



SPECIAL INVESTIGATING UNIT
ANNUAL REPORT

2006/2007



POISED TO STRIKE
against corruption

Special Investigating Unit Annual Report 2006/07

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

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 2007

Dear Madam,

ANNUAL REPORT OF THE SIU FOR 2006/07

On behalf of the Special Investigating Unit (SIU), established by Proclamation R118 of 2001 in terms of Act 74 of 1996, it gives me great pleasure to submit the SIU's annual report for 2006/07 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,



W A Hofmeyr
Head of the Special Investigating Unit



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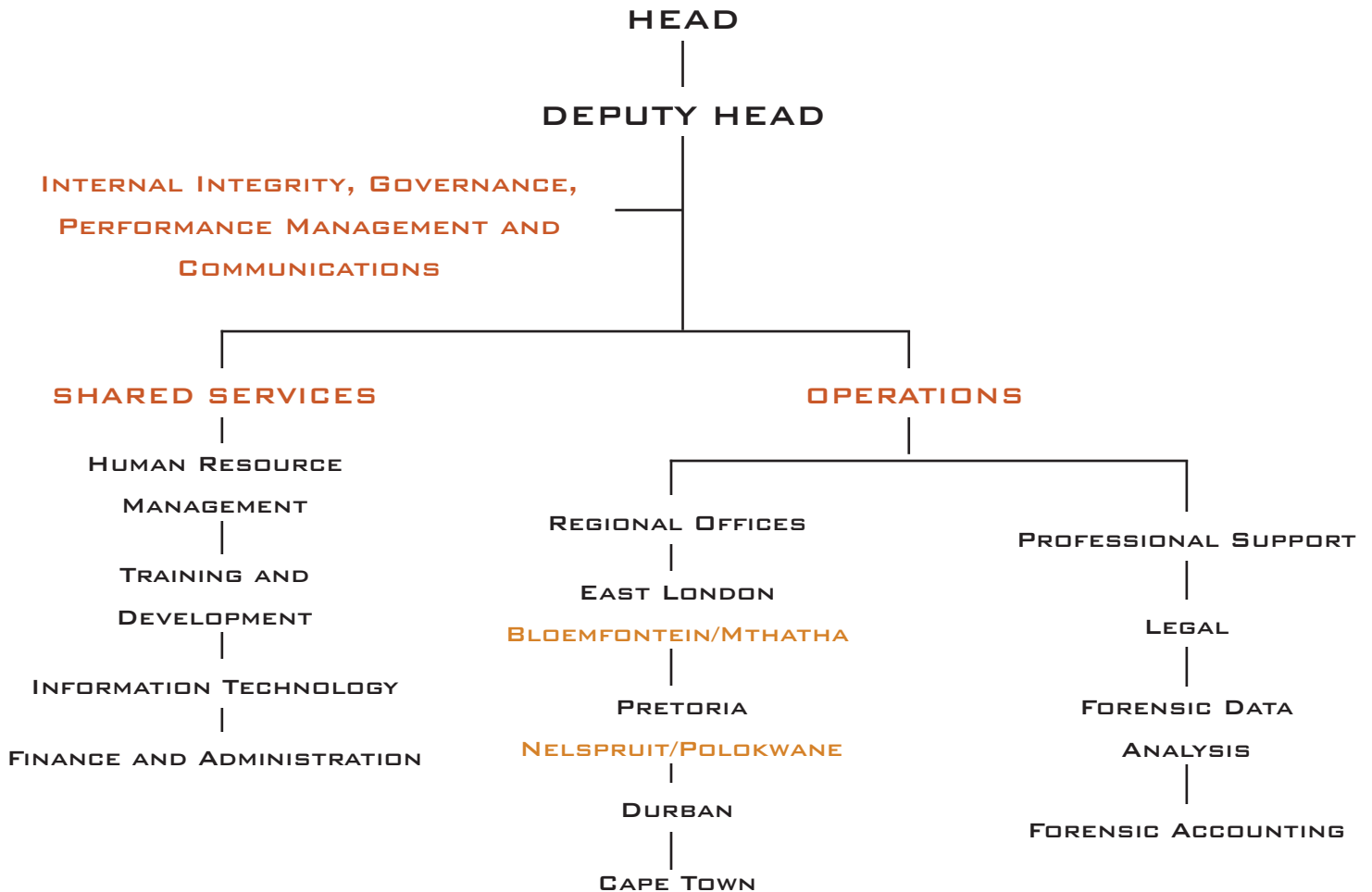
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ABBREVIATIONS

