
- Investigate failed amnesty applicants.
- Concentrate on high volume transactions in respect of all grants, including high-risk grants, targeted by organised crime syndicates often working with government officials, professionals, members of the public, service providers, etc.
- Repatriate unclaimed grants from banks and other payment institutions to the Department.

## NATIONAL INVESTIGATIONS

- investigate maladministration by DSD officials, which resulted in delays in payment or in the non-payment of grants.

The key aims of the project include:

- identifying and addressing impropriety;
- recovering losses for DSD and securing savings in the payment of social grants;
- improving service delivery and assisting the Department by addressing administrative systemic gaps;
- ensuring skills transfer to members of the Department's Compliance Unit.

The project commenced on 1 March 2005 and will continue for an initial period of three years. DSD will provide the SIU with funding to conduct the investigation and employ a dedicated team of 200 staff on the project (the SIU will grow the capacity to 200 within 18 months of commencement).

The SIU is working closely with DSD, SAPS and NPA in this investigation. A national steering committee has been established, which ensures coordination of the investigation and activities of the role-players.

The SIU established a Rapid Reaction Unit (RRU), which will initially consist of 13 members. This capacity will be increased to approximately 30 members by April 2005 and approximately 80 members by August 2005.

The RRU is managed from the Pretoria regional office with team members based in the regions. Currently the RRU has an investigating capacity within Gauteng, North West, KwaZulu-Natal and the Western Cape.

The current focus of the RRU is the removal of all government officials from the SOCPEN system. The registration of these officials onto the system as social grant beneficiaries has in many instances been fraudulently approved by corrupt officials. The investigation of failed amnesty applications by government officials will also commence during Phase 1 of the project.

Through the comparison of the SOCPEN database with the Government Personnel Salaries System (PERSAL) database, approximately 41 000 government officials have been identified who were registered as social grant beneficiaries as at 15 March 2005.

### Results and Achievements

Description	North West	Mpumalanga	Gauteng	Limpopo	KwaZulu-Natal	Western Cape	Total
Number of beneficiary files audited	1 050	647	200	0	1 179	145	3 221
Number of cases brought before court	94	18	0	69	0	0	181
Number of convictions to date	0	0	0	0	9	0	9
Number of anticipated convictions in September 2005	45	0	0	0	0	0	45
Total number of AODs signed	119	7	0	0	201	0	327
Total value of AODs signed	R596 023	R25 258	0	0	R1 262 197	0	R1 883 478





## NATIONAL INVESTIGATIONS

### Department of Justice and Constitutional Development

On 25 July 2003 the SIU received a proclamation to investigate allegations of fraudulent activities at 40 magistrate's courts and regional offices nationally. The proclamation mandated the SIU to investigate the following:

- serious maladministration in connection with the affairs of the Department;
- improper or unlawful conduct by officials of the Department;
- unlawful appropriation or expenditure of public money or property;
- unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having a bearing upon state property;
- intentional or negligent loss of public money or damage to public property;
- corruption in connection with the affairs of the Department;
- unlawful or improper conduct by any person, which has caused or may cause serious harm to the interests of the public or any category thereof during the proclamation period (1 January 1996 to 25 July 2003).

The SIU had employed 42 investigators countrywide for the duration of the project. The project entailed conducting forensic investigations based on findings contained within Auditor-Generals reports on the various courts. The scale of the investigation required a joint effort with other corruption-fighting agencies to expedite criminal and civil action resulting from the investigations. Partnerships were, therefore, established with SAPS, DSO and AFU.

Some of the key findings of the national project to date are:

- the theft of trust and estate monies (bail, maintenance, etc);
- non-performance of financial reconciliations;
- unaccounted for cash shortages;
- lack of accountability within systems and processes at the courts;
- irregular use of volunteer workers at courts;
- syndicated corruption and fraud with links to organised crime within some of the courts.

The investigations have proved to be quite complex and time-consuming requiring detailed audits of the existing processes and procedures within courts. To date the SIU has finalised 50% of the 40 courts. Since December 2004 the SIU has paid particular attention to courts within KwaZulu-Natal. These investigations are being conducted by the SIU regional office in KwaZulu-Natal.

#### Results and achievements

Recoveries (AODs)	Criminal referrals	Disciplinary referrals
R548 000	49	54

Systemic recommendations, with a view to effecting improvements in the systems and processes at courts, have been submitted in 22 reports to DoJ&CD.



## REGIONAL INVESTIGATIONS

The SIU has three regional offices: in KwaZulu-Natal, East London and Gauteng. In addition, there are satellite offices in Mthatha, Cape Town, Bloemfontein, Nelspruit and Polokwane.

These regional offices are chiefly responsible for providing forensic and litigation services to government departments within their respective regions. They are decentralised with the purpose of taking services closer to the departments. Principally the regions assist the SIU by:

- rendering a professional and cost-effectiveness forensic investigation and civil litigation service to all clients within the regions in order to promote the SIU as the forensic service provider of choice;

- improving cooperation and encouraging relationship-building with other corruption fighting agencies such as SAPS, DSO, AFU, SARS, NPA and the Office of the Auditor-General at both national and provincial level in the region;
- advancing the operational processes and systems required for ensuring proficient and technologically sound delivery of services;
- promoting a results-driven environment that enhances the ability of the SIU to ensure increased funding for growth; and
- promoting cohesiveness and understanding amongst staff of all denominations.



**Mr. David Walker: Regional Manager KwaZulu-Natal**

### KWAZULU-NATAL

The KwaZulu-Natal office has a total staff complement of 56 made up of investigators, lawyers and corporate services support staff and will continue to experience growth as the SIU initiates more national projects.

The KwaZulu-Natal regional office has ongoing provincial investigations in respect of:

- *Department of Provincial Local Government and Traditional Affairs:* An investigation into the investment of municipal funds by municipal employees made in an irregular and unauthorised manner.
- *Department of Housing:* An investigation into the theft of Department of Housing subsidy funds by attorneys responsible for conveyance duties.
- *Department of Justice and Constitutional Development:* An investigation of irregularities at five magistrate's courts listed in the proclamation.
- *Witness Protection Programme:* An investigation into irregularities identified through internal audits at the provincial office of the Witness Protection Unit for the period 1995 to January 2002.

- *Department of Transport:* An investigation into the fraudulent and irregular reduction of the tare weights of motor vehicles by employees of the Department of Transport (Tare weights).

### Department of Provincial Local Government and Traditional Affairs

The SIU's investigation into the Department of Provincial Local Government and Traditional Affairs was prompted by the Department's identification of the mismanagement of funds of the KwaZulu-Natal municipalities' investment fund by some of its officials. Proclamation R9/2004, published on 2 February 2004, mandated the SIU to initiate an investigation regarding allegations of mismanagement. The SIU is working jointly in partnership with SAPS and DSO to ensure that criminal processes and prosecutions resulting from the investigations were implemented and accelerated.

A comparative financial analysis was conducted, which included the investigation of the flow of funds to the value of R16 million from Umzinyathi Regional Council to the various companies alleged to have fraudulently received funds from the municipal account.

The case was referred to DSO for further criminal investigation. The contracts linked to Umzinyathi Regional Council Investments, together with additional documentation, have been studied to enable relevant



## REGIONAL INVESTIGATIONS

Section 5[2] [c] hearings to be held. These hearings are planned for September 2005.

The SIU has recommended that the Department takes civil action against the former finance directors for the mismanagement of funds. The SIU and DSO are assisting the Department in administering the necessary internal investigation that will be required.

The investigation is expected to continue with special emphasis placed on the outcomes of the hearings, the financial investigation, analysis and further action or referral for criminal prosecution in respect of Umzinyathi Regional Council. The office will continue to ensure cooperation between its partners and the Department until the finalisation of the projects.

### Department of Housing

The SIU initiated an investigation into DoH housing subsidy funds in KwaZulu-Natal. Proclamation 74 of 1998, published on 28 July 1998, mandated the SIU to investigate concerns of fraud and corruption within the housing subsidy scheme administered by contracted conveyance attorneys. This investigation was the result of an audit by the Department that revealed irregularities in the monthly reconciliations submitted by the conveyance attorneys contracted to administer the funds.

A partnership was formed with SAPS Commercial Branch, the Director of Public Prosecutions (DPP) and the provincial DoH to ensure that criminal charges were laid that would result in civil recoveries.

