

Special Investigating Unit • Annual Report 2005/06



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against corruption

2005 /

Annual Report

Special Investigating Unit Annual Report 2005/06

(Section 4 (1) (h) of the SIU Act 74 of 1996)



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

P O Box 15
Cape Town
8000

31 August 2006

Dear Madam,

ANNUAL REPORT OF THE SIU FOR 2005/2006

On behalf of the Special Investigating Unit (SIU), established by Proclamation R118 of 2001 in terms of Section 2 of Act 74 of 1996, it gives me great pleasure to submit the SIU's annual report for 2005/2006 as envisaged by Section 4 (1)(h) of Act 74.

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

Yours faithfully

WA Hofmeyr
Head of the Special Investigating Unit



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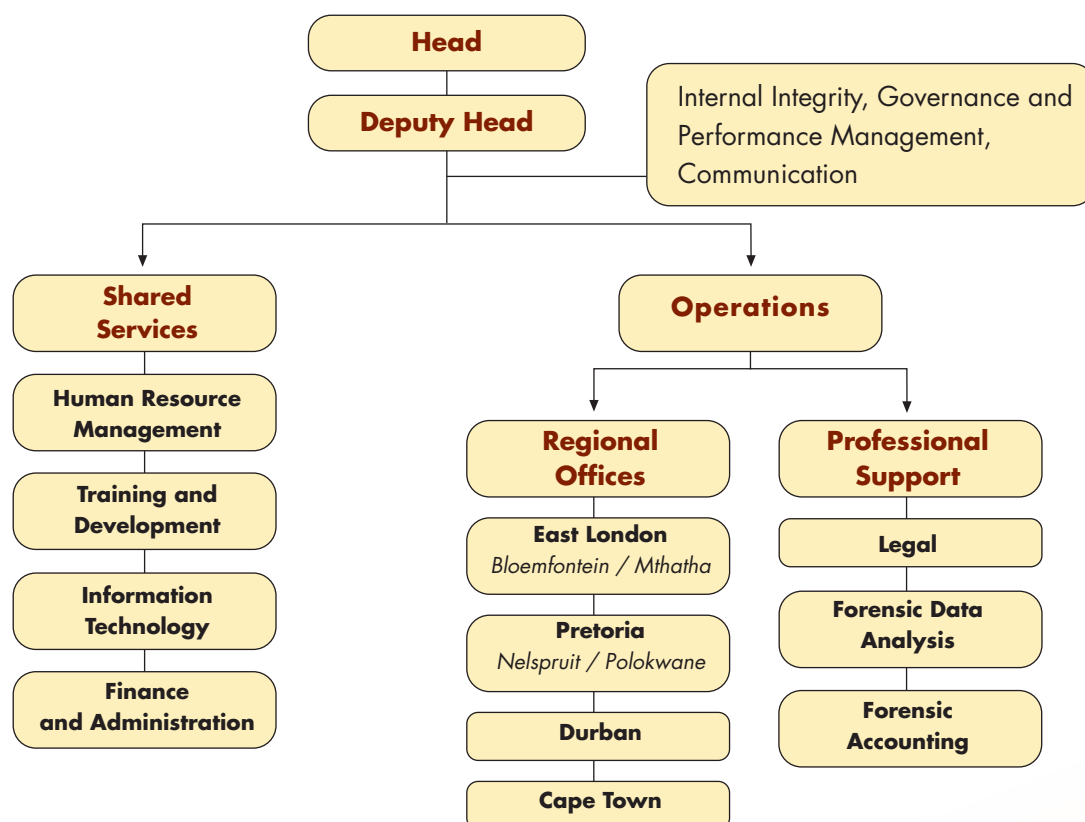
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STRUCTURE OF THE SIU



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ABBREVIATIONS

AFU	Asset Forfeiture Unit (a division of the NPA)
AG	Auditor-General
AOD	Acknowledgement of Debt
DCS	Department of Correctional Services
DIU	Departmental Investigating Unit (Department of Correctional Services)
DLTC	Driving Licence Testing Centres
DoH	Department of Housing
DHA	Department of Home Affairs
DoJCD	Department of Justice and Constitutional Development
DoT	Department of Transport
DPLG	Department of Provincial and Local Government
DPW	Department of Public Works
DSD	Department of Social Development
DSO	Directorate of Special Operations ("Scorpions" - a division of the NPA)
IIU	Internal Integrity Unit (SIU)
MEC	Member of the Executive Council
NaTIS	National Traffic Information System
NDPP	National Director of Public Prosecutions (Head of the NPA)
NIA	National Intelligence Agency
NPA	National Prosecuting Authority
NPS	National Prosecution Service (a division of the NPA)
NMMM	Nelson Mandela Metropolitan Municipality
NT	National Treasury
Ramp	Repair and Maintenance Programme (DPW Programme)
PFMA	Public Finance Management Act
SAPS	South African Police Service
SARS	South African Revenue Services
SASSA	South African Social Security Agency (reporting to the Minister of Social Development)
SCCU	Specialised Commercial Crime Unit (a division of the NPA)
SIU	Special Investigating Unit
SocPen	Social Pensions System
TRTC	Transkei Road Transportation Corporation
WPP	Witness Protection Programme
WPU	Witness Protection Unit (a division of the NPA)



PROCLAMATIONS

The following new proclamations were issued by the President in terms of the Special Investigating Units and Special Tribunals Act, No. 74 of 1996 (SIU Act) during the period under review:

- Proclamation R.5, dated 31 January 2005 (Government Gazette No. 27221), which directed an investigation into allegations regarding the irregular issuing of driving licences by the National Department of Transport, the Provincial Departments of Transport and Municipal Structures, and the registration of stolen vehicles on the National Traffic Information System by the South African Police Service (Department of Transport investigation).
- Proclamation R.18, dated 6 April 2005 (Government Gazette No. 27468), which directed an investigation into the affairs of the National and Provincial Departments of Social Development and more particularly into allegations regarding the irregular payment and/or receipt of social assistance or benefits and the irregular conduct of government officials and/or agents (Department of Social Development investigation).
- Proclamation R.26, dated 27 June 2005 (Government Gazette No. 27719), which directed an investigation into the following five Eastern Cape Municipalities: Emalahleni, Mquma, Ikwezi, Inxuba Yethemba and Ndlambe Municipality. Various allegations were referred to the SIU for investigation, including maladministration of finances and procurement irregularities (part of the Eastern Cape Local Government investigation).
- Proclamation R.27, dated 27 June 2005 (Government Gazette No. 27719), which directed an investigation into the following seven Eastern Cape Municipalities: O. R. Tambo, Whittlesea, Maletswai, Somerset East, Inkwanca, KSD and Nyandeni Municipality. Various allegations similar to those listed in Proclamation R.26 were referred to the SIU for investigation (part of the Eastern Cape Local Government investigation).
- Proclamation R.63, dated 24 October 2005 (Government Gazette No. 28158), which directed an investigation into various allegations of maladministration of housing subsidy project funds by the Department of Housing, Local Government and Traditional Affairs and the Nelson Mandela Metropolitan Municipality (Nelson Mandela Metropolitan Municipality Investigation).



BACKGROUND TO THE SIU

The Special Investigating Unit (SIU) is an independent statutory body that is accountable to the President and Parliament. It was established by the President to conduct investigations at his request, and to report to him on the outcomes thereof. 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 who 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 through Proclamation R118 on 31 July 2001 and appointed Mr Willie Hofmeyr as its head.

Vision and mission

The SIU adopted a new vision and mission in 2004.

Vision:

Working together to rid society of corruption

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.

Mission:

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

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 to prevent future 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 way

of a proclamation. It may investigate any matter set out in Section 2 of the SIU Act regarding:

- 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; and
- 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 action to correct any wrongdoing, which it uncovers during an investigation. Thus, the SIU can, for example, obtain a court order to:

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

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



The focus of the SIU is the public sector, but it may also investigate private sector accomplices. It can investigate any private sector matters that cause substantial harm to the interest 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 South African Police Service (SAPS) and/or the Directorate of Special Operations (Scorpions).

The SIU also works closely with the National Prosecution Service (NPS), the core prosecuting division of the NPA,

and other attached divisions, such as the Specialised Commercial Crime Unit (SCCU) in the case of fraud and other related matters, and the Asset Forfeiture Unit (AFU) in cases where the powers of that unit are more suitable for recovering the proceeds of crime.

Generally the SIU works closely with other relevant law enforcement agencies, which ensures greater effectiveness in dealing with corruption cases.



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FROM THE HEAD AND DEPUTY HEAD



Willie Hofmeyr
(Head of the SIU)



Faiek Davids
(Deputy Head of the SIU)

August 2006 will mark the fifth year of the new SIU. It has been a challenging and exciting task to ensure that the SIU makes a significant contribution to the fight against corruption in our country.

During the first two years, the management team focused on rebuilding and repositioning the SIU. This involved developing and implementing a new set of strategic goals and key programmes.

Through these measures, we have positioned the Unit to deliver an inclusive, high-quality and cost-effective forensic service driven by a high performance culture.

Over the last two years, the SIU has managed to deliver excellent results through sustained high-level performance. This has resulted in a significant increase in our budget from National Treasury and a greater demand for our services by government departments.

We are proud to report that the year under review has by far been our most successful to date.

Providing an inclusive, high-quality and cost-effective service

The budget allocated by National Treasury has increased more than threefold over the last five years, from R23 million in 2002/2003 to R76 million by 2008/2009.

During the period under review, the SIU received R53,4 million from various government departments with which it has cooperation agreements. Through these

agreements, the departments provide funding to the SIU to employ a dedicated investigative capacity to focus on fraud and corruption in these departments.

It is encouraging that the demand for the services of the SIU has grown to the extent that, for the first time, funding from these agreements was more than the R43,8 million budget received from National Treasury for the 2005/2006 financial year. The funding through these cooperation agreements for 2006/2007 will be even higher at over R80 million.

The SIU is currently conducting 24 ongoing investigations, of which all the major investigations are funded through three-year cooperation agreements. These include the national departments of Social Development (DSD), Transport (DoT) and Correctional Services (DCS), along with the Eastern Cape Department of Local Government and Housing, and the Western Cape Department of Local Government and Housing.

The focus of the SIU's investigations is mainly on government at a national, provincial and local level. The multiple outcomes achieved by these investigations vary from remedial and preventative action (criminal prosecutions, the civil recovery of state assets and preventing future losses) to providing systemic recommendations for stemming future irregular or criminal activities within government departments.

During the period under review, the SIU investigations:

- saved government approximately R299 million;
- prevented future losses valued at R3 270 million; and
- recovered about R13 million.

The combined total of savings, recoveries and prevention of future losses was R3 582 million, far exceeding our target of R 1 040 million.



Major investigations

The **Social Grants** investigation has focused primarily on the 43 705 public servants who were found to be registered for social pensions or grants on the Social Pensions (Socpen) system. The SIU established that about 22 000 of these public servants are not entitled to receive the grants, and 15 982 have already been removed from Socpen.

An important benefit of the joint investigation between the Department of Social Development (DSD) and the SIU has been the huge increase of about 95 000 in beneficiaries who cancelled their grants, or simply stopped collecting them. This is probably because they feared some action.

Thus the joint efforts of DSD and the SIU resulted in the cancellation of about 110 000 social grants, saving government about R324 million in the 2005/2006 year. The present value of the cancelled grants is more than R3 billion.

In the coming year the SIU will shift its focus to private citizens who receive social grants irregularly. It has already identified about 400 000 such cases that require further investigation. The SIU looks forward to working with the newly established South African Social Security Agency (SASSA), which will take over the social assistance functions from the DSD.

In the **Driving Licences** investigation the SIU has focused on 55 Driving Licence Testing Centres (DLTCs) prioritised by the Department of Transport. During the period under review the SIU reviewed 68 672 driving licences, and identified 11 776 invalid licences that are being referred to the Department of Transport for cancellation.

The SIU also investigated 1 341 cases involving the conversion of foreign driving licences to South African credit card driving licences. The SIU referred these cases to the SAPS for registration as criminal cases. As a result of the SIU's investigations 165 cases have resulted in convictions. An important element of its investigation is the systemic recommendations it makes at the various prioritised DLTCs. The SIU is pleased to report that in a

number of instances its recommendations have led to improvements in management and control, and consequently service delivery at the DLTCs. This is an area in which the SIU will increase its focus in the coming year.