AFU	Asset Forfeiture Unit
AOD	Acknowledgement of Debt
DCS	Department of Correctional Services
DIU	Departmental Investigating Unit (DCS)
DLTC	Driving Licence Testing Centre
DoH	Department of Housing
DoT	Department of Transport
DPP	Director of Public Prosecutions
DPW	Department of Public Works
DSD	Department of Social Development
DSO	Directorate of Special Operations or “Scorpions”
FIU	Forensic Investigative Unit (Western Cape Provincial Government)
IIU	Internal Integrity Unit (SIU)
LEA	Law Enforcement Agencies
MTEF	Medium-Term Expenditure Framework
NaTIS	National Traffic Information System
NIA	National Intelligence Agency
NPA	National Prosecuting Authority
NPS	National Prosecutions Service
OD	Organisational Development
NRTA	National Road Traffic Act
RAMP	Repair and Maintenance Programme
SANDF	South African National Defence Force
SAPS	South African Police Service
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SCCU	Specialised Commercial Crime Unit
SIU	Special Investigating Unit
Socpen	Social Pensions Database
SPF	Special Pensions Fund
UIF	Unemployment Insurance Fund
WPP	Witness Protection Programme
WPU	Witness Protection Unit



STRUCTURE OF THE SIU



LIST OF CONTACTS

Head office

Ground Floor
Rentmeester Park
74 Watermeyer Street
Meyerspark
Pretoria
0184

Postal address:
PostNet Suite 271
Private Bag X844
Silverton
0127

Head of the Unit:
Willie Hofmeyr
Tel: 012 845 6696

Deputy Head:
Faiek Davids
Tel: 012 843 0026

Media and Communications:
Trinesha Naidoo
Tel: 012 843 0028

Regional offices

Eastern Cape:
Regional Head:
Toyo Mngaba

East London:
Sanlam Park,
59 Western Avenue
Vincent, East London,
5247
Tel: 043 704 6082

Bloemfontein:
Tel: 051 430 5120
Mthatha:
Tel: 047 501 4700

Western Cape:
Regional Head:
Michael Leaser

Cape Town:
4th floor Mutual Centre
52-54 Voortrekker Road
Bellville, 7530
Tel: 021 944 5400

Gauteng:
Regional Head:
Vanessa Somiah

Pretoria:
2nd floor
Rentmeester Park
74 Watermeyer Street
Meyerspark, 0184
Tel: 012 843 0038

Nelspruit:
Tel: 013 752 1740
Polokwane:
Tel: 015 299 4900

KwaZulu-Natal:
Regional Head:
David Walker

Durban:
Block 3 Bishop's Court
c/o Delamore &
Warrior streets
Hillcrest
3610
Tel: 031 761 6600

PROCLAMATIONS

The following new proclamations were issued by the President in terms of the Special Investigating Units and Special Tribunals Act, 1996 (SIU Act) during the period under review:

- **Proclamation R49 of 2006, dated 7 December 2006 (Government Gazette No 29456) (KwaZulu-Natal municipal investments investigation)**, which amended a previous proclamation (Proclamation R9 of 2004) and directed an investigation into the irregular investment of public money by officials of the regional councils of Umzinyathi and Uthungulu, the district municipalities of Amajuba, Umzinyathi and Uthungulu, the Estcourt/Wembezi Transitional Local Council and the Umtshezi Local Municipality.
- **Proclamation R50 of 2006, dated 7 December 2006 (Government Gazette No 29456) (Special Pensions investigation)**, which directed an investigation into the irregular payment of special pensions by the Special Pensions Board to persons who were not entitled to receive special pensions and/or submitted false, irregular, invalid or defective applications for special pensions to the Special Pensions Board.
- **Proclamation R23 of 2006, dated 12 May 2006 (Government Gazette No 28825) (Lejweleputswa District Municipality investigation)**, which directed an investigation into procurement by this Free State municipality in respect of the bucket eradication sanitation project and loss of funds by the municipality as a result of payment for services for the bucket eradication sanitation project, as well as failure by municipal officials to verify services before payments were made for the bucket eradication sanitation project.
- **Proclamation R33 of 2006, dated 11 August 2006 (Government Gazette No 29115) (Ditswakotleng Fresh Farm Production Project investigation)**, which directed an investigation into the approval of the Ditswakotleng Fresh Farm Production Project as a Community Projects Fund Support Programme administered by the Department of Agriculture of the Free State Province, breach by the Ditswakotleng Fresh Farm Production Project of its obligations, the appointment of and payment made to an intermediary organisation, the procurement of goods and services for the Ditswakotleng Fresh Farm Production Project in a manner that was not fair and transparent, and the occurrence of shortages of materials and equipment procured for the Ditswakotleng Fresh Farm Production Project.
- **Proclamation R5 of 2007, dated 30 March 2007 (Government Gazette No 29756) (Department of Social Development investigation)**, an extension to a prior proclamation (Proclamation R18 of 2005) that directed an investigation into the affairs of the national and provincial departments of Social Development, and more particularly into allegations of irregular payment and/or receipt of social assistance or benefits and the irregular conduct of government officials and/or agents.