The project was implemented in four phases, each phase focusing on a specific firm of attorneys as a separate entity.

*Phase 1:* Phase 1 was concluded in May 2002, prior to the year under review. An amount of R333 000 was recovered from the Attorneys' Fidelity Fund, which was settled after completion of the investigation. The case was handed over to DPP in Durban for further action.

*Phase 2:* A claim of R1 322 000 has been lodged with the Attorneys' Fidelity Fund. The investigations revealed syndicate involvement, which led to the arrest of the attorney and two additional individuals.

The case was handed over to DPP in Durban for further action. The SIU is in the process of recovering an amount of R604 750.

*Phase 3:* There are currently 1 328 files under investigation. Two claims have an estimated value of R3 963 250. These claims were submitted to the Attorneys' Fidelity Fund for further action. The remaining 1 062 files are in the process of further investigation and claim preparation.

*Phase 4:* A total of 219 transactions have been identified for investigation. A claim has been lodged with the Attorneys' Fidelity Fund in respect of 41 transactions, with an estimated value of R615 000. The remaining 178 files are in the process of further investigation and claim preparation.

The investigation of individuals suspected of corrupt activities will continue in phases three and four. The focus will remain on the forensic audits and investigations in a joint effort with the SIU's regional partners.

### The Witness Protection Programme

The SIU's investigation into the Witness Protection Programme was initiated by the National Director of the Witness Protection Unit after several audits highlighting shortcomings at the KwaZulu-Natal Witness Protection Unit had been conducted.

Certain irregularities were exposed in the report of the Office of the Auditor-General in 2001 that pointed to potential conflict of interest. Among the allegations included the failure of employees of the Witness Protection Unit to comply with prescripts and directives; the mismanagement and irregular application of resources; and irregularities pertaining to the protection of witnesses.

Proclamation R1/2002, published on 18 January 2002, mandated the SIU to investigate these irregularities and allegations.

The SIU's investigation revealed that the Hazelmere Development Trust had been introduced to witnesses through the Witness Protection Unit. This trust is not registered and further information obtained indicates that the Assistant Director of the Witness Protection Unit

## REGIONAL INVESTIGATIONS

had the majority of monies advanced to witnesses by the Witness Protection Unit returned to him by the coordinator of the trust. A number of witnesses were interviewed who indicated that they never received sites, which they had paid for through deductions from their allowances whilst under the programme.

The properties that were actually allocated to witnesses in the programme are mostly unsuitable or located in an unfavourable area. Furthermore, not all properties were wholly leased to the Department. Only sections of a house had been leased. In other instances, property addresses appeared to be those of houses, but were found to be either a unit in a complex or a flat.

An analysis of houses as per the national lists, compared to provincial lists and information, revealed possible duplication of payments to agents and payment in respect of what appears to be non-existent properties.

The SIU's forensic audit report found, *inter alia*:

- a lack of administrative and financial controls relating to vouchers;
- unrecovered witness fee advances;
- loans that were advanced to witnesses for the fictitious purchase of property;
- certain lease agreements that were defective in that they were not properly signed or completed either by the lessee or by the lessor;
- a lack of compliance with regard to tender procedures;
- proper procedures in the management of witnesses that were not applied in the areas of the security of witness information, lack of proper control in the movement of witnesses and property supervision of witnesses; and
- a lack of a proper asset verification system, which should reflect the properties under the control of the Witness Protection Unit.

The SIU's audit revealed 151 properties that had been identified as having been leased to DoJ&CD and 18 agents that had been targeted for criminal investigation related to the lease of these properties to the Department. The criminal cases are pending in court.

The SIU and the provincial Commercial Crimes Unit (CCU) of SAPS in KwaZulu-Natal are working closely together in this investigation. Furthermore, the SIU cooperates with NPA, SAPS and AFU.

### Department of Transport

On 26 January 1999 the SIU received a complaint from the MEC of Transport in KwaZulu-Natal regarding fraudulent reductions in the tare weight of motor vehicles at the Umbilo licencing bureau. An audit carried out by DoT revealed that a number of companies and individuals were involved in the alleged fraudulent reduction in the tare weight of motor vehicles.

Presidential proclamation R56/2001, published on 2 November 2001, mandated the SIU to investigate the fraudulent and/or unauthorised changing of the tare weight of motor vehicles on NaTIS by employees of DoT, and the subsequent payment of lower motor vehicle licencing fees.

A total of 156 companies/individuals are under investigation by the SIU. During December 2002, the provincial DoT handed over a further 29 folios of documents relating to the alleged fraudulent/irregular reduction of the tare weight of motor vehicles that are alleged to have occurred at the Verulam Motor Licencing Bureau between November 2001 and May 2002.

Application was made for an extension of Proclamation R56 to accommodate the investigation into the Verulam licencing bureau. The extension was received on 4 August 2003. The SIU was therefore able to assist the Department with the recovery of financial loss. In addition, the SIU initiated and administered the Admissions of Debt (AODs) signed between the identified parties and DoT.

Some 108 AODs regarding fraudulent transactions involving the tare weights of motor vehicles amounting to R3 241 743 in respect of 188 companies or individuals were signed by various defendants. The defendants will be monitored until all the AODs are paid up. The SIU handed outstanding fees (to the value of R769 091) previously recovered by the SIU over to the MEC of Transport in KwaZulu-Natal during June 2005.

## REGIONAL INVESTIGATIONS



**Mr. Toyo Mnqaba:** *Acting Regional Manager East London*

### EAST LONDON

The Eastern Cape regional unit services the Eastern Cape, Western Cape, Northern Cape and Free State through the regional offices in East London, as well as three satellite offices in Cape Town, Bloemfontein and Mthatha. The unit currently has ongoing investigations in respect of the Eastern Cape Department of Local Government and Housing, the Northern Cape Department of Housing, the Free State Tourism and Marketing Board, the Nala Municipality in the Free State and the national Department of Transport.

The East London regional office has a staff complement of 92. Mthatha has a staff complement of four; Bloemfontein a staff complement of two; and Cape Town a staff complement of 15.

The Unit conducted the following regional investigations:

- *Department of Local Government and Housing:* An investigation into a wide range of allegations of corruption and maladministration at 12 prioritised municipalities in the Eastern Cape.
- *Department of Housing:* An investigation into the implementation of housing projects and payments made by the Department of Housing to building contractors.
- *Free State Tourism and Marketing Board:* An investigation into allegations with regard to this project to recover losses suffered by the Board and to assist the Department in pursuing disciplinary actions or steps against those implicated.
- *Nala Municipality:* An investigation into the appointment of building contractors and consulting engineers by the municipality and the role of the municipality and its town engineer in the management and administration of the project relating to the construction of a taxi route in Monyakeng.
- *Department of Transport:* An investigation into the acquisition and transfer of assets, including the registration of motor vehicles (buses and sedans) belonging to the liquidated Transkei Road Transportation Corporation (TRTC) by and in the name of Umanyano Transport.

### Department of Local Government and Housing

Municipalities in the Eastern Cape have been plagued by allegations of poor governance, lack of service delivery, corruption and maladministration. Various forensic reports supported these allegations, but very little corrective action was taken to address the situation. In December 2003 the situation at the Qaukeni Local Municipality deteriorated to such an extent that the MEC for Local Government and Housing in the Eastern Cape intervened. The entire municipal council was suspended and the SIU was asked to appoint an administrator to restore governance.

The cooperative arrangement at Qaukeni paved the way for a much larger cooperative arrangement between the Department of Local Government and Housing and the SIU, culminating in an agreement that resulted in the Department funding a dedicated capacity within the SIU. This capacity would function as a special anti-corruption unit for the investigation of matters prioritised jointly by the Department and the SIU.

Proclamation R26/2005, published on 27 June 2005, mandated the SIU to investigate a wide range of allegations of corruption and maladministration in the municipalities of Emalahleni, Mnquma, Ikwezi, Inxuba Yethemba, Ndlambe, OR Tambo, Whittlesea, Maletswai, Somerset East, Inkwanca, KSD and Nyandeni.

The agreement between the SIU and the provincial Department of Local Government and Housing is for a period of three years. It was agreed that the parties will jointly prioritise specific matters for investigation. The project was launched by focusing on the conclusion of the investigation at Qaukeni and prioritising future investigations at Nyandeni, Ndlambe, Ikwezi and OR Tambo municipalities, as well as certain identified housing projects at Alphendale, Katlehong, Mdantsane and Umzimvubu.