The current investigation for the **Department of Correctional Services** has a wide-ranging focus on fraud relating to the Medical Aid Fund and procurement contracts. Investigations into claims against the Departments' Medical Aid Fund has resulted in a further saving of approximately R22,6 million in 2005/2006. The value of the prevention of future losses in the medical aid investigation now totals R3,6 billion over the past four years. The current three-year agreement with the Department of Correctional Services, which was entered into in 2002, has been extended for a further three years from 1 April 2006. During the coming year the SIU will be concentrating on the procurement of goods in the Department.

The growing demand for the services of the SIU and the excellent results delivered in the current investigations have resulted in further major projects, which will start in the 2006 financial year.

The Department of Housing is in the process of entering into a three-year agreement with the SIU to investigate the low-cost housing subsidy scheme nationally. In addition, the National Treasury requested the SIU to investigate instances of the irregular issuing of special pensions from its Special Pensions Fund.

The SIU's provincial project profile will also grow significantly through the commencement of a number of provincial investigations in the Free State, Gauteng and KwaZulu-Natal.

Building a sustainable and innovative organisation

During the year under review the SIU employed a further 137 members. It currently has a capacity of 421 members. This growth is largely due to the Social Grants and Driving Licences investigations that started in 2005.

The challenge has been to accommodate the rapid growth, whilst remaining focused on the outputs for investigations.

The SIU adopted the Balanced Scorecard as the preferred methodology to implement and manage its organisational strategy. It has to date, complied with or even exceeded, most of its key performance measures in the four segmented Balanced Scorecard perspectives.

It has also anticipated the growth challenges through the development of 13 strategic objectives. Building the support services to a fast-growing staff complement has been a key feature of its development. Key systems and infrastructure improvements within Human Resource Management, Training and Development, Information Technology and Finance and Administration were required. In addition to these short-term initiatives, an organisational assessment in the next financial year will pave the way for more robust medium to longer term growth strategies.

Matching promise with performance has been another critical success factor for the SIU.

Over the last few years, it has introduced a number of performance development initiatives to ensure sustained quality output:

- applying project management principles to all investigations;
- developing standard operating procedures and quality assurance benchmarking;
- introducing innovative management development programmes;
- shifting towards an output-based performance appraisal model;
- driving higher levels of performance throughout the organisation; and
- working with departments to address problems.

International participation

Internationally, the SIU participated in two important conferences during the period under review. At the First Pan African Meeting of Anti-corruption Bodies in Lusaka, Zambia in November 2005, the Deputy Head of the SIU lead the South African delegation. This was the first meeting organised by the African Union Commission on the Implementation of the African Union Convention on Preventing and Combating Corruption. The SIU's role at the Pan-African meeting emphasised South Africa's strategic importance in Africa's fight against corruption.

It also reinforced the value of building national agencies, such as the SIU, to serve as best practice examples for other countries on the African continent.

The SIU also participated in the global conference on the enforcement and implementation of the United Nations Convention against Corruption (UNCAC), held in April 2006. It also hosted a number of African study visits to South Africa on the operations of our anti-corruption agencies.

Building and strengthening partnerships

The ability of the SIU to successfully fulfil its mandate is largely dependent on the cooperation and support it receives from its clients, partners, staff and other stakeholders.

We would like to thank those departments, Ministers and MECs who work with the SIU for their continued commitment in eradicating and combating corruption within their respective institutions.

Much of the SIU's success is attributed to the excellent cooperation and assistance it receives from its partners in law enforcement, especially the SAPS, NPA, Scorpions and AFU.

We would also like to thank the international donors who have supported the SIU in the past year.



Specific mention must be made of the Danish Embassy, the United States Embassy, the British High Commission and the German Development Cooperation, whose funding support enabled the SIU to focus the majority of its government grant on its core functions of investigations and corporate support.

We would like to extend our sincere gratitude to the Presidency, the Minister, Deputy Minister and Director-General of the Department of Justice and Constitutional

Development for the immeasurable support extended to the SIU over the past years.

Finally, I would like to thank the SIU's staff for successfully taking on the formidable challenges of the year under review.

The SIU is proud to reflect on its achievements for the year 2005/2006.

THE OPERATIONAL PERFORMANCE OF THE SIU OVER THE PAST THREE YEARS

Table 1: Results of Investigations

Performance measures	2003/04		2004/05		2005/06	
	Target	Actual	Target	Actual	Target	Actual
Evidence prepared for use in civil litigation	100	165	40	45	40	2 133
Evidence prepared for use in criminal prosecutions	200	52	200	165	800	1 263
Evidence prepared for use in disciplinary proceedings	300	114	330	207	660	666
Evidence prepared for use in other remedial action	3 000	10 000	5 000	0	50 000	27 758

Table 2: Savings, Preventions and Cash Recoveries

Performance measures	2003/04		2004/05		2005/06	
	Target	Actual (audited)	Target	Actual (audited)	Target	Actual (audited)
Savings	R 70m	R 372,8m	R 500m	R 92m	R 1 000m	R 299m
Preventions				R 3 435m		R 3 270m
<i>Subtotal</i>			R 500m	R 3 527m	R 1 000m	R 3 569m
Cash recoveries	R 50m	R 13,7m	R 30m	R 12m	R 40m	R 13m
Totals	R 120m	R 386,5m	R 530m	R 3 539m	R 1 040m	R 3 582m

to calculate the present value of such payments based on the assumption that the payment would have continued for ten years and using a real interest rate (i.e. after inflation) of 4% per annum.

THE SIU PERFORMANCE FOR 2005/2006

Table 3: Achievements Measured Against Strategic Objectives for 2005/2006

Strategic focus	Measurement	Target	Results	Comments on actual results
Customer				
Operational performance	Value of savings, including prevention of future losses	R1 000 million	R3 582 million	The over-achievement is largely due to the success of the DSD investigations.
	Value of recovered funds	R 40 million	R13 million	The result is largely due to the delay in the start of the DSD investigations.
	Number of disciplinary referrals prepared	660	666	
	Number of remedial actions prepared	50 000	27 758 • 11 776 invalid driving licences identified • 14 264 irregular social grants cancelled	
Financial				
Effective financial management	PFMA compliance	Unqualified audit report	Unqualified audit report with no emphases of matter	It was the first time that the SIU audit report contained no emphases of matter.
	Operating cost relative to operational payroll expense	Less than 35%	28,2%	The lower operating cost is as a result of the opening of new regional offices and decentralising capacity. However, this resulted in a slight increase in overheads.
Expand budget through cooperation agreements to increase capacity	Funding from departments	R60 million	R53,4 million	The shortfall was due to the delayed start of the DSD project and the DoH investigation that will probably only commence in October 2006.
	Value of donor funding	R2 million	R650 000	In addition, donor commitments for future funding to the value of R 2,2 million was secured.



Table 3: Achievements Measured Against Strategic Objectives for 2005/2006 (Continued)

Strategic focus	Measurement	Target	Results	Comments on actual results
Stakeholder				
Improve output through cooperation with law enforcement agencies	Number of SAPS arrests as a result of SIU investigations	200	1 059	Primarily from DSD investigation.
	Number of Scorpions arrests as a result of SIU investigations	20	181	
	Value of referrals to the State Attorney	R5 million	R3.9 million	The majority of investigations did not result in litigation and there was therefore not a need for a referral to the State Attorney.
	Value of assets seized by the AFU	R5 million	R10 million	
Internal processes				
High levels of integrity	Number of screenings of new SIU appointees	200	236	Includes internal promotions.
	Implementation of the SIU Internal Integrity Unit business plan	60% implementation of plan	60%	Implementation is scheduled over two years with 60% of deliverables in the first year.
People				
Management of the SIU Human Resources	Recruitment of new staff	127 new staff	137	
	Attraction and Retention Strategy	Staff turnover should not exceed 7%	8,2%	The relatively high turnover is partly the result of losing staff to the private sector, but includes terminations and the non-renewal of lapsed contracts.
	Employment Equity Plan	60% overall compliance with targets in EE Plan	85,5%	A substantial increase in compliance with the EE Plan was achieved in comparison to the previous year's achievement of 50,1%.

SIU OPERATIONS

During the year under review, the SIU has strengthened its capacity to deliver a high quality, cost-effective and inclusive forensic service to government departments.

Operational model: partnership and cooperation

The SIU's cooperation model, which involves the cooperation of the relevant department and joint investigations with relevant law enforcement agencies, has been critical to its recent operational success.

A major benefit of this operational model is the development of investigative competencies and capacities within these government departments. This has involved the training and development of relevant departmental officials, as well as the transfer of skilled SIU members to departments, thus increasing government departments' internal capacity to deal with corruption and maladministration.

In terms of cooperation within the broader law enforcement and anti-corruption environment, the SIU believes that the integration of information-sharing, skilled capacity and the need to work together with bodies with varying constitutional and legislative mandates and powers is essential to combat corruption in the public sector.

Thus, during the year under review, the SIU worked closely with the SAPS, Scorpions, AFU, NPA, Public Protector, and the Auditor-General to ensure that its investigations reach the desired objectives and that the full weight of the institutional machinery is mobilised to combat corruption.

Project highlights

The SIU currently has 24 ongoing investigations in place, notably with major cooperation agreements in place with the national departments of Social Development, Transport and Correctional Service, along with further cooperation agreements with the Eastern Cape Department of Local Government and Housing and the Western Cape Department of Local Government and Housing.

The SIU's annual achievements are expressed through:

- savings by departments;
- the prevention of future losses (based on a formula agreed upon with the Auditor-General);
- actual funds recovered as a result of investigations;
- prosecutions initiated during the period; and
- internal disciplinary hearings of government officials.

The work of the SIU for the **Department of Social Development** has focused on individuals who had irregularly received social grant benefits. The investigation initially sought to identify the scale of the financial loss to the fiscus in respect of identified vulnerable grants.

Some of the major achievements and indirect results of the investigation include:

- the removal of 15 982 irregular public servant beneficiaries from the system;
- actual savings of R27,3 million;
- the prevention of future losses to the value of R379 million;
- the recovery of R12,1 million through acknowledgements of debts signed by 2 120 beneficiaries; and
- a total of 814 prosecutions and 408 convictions.

In addition, there has been a huge increase in beneficiaries that have stopped collecting their benefits or requested such grants to be cancelled. This may be due to the deterrent effect of the investigation and a strong stance by the Minister of Social Development against irregular beneficiaries.



The following was achieved:

- an increase of 95 535 in voluntary terminations;
- resulting in a saving of R253,5 million; and
- resulting in the prevention of future losses to the value of R2,7 billion.

The focus of the SIU's investigations for the **Department of Transport** relates to the irregular issuing of driving licences. The first stage of the investigation involved quantifying the extent of the problem, after which systemic problems at Driving Licence Testing Centres (DLTCs) were identified and rectified. The investigations at 55 prioritised DLTCs during the period under review yielded positive results.

Some of the achievements during the year under review include:

- the auditing of 68 672 driving licences;
- the identification of 11 776 driving licences as invalid;
- the referral of 2 261 invalid driving licences to the MEC for cancellation;
- the referral of 1 025 criminal cases to the SAPS; and
- obtaining of 165 convictions.

Investigations into claims against the **Department of Correctional Services'** Medical Aid Fund has resulted in a saving of approximately R22,6 million in 2005/2006. The value of the prevention of future losses in the medical aid investigation now totals R3,6 billion over the past four years.

The recent extension of the cooperation agreement by the Department is an endorsement of the success achieved in the project, and recognition of the continued value of the SIU's assistance to the Department. The proclamation will be extended to include procurement irregularities within DCS.

In respect of the regional projects, the SIU has conducted investigations based on requests from a number of provincial government departments, most notably the Department of Local Government and Housing in both the Western and Eastern Cape.