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, who mandates it to conduct investigations, and it reports to the President and Parliament on the outcomes. It receives its budget through the Department of Justice and Constitutional Development.

The SIU was created in terms of the Special Investigating Units and Special Tribunals Act, 1996. The first SIU was 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 by Proclamation R118 on 31 July 2001 and appointed Willie Hofmeyr as its head. In 2003, Faiek Davids was appointed as the Deputy 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 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 litigates its cases in the Special Tribunal, a specialised court that deals specifically with its cases. This avoids some of the delays usually associated with civil litigation. Its focus is the public sector, but it also deals with private sector accomplices.

It can investigate 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 (DSO or Scorpions).

The SIU works closely with the National Prosecutions Service (NPS), the prosecuting division of the National Prosecuting

Authority (NPA), as well as other divisions, such as the Specialised Commercial Crime Unit (SCCU) in cases of serious fraud and the Asset Forfeiture Unit (AFU) in cases where its powers 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.



FOREWORD BY THE HEAD AND DEPUTY HEAD OF THE SIU

This year marks the tenth year since the Special Investigating Units and Special Tribunals Act (SIU Act), came into force. The SIU Act empowers the Special Investigating Unit to perform its operations.

Willie Hofmeyr was appointed as the Head of the SIU in 2001, and last year the unit celebrated five years under his stewardship. In this time the SIU has grown from a small organisation of 70 people to a large national organisation of over 500 people.

The SIU has been recognised as one of the country's most important anti-corruption agencies by a number of key stakeholders, most notably the Minister of Justice and Constitutional Development. In her 2007 Justice Budget Vote address to Parliament she stated as follows:

"The Special Investigating Unit or SIU is one of our success stories over the last few years ... Through the SIU, our department is pleased to have contributed to reducing the levels of corruption in important areas such as social development, transport and correctional services."

The SIU's Operating Model

The SIU is unique in that it operates in a criminal environment using civil legal remedies. It also works closely with other law enforcement agencies where it comes across criminal activity. The unit has special investigative powers, for which provision is made in the SIU Act and which can be used when the President proclaims an investigation.

Over the last few years, the SIU has been able to provide an integrated forensic service, which includes:

- performing multi-disciplinary forensic investigations;
- using civil litigation to recover or prevent losses;
- facilitating criminal prosecutions;



Willie Hofmeyr
Head of the SIU



Faiek Davids
Deputy Head of the SIU

- preparing disciplinary matters against corrupt government officials; and
- making recommendations to improve systems.

While the primary purpose of the SIU Act is to enable the state to recover money that it has lost due to the unlawful or corrupt action of its employees or other persons, the Act also allows for the prevention of losses. As a result, the SIU has been able to assist other law enforcement agencies with criminal investigations, facilitating criminal prosecutions and addressing conduct that facilitates system abuse.

The SIU provides all of the above services by using a project management approach with key performance monitoring measurements in place.

The Increased Demand for the SIU's Services

The focus of the SIU's investigations is mainly on national, provincial and local government. The multiple outcomes achieved by these investigations vary from remedial and preventative action (criminal prosecutions, the civil recovery of state assets and the prevention of future losses) to making

systemic recommendations to stem future irregular or criminal activities in government departments.