The project has already produced the following results:

- the recovery of R1 068 563;
- the issuing of summonses to reclaim a further R732 398;
- four arrests (three of them were councillors);

## REGIONAL INVESTIGATIONS

- the referral of seven other matters to SAPS for criminal action;
- the referral of five matters of tax evasion to SARS;
- the dismissal of four people following disciplinary action.

### Department of Housing

The Northern Cape Department of Housing was reported to the SIU in a sworn affidavit by an employee of the Department. The allegations that had been made revolved around housing projects and low-cost housing approved by the Provincial Housing Board. It was alleged that payments were made in advance to contractors for work either incomplete or not done at all, contrary to the Department's manual, which clearly states that payments are made on completion of various phases of work. The housing projects to be investigated were spread across the province as follows: Postmasburg (600), Barcelona (De Aar) (400), Colesburg (192) and Benede/Oranje Distrik (500).

Proclamation R11/2004, published on 22 January, mandated the SIU to investigate the implementation of housing projects and the payments made by the Department of Housing to building contractors.

In Postmasburg 600 houses were constructed satisfactorily by two contractors. No adverse findings were found.

In Barcelona 206 houses were completed satisfactorily. Some 94 houses were constructed but were incomplete. One hundred houses must still be constructed. Those deficiencies were referred to the state attorney, Bloemfontein, for the enforcement of the agreement. Progress is being monitored through inspections and periodical reports.

In Colesburg 87 houses were completed satisfactorily. Some 35 houses are incomplete and 70 houses have not yet been constructed. Discrepancies were referred to the state attorney.

In Benede/Oranje Distrik 344 houses were completed satisfactorily. A total of 156 houses have not yet been constructed. A new agreement regarding the completion of the 156 houses was negotiated and referred to the state attorney.

### Free State Tourism and Marketing Board

The MEC of the Department of Economic Affairs and Tourism in the Free State requested the SIU to investigate the allegations of fraud and maladministration within the Free State Tourism and Marketing Board.

The SIU was provided with an Auditor-General reports on the affairs of the board. The reports revealed, *inter alia*, that payments had been made by the board to members or officials without supporting documents; the board had failed to secure recoveries of losses suffered; goods and services were procured at the board's expense without the necessary authorisation and without the prescribed tender procedures being followed; and the board had failed to ensure compliance with agreements entered into with third parties.

Proclamation R10/2004, published on 2 February 2004, mandated the SIU to investigate allegations with regard to this project, to recover losses suffered by the board and to assist the Department in pursuing disciplinary actions or steps against those implicated. Where applicable, those guilty of criminal conduct would be handed over to the relevant prosecuting authority.

This investigation is of a financial and audit intensive nature. Section 5(2)(b) notices were served on various financial institutions to secure supporting documents. These, in turn, were subjected to analysis. Bank statements of the Board of Directors, together with their pay slips, were reconciled. A chief investigator, a legal representative, an analyst and a data capturer were allocated to run the project.

Three AODs have been signed. The total amount outstanding is R1 084 113. This includes possible recoveries from senior and junior staff members of the board, as well as from other board members (20 officials were implicated for amounts ranging from R226 015 to R962 per official).

### Nala Municipality

The Nala Municipality project was initiated by the Speaker of the municipality who referred certain audit reports to the SIU. Nala







## REGIONAL INVESTIGATIONS

(Wesselsbron) is a local municipality in the northern region of the Free State. Its council approved the allocation of an amount of R1.2m to upgrade a certain stretch of road in Monyakeng. The municipality appointed a building contractor and consulting engineers to do the said work. They were paid an amount of R600 000, even though they had done little or no work. The SIU had to investigate the role played by municipal officials in the appointment of role-players, as well as the management and administration of funds relating to this project.

The purpose of the investigation was to establish whether there was any *mala fides* in the form of corrupt intention or any form of wrongdoing on the part of any role-player, and if it could be proved, whether the R600 000 (or part thereof) could be recovered from any affected person or institution.

Proclamation R51, published on 20 October 2004, mandated the SIU to investigate the appointment of the building contractors and the consulting engineers by the municipality; and the role of the municipality and its town engineer in the management and administration of the project relating to the construction of the road (the taxi route in Monyakeng).

The town engineer was suspended and disciplinary action was taken against him. He was found guilty and dismissed. He is currently facing criminal charges in Bothaville. Civil cases have been opened against both the constructor and the consulting engineers. The SIU is monitoring progress in both the criminal and civil cases.

### Department of Transport

The Umanyano Transport Project was initiated by the Eastern Cape Department of Transport. On 18 January 1996 the Premier of the

Eastern Cape dissolved a bus passenger transport corporation, the Transkei Road Transportation Corporation (TRTC). Liquidators and auctioneers were appointed to wind up the affairs of the TRTC. In the ensuing period much chaos, intimidation, harassment and lawlessness took place, to the extent that the liquidators abandoned the process. TRTC property was looted and vandalised and assets were lost, *inter alia*, to a company formed by former employees of the TRTC, known as Umanyano Transport.

Proclamation R2/2003, published on 31 January 2003, mandated the SIU to investigate the acquisition and transfer of assets, including the registration of motor vehicles (buses and sedans) belonging to the liquidated TRTC by and in the name of Umanyano Transport.

The SIU investigations aim at recovering the losses of TRTC and restoring the same to the Department. Preliminary investigations were launched as soon as documents had been obtained. This was followed by a full-scale investigation once the authorising proclamation had been published. The investigations were handled by a manager and a legal representative.

Key successes included recoveries in the form of the collection of rental fees of houses belonging to TRTC at a rate of R4 050 per month. To date R128 250 has been collected. Costs were saved from securing immovable property at a rate of R2 400 per month. The total raised to date is R17 590.

A potential R578 000 can be recovered from an offer to sell nine houses. An offer to purchase the main depot in Mthatha on public auction can result in the recovery of a potential R2 million.



## REGIONAL INVESTIGATIONS



**Mr. Martin Steenekamp:** *Regional Manager Gauteng*

### GAUTENG

The Gauteng headquarters are based in Pretoria. There is a satellite office in Nelspruit. During the year under review the Gauteng office's staff complement grew from 29 to 43. The growth of the office necessitated a move to the Rentmeester Building in Watermeyer Park. The possibility of moving to the Rentmeester Building was a further motivation to move the head office from East London to Pretoria. The Nelspruit office has four permanent workers and one contract worker.

The Gauteng office will decentralise its operation through the opening of a new office in Limpopo. The office will continue to strive to improve cooperation with all other law enforcement agencies, the national and provincial governments and the public.

The Gauteng office conducted an investigation into the Gauteng Low Cost Housing Subsidy Scheme.

#### **Gauteng Low Cost Housing Subsidy Scheme**

This investigation was initiated in 1998 by the Premier of Gauteng after reports highlighting allegations of irregularities in the Gauteng

Low Cost Housing Subsidy Scheme were received by the Office of the Auditor-General.

Proclamation R53/1999, published on 30 April 1999, mandated the SIU to investigate allegations relating to project-linked subsidies, individual subsidies, conveyancers and general complaints received by the SIU.

The investigation was implemented in April 1999 and is still continuing. The objective of the investigation is to investigate all housing projects launched by, and or on behalf of the Gauteng Provincial Government between 1 May 1994 and 30 April 1999; to investigate matters that fell within the mandate of the proclamation; and to recover any losses suffered by the provincial government of Gauteng.

During the year under review the SIU recovered an amount of R222 600 from four conveyancers: Snyman & Smullen, Moima Ledwaba Ngopepe, Pauw Botha and François Joubert.

## CORPORATE SERVICES



**Mr. Bernard du Preez: Acting Head of Legal Division**

### LEGAL DIVISION

The Legal Division set itself the following objectives for the 2004/05 financial year:

- Improving the time taken to obtain proclamations from the President referring matters to the SIU for investigation.
- Conducting corporate legal work, including the drafting and settlement of a variety of contracts, labour matters, negotiations and domestic litigation.
- Facilitating various amendments to the SIU Act.
- Supporting projects by engaging with the appropriate authorities for the institution of criminal and/or civil proceedings for the recovery of losses suffered by state institutions and monitoring such proceedings to their conclusion.