Some of these investigations include:

- An investigation into allegations of fraud within the Witness Protection Programme in KwaZulu-Natal, which has resulted in the criminal prosecution of eight people. The matter is currently part-heard.
- Investigations into fraud and corruption in housing projects involving conveyancing attorneys in KwaZulu-Natal, Gauteng and the Eastern Cape. A civil claim of R4 million has been prepared against the Attorneys Fidelity Fund.
- Investigations at various Free State provincial departments and the Free State Marketing and Tourism Board, and pre-investigations at the Free State Treasury and the provincial departments of Public Works, Education, Agriculture and Local Government in the Free State.
- Investigations at 13 priority municipalities in the Eastern Cape that are listed in two Presidential proclamations.
- An investigation at the Bitou Municipality in the Western Cape that has resulted in disciplinary charges of financial mismanagement being brought against the Executive Mayor and Municipal Manager.

Constraints

One of the constraints of operational delivery relates to the speed with which the SIU is able to obtain a proclamation to initiate an investigation. Many government departments require urgent intervention, which the SIU is not always able to provide. In addition, the proclamation requires regular updating to cover later and ongoing conduct.



A further problem is the ability of the SIU to institute actions for the purpose of recovering state assets through the Special Tribunal. The judgment of Pickard J, in the Mfeketo-case held that the SIU may not litigate on behalf of state institutions. It may also only litigate if a *justiciable* dispute exists between parties. This judgment has severely inhibited the SIU's ability to litigate wrongdoing speedily and effectively in the Tribunal. The SIU has proposed

amendments to the SIU Act, which will significantly increase its effectiveness. These proposed amendments are currently being considered by the Department of Justice and Constitutional Development.

A more detailed description of the SIU's national and regional investigations follows.

NATIONAL INVESTIGATIONS

DEPARTMENT OF SOCIAL DEVELOPMENT

The Department of Social Development (DSD) has the overall national responsibility to implement the government's social assistance programme. Over the past few years losses due to the payment of irregular grants have conservatively been estimated at R1,5 billion per annum. As a result, the Minister of Social Development, Dr Zola Skweyiya, approached the SIU to investigate fraud, corruption, and maladministration in relation to the disbursing of the social grant system

Proclamation

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

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

The key aims of the project include:

- identifying and removing irregular social grant beneficiaries;

- preventing losses by securing future savings;
- addressing criminal acts through prosecutions as part of a broader deterrence strategy;
- improving service delivery by identifying and addressing administrative systemic gaps; and
- ensuring skills transfer to members of the Department's Compliance and Support Unit.

The SIU's approach

The overall approach to the investigation is to conduct an analysis and cleansing of the Social Pensions (Socpen) database and address improprieties identified in the process. The SIU has ongoing partnerships with the SAPS, the Scorpions and the AFU.

The investigation, which commenced on 1 March 2005, is being conducted in phases over a three-year period, and will encompass:

- the analysis, removal, prosecution and civil recovery of illegal social grant benefits from public servants registered on the Socpen database;
- the identification of disentitled private beneficiaries by using the same approach as the public servants investigation;



- concentrating on the fraudulent abuse of high-risk social grants, such as old age, disability, child support, foster care and care-dependency grants, by organised crime syndicates;
- repatriating unclaimed grants from banks and other payment institutions to the Department; and
- investigating maladministration by officials that have resulted in delays in the payment or non-payment of grants.

Results and achievements

By March 2006, the SIU had deployed 85 members countrywide. This includes lawyers, data forensic analysts, forensic accountants and forensic investigators. By 2007 the SIU will have a maximum capacity of 200 members on the investigations.

In an analysis of the Socpen database, the SIU identified 43 705 public servants registered on the system across the nine provinces.

Table 4: Analysis of Public Servants Registered on the System According to Grant Type

	Eastern Cape	Free State	Gauteng	KwaZulu-Natal	Limpopo	Mpumalanga	Northern Cape	North-West	Western Cape	Total	Percentage of total grants affected
Old Age Grant	246	67	66	1 163	592	128	20	40	74	2 396	5.48
War Veterans	0	2	1	0	5	0	0	0	0	8	0.02
Disability Grant	286	105	147	2 356	145	91	52	66	80	3 328	7.61
Foster Care Grant	1 788	681	648	1 620	497	244	253	395	470	6 596	15.09
Combination grants	21	5	6	49	1	1	3	4	4	94	0.22
Grant in Aid	2	0	1	5	2	0	3	1	2	16	0.04
Care Dependency grant	459	44	198	704	177	70	42	67	63	1 824	4.17
Child Support Grant	3 716	921	1 771	16 224	2 948	1 790	467	908	608	29 443	67.37
Total	6 518	1 825	2 838	22 121	4 367	2 324	840	1 481	1 391	43 705	100

(2 838). Investigations further revealed that 67.37% of irregular grant claims were made against the Child Support Grant. This was followed by claims against the Foster Care Grant (15.09%), the Disability Grant (7.61%) and the Old Age Grant (5.48%).

In light of these finding, the investigation achieved the following results:

Table 5: DSD Results and Achievements for 2005/2006

	North-West	Mpumalanga	Gauteng	Limpopo	KwaZulu-Natal	Western Cape	Free State	Eastern Cape	Northern Cape	Totals
Number of government official grants identified	1 481	2 324	2 838	4 367	22 121	1 391	1 825	6 518	840	43 705
Number of criminal cases brought before court	185	80	30	62	311	146	0	0	0	814
Number of convictions	121	40	17	14	115	101	0	0	0	408
Total number of beneficiary recoveries made	496	155	493	142	693	117	0	24	0	2 120
Total value of recoveries (R'000)	R 1 945	R 696	R 1 998	R 642	R 5 964	R 476	-	R 396	-	R 12 117

A significant development has been the huge increase in the voluntary cancellations of grants which occurs when beneficiaries request the cancellation of their grants or stop collecting them. This is probably because a strong

deterrent message was communicated through the vigorous prosecution of beneficiaries and a constant high profile public awareness campaign by the Minister and Department of Social Development.



Table 6: Lapsing of Grants due to Non-collection by Beneficiaries

	April 04 - March 05	April 05 - March 06	Increase
Number of grants not collected (code 52)	83 886	140 741	56 855
Actual savings to DSD in current financial year	R 185 066 202	R 324 184 944	R 139 118 742
Value of preventions for cancelled grants	R 2 648 118 960	R 4 478 735 160	R 1 830 616 200

Table 7: Lapsing of Grants due to Voluntary Cancellations by Beneficiaries

	April 04 - March 05	April 05 - March 06	Increase
Number of requested cancellations (code 48)	24 926	63 606	38 680
Actual savings to DSD in current financial year	R 45 957 360	R 160 324 150	R 114 366 790
Value of preventions for cancelled grants	R 920 256 840	R 1 814 527 440	R 894 270 600

Tables 6 and 7 illustrate the increase in the voluntary cancellations compared to the previous financial year. Over the year, there was an increase in non-collections of 56 855 and in requests for cancellation of 38 680, ie a total of 95 535.

The actual saving for the period under review is R253,5 million, and the value of the future grants that would have been paid out is R2,7 billion.

Table 8: Savings Generated through the Investigation of Public Servants

Savings generated through the investigation of public servants	
Number of public servants now inactive	15 982
Actual savings 2005/2006	R27 394 200
Value of preventions for lapsed grants	R379 467 000

Table 8 indicates the outcome of all investigations into the 43 705 public servants. This has resulted in huge savings and prevention of loss to the state. The above-mentioned statistics provide a clear indication of the preventative effect of the project and of the Department's anti-fraud campaign. The percentage increase in the lapsing and cancellation of grants is evident from the time the fraud initiative becomes public.

The successes achieved in the Social Development project are largely due to the collaborative efforts between the

SIU and DSD, SASSA, Scorpions, SAPS, NPA, AFU and the national steering committee, which ensures coordination of the investigation and the activities of the role-players.

Future plans

During the coming year the SIU will focus on vulnerable grants and private beneficiaries. This will include joint investigations of organised crime syndicates with the SAPS and the Scorpions.

DEPARTMENT OF TRANSPORT

During 2004, the Department of Transport (DoT) approached the SIU to conduct an investigation into the irregular issuing of driving licences. Reports from the Department of Transport Inspectorate, the SAPS and the National Intelligence Agency (NIA) confirmed that driving licences were being issued unlawfully at many Driving Licence Testing Centres (DLTCs) in South Africa, and that this 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).

Proclamation

Proclamation R5, published on 31 January 2005, mandated the SIU to investigate:

- the issuing of driving licences, including professional driving permits and learners' licences, by examiners at DLTCs without complying with the requirements of the applicable legislation for the issue thereof;
- the conversion of forged driving licences, invalid driving licences and foreign licences to the credit card form driving licence, issued in terms of applicable legislation pursuant to applications submitted to DLTCs;
- the registration of stolen vehicles on NaTIS; and
- the failure to properly manage and control the activities of officials and the transactions executed by them and ensuring compliance with the requirements of the relevant legislation regarding the issue and/or conversion of driving licences.

The key aims of the project include:

- creating a strong deterrent for corrupt officials and the public through visible criminal and other sanctions;
- identifying and prosecuting corrupt officials;

- removing corrupt officials from the system through disciplinary action;
- identifying the training needs of officials and training them or removing them from the system through disciplinary action;
- identifying and improving management and systemic weaknesses, and canceling licences that have been issued irregularly; and
- identifying and removing stolen vehicles registered on NaTIS.

The SIU's approach

The project will be implemented in two phases. *Phase 1* will focus on auditing licence files at prioritised DLTCs; interrogating NaTIS, preparing exception reports and investigating exceptions identified; investigating allegations/cases referred to the SIU (rapid response matters); and identifying and improving systemic weaknesses. *Phase 2* will focus on extending the audit at the prioritised DLTCs and other DLTCs; continuing with the investigation of exceptions identified; and making overall recommendations.

The SIU is working closely with the DoT, the SAPS, the NIA and the NPA. A national steering committee has been established to coordinate the activities of the different law enforcement agencies involved in the investigation.

Results and achievements

The SIU received funding of R16,8 million per annum from the Department of Transport to conduct the investigation and to employ a dedicated team of 75 staff members. The project commenced on 1 March 2005 and will continue for an initial period of three years.

To date the investigation team has focused on the conversion of foreign licences to the South African credit card format driver's licence and the investigation of allegations and/or criminal offences referred to the SIU.



Table 9: DOT Results and Achievements for 2005/2006

Province	Files scanned	Files audited	Invalid licences	Disciplinary referrals to the department	Criminal matters under		Number of arrests		Number of convictions
					Jointly with SAPS	Other	Officials	Private individuals	
Western Cape	110 680	3 247	208	8	31	2	2	13	14
Gauteng	77 907	9 399	1 151	9	677	4	13	239	49
Eastern Cape	109 264	26 626	1 243	8	60	297	4	0	0
KwaZulu-Natal	79 836	14 271	264	3	138	0	2	97	94
North-West	288 069	8 394	7 053	14	45	3	3	3	0
Free State	233	233	75	0	27	0	0	3	2
Mpumalanga	64 863	4 135	1 639	1	25	10	7	16	6
Northern Cape	23 529	2 279	108	13	20	0	1	2	0
Limpopo	72 789	88	35	7	2	0	2	1	0
TOTAL	827 170	68 672	11 776	63	1 025	316	34	374	165

Investigations are currently being conducted at DLTCs in all nine provinces. Driving licence files have been collected from 42 of 55 prioritised DLTCs. A total of 53 547 driving licence files have been captured and analysed and exceptions have been identified. To date the investigation into these exceptions has resulted in the identification of 9 048 invalid licences. An analysis of 15 125 conversion files has been completed and the investigation of exceptions identified has, to date, resulted in the identification of 2 728 invalid conversions. The SIU is in the process of referring the invalid licences and conversions identified to the Department for cancellation. To date 2 261 invalid licences and conversions have been referred to the Department for cancellation.

In appropriate instances, completed dockets have been referred to the SAPS for the institution of criminal action.

A total of 1 341 criminal cases are currently under investigation. To date 165 cases have already been finalised. The SIU has also facilitated the institution of disciplinary proceedings in appropriate instances by providing the Department or the relevant municipal authorities with draft charge sheets and disciplinary case files and by giving evidence at disciplinary hearings. To date 63 disciplinary cases have been referred to the Department. Six officials have been dismissed, one has been demoted, five have resigned in the face of disciplinary proceedings against them and two officials have been suspended.