### Obtaining new proclamations

The following proclamations referring allegations to the SIU for investigation were promulgated during the year under review:

- **Proclamation R49 of 2004:** 18 October 2004 - investigating circumstances surrounding the sale of the SA Housing Trust's shares in Nu-Way Housing Development (Pty) Ltd and Khayaletu Home Loans (Pty) Ltd.
- **Proclamation R50 of 2004:** 20 October 2004 - investigating allegations relating to the Qaukeni Municipality (Eastern Cape), including irregular procurement and personnel practices.
- **Proclamation R51 of 2004:** 20 October 2004 - allegations relating to Nala Municipality (Free State) regarding the procurement and rendering of services.
- **Proclamation R52 of 2004:** 20 October 2004 - the donation of R40 million by Vista University to a certain Vista University Early Retirement Trust.
- **Proclamation R58 of 2004:** 19 November 2004 - extending the period of the previously proclaimed investigation of various allegations relating to DCS.
- **Proclamation R59 of 2004:** 19 November 2004 - investigating

fraud committed by employees of DCS that was to the detriment of the Department.

- **Proclamation R5 of 2005:** 31 January 2005 - the issuing and conversion of drivers' licences and the registration of stolen vehicles on the National Traffic Information System (NATIS) for DoT.

### Corporate legal support to the SIU

The rapid growth of the SIU has been accompanied by an increasing volume of corporate legal work, so much so that the SIU is set to establish a corporate legal component within the Legal Department to attend to such work.

Labour issues, which necessitated appearances before the Commission for Conciliation, Mediation and Arbitration (CCMA), arose in four cases. A variety of contracts, some extremely complex, have been prepared and settled to regulate the provision of accommodation, services and equipment, the employment of members of the SIU, and the arrangements between the SIU and those state institutions that require the SIU to investigate allegations.

The Legal Division also attended to litigation in the High Court and various magistrate's courts, either to defend the SIU or to enforce its contractual rights. It played a significant role in the formulation of SIU policies on a variety of matters, including the complex new supply chain management system of procurement for organs of state and public entities.

### Amendments to the SIU Act

The SIU engaged with the Ministry for Justice and Constitutional Development on the amendment of the SIU Act to place the matter of its *locus standi* to institute civil proceedings before the Special Tribunal on behalf of state institutions (to prevent or recover losses) beyond contention.

### Support to SIU projects

Some 65 notices were issued in terms of Section 5(2)(b) and (c) of the SIU Act, summoning persons to be examined under oath before members of the SIU. Some 90 notices were issued in terms of Section

## CORPORATE SERVICES

5(2)(b) of the same act, requiring persons to produce books, documents and objects for the SIU to further its investigations.

One Warrant of Entry, envisaged in Section 6(5) of the SIU Act, was obtained and issued from the Durban Magistrate's Court. Members of the Legal Division were also instrumental in securing the execution of a number of written Acknowledgements of Debt (AODs) by persons identified in investigations.

During the year under review the Legal Division monitored 16 criminal prosecutions arising from the SIU's investigations, as well as eight

matters in which civil proceedings were instituted to recover losses suffered by state institutions.

A total of 307 claims were lodged with the Board of Control of the Attorneys' Fidelity Fund for the recovery of housing subsidy funds, which the SIU alleges, on the strength of evidence uncovered in its investigation in KwaZulu-Natal, was trust money stolen by legal practitioners and/or their employees. A mechanism was also created in the Legal Division for the supervision of compliance by debtors with regard to their obligations to state institutions in terms of written AODs.



**Mr. Brian Chitwa:** *Head of Human Resources*

### HUMAN RESOURCES

The Human Resources Division set itself the following objectives for the 2004/05 financial year:

- Attracting and retaining skilled staff.
- Improving the employment equity profile of the SIU.
- Training and Enhancing Skills

#### Attraction and retention of skilled staff

Due to the increase in new projects, the Human Resources Division had to step up its recruitment drive in order to bring more project staff on board. During the period under review, 52 staff members were employed with the following equity profile:

Region	African		Coloured		Indian		White		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
Cape Town			2	2			2		6
East London	6	2	2	3	1		2	1	17
Durban	1	3	2		1	1	4	1	13
Nelspruit	1	1					2	1	5
Pretoria	2	1	1		1		4	2	11
<b>Total</b>	<b>10</b>	<b>7</b>	<b>7</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>14</b>	<b>5</b>	<b>52</b>

In addition to growing the staff complement, staff turnover for the period under review was approximately 15%. For a developing organisation, this relatively low turnover has been vital in retaining skilled staff.

An employee wellness programme to provide staff with counselling, information and support will be introduced early in the new financial year. The division believes that this will go a long way to ensuring that the staff component is motivated and that the SIU is able to care properly for its employees.

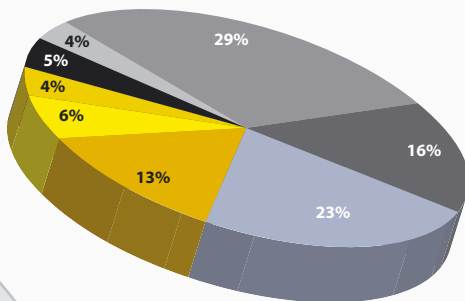


## CORPORATE SERVICES

### Improving the employment equity profile of the SIU

The SIU is committed to improving its employment equity profile to address past imbalances and the historical legacy in South Africa. The staff statistics for the year under review can be summarised as follows:

#### Employment Equity Profile of SIU 2004

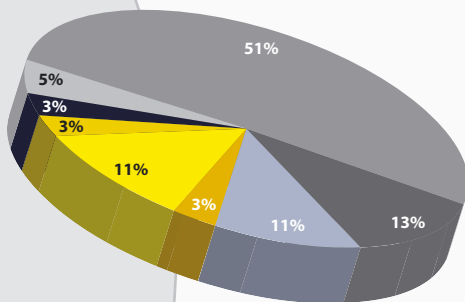


#### Gender Expanded

#### Group Expanded

	23%	African Male
	13%	African Female
	6%	Coloured Male
	4%	Coloured Female
	5%	Indian Male
	4%	Indian Female
	29 %	White Male
	16%	White Female

#### Employment Equity Profile of Management of SIU



#### Gender Expanded

#### Group Expanded

	11%	African Male
	3%	African Female
	11%	Coloured Male
	3%	Coloured Female
	3%	Indian Male
	5%	Indian Female
	51 %	White Male
	13%	White Female

Designated groups overall make up just under 71% of the total number of employees. Black African staff increased from 7% to 36%.

The SIU still has some way to go in improving the employment equity of its management, but it has made progress in comparison to previous years. Designated groups now make up 48% of management compared to 14% in 2001.

The SIU's equity profile in respect of black African managers increased from 7% in 2001 to 13.5% in the year under review.

The largest equity challenge is the employment of women, specifically Africans, within management. Although progress has been made in the past four years, for example, increasing the number of female managers from 7% to 24%.

### Training and Enhancing Skills

#### Performance Development Programme

A Performance Development Programme (PDP) was developed and implemented accurately to:

- identify critical skills and competencies that are required for a specific position;
- establish the required levels of such skills and competencies;
- map the skills and competency profile of the incumbent;
- identify training needs for each individual; and
- consolidate the data and use it for the development of a cost-effective training programme.

The identified training needs of members were addressed by a number of in-house programmes, as well as a mass training event at the end of January 2005, in which all 180 permanent staff members participated.

The mass training exercise included the following:

- *Forensic Science Practice*: This was presented by an international expert from the Northern Ireland Forensic Science Service and other experts from the Forensic Laboratory of the SAPS on practices and methods of document analysis.
- *Role-playing*: The role-play exercise took investigators through a series of events, starting with a search and seizure exercise and ending with investigators presenting their findings in a mock court.
- *Accounting practices*: This was aimed at improving the ability of investigators to identify instances of fraudulent activities.
- *One-on-one computer training*: Training was conducted in Word, Excel and PowerPoint for beginners, as well as advanced users.
- *Typing skills for field workers*.
- *Presentation skills*
- *Training for administrative support staff*: This training was provided in service delivery, telephone behaviour, assertiveness, communication, goal setting and leadership.

The PDP is an ongoing programme, supported by tools to assess the impact of interventions and to determine the developmental needs of newly appointed staff.

#### Potential Leaders Programme

The SIU also identified the need for a programme to fast-track the development of members with potential to become managers to improve, *inter alia*, the employment equity of its management. Following a voluntary application process, internal candidates with managerial potential were identified through the application of an extensive assessment and examination exercise. A panel of specialists and line-function personnel selected four candidates for the programme.

The Potential Leaders Programme started with the application of a development centre that aimed to provide participants with managerial exposure and experience with a view to providing customised training and development programmes thus ensuring the development of future leaders at the SIU.

A customised assessment centre is being developed for the SIU's Senior Management Team.

#### Internship Programme

The SIU is dependent on other law enforcement agencies as a source of staff when recruiting investigators. Unfortunately, the skills development programmes of these agencies are of a general nature or are agency specific.

In order for the SIU to fulfil its mandate, there is a need to substantially increase the pool of investigators that have the expertise to investigate corruption, fraud and theft, and in particular, to ensure the development of previously disadvantaged individuals.

Following a thorough analysis of various capacity development models, an internship programme was developed and implemented to provide a structured, but intensive, theoretical and "on-the-job" skills development programme for candidate investigators. As an outcome, the programme must deliver investigators within twelve months who are able to conduct investigations independently.

The average period to develop a seasoned forensic investigator is about three to six years. The internship programme is focused on developing a methodology that will shorten the time required significantly.



## CORPORATE SERVICES

The first internship programme started on 1 August 2003 with eight trainees and was successfully completed at the end of July 2004. A second group of 10 trainees started the programme on 1 June 2004 and would complete their training by 31 May 2005.

Due to the increased staff needs, the programme is being expanded significantly to train about 44 trainees per year. Experienced mentors conduct the capacity-building training.



### **Mr. David May:** *Head of Information Technology*

#### **INFORMATION TECHNOLOGY**

The aim of the Information Technology Division is to provide cost-effective and efficient information technology (IT) solutions to the SIU.

Its objectives for the period under review include:

- providing IT services at a competitive rate, minimising overhead expenditure and achieving a high level of satisfaction with existing clients;
- improving internal communication.

#### **Achievements**

During the period under review the IT Division has primarily been concerned with the installation of networks, telephone systems and computer requirements in the new Pretoria and Cape Town offices, as well as planning for the future opening of new offices around the country.

The influx of new members has resulted in the purchase of a large number of new notebook and desktop computers. These purchases, in addition to other network requirements, have been sourced from various suppliers at negotiated prices in order to be cost-effective.

The implementation of Virtual Office software and the re-development of the website and Intranet will assist in improving internal communications within the SIU.



## CORPORATE SERVICES



**Mr. Brian Amery: Head of Finance**

### FINANCE AND EXPENDITURE

The Finance Division set itself the following objectives for the 2004/05 financial year:

- providing services at a competitive rate and minimising overhead expenditure;
- offering excellent corporate services.

### Service Provision

An increasing number of departments are interested in using the SIU on conducting forensic investigations. In many cases the SIU has been chosen in preference to private sector service providers on the basis that it can provide services more economically and effectively.

The SIU has placed considerable emphasis over the past three years to become more efficient and containing costs and overheads without compromising the quality of its work. The Finance Division has a vital role to ensure proper control over expenditure, and in negotiating rentals for premises, travelling expenses and fleet management.

The Finance Division has also implemented systems to ensure that it can account properly for the spending on projects.

### Excellent Corporate Services

As the SIU expands, the pressure on corporate services increases. The service of the Finance Division will be substantially enhanced in the future with the relocation of its manager from East London to the Head Office in Pretoria, and the employment of additional staff.

Although there has been a substantial increase in volumes of subsistence and travelling claims, salaries and other operationally-related costs, the division has achieved an average turnaround time of two days for the processing and payment of claims.

In addition to the above, the Finance Division has maintained additional services that it offers to various operations. These include:

- a library service that was established especially to support the Legal and the Communications divisions;
- a messenger service for the handling of documents.

During the year under review the Finance Division performed its regular financial duties, such as budgeting and financial reporting. Regular engagement with the internal auditors of the Unit has also taken place. Key amongst the SIU achievements for this period is an unqualified audit report for the Unit.

### Challenges

With the SIU rapidly moving towards a purely project-based environment, the Finance Division will review its budgeting process and infrastructure in order to support such a shift and ensure improved support.

The growth of the SIU due to its increased national project numbers and subsequent increase in staffing will require the division to review its provision of services to more staff. The Finance Division will be required to develop the necessary financial infrastructure to accommodate an increase in transactions due to growth, as well as to improve accountability within the systems.



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## REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2005.

### Audit Committee members and attendance:

The Audit Committee consists of the members listed hereunder. During the current year two meetings were held.

Name of member	No. of meetings attended
SK Whitfield (Chairperson)	2
MD Hughes	2

### Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 38 (1)(a) of the PFMA and Treasury Regulation 3.1.13. The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal control is effective as the various reports of the internal auditors, the audit report on the annual financial statements, the matter of emphasis and management letter of the Auditor-General have not reported any significant or material non-compliance with prescribed policies and procedures.

### Evaluation of Financial Statements

the audit committee has:

- reviewed and discussed with the Auditor-General and the accounting officer the audited annual financial statements to be included in the annual report;
- reviewed the Auditor-General's management letter and management response;
- reviewed changes in accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



**SK Whitfield**

Chairperson of the Audit Committee  
August 2005

# REPORT OF THE AUDITOR-GENERAL

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SPECIAL INVESTIGATING UNIT FOR THE YEAR ENDED 31 MARCH 2005



A U D I T O R - G E N E R A L

### 1. AUDIT ASSIGNMENT

The financial statements, as set out on pages 34 to 46, for the year ended 31 March 2005, have been audited in terms of the provisions of Section 188 of the Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act 25 of 2004). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations that came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No 1 of 2005.

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

### 3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Special Investigating Unit at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA).

### 4. EMPHASIS OF MATTER

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

#### 4.1 Electronic Data Processing Controls

A general control review was completed identifying the following significant control weaknesses, which had been reported in the previous year's audit report:

- no procedure manual was developed for electronic data processing control even though the policy was established;
- no formal disaster recovery plan was in place.

Further issues identified include:

- no formally agreed, documented long-term plan for the information technology function;
- no or inadequate password controls to prevent unauthorised access to sensitive information on laptops and network;
- no formal policy limiting access of new or terminated users to the system.

#### 4.2 Trust Monies

As mentioned in the previous year's audit report, no approved and documented framework existed to govern paying over of trust monies by the Unit. This, together with occasional difficulties in tracing





## REPORT OF THE AUDITOR-GENERAL

beneficiaries, had the result that monies received were not paid over timeously.

### 4.3 Lack of Reconciliations and adherence to Policies and Procedures

The audit revealed that there were instances of a lack of the necessary reconciliations as well as adherence to company policies and procedures in the following areas:

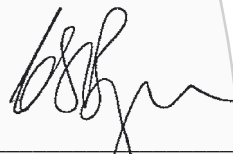
- Property, plant and equipment
- Trade receivables
- Salaries
- Trade creditors
- Subsistence and travelling
- Library
- Insurance

### 4.4 Non-compliance with Treasury Regulations

The Unit did not develop an adequate materiality and significance framework as required by Treasury Regulation 28.1.5. Therefore the Unit did not disclose it in the annual report according to Treasury Regulation 28.2.2. This matter was also reported in my previous audit report.

## 5. APPRECIATION

The assistance rendered by the management and staff of the Unit during the audit is appreciated.




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**C Benjamin for Auditor-General**  
Pretoria 29 July 2005



## SPECIAL INVESTIGATING UNIT APPROVAL OF THE FINANCIAL STATEMENTS

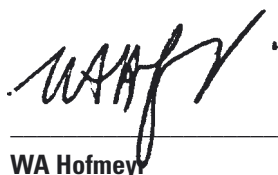
The Head of the Unit is responsible for the Unit's system of internal control, which is designed to provide reasonable, but not absolute assurance against material misstatement and loss. Internal control is broadly defined as a process, effected by the Head of the Unit, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- economy, efficiency and effectiveness of operations;
- internal financial controls; and
- compliance with applicable laws and regulations.