The SIU investigation revealed a number of cases of irregularities. Evidence was uncovered of payments by driving schools to driving licence examiners. In one instance, R328 890 was paid into an examiner's bank



account by driving schools. The matter has been referred to the NPA and the SAPS for finalisation.

The majority of conversions audited to date are those issued on the basis of forged foreign licences. Applicants produce false foreign licences and other supporting documents (including letters of confirmation) to officials at DLTC's for conversion to valid South African credit card licences. In many instances the false foreign licences used to obtain South African credit card licences belong to South African citizens.

The SIU has also identified the existence of syndicates selling forged foreign licences and letters of confirmation. In many instances South African citizens have obtained licences through submitting forged foreign licences. To date, 224 private individuals have been arrested and 47 convictions have been handed out in this regard. In one instance, a DLTC official tried to bribe a member of the SIU to destroy evidence of wrongdoing on the part of the official. The official was arrested as a result of a sting operation conducted in cooperation with the SAPS. The matter is presently before court.

Numerous contraventions of the National Road Traffic Act, 93 of 1996, have been identified. These include:

- the failure by examiners to authorise the issuing of driving licences;
- the issuing of licences to applicants who have failed their learner's/driving licence tests;
- the issuing of licences to applicants who were never tested; the issuing of licences without conducting eye tests;
- the conducting of eye tests by unauthorised officials; and
- the issuing of driving licences to persons who do not possess learner's licences.

As a result of recommendations made to the relevant DLTC/municipal officials, improvements have been

implemented at certain DLTC's. These improvements include the building of/repairs to filing rooms; the appointment of a filing clerk responsible for document control; the replacement of an unauthorised official who was conducting eye tests; and, in instances where examiners were operating without supervision, the Department's provincial offices took over the testing functions.

Future plans

The SIU will endeavour to increase the prosecution and conviction rates through the appointment of special prosecutors assigned to the project. The appointment of these special prosecutors will assist the SIU in ensuring ongoing cooperation between investigators and prosecutors from the outset of investigations; a coordinated, uniform national approach to the prosecution of perpetrators; and the speedy finalisation of trials.

DEPARTMENT OF CORRECTIONAL SERVICES

During 2002, the Department of Correctional Services (DCS) requested the SIU's assistance in investigating allegations of widespread corruption uncovered by the Jali Commission. The Jali Commission was established in September 2001 and its brief included enquiring into reports of corruption within the Department of Correctional Services.

The initial contract concluded between the Department and the SIU commenced in 2002 and concluded in March 2006. The SIU investigation focused on the following investigation areas: correctional centre visits, the excessive claims against the Department's medical aid fund and potential irregularities in its procurement division. In terms of the three-year agreement the Department made a total contribution of R19 million to the SIU to fund the investigation. The partnership has yielded the following results in a number of primary and secondary focus areas.



Correctional Centre investigations

The Jali Commission exposed numerous allegations of corruption at correctional centres. The SIU visited each of the 179 correctional centres nationally and interviewed

the majority of the inmates and DCS officials at these correctional centres. These interviews yielded numerous criminal cases, prosecutions and disciplinary hearings, as is illustrated below:

Table 10: Statistical Overview of Correctional Centre Visits as at September 2005

Total number of correctional centres	Correctional centres visited	Number of inmates interviewed	Number of DCS officials interviewed	Number of complaints investigated	Number of criminal referrals	Number of disciplinaries against department officials
179	179	143 887	33 132	8 150	289	426

During the three-year period, the investigation team processed a total of 8 150 complaints received from DCS officials and Correctional Centre inmates. These investigations resulted in 289 matters being referred to the SAPS for processing through the criminal justice system. In addition to the criminal investigations, the SIU made the recommendation to the Department that 426 officials be disciplined. A few key highlights of the matters investigated are:

- The Provincial Commissioner in the Eastern Cape was dismissed for submitting fraudulent travel claims.
- The Head of the Middeldrift Correctional Centre in the Eastern Cape and three Department officials were dismissed for facilitating the escape of inmates.
- Four officials at the Groenpunt Correctional Centre were prosecuted on charges of theft and fraud relating to kitchen stock worth R476 000. The case docket is presently with the Director of Public Prosecutions for a decision.
- An official at the Barberton Correctional Centre was prosecuted on 452 counts of fraud and corruption. The criminal trial is pending.

- An official at the Pretoria Central Correctional Centre was prosecuted on 38 charges of theft and fraud relating to the abuse of First Auto Fleet card system. The official was dismissed during a departmental hearing and his criminal trial is pending.

The investigation of certain complaints led the SIU to identify further weaknesses within the correctional centre environments. The key examples of these secondary focus areas are the investigations into the abuse of the First Auto Fleet card system and the investigations into the correctional centre pharmacies.

The SIU's visits and interviews at the correctional centres inspired confidence in the inmates and officials in reporting irregularities. Although the formal visits to correctional centres have been concluded, the SIU continues to receive complaints from correctional centre inmates and officials. These matters are investigated if they fall within the SIU's mandate. If the investigations do not fall within the SIU's mandate they are referred to the Correctional Service's Departmental Investigating Unit (DIU). The DCS established the DIU in 2004 and this Unit will continue to investigate all new complaints received from correctional centre inmates.

This provides the Department with a continuous internal mechanism by which to address corruption encountered at the Department's correctional centres.

Medical Aid Fund

In 2001, the Jali Commission uncovered allegations of widespread corruption and fraud in respect of the Department's Medical Aid Scheme. Until 2003, the Department provided fully subsidised medical aid to its officials and all savings or losses in respect of the Medical Aid Fund were passed on to the Department.

During its investigations, the SIU uncovered three types of fraud being committed against the Medical Aid Fund:

- Collusion between a medical practitioner and corrupt officials through whom fictitious services are charged to an innocent official's account. The medical practitioner then submits false claims to the medical aid. The criminal proceeds are subsequently shared between 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 submission of false claims to the medical aid. Pharmacists would fraudulently claim for medical goods in cases where non-medical goods, such as groceries, were purchased.

The SIU's investigation is part of a joint initiative, which includes the DCS, Scorpions, SAPS and the administrators of the Medical Aid Scheme. Investigations into claims against the Department's Medical Aid Fund has resulted in a further saving of approximately R22,6 million in 2005/2006. The investigation has therefore resulted in the prevention of future losses of approximately R3,6 billion since its inception. As a result of this joint initiative, 26 medical practitioners have been

subjected to criminal investigations and ten officials have been disciplined departmentally.

Procurement contracts

The DCS referred a number of procurement investigations to the SIU to ensure that the Department's procurement processes were not compromised. The following is a report on these referrals.

Boulevard Hotel

The DCS identified a need for the establishing of a Training Academy. After a lengthy procurement process, the Boulevard Hotel was procured as a Training Academy for the Department. The Department's expenditure with regard to this contract amounted to R6,6 million. The Department failed to occupy the building for the full period of the lease, notwithstanding a contractual obligation to do so.

A final report on the SIU's investigation was submitted to the DCS for consideration. The SIU recommended that the DCS recover the disbursed amounts.

Repair and Maintenance Programme (Ramp)

The Repair and Maintenance Programme (Ramp) was initiated by the Department of Public Works (DPW) in 1999 as part of a national project to attend to all state property that had been neglected and to upgrade its 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, black economic empowerment fronting and other allegations of non-compliance with procurement processes.

Extensive consultations were conducted with senior officials from the DPW, as well as the DCS around these investigations. The SIU has already commenced with one large-scale investigation on Ramp at the Klerksdorp



Correctional Centre. The estimated cost of the repairs has escalated from the original contract price of R56 million to R112 million. This investigation has progressed significantly and should be completed within the next financial year.

Sybase SA (Pty) Ltd

The State Tender Board awarded a tender to Sybase SA (Pty) Ltd based on a recommendation by the Department of Correctional Services. The cost of acquiring the database amounted to R4 140 102. When the Department investigated the cost of replicating the database, it established that it amounted to approximately R14 million. The Department is challenging the contract on the basis of non-compliance with certain tender processes. The investigation has been finalised and the final report is being compiled and will be submitted to the Department for consideration.

Abuse of the First Auto Fleet card system

The Department disbursed a total of R99,9 million on maintaining and operating its vehicle fleet for the period 2003/2004. The SIU analysed approximately 750 000 transactions and the claim patterns indicated that the First Auto Fleet card system was being abused by the Department's officials.

This investigation has resulted in 145 officials being disciplined; two officials are being charged criminally and 60 further criminal investigations are being conducted.

Correctional centre pharmacy investigations

The investigation focuses on whether correctional centre pharmacies comply with DCS procedures in relation to procurement and the operating of the pharmacy. In the 141 pharmacies investigated to date, various irregularities were identified. Where criminal activity or procedural non-compliance was detected, the investigations have been referred to the SAPS or to the Departmental Investigating Unit.

The Departmental Investigating Unit

The Department established the Departmental Investigating Unit (DIU) in 2004 and the SIU has been working closely with this Unit since its formation. To ensure that the Unit is properly capacitated in terms of personnel and skills, the SIU has facilitated the transfer of certain experienced SIU personnel to the DIU to assist in establishing its investigating capacity. The SIU has engaged in a number of training sessions and joint investigations with the DIU to ensure that forensic investigation skills are transferred to the members of the DIU. The establishing of the DIU ensures that the Department will be able to address corruption adequately when the SIU concludes its investigations for the Department.

Future plans

In March 2006, the DCS extended the investigation agreement with the SIU for a further three-year period. The SIU will be conducting investigations in the areas of procurement, asset management and correctional centre pharmacies. In this year, the SIU projects that it will conclude procurement investigations with a combined value of R266 million.

REGIONAL INVESTIGATIONS

KWAZULU-NATAL

DEPARTMENT OF HOUSING

This is a proclaimed investigation into fraud and corruption within the Housing Subsidy Scheme in KwaZulu-Natal administered by contracted conveyancing attorneys. The SIU commenced its investigation in 1998 with an audit of 111 firms of attorneys.

The SIU's investigation also includes a detailed forensic audit, deeds search of all properties and tracing of all parties involved in transactions.

To date the SIU has:

- identified 1 000 fictitious applications and transfers of property valued at R15 million;
- identified fraud committed by contracted conveyancing attorneys in partnership with criminal syndicates;
- reviewed 1 547 suspected transaction files of which more than 60% have been investigated;
- obtained the conviction of an attorney on charges of theft and fraud;
- lodged claims totaling more than R6 million;
- obtained 19 acknowledgement of debt totaling more than R475 000 from individuals who benefited illegally from the Housing Subsidy Scheme; and
- in conjunction with the SAPS Commercial Crime Unit, prepared a criminal case against an attorney and nine other accused on charges of fraud and theft, which will be heard later in 2006.

DEPARTMENT OF TRANSPORT PROVINCIAL COST CENTRES

This is a pre-investigation into theft and maladministration covering the period 2003 to date at three of the Department's provincial cost centres.

The pre-investigation started in November 2005 and the SIU is in the process of obtaining a proclamation. Thus far the focus has been on one cost centre where the SIU conducted a sample audit.

This resulted in:

- identifying irregular payments and awarding of contracts valued at about R7 million;
- disciplinary action against four officials;
- criminal charges of theft against three individuals;
- charges in terms of the Public Finance Management Act (PFMA) against a departmental employee; and
- improvements to the Department's Internal Security Procedural Manual.

WITNESS PROTECTION PROGRAMME

This is a proclaimed investigation into the irregular leasing of safe houses by the Witness Protection Unit during the period 1999 to 2002. These irregularities were highlighted in the 2001 Auditor-General Report. Allegedly employees of the KwaZulu-Natal Witness Protection Programme (WPP) defrauded the Programme by leasing property, wherein they had an interest to the Programme, at double the market value. In other instances they leased fictitious property to the WPP and claimed payment in return through various agents. The value of these transactions amounts to R4 252 637.

The investigation has been conducted over five phases, of which four have been completed. The SIU is assisted by the SAPS Commercial Crimes Unit and works closely with the NPA and AFU.