The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility for the circumvention or overriding of controls. One of the aims of an effective system of internal control is to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of financial statements. Further, because of changes in conditions, the effectiveness of system on internal control may vary over time.

I have reviewed the Unit's system of internal control for the period 1 April 2004 to 31 March 2005. I am of the opinion that the Unit's system of internal control was effective for the period under review.

The financial statements for the year ended 31 March 2005 and which appear on pages 34 to 46 were approved and signed by me in my capacity as Head of the Unit.



**WA Hofmeyr**  
**Head of the Unit**

18 May 2005  
BALANCE SHEET  
at 31 March 2005



## BALANCE SHEET

for the year ended 31 March 2005

	Notes	2004/05 R	2003/04 R
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Moveable property and equipment	1	3 788 794	2 724 941
<b>BANK BALANCES - RECOVERIES</b>	2.1	3 285 163	3 007 854
<b>CURRENT ASSETS</b>		25 173 428	1 266 452
Inventory	3	20 973	25 677
Trade and other receivables		4 407 716	728 432
Pre-payments		39 414	14 390
Cash and cash equivalents		20 705 325	497 953
<b>TOTAL ASSETS</b>		32 247 385	6 999 247
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY AND RESERVES</b>		5 351 986	1 182 440
Capital reserve		3 788 794	2 724 941
Retained income/(deficit)		1 563 192	(1 542 501)
<b>PAYABLES - RECOVERIES</b>	2.2	3 285 163	3 007 854
<b>CURRENT LIABILITIES</b>		23 610 236	2 808 953
Trade and other payables	4	3 640 433	2 758 953
Revenue received in advance		19 400 000	50 000
Provision for claim from third party	5	569 803	-
<b>TOTAL EQUITY AND LIABILITIES</b>		32 247 385	6 999 247

# INCOME STATEMENT

for the year ended 31 March 2005

	Notes	2004/05 R	2003/04 R
<b>REVENUE</b>	8	55 380 426	39 066 719
<b>OPERATING EXPENSES</b>		55 012 439	41 501 361
Staff expenses	9	37 776 443	29 451 740
Travel and accommodation		4 495 736	3 293 699
Depreciation		1 790 566	1 782 822
Other expenses	10	10 949 694	6 973 100
<b>OPERATING PROFIT/(LOSS)</b>		367 987	(2 434 642)
<b>OTHER OPERATING INCOME</b>	11	3 501 046	810 455
<b>OPERATING PROFIT/(LOSS) before interest</b>		3 869 033	(1 624 187)
<b>INTEREST RECEIVED</b>	12	300 513	335 825
<b>PROFIT/(LOSS) for the year</b>		4 169 546	(1 288 362)



## STATEMENT OF CHANGES IN ACCUMULATED FUNDS

for the year ended 31 March 2005

Capital reserve and retained income/(deficit)  
R

**Balance at 31 March 2003**

2 470 802

Loss for the year

(1 288 362)

**Balance at 31 March 2004**

1 182 440

Profit for the year

4 169 546

**Balance at 31 March 2005**

5 351 986

## CASH FLOW STATEMENT

for the year ended 31 March 2005

	Notes	2004/05 R	2003/04 R
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>		23 061 791	1 934 942
Cash receipts from departments		51 701 142	38 821 470
Cash paid to suppliers and employees		(28 939 864)	(37 222 353)
Cash generated from operations	14.1	22 761 278	1 599 117
Interest received		300 513	335 825
<b>CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		(2 854 419)	(1 625 235)
<b>Investment to maintain operations</b>			
Proceeds from sale of moveable property and equipment		-	64 702
<b>Investment to expand operations</b>			
Purchase of moveable property and equipment		(2 854 419)	(1 689 937)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		20 207 372	309 707
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		497 953	188 246
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	14.2	20 705 325	497 953



## SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2005

The following are the principal accounting policies of the Unit which are consistent in all material respects with those applied in the previous year, except as otherwise indicated.

### Basis of preparation

The financial statements have been prepared on the historical cost basis in accordance with South African Statements of Generally Accepted Accounting Practice.

### Moveable property and equipment

Moveable property and equipment are stated at historical cost less depreciation. Depreciation is calculated on a straight-line method to write off the cost of each asset over its estimated useful life as follows:

Office furniture and equipment	5 years
Computer equipment	3 years
Books and law reports	5 years
Motor vehicles	4 years
Computer software	2 years

### Rented assets

All costs relating to rental agreements are charged against income as incurred.

### Revenue

Revenue comprises the annual grant from the Department of Justice and Constitutional Development, income from other departments in terms of partnership agreements to carry out specific engagements accounted for on an accrual basis. Incidental grants and donations are accounted for on a cash basis.

### Interest received

Interest received is recognised on a time proportion basis.

### Inventory

Consumable stores are valued at average cost.

### Cash flows

For purposes of cash flow statement, cash includes cash on hand, deposits held on call with banks, investments held in money market instruments and bank overdrafts.

### Capital reserve

Reserves equal to the book value of moveable property and equipment is reflected as capital reserve.

### Post-employment benefit costs

The Unit's contributions to the defined contribution provident plan are charged to the income statement in the year to which they relate.

### Financial instruments

Financial instruments carried in the balance sheet include cash and bank balances, receivables and payables.

### Measurement

Financial instruments are initially recognised at trade date and measured at cost.

Subsequent to initial recognition, these instruments are measured as set out below:

- Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.
- Cash and cash equivalents measured at cost plus interest income as it accrues.
- Trade and other payables are stated at their nominal value.

### Offsetting of financial assets and liabilities

Financial assets and liabilities will not be offset, as there is no such legally enforceable right, and it will not be settled on a net basis nor will the asset be realised or the liability settled simultaneously.

### Gains and Losses

Gains and losses that arise from a change in the fair value of financial instruments are included in the income statement in the period in which they arise.



## SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2005

### Risks

#### *Credit risk*

Where one party to a financial instrument fails to discharge an obligation and causes the other party to incur a financial loss.

#### *Interest rate risk*

Where the value of a financial instrument will fluctuate due to changes in interest rates.

### **Irregular, fruitless and wasteful expenditure**

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

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

### **Comparative figures**

Where necessary, comparative figures have been restated to conform to the changes in the presentation in the current year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>1. MOVEABLE PROPERTY AND EQUIPMENT</b>		
<b>1.1 Books and law reports</b>		
Opening net carrying amount	28 127	36 594
- Gross carrying amount	90 003	90 003
- Accumulated depreciation	(61 876)	(53 409)
Depreciation	(8 218)	(8 467)
Closing net carrying amount	19 909	28 127
- Gross carrying amount	90 003	90 003
- Accumulated depreciation	(70 094)	(61 876)
<b>1.2 Computer software and equipment</b>		
Opening net carrying amount	1 831 426	2 195 963
- Gross carrying amount	6 990 681	5 972 665
- Accumulated depreciation	(5 159 255)	(3 776 702)
Additions	555 123	1 061 735
Disposals	-	(11 245)
Depreciation	(1 271 946)	(1 415 027)
Closing net carrying amount	1 114 603	1 831 426
- Gross carrying amount	7 545 804	6 990 681
- Accumulated depreciation	(6 431 201)	(5 159 255)
<b>1.3 Office furniture and equipment</b>		
Opening net carrying amount	639 651	589 908
- Gross carrying amount	2 400 443	2 032 233
- Accumulated depreciation	(1 760 792)	(1 442 325)
Additions	2 291 696	368 210
Depreciation	(442 783)	(318 467)
Closing net carrying amount	2 488 564	639 651
- Gross carrying amount	4 692 139	2 400 443
- Accumulated depreciation	(2 203 575)	(1 760 792)

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>1. MOVEABLE PROPERTY AND EQUIPMENT (continued)</b>		
<b>1.4 Motor vehicles</b>		
Opening net carrying amount	225 737	6 607
- Gross carrying amount	2 171 910	1 986 775
- Accumulated depreciation	(1 946 173)	(1 980 168)
Additions	7 600	259 992
Disposals (carrying amount)	-	(1)
Depreciation	(67 619)	(40 861)
Closing net carrying amount	165 718	225 737
- Gross carrying amount	2 179 510	2 171 910
- Accumulated depreciation	(2 013 792)	(1 946 173)
<b>TOTAL MOVEABLE PROPERTY AND EQUIPMENT</b>	<b>3 788 794</b>	<b>2 724 941</b>
<b>2. BANK BALANCES/PAYABLES – RECOVERIES</b>		
<b>2.1 Bank balances</b>	3 285 163	3 007 854
<b>2.2 Payables - Recoveries</b>	3 065 600	2 874 990
Accrued interest refundable to National Treasury	219 563	132 864
	<b>3 285 163</b>	<b>3 007 854</b>
Amount reflected is owed to third parties and was obtained through either signed admission of guilt or through court orders issued by Special Tribunal. Amounts are held and paid over to relevant third parties on completion of each case.		
<b>3. INVENTORY</b>		
Stationery and toner	20 973	25 677