To date the SIU's forensic audit has revealed:

- lack of administrative and financial controls relating to vouchers;



- unrecovered witness fee advances;
- loans to witnesses for the purchase of fictitious property;
- incomplete and legally defective lease agreements;
- lack of compliance with regard to tender procedures;
- lack of proper securing and supervision of witnesses; and
- lack of a proper asset verification system of properties under the control of the WPP.

The criminal case against eight accused, including the former Regional Head of the WPP in KwaZulu-Natal is currently part-heard.

KWAZULU-NATAL MUNICIPAL INVESTMENTS

This is a proclaimed investigation which started in 2004 and concerns the irregular and unauthorised investments of municipal funds to the value of R27,2 million by the former directors of finance at the erstwhile Umzinyathi Regional Council, uThungulu District Municipality and Escourt/Wembezi Transitional Local Council. These investments were channeled from municipal entities into bank accounts through brokers and into numerous separate corporate entities. The entities suffered losses for the amounts stipulated above.

The SIU also investigated unauthorised expenditure of municipal funds by municipal employees, the failure to recover these funds and the appointment of brokers and/or third parties to deal with municipal funds

Civil proceedings have been initiated for the recovery of R10 million from the former Director of Finance at the uThungulu District Municipality. The Scorpions are dealing with the criminal prosecutions resulting from this investigation.

GAUTENG

DEPARTMENT OF HOUSING

This is a proclaimed investigation into allegations of fraud and maladministration in respect of the Gauteng Low-cost Housing Subsidy Scheme. The investigation started in 1999 and covered the period 1 May 1994 to 30 April 1999.

During the year under review, the SIU:

- investigated 18 conveyancing attorneys;
- conducted a forensic audit in respect of a payment of almost R45 million by the Gauteng Department of Housing to the conveyancers for the payment of qualified beneficiaries;
- visited more than 6 000 sites to establish whether top structures were in place;
- established that 167 top structures had not been built; and
- facilitated the repayment in respect of 66 of the 167 incomplete structure.

EASTERN CAPE

EASTERN CAPE LOCAL GOVERNMENT

This is a proclaimed investigation that started in 2004 and was extended to further municipalities in 2005. It focuses on allegations of maladministration, fraud and corruption at the following 13 municipalities in the Eastern Cape: Qaukeni, OR Tambo, Whittlesea, Maletswai, Somerset East, Inkwanca, Mthatha, Nyandeni, Emalaheni, Mnquma, Ikwezi, Inxuba Yethemba and Ndlambe.

Historically some 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 assist the appointed Administrator in restoring governance at Qaukeni.

The cooperation agreement at Qaukeni paved the way for a much larger cooperation agreement between the

Department and the SIU, culminating in an agreement that resulted in the Department funding a dedicated capacity of 17 members 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.

The SIU is presently investigating six municipalities. These investigations have been aligned with Project Consolidate, an initiative of the National Department of Provincial and Local Government, with the primary focus areas being procurement, financial mis-management, recruitment, lack of service delivery and lack of good governance.

Table 11: ECLG Results and Achievements for 2005/2006

OUTCOME	RESULTS
Cash recoveries (at three municipalities)	R1 912 122.25
Summons issued	R732 398
Value of contracts set aside	R3 000 000
Savings	R323 400
Registered criminal cases	18
Disciplinary hearings initiated	7 (4 dismissals)
Systemic recommendations	22
Matters referred to the SARS	11
Identified cases of social grant fraud	121
Taxation of legal bills	10 (R225 000 recovered)
Arrests	4
Criminal referrals	5
AODs signed	6
Preliminary investigations into housing	4



Systemic recommendations make up an integral part of this project and in the past financial year the following recommendations have been made and implemented at the six municipalities under investigation:

- the implementation of new and existing capital and Local Economic Development projects;
- the development of new organograms and the adoption of departmental human resource policies;
- the setting aside of contracts due to improper procurement practices;
- the implementation of measures for the safekeeping of tender documents;
- the implementation of debtor management systems to collect rates and property taxes;
- the implementation of proper asset registers: at several municipalities these were non-existent or not properly maintained, resulting in a lack of control over assets;
- assisting the municipal employees in work procedures for cheque writing and the safekeeping of cheques;
- assisting municipalities in recovering losses as a result of the non-recovery of overpayments, advances, loans, allowances and vehicle subsidies; and the failure to submit VAT returns so that they cannot claim VAT due.

NELSON MANDELA METROPOLITAN MUNICIPALITY

This is a proclaimed investigation into the housing project of the Nelson Mandela Metropolitan Municipality. It stemmed from a previous report by the Auditor-General that exposed some of the irregularities in respect of three housing projects: in Jacksonville, Motherwell Tjoksville and Bloemendal South.

The investigations started in November 2005 and covered:

- the granting of housing subsidies by the municipality to non-qualifying beneficiaries;
- the overspending of funds made available to the municipality for housing subsidy projects;
- payment for services not rendered or structures not completed; and
- irregular procurement processes.

The SIU investigation into the Jacksonville Project yielded the following results:

- irregular payments for 544 top structures not erected;
- underperformance by the developer responsible for servicing 1 200 sites;
- the recovery of R461 340 in respect of services not rendered;
- criminal cases against 27 unqualified beneficiaries; and
- the institution of proceedings to recover stands to the value of R405 000 from these 27 beneficiaries.

In the coming year the SIU will start investigations into the Motherwell Tjoksville and Bloemendal South housing projects.

UMANYANO TRANSPORT

This is a proclaimed investigation into the acquisition and transfer of assets, including the registration of motor vehicles belonging to the liquidated Transkei Road Transportation Corporation (TRTC), by and in the name of Umanyano 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 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. The TRTC property was vandalised and assets were lost, inter alia, to a company formed by former employees of the TRTC, known as Umanyano Transport.

The investigation yielded the following results:

- recovery of monthly rental due to the Department amounting to R405 000;
- securing a saving of R600 000 in respect of the sale of nine houses; and
- ensuring the sale of the main bus depot for R2,6 million.

WESTERN CAPE

WESTERN CAPE LOCAL GOVERNMENT AND HOUSING

In February 2005, the MEC for the Department of Local Government and Housing of the Western Cape requested the SIU to assist the Department with pre-investigations into allegations of fraud, corruption and maladministration at a number of local authorities.

The SIU was requested:

- to assist with forensic investigations;
- to increase the investigative capacity of the Department through a skills transfer programme;

- to advise the Department of any impropriety that may exist; and
- to facilitate corrective measures through civil litigation, criminal prosecutions and internal disciplinary action.

The SIU assisted the Department with eight municipal investigations and can in respect of these report the following:

- The SIU investigated allegations against the Municipal Manager and the Executive Mayor of the Bitou Municipality for irregular expenditure relating to an overseas trip and the issuing, and misuse of municipal credit cards. It recommended civil action to recover the funds, disciplinary action against the Municipal Manager and the Executive Mayor, and the referral of possible criminal cases to the SAPS.
- In an investigation of the Municipal Manager of the Central Karoo District Municipality, the SIU concluded that his contract of employment had lapsed and recommended it not be extended. The performance bonus paid to him was found to be irregular and the SIU recommended that it be recovered from him. Weaknesses were also uncovered in the financial management system in respect of the Speaker's Fund, Mayoral and Deputy Mayoral Funds.
- The deed of sale entered into between the Western Cape Provincial Development Board and the Hawston Seafarms Foundation, valued at R1 400 000, has been found to be void.
- The SIU and the Scorpions in the Western Cape are involved in the ongoing joint investigation of various allegations regarding certain housing projects.



SHARED SERVICES

HUMAN RESOURCE MANAGEMENT

The focus of the Human Resource Management Division is to ensure the effective and efficient management and

utilisation of the SIU's capacity through human resource management programmes.

Table 12: Results and Achievements for 2005/2006

Programme	Measure/indicator	Target	Results
Recruitment of new staff	Increase in the number of staff throughout the SIU by March 2006.	127	A total of 137 new staff members were recruited during the year under review.
Attraction and Retention Strategy	Staff turnover	7%	An 8.2% staff turnover was achieved. The SIU staff turnover due to resignations, terminations and the non-extension of lapsed contracts.
Employment Equity Plan	Percentage of overall target in Employment Equity Plan	60%	An 85.5% overall compliance was achieved. There has been significant improvement in comparison to the previous year's achievements of 50.1% compliance.
Human Resource Programmes	Implementation of identified Human Resource programmes	Approved implementation of the HIV/AIDS awareness programme.	Approved HIV/AIDS awareness plan initiated during year under review.
		Implementation of the Employment Wellness Programme.	Employee Wellness Programme implemented with a 17% usage rate.

Recruitment programme

During the year under review, the SIU initiated two major national investigations, which required additional operational capacity. The Human Resource Management Division embarked on a massive recruitment drive to achieve a staff complement of 249. By the end of March 2006, the SIU had 316 staff members, in comparison to the 184 in the previous year. During the recruitment process, the Human Resource Management Division received approximately 2 300 applications for 170 vacant positions. It interviewed 249 applicants and made 137 appointments. The remaining 38 positions will be filled during the new financial year.

The average turnaround time per vacancy, (from advertisement to appointment), was approximately six months, as compared to the target of three months. This is largely due to the short-listing, screening and interviewing process involved in the recruitment of large numbers of candidates during this period. Operational and management appointments, also include competency assessments.

During the year under review, the SIU significantly refined its recruitment process in respect of the following areas:

- incorporating integrity vetting into the recruitment process;



- introducing competency assessment as part of job interviews;
- enhancing its online application facility;
- improving its capacity to recruit on a large scale; and
- refining its interview processes.

In the coming year, the Human Resource Management Division aims to recruit approximately 200 additional members to assist with the new investigations of the SIU. These will include managers, forensic investigators, lawyers and forensic accountants.

Staff attraction and retention

The capacity of the SIU to deliver on its operational commitments is reliant on the attraction and retention of highly qualified professionals. The Human Resource Management Division has therefore placed greater emphasis on attracting suitably skilled professionals through targeted advertisements in selected newspapers, websites and specialist magazines.

During the year under review, the SIU experienced a staff turnover of 8.2%, which is largely due to the non-renewal of contract positions and resignations. In terms of the three-year partnership agreements, the SIU undertakes to transfer skills to government department, which results in the resignation of such members and subsequent appointment to departments it works with. The demand for scarce investigative resources within a highly competitive environment at market-related packages has also been a major concern. The SIU is, in the process of appointing a service provider to review the market relatedness of its salary packages across all occupational categories as part of its retention strategy for the new financial year.

Employment Equity

A major focus for the SIU has been to improve its overall employment equity profile and its compliance with the Employment Equity (EE) Plan. The following progress can be reported for the year under review:

Table 13: Employment Equity Compliance for 2005/2006

2004/2005			2005/2006		
Overall EE Plan Target:	Compliance	Percentage of overall target in the EE Plan	Overall EE Plan Target:	Compliance	Percentage of overall targets achieved in the EE Plan
263	132	50.1%	269	230	85.5%



During the past year, the SIU has complied with 85.5% of its overall recruitment target. It can further report the

following progress in respect of the senior management, operational staff and administrative positions:

Table 14: The SIU Employment Equity Occupational Distribution for 2005/2006

Occupational groups	2004/2005								
	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Senior management	2	2	0	6	0	0	0	0	10
Middle management	2	2	1	10	1	1	2	4	23
Operational staff	25	4	7	34	9	2	1	18	100
Administrative	4	1	0	4	18	8	3	13	51
TOTAL	33	9	8	54	28	11	6	35	184

Occupational groups	2005/2006								
	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Senior management	2	3	0	5	0	0	0	0	10
Middle management	4	2	1	10	1	2	2	3	25
Operational staff	70	13	15	67	16	2	6	33	222
Administrative	5	0	1	3	26	8	4	12	59
TOTAL	81	18	17	85	43	12	12	48	316

The SIU improved its equity profile from 132 members in 2004/2005 to 230 in 2005/2006. During the year under review the gender equity profile of the SIU has grown from 80 females in the previous year to 115 in the current year. This indicates a growth of 43.7% in comparison to the previous year. Furthermore, African females constitutes 37.3% of the entire female gender group in the current year, many of whom occupy the operational and administrative occupational categories within the SIU.

The males constitutes a substantially higher percentage of 63.6% of the total staff complement, of which African males make up 40.2%, which is substantially higher than the 17.9% reported in the last financial year. Many occupy the operational and management categories within the SIU.



The previous recruitment drive assisted in improving the overall representivity of the SIU as follows:

Table 15: Comparative Improvements of Overall Representivity

	2004/2005		2005/2006	
	Total	Percentage of total	Total	Percentage of total
African	61	33%	124	39.2%
Coloured	20	11%	30	9.5%
Indian	14	8%	29	9.2%
White	89	48%	133	42.1%
Total	184	100%	316	100%

Although the SIU's equity profile has improved in comparison to the previous year, there is much to be done within the senior management and middle management categories. The SIU is in the process of refining its EE plan and improving the functioning of the EE committee. Part of this intervention will include a review of the current recruitment processes.

Strategic human resource systems and processes

A key programme of the Human Resource Management Division is the design and implementation of appropriate human resource systems and processes. Over the last year, the SIU has upgraded its recruitment systems, reviewed all Human Resource policies and procedures, and prepared a Human Resource staff satisfaction survey.

The additional programmes implemented during the year under review include:

- The Employee Wellness Programme, aimed at providing the SIU staff with full access to a 24-hour advice centre relating to emotional, financial, legal and personal advisory assistance. The programme is funded by the SIU.
- The HIV/Aids Awareness Programme, which includes voluntary counselling and testing.



TRAINING AND DEVELOPMENT

The focus of the Training and Development Division is to deliver quality training and development programmes

for SIU staff that improve performance.

Table 16: Result and Achievement for 2005/2006

Programme	Measure/indicator	Target	Results
Trainee Forensic Investigators Programme	Number of trainees put through the programme	40	<ul style="list-style-type: none"> • 32 Trained • 22 appointed • 12 on field training
Potential Leaders Programme	Number of identified staff trained	4	4 candidates completed their training and gained admission to honours programmes.
Management Training	Number of managers trained	23	19 managers were trained and four were unable to attend.
Senior Management Assessment	Number of senior managers assessed	10	9 senior managers were assessed.
Performance Appraisal System	Implementation the revised Performance Appraisal System	Implement performance appraisal by March 2006.	The Performance Appraisal System was implemented during July 2005, which resulted in the first assessment on the new system as of March 2006.
Specialised Training	Number of staff members trained	268	<p>A total of 268 members were trained during the annual training week in specialised courses, which included:</p> <ul style="list-style-type: none"> • Project Management • Corporate Services • Forensic Investigation techniques • Communication, eg. writing skills • Financial Investigations • Supply Chain Management.

Trainee Forensic Investigator Programme

The Trainee Investigator Programme was designed to increase the number of skilled investigators on SIU investigations. The programme comprises 16 weeks of applied theory, followed by on-the-job exposure under the guidance of both operational staff and the programme mentors. Twenty trainees successfully completed the programme during the year under review and have been absorbed into the SIU as junior forensic investigators. A primary focus of the programme is to ensure that the SIU

is able to introduce forensic investigation as a profession to equity candidates and to develop highly qualified Forensic Investigators without resorting to large-scale recruitment from other agencies. All participants graduated from the courses with NQF Level 7 accredited certificates.

Management training

Following a detailed assessment process, 19 SIU managers and assistant managers completed a generic management course which included:



- Personnel Management;
- General Management – Principles and Practices;
- Strategic Management and Creative Problem-solving; and
- Financial Management and Project Management.

Potential Leaders Programme

Four members were selected with potential as future leaders. These individuals commenced formal, part-time postgraduate studies at a tertiary institution in January 2006. In addition they receive group and individual coaching sessions.

INTERNAL INTEGRITY UNIT

The focus of the Internal Integrity Unit is to ensure that strategies, policies and processes are geared towards

integrity and ensuring compliance of these strategies, policies and processes.

Table 17: Results and Achievements

Programme	Measure/indicator	Target	Results
Development of an Internal Integrity Unit	Percentage implementation of the Internal Integrity Unit's business plan funded by the German Development Co-operation.	60%	A 60% of the business plan has been achieved. The implementation of the plan was spread over two years with a major portion implemented in the year under review.
Pre-employment screening process	Cost-effectiveness and operational efficiency of the pre-employment system.	Reduce turnaround time for screening from 90 days to 33 days.	Turnaround time reduced to 33 days.
		A total of 200 pre-employment screenings in the year under review.	A total of 236 screenings were achieved during the year under review.

The key achievements during the year under review were:

- the expansion of the Unit by identifying the structure and recruitment requirements;
- the development of a screening process through the development of a database to monitor the process and the implementation of a more efficient voice stress analysis process to reduce the turnaround time for screening (this reduced the turnaround time from 90 days to 33 days);

- the development of policies to maintain and sustain internal integrity and a code of ethics for implementation in the new financial year; and
- the conducting of internal investigations into misconduct and disciplinary referrals to the disciplinary committee.



INFORMATION TECHNOLOGY

The focus of the Information Technology Division is to provide a cost-effective and efficient IT service.

Table 18: Results and Achievements

Programme	Measure/indicator	Target	Results
IT connectivity	Implementation of systems to be finalised by March 2006.	A 100 % implementation of ADSL lines by March 2006.	ADSL implemented by March 2006.
	Number of offices to be connected by March 2006.	Six new SIU offices to be connected by March 2006.	Six offices connected by March 2006.
	Percentage of e-mail connectivity for the SIU.	A 75% of e-mail connectivity achieved.	An 80% connectivity achieved.
Balanced Scorecard Database	Development and implementation of an operational database for the Balanced Scorecard.	Database developed and implemented by March 2006.	Database developed and implemented by February 2006.
Website and Intranet Infrastructure	Development and implementation of the SIU website and intranet infrastructure.	Website and intranet developed and implemented by March 2006.	Website and intranet implementation completed by December 2005.

FINANCE AND ADMINISTRATION

Table 19: Results and Achievements

Programme	Measure/indicator	Target	Results
PFMA compliance	Unqualified audit report	Unqualified audit report	Received an unqualified audit report.
	Reduced matters of emphases.	Fewer than four emphases of matters.	No emphases of matter reported by the Auditor-General.
operating cost relative to operational payroll expense.	% operating cost relative to operational payroll expense.	Less than 35%	A 28.2% of the SIU's operating cost as a result of the opening of regional offices and decentralising capacity. However, this resulted in an increase in overheads.
Restructuring of Finance Division	Relocation of Finance Division	Completed and fully operational by March 2006.	Completed
	Upgrading of the payroll system.	Fully implemented system by March 2006.	Completed
	Upgrading of the accounting software	Fully implemented system by March 2006.	Completed

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AUDIT COMMITTEE REPORT

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

The Audit Committee consists of the members listed below. Three meetings were held during the current financial year.

Members	Number of meetings attended
SK Whitfield	3
MD Hughes (resigned 31 May 2005)	2
B Amery (appointed 1 May 2005)	2

The Audit Committee composition during the year did not comply with the required number of three members as prescribed by the Public Finance Management Act (PFMA). This lack of compliance was occasioned by the decision to move the finance function of the SIU from East London to Pretoria and the simultaneous resignation of Ms N Gwanya, an external audit committee member. It was decided not to replace Ms Gwanya until the relocation had been completely finalised and then to appoint a third member based in Pretoria.

Any potential risks associated with the aforementioned non-compliance were adequately, if not fully, mitigated by the following considerations:

- The Chairman of the Audit Committee is an outside subject matter expert. As such, he does not only comply with the prescripts laid down by the PFMA for a chairman, but also qualifies as a “non-executive” member.
- The Chairman had a swing vote, in case of any deadlock, which effectively guaranteed the impartiality and objectivity of the Audit Committee.

- The Chairman played a much stronger and more assertive role in the committee in order to make up for the loss of the third member to further ensure the impartiality of the committee.
- Judging by the output of the Audit Committee during the year of assessment, it seems clear that the SIU attaches significant importance to the role of the chairperson.

In remedying the problem, the SIU has subsequently approached Prof H de Jager to join the Committee, which appointment he accepted on 26 May 2006. Prof De Jager is Head of the Audit Department at the University of Pretoria and serves on the Executive of the South African Institute of Government Auditors (SAIGA).

Audit Committee responsibility

The Audit Committee reports that it has complied with the 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 and has regulated its affairs in compliance with this Charter, with one exception. The adopted Charter requires four meetings per annum, which is in excess of the two required by the PFMA. Only three meetings were held during the year, as the Audit Committee did not deem a fourth meeting necessary. The Audit Committee has discharged all its responsibilities as contained in the Charter.

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:

- the audited annual financial statements to be included in the annual report and discussed them with the Auditor-General and the accounting officer;
- the Auditor-General's management letter and management response;
- changes in accounting policies and practices; and
- 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
July 2006



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE SPECIAL INVESTIGATING UNIT

for the year ended 31 March 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 36 to 59, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the Special Investigating Unit. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

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

An audit includes:

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

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

3. BASIS OF ACCOUNTING

The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Investigating Unit at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1 to the financial statements and the Public Finance Management Act, 1999 (Act no. 1 of 1999 as amended).

5. APPRECIATION

The assistance rendered by the staff of the Special Investigative Unit during the audit is sincerely appreciated.



S Cele

Pretoria

31 July 2006



AUDITOR - GENERAL



APPROVAL OF THE FINANCIAL STATEMENTS

The Head of the Unit is responsible for the SIU'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 the financial statements. Furthermore, because of changes in conditions, the effectiveness of systems of internal control may vary over time.

I have reviewed the SIU's system of internal control for the period 1 April 2005 to 31 March 2006 and am of the opinion that the SIU's system of internal control was effective for the period under review.

The financial statements for the year ended 31 March 2006, which appear on pages 36 to 65 were approved and signed by me in my capacity as Head of the Unit.

WA Hofmeyr
Head of the Unit
31 May 2006

STATEMENT OF FINANCIAL POSITION

at 31 March 2006

	Notes	2006 R	2005 R
ASSETS			
NON-CURRENT ASSETS			
Moveable property and equipment	1	12 150 127	3 788 794
BANK BALANCES – RECOVERIES	2.1	4 668 382	3 285 163
CURRENT ASSETS			
Inventory	3	92 483	20 973
Trade and other receivables		5 886 237	4 407 716
Prepayments		-	39 414
Cash and cash equivalents	17.2	20 487 702	20 705 325
TOTAL ASSETS		43 284 931	32 247 385
EQUITY AND LIABILITIES			
EQUITY AND RESERVES			
Capital reserve		12 150 127	3 788 794
Retained income/(deficit)		1 944 659	1 563 192
PAYABLES – RECOVERIES	2.2	4 668 382	3 285 163
CURRENT LIABILITIES			
Trade and other payables	4	7 721 763	3 640 433
Revenue received in advance		16 800 000	19 400 000
Provision for claim from Third Party		-	569 803
TOTAL EQUITY AND LIABILITIES		43 284 931	32 247 385

STATEMENT OF FINANCIAL PERFORMANCE**for the year ended 31 March 2006**

	Notes	2006 R	2005 R
REVENUE	8	99 695 645	55 380 426
OPERATING EXPENSES		92 749 172	55 012 439
Staff expenses	9	64 573 816	37 776 443
Travel and accommodation		6 467 079	4 495 736
Depreciation		1 699 877	1 790 566
Other expenses	10	20 008 400	10 949 694
OPERATING PROFIT/(LOSS)		6 946 473	367 987
OTHER OPERATING INCOME	11	1 104 658	3 501 046
NET PROFIT/(LOSS) before interest		8 051 131	3 869 033
INTEREST RECEIVED	12	691 668	300 513
PROFIT FOR THE YEAR		8 742 799	4 169 546
TRANSFER TO CAPITAL RESERVE		8 361 335	1 063 853
TRANSFER TO ACCUMULATED SURPLUS		381 464	3 105 693

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

for the year ended 31 March 2006

	Accumulated surplus/(deficit) R	Capital reserve R	Total R
Balance at 31 March 2004	(1 542 498)	2 724 939	1 182 441
Profit for the year	<u>3 105 693</u>	<u>1 063 853</u>	<u>4 169 546</u>
Balance at 31 March 2005	1 563 195	3 788 792	5 351 987
Profit for the year	<u>381 464</u>	<u>8 361 335</u>	<u>8 742 799</u>
Balance at 31 March 2006	1 944 659	12 150 127	14 094 786

CASH FLOW STATEMENT

for the year ended 31 March 2006

	Notes	2006 R	2005 R
CASH INFLOW FROM OPERATING ACTIVITIES		9 859 202	23 061 791
Cash receipts from departments		99 321 782	51 701 142
Cash paid to suppliers and employees		(90 154 248)	(28 939 864)
Cash generated from operations	17.1	9 167 534	22 761 278
Interest received		691 668	300 513
CASH OUTFLOW FROM INVESTING ACTIVITIES		(10 076 825)	(2 854 419)
Investment to maintain operations			
Proceeds from sale of moveable property and equipment		18 006	-
Investment to expand operations			
Purchase of moveable property and equipment		(10 094 831)	(2 854 419)
CASH FLOW FROM FINANCING ACTIVITIES		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(217 623)	20 207 372
CASH AND CASH EQUIVALENTS			
at beginning of year		20 705 325	497 953
CASH AND CASH EQUIVALENTS			
at end of year	17.2	20 487 702	20 705 325



SUMMARY OF ACCOUNTING POLICIES

for the year ended 31 March 2006

The following are the principal accounting policies of the SIU, 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.

Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at balance sheet date.

Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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

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

Accounting for government grants and disclosure of financial assistance

Government grants are recognised when there is reasonable assurance that:

- the entity will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs for which they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

Any incidental grants are accounted for on a cash basis.

Irregular and 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 and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care, are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

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

Payments made to industry-managed retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Capital reserve

A reserve equal to the book value of property and equipment is reflected as a capital reserve.

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 to 10 years
Computer equipment	3 years
Books and law reports	5 years
Motor vehicles	4 years
Computer software	2 years
Leasehold improvements	Life of lease, 3 to 10 years

The remaining estimated useful lives of assets are reassessed on an annual basis and during the current financial year, the estimated useful life of office furniture was reassessed from 5 years to 10 years on average. The effect of the change in estimate was calculated at R541 555 and the accumulated depreciation was amended accordingly. The motor vehicles' remaining lives were reassessed and an amendment of R523 476 was made to accumulated depreciation.



Inventory

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Trade and other receivables

Trade and other receivables originated by the enterprise are treated as loans and receivables and are carried at amortised cost.

Provisions and contingencies

Provisions are recognised when:

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

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

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

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

Trade and other payables

Trade and other payables are measured as amortised cost using the effective interest method.

Financial instruments

Initial recognition

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

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are recognised initially at fair value. In the case of financial assets or liabilities not classified as at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

An asset that is subsequently measured at cost or amortised cost is recognised initially at its fair value on the trade date.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets carried at cost or amortised cost, other than impairment losses.

Subsequent measurement

After initial recognition, financial assets are measured as follows:

- loans and receivables and held-to-maturity investments at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, at cost; and

- other financial assets, including derivatives, at fair values, without any deduction for transaction costs that may incur on sale or other disposal.

After initial recognition, financial liabilities are measured as follows:

- financial liabilities at fair value through profit or loss, including derivatives that are liabilities, are measured at fair value; and
- other financial liabilities at amortised cost using the effective interest method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- a gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss; and
- financial assets and financial liabilities are carried at amortised cost: a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Financial instruments carried in this statement of financial position include cash and bank balances, receivables and payables.



Credit risk

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

Trade receivables comprises of other Government Departments. Management evaluates credit risk relating to customers on an ongoing basis.

Interest rate risk

Deposit and all attract interest at a rate that varies with prime. The company policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on profit (loss).

Leases as lessee

Leases are classified as finance leases whenever the terms of the lease substantially transfers all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases are recognised as assets and liabilities in the balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value on the minimum lease payments.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Cash flows

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in change in value.

Cash and cash equivalents are measured at fair value.

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

Events after the statement of financial position date

Any events subsequent to the date of the statement of financial position that materially affect any of the contained information are disclosed in a separate note to the financial statements, where applicable.

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 2006

	2006 R	2005 R
1. MOVEABLE PROPERTY AND EQUIPMENT		
1.1 Books and law reports		
Opening net carrying amount	19 909	28 127
- Gross carrying amount	90 003	90 003
- Accumulated depreciation	(70 094)	(61 876)
Depreciation	(8 217)	(8 218)
Closing net carrying amount	11 692	19 909
- Gross carrying amount	90 003	90 003
- Accumulated depreciation	(78 311)	(70 094)
1.2 Computer software and equipment		
Opening 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)
Additions	6 332 207	555 123
Disposals	(23 619)	-
Depreciation	(1 575 239)	(1 271 946)
Closing net carrying amount	5 847 952	1 114 603
- Gross carrying amount	9 906 011	7 545 804
- Accumulated depreciation	(4 058 059)	(6 431 201)
1.3 Office furniture and equipment		
Opening 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)
Additions	3 010 112	2 291 696
Disposals	(10 000)	-
Depreciation	(389 124)	(442 783)
Closing net carrying amount	5 099 552	2 488 564
- Gross carrying amount	7 687 251	4 692 139
- Accumulated depreciation	(2 587 699)	(2 203 575)

for the year ended 31 March 2006 (Continued)

The amount reflected is owed to third parties and was obtained through either signed admission of guilt or through court orders issued by Special Tribunal. The amounts are held and paid over to relevant third parties on completion of each case.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

	2006 R	2005 R
3. INVENTORY		
Stationery and toner	92 483	20 973
4. TRADE AND OTHER PAYABLES		
Accrual for leave pay	2 249 008	1 232 983
Staff expenses - deductions	79 129	1 103 498
Lease-smoothing provision	664 557	-
Other payables	4 729 069	1 303 952
	<u>7 721 763</u>	<u>3 640 433</u>
5. REVENUE RECEIVED IN ADVANCE		
Department of Transport	16 800 000	16 800 000
Eastern Cape Local Government	-	2 600 000
	<u>16 800 000</u>	<u>19 400 000</u>
6. COMMITMENTS		
Rental commitment in respect of properties and equipment.	33 953 792	3 995 792
Payable within 1 year	7 304 904	3 431 121
Payable within 2 - 5 years	15 475 408	564 671
Payable thereafter	11 173 480	-

The above commitments are in respect of seven rental agreements for premises and 32 rental agreements in respect of equipment for periods ranging from 36 to 120 months. The average monthly rental is R677 837. The balance of the lease-smoothing provision is R664 557.

7. CAPITAL COMMITMENTS

Commitments for the acquisition of vehicles, contracted for but not provided in the annual financial statements, amounted to R2 027 370.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

	2006 R	2005 R
8. REVENUE AND FINANCIAL ASSISTANCE FROM THE STATE		
8.1 Grant received from Department of Justice and Constitutional Development	43 851 000	37 194 000
8.2 Income received from other departments	53 400 334	16 675 728
Department of Transport	16 800 000	-
Department of Correctional Service	6 000 000	5 500 000
Department of Justice and Constitutional Development	5 000 000	5 000 000
Department of Housing (national)	-	141 920
Directorate of Special Operations	-	5 336
Department of Social Development	17 755 374	3 028 472
Department of Eastern Cape Local Government	6 000 000	3 000 000
Department of Western Cape Local Government	1 844 960	-
	2 444 311	1 510 698
8.3 NPA - rental	667 800	636 000
NPA - secondment of staff	541 767	426 044
NPA - use of vehicles	292 766	448 654
AFU - secondment of staff	941 978	-
	<u>99 695 645</u>	<u>55 380 426</u>
Rental paid by the Department of Public Works is not included in expenditure.	2 354 510	2 145 200

Included in bad debt in the current year, in Note 10, is an amount of R41 980 relating to NPA expense recovery that has been written off as irrecoverable due to a dispute.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS**for the year ended 31 March 2006** (Continued)

	2006 R	2005 R
9. STAFF EXPENSES		
9.1 Total expenses include:		
Salaries and wages	53 763 079	30 092 561
Provident and funeral fund contributions	4 357 963	3 082 758
Travel and subsistence allowances	4 525 033	3 676 038
Medical aid contributions	739 063	637 544
Leave provision	1 188 678	287 542
	<u>64 573 816</u>	<u>37 776 443</u>
10. OTHER EXPENSES		
Annual report	5 267	14 177
Auditor's remuneration	340 741	51 393
Bad debts	41 890	7 326
Bank charges	129 123	46 147
Books and publications	291 107	218 289
Car hire and taxi expenses	537 277	393 339
Conferences and seminars	24 144	14 797
Consultancy fees	1 393 881	562 659
Consumables	179 927	203 787
Courier services	327 768	107 644
Data scanning, traces and deed searches	487 587	-
Entertainment	30 900	13 258
Insurance	213 625	364 813
Internal audit fees	118 223	79 800
Internal integrity expenses	79 036	28 136
Legal fees	30 199	44 118
Loss on disposal of property and equipment	15 616	-
Media and promotions	510 651	327 199
Motor vehicle expenses	279 808	689 146
Office expenditure	632 192	218 962

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

	2006 R	2005 R
10. OTHER EXPENSES (Continued)		
Professional membership fees	5 070	2 147
Revenue stamps	266	230
Relocation and recruitment costs	629 862	326 155
Rent paid - properties	5 384 045	1 791 900
Rental - equipment	1 288 254	1 006 536
Repairs and maintenance	314 790	404 621
Provision for claim from third party	-	569 803
Security	2 473	170 706
Software licences	723 229	205 174
Stationery and printing	1 066 316	625 123
Telephone, fax and posting expenses	2 636 812	2 004 342
Training and development	2 288 321	435 988
Transcription fees	-	21 979
	<u>20 008 400</u>	<u>10 949 694</u>
11. OTHER OPERATING INCOME		
Donations received	-	2 134 949
Computer expenses recovered from staff members	338 379	255 333
Surplus on disposal of moveable property and equipment	-	-
Insurance claim income	-	13 399
Profit/(loss) on foreign currencies	-	1 082
Sundry income	7 115	155 911
British High Commission	759 164	940 372
	<u>1 104 658</u>	<u>3 501 046</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

	2006 R	2005 R
12. INTEREST RECEIVED		
Call account	639 053	207 300
Current accounts	51 065	93 213
Staff loans	1 550	-
	<u>691 668</u>	<u>300 513</u>

13. EXPENDITURE

The Unit did not incur any material losses as a result of criminal conduct during the year under review. In addition, there have been no noted instances of unauthorised expenditure, irregular expenditure or expenditure that is classified as fruitless or wasteful.

14. 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 SIU is a public enterprise and funded with government grants.

15. RELATED PARTY TRANSACTIONS

All revenue as disclosed in Note 8 is considered as revenue from related parties.