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>4. TRADE AND OTHER PAYABLES</b>		
Accrual for leave pay	1 232 983	1 098 028
Staff expenses – deductions	1 103 498	717 693
Accrual for audit fees	-	195 427
Other payables	1 303 952	747 805
	<u>3 640 433</u>	<u>2 758 953</u>

### 5. PROVISION FOR CLAIM FROM THIRD PARTY

Third Party claim	<u>569 803</u>	<u>-</u>
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This amount represents the SIU's half share of legal costs in respect of litigation that was instituted against the Unit and various other parties. The Unit accepted liability for half of the costs incurred by the defendants. This amount was paid shortly after the financial year end.

### 6. COMMITMENTS

Rental commitment in respect of properties and equipment.	<u>3 995 792</u>	<u>3 385 125</u>
Payable within one year	3 431 121	2 083 615
Payable thereafter	<u>564 671</u>	<u>1 301 510</u>

The above commitments are in respect of 32 rental agreements for periods ranging from 12 to 60 months. The average monthly rental is R274 555.

### 7. TAXATION

The Unit is not a registered vendor for VAT purposes as no taxable supplies are delivered. No provision for normal income tax is made as the Unit is a public enterprise and funded with government grants.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>8. REVENUE</b>		
<b>8.1 Grant received from the Department of Justice and Constitutional Development</b>	37 194 000	25 535 000
<b>8.2 Income received from other departments</b>	16 675 728	12 350 000
Department of Transport (Limpopo)	-	300 000
Department of Correctional Services	5 500 000	5 000 000
Department of Justice and Constitutional Development	5 000 000	5 000 000
Department of Housing (KZN)	-	1 000 000
Department of Housing (National)	141 920	1 000 000
Department of Public Service and Administration	-	50 000
Directorate of Social Operations	5 336	-
Department of Special Welfare (Western Cape)	3 028 472	-
Department of Local Government (Eastern Cape)	3 000 000	-
	1 510 698	1 181 719
<b>8.3 NPA – rental</b>	636 000	600 000
NPA – secondment of staff	426 044	-
NPA – use of vehicles	448 654	581 719
	55 380 426	39 066 719
<b>9. STAFF EXPENSES</b>		
<b>9.1 Total expenses include:</b>		
Salaries and wages	30 092 561	22 419 433
Provident and funeral fund contributions	3 082 758	2 302 779
Travel and subsistence allowances	3 676 038	3 581 681
Computer and telephone allowances	-	213 900
Medical aid contributions	637 544	439 018
Leave provision	287 542	494 929
	37 776 443	29 451 740
<b>9.2 Remuneration to Senior Management included above</b>	4 593 918	3 126 485



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	Notes	2004/05 R	2003/04 R
<b>10. OTHER EXPENSES</b>			
Annual report		14 177	16 567
Auditor's remuneration		51 393	245 913
Bad debts		7 326	3 100
Bank charges		46 147	36 257
Books and publications		218 289	140 249
Car hire and taxi expenses		393 339	253 675
Conferences and seminars		14 797	8 026
Consultancy fees		562 659	149 841
Consumables		203 787	119 769
Courier services		107 644	85 129
Entertainment		13 258	20 841
Insurance		364 813	391 242
Internal audit fees		79 800	(34 388)
Internal integrity expenses		28 136	80 348
Legal fees		44 118	21 067
Media and promotions		327 199	154 026
Motor vehicle expenses		689 146	693 541
Office expenditure		218 962	123 078
Professional membership fees		2 147	2 536
Revenue stamps		230	20
Relocation and recruitment costs		326 155	969 390
Rent paid - properties		1 791 900	547 229
Rental - equipment		1 006 536	832 297
Repairs and maintenance		404 621	61 379
Provision for claim from third party	5	569 803	-
Security		170 706	7 388
Software licences		205 174	54 606
Stationery and printing		625 123	494 841
Telephone, fax and posting expenses		2 004 342	1 252 984
Training and development		435 988	229 709
Transcription fees		21 979	12 440
		<u>10 949 694</u>	<u>6 973 100</u>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>11. OTHER OPERATING INCOME</b>		
Donations received	2 134 949	-
Computer expenses recovered from staff members	255 333	186 766
Surplus on disposal of moveable property and equipment	-	53 456
Insurance claim income	13 399	-
Profit/(loss) on foreign currencies	1 082	(10 612)
Sundry income	155 911	6 526
British High Commission	940 372	574 319
	<u>3 501 046</u>	<u>810 455</u>

## 12. INTEREST RECEIVED

Call account	207 300	214 575
Current accounts	93 213	121 250
	<u>300 513</u>	<u>335 825</u>

## 13. CONTINGENCIES

### 13.1 Bank guarantees

Bank guarantees have been issued *in lieu* of deposits for the leasing of office properties totaling R156 506.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2005

	2004/05 R	2003/04 R
<b>14. NOTES TO THE CASH FLOW STATEMENT</b>		
<b>14.1 Reconciliation of profit/(loss) to cash generated from operations</b>		
Operating profit/(loss)	4 169 546	(1 288 362)
Adjustments for:		
Depreciation	1 790 566	1 782 822
Interest received	(300 513)	(335 825)
Surplus on sale of moveable property and equipment	-	(53 456)
Operating profit before working capital changes	5 659 599	105 179
Decrease/(increase) in inventory	4 704	(3 888)
(Increase)/decrease in trade receivables	(3 679 284)	1 138 167
(Increase)/decrease in pre-payments	(25 024)	46 689
Increase in trade payables	1 451 283	262 970
Increase in revenue received in advance	19 350 000	50 000
	17 101 679	1 493 938
Cash generated from operations	22 761 278	1 599 117
<b>14.2 Cash and cash equivalents</b>		
Bank balances	20 705 325	497 953

## 15. FINANCIAL INSTRUMENTS

### Risks

#### *Credit Risk*

Financial assets that could subject the Unit to credit risk consist principally of cash at bank and cash equivalents, deposits and accounts receivable. The Unit's cash equivalents are placed with high credit quality financial institutions.

#### *Interest Rate Risk*

The cash flow is not significantly affected by fluctuations in interest rates. All cash is placed with reputable financial institutions.

#### *Fair Values*

The carrying amount of cash and cash equivalents, deposits, accounts receivable and accounts payable approximated their fair values due to the short-term maturities of those assets and liabilities.

# REPORT OF THE AUDITOR-GENERAL

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE ACHIEVEMENTS BY THE SPECIAL INVESTIGATING UNIT FOR THE YEAR ENDED 31 MARCH 2005



A U D I T O R - G E N E R A L

### 1. AUDIT ASSIGNMENT

The schedules of achievement as set out on pages 48 to 49 for the year ended 31 March 2005 have been audited following the agreement with the Department of Justice and Constitutional Development and the Head of the Special Investigating Unit. These schedules are the responsibility of the Head of the Unit. It is my responsibility to express an opinion on these schedules of achievement based on my audit.

### 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of Generally Accepted Auditing Standards. Those standards require I plan and perform the audit to obtain reasonable assurance that the schedules of achievement are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the schedules of achievement;
- assessing the accounting principles used and significant estimates made by management;
- evaluating the overall presentation of the schedules of achievement.

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

### 3. AUDIT OPINION

In my opinion, the schedules of achievement fairly presents, in all material respects, the achievements in respect of completed investigations and recoveries of the Special Investigating Unit for the year ended 31 March 2005 in accordance with the agreed reporting framework.

### 4. APPRECIATION

The assistance rendered by the management and staff of the Unit during the audit are sincerely appreciated.

**C Benjamin for Auditor-General**

Pretoria

29 July 2005



## SUMMARY REPORT: SCHEDULE A

## VALUE OF COMPLETED INVESTIGATIONS AND RECOVERIES FOR THE YEAR 1 APRIL 2004 - 31 MARCH 2005

Summary report		Analysis of cases							
		1	2	3	Cases - AOD's			4	
Province	Total value of cases	Prevention of loss: current year	Recovery of cash to SIU	Recovery of asset/cash to third party	Per Tribunal ruling	AOD's issued - Unit	AOD's issued - third	Cash paid to Unit's trust accounts	Prevention of loss: total projected savings
<b>New cases</b>									
Northern Cape	1,286,900	0	0	1,286,900	0	0	1,286,900	0	0
Eastern Cape	5,612,445	303,370	120,800	5,188,275	117,032	120,800	5,374,613	30,280	0
Gauteng	4,717,121	0	333,103	4,384,018	0	333,103	4,384,018	109,095	0
Limpopo	6,930	0	0	6,930	0	0	6,930	0	0
KwaZulu-Natal	637,672	0	637,672	0	0	637,672	0	7,950	0
<b>Subtotal</b>	<b>12,261,068</b>	<b>303,370</b>	<b>1,091,575</b>	<b>10,866,123</b>	<b>117,032</b>	<b>1,091,575</b>	<b>11,052,461</b>	<b>147,325</b>	<b>0</b>
<b>Roll over cases</b>									
North West	0	0	0	0	0	0	0	251,017	0
Mpumalanga	0	0	0	0	0	0	0	250	0
Eastern Cape	0	0	0	0	0	0	0	373,708	0
Free State	0	0	0	0	0	0	0	6,000	0
Gauteng	91,639,054	91,639,054	0	0	0	0	0	204,800	3,434,612,523
Western Cape	0	0	0	0	0	0	0	14,406	0
Limpopo	0	0	0	0	0	0	0	52,009	0
KwaZulu-Natal	93,777	0	0	93,777	0	93,777	0	138,948	0
<b>Subtotal</b>	<b>91,732,831</b>	<b>91,639,054</b>	<b>0</b>	<b>93,777</b>	<b>0</b>	<b>93,777</b>	<b>0</b>	<b>1,041,138</b>	<b>3,434,612,523</b>
<b>Total</b>	<b>103,993,899</b>	<b>91,942,424</b>	<b>1,091,575</b>	<b>10,959,900</b>	<b>117,032</b>	<b>1,185,352</b>	<b>11,052,461</b>	<b>1,188,463</b>	<b>3,434,612,523</b>

1. Prevention of loss
2. Recovery of cash
3. Recovery of asset/cash
4. Projected savings

- Savings due to intervention by the Unit
- Cash value of funds recovered
- Market-related value of moveable assets/cash value of funds recovered to third party
- Net present value of future savings discounted over a 10-year period (see accounting policy for detail)

## SUMMARY REPORT: SCHEDULE B

### ANALYSIS OF RECOVERIES THROUGH THE UNIT'S TRUST ACCOUNTS FOR THE YEAR 1 APRIL 2004 - 31 MARCH 2005

Province	Amounts to be collected			Cummulative amount of cash recovered			Cash position			
	Balances carried forward	AOD's in favour of the Unit	Total	Total at 01 April 2004	Current Year	Total at 31 March 2005	Balances brought forward	Amounts received	Amounts paid over	Balances carried forward
North West	6,262,627	0	6,262,627	3,436,200	251,017	3,687,217	110,686	251,017	0	361,703
Mpumalanga	253,245	0	253,245	193,799	250	194,049	137,077	250	0	137,327
Northern Cape	15,000	0	15,000	108,956	0	108,956	0	0	0	0
Eastern Cape	1,240,846	120,800	1,361,646	1,307,554	403,988	1,711,542	440,058	403,988	(102,360)	741,686
Free State	657,671	0	657,671	3,511,751	6,000	3,517,751	259,476	6,000	0	265,476
Gauteng	13,827,716	333,103	14,160,819	6,576,423	313,895	6,890,318	993,231	313,895	(894,643)	412,483
Western Cape	142,597	0	142,597	140,832	14,406	155,238	39,649	14,406	0	54,055
Limpopo	504,764	0	504,764	3,012,369	52,009	3,064,378	82,858	52,009	0	134,867
KwaZulu-Natal	1,845,129	731,450	2,576,579	1,006,669	146,898	1,153,567	811,955	146,898	(850)	958,003
<b>Total trust creditors</b>	<b>24,749,595</b>	<b>1,185,353</b>	<b>25,934,948</b>	<b>19,294,553</b>	<b>1,188,463</b>	<b>20,483,016</b>	<b>2,874,990</b>	<b>1,188,463</b>	<b>(997,853)</b>	<b>3,065,600</b>
Interest less bank charges							132,864	86,699	0	219,563
							<b>3,007,854</b>	<b>1,275,162</b>	<b>(997,853)</b>	<b>3,285,163</b>





## SPECIAL INVESTIGATING UNIT ACCOUNTING POLICIES

### Recognition and measurement of achievements for the year ended 31 March 2005

The following are the principal accounting policies and procedures being applied by the Unit to recognise and measure its achievements disclosed in Schedule "A" and "B". These policies and procedures are consistent in all material respects with those applied in previous years, except the recognition and measurement of the present value of future savings, which have now been introduced for the first time. New and rollover cases are also now reported separately.

### Schedule A - Value of Completed Investigations and Recoveries

#### Recognition

Items recognised as new and rollover cases represent the total value of cases and are presented under the following categories:

1. Analysis of cases :
  - Prevention of loss during the current year.
  - Recoveries of cash by the Unit on behalf of a third party.
  - Recoveries of cash or assets due to the Unit's involvement but transferred or paid directly to the third party.
2. Cash recoveries comprise the following:
  - Per Tribunal Ruling
  - Acknowledgements of Debt issued in favour of the Unit
  - Acknowledgements of Debt issued in favour of third parties
3. Projected savings to third parties due to its intervention.

#### Measurement

##### *Prevention of loss - current year*

This is measured by comparing current actual expenditure reported by the third party for the current year with the projected expenditure, using the results in the previous year (before the Unit's intervention) escalated by an inflation factor.

##### *Prevention of loss - rollover cases*

This represents cases where the investigations continue into the following years and are measured by comparing the current actual expenditure reported by the third party with projected expenditure, using the results of the year before the Unit's intervention and escalating the expenditure by an inflation case.

##### *Recovery of cash to the Special Investigating Unit - new and rollover cases*

Cash recoveries are measured at their cash values as documented in the relevant Tribunal Rulings and Acknowledgements of Debt issued, to be recovered by the Unit or the relevant institution.

##### *Recovery of cash/asset to third party - new and rollover cases*

Assets recovered as a result of Unit intervention, to be paid to third parties, are reported at their market related values.



# SPECIAL INVESTIGATING UNIT ACCOUNTING POLICIES

## Recognition and measurement of achievements for the year ended 31 March 2005

### Measurement (continued)

Prevention of loss - total projected savings

The net present value of projected future savings is calculated by using actual savings in the first year after intervention by the Unit, increased at the real interest rate (interest less the inflation rate) over a period of 10-years. A rate of 4% was used for the year under review.

## Schedule B - Analysis of Cash Recoveries

### Recognition

Cas

### Measurement

Cash recoveries are presented as follows:

#### *Amounts to be collected*

- Balances brought forward: this represents monies owing in terms of AOD's signed in prior years, payable directly to the Unit.
- AOD's in favour of the Unit: this represents monies payable directly to the Unit as a result of AOD's being signed during the current year.
- Balances carried forward: total value of AOD's signed in favour of the Unit as at 31 March 2005.

#### *Cummulative amount of cash recovered*

- Total at 1 April 2004: this represents total accumulated cash recovered by the Unit in terms of AOD's at the beginning of the year.
- Current year: cash recovered during the current year.
- Total at 31 March 2005: this represents total accumulated cash recovered by the Unit in terms of AOD's at the end of the year.

#### *Trust Bank accounts*

- Balances brought forward: total funds held by the Unit at the beginning of the year.
- Amounts received: cash recovered during the current year.
- Amounts paid over: monies paid over to third parties during the year.
- Balances carried forward: total funds held by the Unit at year end.



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**SIU**

**POISED TO STRIKE**  
*against corruption*

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