The following related party transactions are included in operating expenses:

Department of Labour - COID	98 725
Municipal accounts paid directly	64 921
Regional Services Levies	179 499
SAA	1 323 425
SABC	1 365
SA Post Office - postage and PO Box rentals	19 383
SARS - PAYE	11 182 420
Telkom	1 446 068
Unemployment Insurance Fund	556 038

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

16. SENIOR MANAGEMENT REMUNERATION

The following table records the emoluments paid to each executive and management reporting directly to the Deputy-Head of the SIU during the year:

		Salary	Medical/ Pension	Bonus	Other benefits	Total 2006	Total 2005
Executive							
W Hofmeyr ¹	Head of Unit					-	-
F Davids	Deputy-Head	732 820	76 058	-	-	808 877	723 567
G Visagie	Director: Operations	530 673	123 794	-	-	654 467	603 588
Senior management							
S Meyer	Unit Secretary	559 419	68 826	-	-	628 245	396 388 ²
M Hughes	CFO	98 431	10 048	-	-	108 479 ³	474 952
B Amery	CFO	452 856 ⁴	-	-	-	452 856	-

¹ Mr W Hofmeyr is paid by the NPA as a Deputy National Director of Prosecutions

² Only 9 months in 2005

³ Only 2 months in 2006

⁴ Only 11 months

Details of the senior managers' service contracts are as follows:

Name	Commencing	Termination
M Hughes	1 March 2001	30 May 2005
B Amery	18 May 2005	31 May 2006

No bonuses or alternative payments have been made to the individuals included above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

	2006 R	2005 R
17. NOTES TO THE CASH FLOW STATEMENT		
17.1 Reconciliation of profit/(loss) to cash generated from operations		
Operating profit/(loss)	8 742 799	4 169 546
Adjustments for:		
Depreciation	1 699 877	1 790 566
Interest received	(691 668)	(300 513)
Loss on sale of moveable property and equipment	15 616	-
Operating profit before working capital changes	9 766 624	5 659 599
(Increase)/decrease in inventory	(71 510)	4 704
(Increase)/decrease in trade receivables	(1 478 521)	(3 679 284)
Decrease/(increase) in prepayments	39 414	(25 024)
Increase in trade payables	3 511 527	1 451 283
Increase/(decrease) in revenue received in advance	(2 600 000)	19 350 000
	(599 090)	17 101 679
Cash generated from operations	9 167 534	22 761 278
17.2 Cash and cash equivalents		
Current account	3 687 702	
Trust account - income received in advance	16 800 000	
Bank balances	20 487 702	20 705 325

18. SUBSEQUENT EVENTS

There have been no events following the date of the statement of financial position that materially affect any of the information contained in this statement.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2006 (Continued)

19. CONTINGENT LIABILITIES

The SIU is currently involved in three litigation matters. The SIU is the defendant/respondent in all three. The first matter is an application for access to information referred to the High Court in Pretoria. The SIU's lawyers are of the opinion that the application against it will most probably not be successful and it will be resolved no later than October 2006.

The second matter is a delictual claim lodged against the SIU. The claim against the SIU was dismissed by the High Court on a special plea. The plaintiff applied unsuccessfully for leave to appeal to the full bench of the High Court. The plaintiff has now lodged a petition to the Chief Justice for leave to appeal. The SIU's lawyers are of the opinion that although there is a real possibility that the plaintiff may be granted leave to appeal, the subsequent appeal will most probably not be finalised within the next financial year, and the SIU is confident that it will in any event be successful in opposing the appeal.

The third matter is an application for a declaratory order brought before a single judge in the High Court of Mthatha, in which the plaintiff requested the court to declare the SIU liable for the payment of a bill of cost incurred by the old SIU (headed by Judge W Heath), which the SIU opposed. The court decided against the SIU and the SIU lodged an application for leave to appeal to the full bench of the High Court. The SIU's lawyers are confident that it will be granted leave to appeal, which will result in an appeal case. The envisaged appeal will most probably not be finalised within the next financial year, and the SIU is confident that it will be successful in that appeal.

No provision has been made in the annual financial statements due to the uncertainty of the outcomes.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON FACTUAL FINDINGS ON THE ACHIEVEMENTS BY THE SPECIAL INVESTIGATION UNIT (SIU) for the year ended 31 March 2006

Scope

I have performed the procedures agreed with the SIU and described below with respect to Schedule 'A' and Schedule 'B' on pages 62 to 63. My engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. My procedures were performed solely to assist Parliament in evaluating the reasonableness of information presented in schedule 'A' and schedule 'B'. The procedures are summarised below. Based on a sample selected from the individual items on each Schedule the following procedures were performed:

Schedule A

1. Verify accuracy of the value of new cases as included against the original acknowledgements of debt.
2. Assess the reasonableness of the assumptions used and methodology used to calculate the prevention of loss (current year).
3. Re-perform the calculation of the prevention of loss (current year) to assess reasonableness of the calculation.
4. Verify accuracy of recoveries paid directly to third parties with third party confirmations.
5. Assess the reasonableness of the assumption used and methodology used to calculate the future projected savings.
6. Re-perform the calculation of the future projected savings to assess reasonableness of the calculation.

Schedule B

1. Verify accuracy of new acknowledgements of debt as included in the trust debtors against the original acknowledgements of debt.
2. Verify accuracy of monies received from the trust debtors to bank statements and accuracy of movement in debtors balance.
3. Establish the validity of long outstanding cases against original acknowledgements of debt.
4. Verify validity of payments to trust creditors against the bank statements and accuracy of movement in creditors balance.
5. Assess the reasonableness of the carrying value of the trust debtor.

Findings

I report my findings below:

Schedule A

1. I was able to verify the accuracy of the new value of cases as included against the original acknowledgements of debt.
2. The assumptions and methodology used to calculate the prevention of loss (current year) are reasonable.
3. The calculation of the prevention of loss (current year) is reasonable.

4. The recoveries paid directly to third parties and confirmed by those parties are accurate.
5. The assumptions and methodology used to calculate the future projected savings are reasonable.
6. The calculation of the future projected savings is reasonable.

Schedule B

1. I have verified the accuracy of the new acknowledgements of debt as included in the trust debtors.
2. The monies recovered from the trust debtors are accurate and the movement for trust debtors for the year under review is accurate.
3. The long outstanding cases are valid as considered against original acknowledgements of debts.
4. The payments to trust creditors are accurate and the movement in trust creditors for the year under review is accurate.
5. The carrying value of the debtors included in the schedule is reasonable. However, included in the debtors amount are cases that have been outstanding for longer than 3 years without a proper follow up.

Because the above procedures do not constitute either an audit or a review made in accordance with the International Standards on Auditing or International

Standards on Review Engagements, I do not express any assurance on Schedule 'A' and Schedule 'B'.

Had I performed additional procedures or had I performed and audit or review of Schedule 'A' and Schedule 'B' in accordance with the International Standards on Auditing or International Standards on Review Engagements, other matters may have come to my attention that would have been reported to you.

My report is solely for the purpose set forth in the first paragraph and should not be used for any other purpose. This report relates only to the schedules specified above, and does not extend to the financial statements of The Special Investigating Unit taken as a whole.



S Cele for AUDITOR GENERAL

Pretoria

31 July 2006



SUMMARY REPORT: SCHEDULE A

VALUE OF COMPLETED INVESTIGATIONS AND RECOVERIES

for the year 1 April 2005-31 March 2006

Province	Total value of cases	Prevention of loss: current year	Recovery of cash to SIU	Recovery of cash /asset to 3rd party	Cases - AODs			Cash paid to SIU's trust accounts	Prevention of loss:future projected savings
					Per Tribunal ruling	Unit	3rd parties		
New cases									
North-West	0	0	0	0	0	0	0	0	0
Mpumalanga	140 000	0	140 000	0	0	140 000		0	0
Eastern Cape	900 756	0	0	900 756	300 756	0	600 000	127 497	0
Free State	276 378	0	276 378	0	0	276 378	0	49 000	0
Gauteng	891 091	0	860 074	31 017	0	860 074	31 017	37 820	0
Western Cape	247 064	0	33 900	213 164	0	33 900	213 164	265 672	0
Limpopo	0	0	0	0	0	0	0	1 000	0
KwaZulu-Natal	1 760 364	0	1 460 615	299 749	299 749	1 460 615	0	272 404	0
National	308 394 657	299 222 311	9 172 346	0	0	9 172 346	0	1 132 468	3 270 309 594
Subtotal	312 610 310	299 222 311	11 943 312	1 444 687	600 506	11 943 312	844 181	1 885 861	3 270 309 594
Rollover cases									
North-West	0	0	0	0	0	0	0	39 787	0
Mpumalanga	0	0	0	0	0	0	0	0	0
Eastern Cape	0	0	0	0	0	0	0	363 982	0
Free State	0	0	0	0	0	0	0	6 000	0
Gauteng	0	0	0	0	0	0	0	34 220	0
Western Cape	0	0	0	0	0	0	0	10 310	0
Limpopo	0	0	0	0	0	0	0	52 009	0
KwaZulu-Natal	0	0	0	0	0		0	108 962	0
Subtotal	0	0	0	0	0	0	0	615 270	0
TOTAL	312 610 310	299 222 311	11 943 312	1 444 687	600 506	11 943 312	844 181	2 501 132	3 270 309 594

- | | |
|---------------------------|--|
| 1. Prevention of Loss | - Savings due to intervention by the SIU |
| 2. Recovery of cash | - Cash value of funds to be recovered by the SIU |
| 3. Recovery of cash/asset | - Market-related value of moveable assets/cash value of funds recovered to third party |
| 4. Projected savings | - Net present value of future savings discounted over a 10-year period allocated to current and projected savings (see accounting policy for detail) |

SUMMARY REPORT: SCHEDULE B

ANALYSIS OF RECOVERIES THROUGH UNIT'S TRUST ACCOUNTS

for the year 1 April 2005-31 March 2006

Amounts to be collected					Cash recovered	Cash position			
Province	Balances c/forward	New cases	Closed cases	Total	Current year	Beginning of year	Amounts received	Amounts paid over	Balances c/forward
North-West	-	346 625	-	346 625	39 787	361 703	39 787	-186	401 304
Mpumalanga	-	862 598	-	862 598	68 784	137 327	68 784	-	206 111
Northern Cape	-	-	-	-	-	-	-	-	-
Eastern Cape	-	243 157	-	243 157	519 200	741 686	519 200	-62 915	1 197 971
Free State	-	902 896	-	902 896	55 000	265 476	55 000	-	320 476
Gauteng	-	3 486 400	-	3 486 400	607 837	412 483	607 837	-27 032	993 288
Western Cape	-	416 113	-	416 113	275 983	54 055	275 983	-	330 038
Northern Province	-	-	-	-	53 009	134 867	53 009	-	187 876
KwaZulu-Natal	-	5 685 522	-	5 685 522	881 532	958 003	881 532	-769 092	1 070 443
National	5 451 931	-	-	5 451 931					
Total Trust creditors	5 451 931	11 943 311	-	17 395 242	2 501 132	3 065 600	2 501 132	-859 225	4 707 507
Interest less bank charges						219 563	63 112	-321 800	-39 125
						3 285 163	2 564 244	-1 181 025	4 668 382

Due to the tremendous success of investigations, the SIU has experienced a significant increase in the number of Acknowledgements of Debt (AOD). As a result the administration system has had to be re-engineered to cope with the increased volumes. Some of the improvements include:

- A corporate lawyer position was established and an experienced attorney appointed.
- All AOD administration was centralised in Pretoria under the joint control of the Chief Financial Officer and the corporate lawyer.
- The number of AOD administration staff assigned was increased.
- The physical document management processes were upgraded and file references were rationalised for easier reference and reporting.
- The computer systems used to provide management tools for AOD collections were reconfigured and upgraded.
- The SIU is in the process of recruiting AOD collectors to assist with the tracing of delinquent debtors and in the enforcement of AODs.
- The SIU is confident that the system and process improvements should increase the rate of collection of AODs.

ACCOUNTING POLICIES

Recognition and measurement of achievements for the year ended 31 March 2006

The following are the principal accounting policies and procedures being applied by the SIU to recognise and measure its achievements disclosed in Schedule A and Schedule 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 SIU on behalf of a third party.
 - Recoveries of cash or assets due to the SIU'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 SIU
 - 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 SIU'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 SIU's intervention and escalating the expenditure by an inflation factor for the period of the investigation. The results are reduced by savings already reported in prior years for the specific case.

Recovery of cash to the SIU - 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 SIU or the relevant institution.

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

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



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 SIU, increased at the real interest rate (interest less the inflation rate) over a period of 10 years allocated to current and future projected savings. A rate of 4% was used for the year under review.

Schedule B: Analysis of cash recoveries

Recognition

Cases are recognised as cash recoveries when the AOD has been signed between the relevant parties and the SIU.

Measurement

Cash recoveries are presented as follows:

Amounts to be collected

- Balances brought forward: monies owing in terms of AODs signed in prior years, payable directly to the SIU.
- AOD's in favour of the SIU: monies payable directly to the SIU as a result of AODs being signed during the current year.
- Balances carried forward: total value of AOD's signed in favour of the SIU as at 31 March 2006.

Cummulative amount of cash recovered

- Total at 1 April 2005: total accumulated cash recovered by the SIU in terms of AODs at the beginning of the year.

- Current year: cash recovered during the current year.
- Total at 31 March 2006: total accumulated cash recovered by the SIU in terms of AODs at the end of the year.

Trust Bank accounts

- Balances brought forward: total funds held by the SIU 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 SIU at year end.

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