The demand for the SIU's forensic investigation and litigation services has increased significantly over the past three years. During the year under review, it initiated a number of new national and regional investigations.

The Department of Correctional Services (DCS) and the Department of Transport (DoT) extended their existing three-year service level agreements with the SIU by a further three years. This means that the SIU will be able to expand its investigations into procurement irregularities at the DCS and the irregular issuing of driving licences and the registration of stolen vehicles on the National Transport Information System (NaTIS) of the Department of Transport.

Towards the end of the financial year, the SIU launched another two national investigations. These are the investigations into fraud in the special pensions scheme administered by the Special Pensions Board (National Treasury) and fraud and maladministration in the low-cost housing scheme at the Department of Housing (DoH).

Currently, the SIU's overall project profile includes five ongoing national investigations and 40 regional investigations, which involve 19 government departments.

Providing an Inclusive, High-quality, Cost-effective Service

Over the last three years, the SIU has managed to deliver excellent results through its sustained high-level performance. This has resulted in a significant increase in its budget (as shown in Table 1) from National Treasury and a greater demand for its services by government departments.

The key challenges for the year under review have been to continue to provide an integrated, high-quality, cost-effective



service to government departments, and to sustain or improve, where possible, the SIU's capability and output over the next few years.

The extension of the agreement with the DCS and the DoT and the commencement of the new national and regional projects is an indication that the SIU has built up a very good track record in these and other projects. The turnaround of the social grant losses at the Department of Social Development (DSD) has earned the unit good reviews.

National Treasury has shown a strong commitment to the work of the SIU, with an increase in the budget allocated over the last five years from R23 million in 2002/03 to a projected R149.5 million by 2009/10.

During the year under review, the SIU received R81.8 million in income from projects with the government departments with which it has signed service level agreements. Through these service level agreements, the departments provide the SIU with funding to employ a dedicated investigative capacity to focus on fraud and corruption in these departments. It is encouraging to note that the demand for the SIU's services has grown to the extent that the funding from these departments exceeds the budget received from the National Treasury for the year.



Table 1: Growth of the SIU's budget since 2003

	Past period			Actual outcome	Medium-Term Expenditure Framework period		
	Audited	Audited	Audited		Estimated	Estimated	Estimated
	2003/04	2004/05	2005/06		2007/08	2008/09	2009/10
	R'000	R'000	R'000		R'000	R'000	R'000
Total income	40.2	59.5	101.5	137.4	203.7	231.9	270.4
Government grant	25.5	37.2	48.9	55.6	93.1	116.2	149.5
Project income	14.7	22.3	52.6	81.8	110.7	115.6	120.9

The combined total of savings, recoveries and prevention of future losses achieved by the SIU during the period under review was R2 022 million, which exceeds its target of R1 350 million by far. The investigation into social grant fraud at the Department of Social Development continues to be the main driver of achievements with regard to the SIU's savings, recoveries and prevention of future losses.

Building an Organisation that can Sustain High Performance

The challenge for the SIU has been to accommodate its rapid growth, while remaining focused on the outputs of its investigations.

During the period under review, the SIU appointed 116 new members. It currently has an overall capacity of 543 members, which includes contract workers and temporary staff. This growth is largely due to the investigations into social grants, special pensions and housing fraud.

The expansion of the SIU's project profile has increased the need for more skilled specialists. During the year under review, it recruited additional forensic investigators, accountants, forensic data analysts, lawyers and project managers. This exponential growth, combined with the increased demand for the unit's services, has necessitated a review of the organisational

design and operating model. Building a scaleable organisation that is able to accommodate this growth is critical to its future success.

During the year under review, the SIU embarked on a comprehensive organisational development (OD) project that was led by a consortium of OD consultants. The assessment and design phases of the project have been completed and included an extensive review of the SIU's operating model, internal processes, technology and current capability and proposals to ensure that the SIU is sufficiently equipped to deal with the growth it is experiencing and will be able to achieve its desired objectives. The management of the SIU accepted the proposed design, and preparations are under way to commence with the implementation of the project.

The following key principles underlie the proposed operating model:

- the need to build a projects-based organisation;
- the required capability to deliver both national and regional projects;
- business support, which is centrally managed, but can be delivered in a decentralised way;
- ensuring a unitary management structure;
- project resources that are based predominantly in the regions;

- ensuring good relationships with client departments and law enforcement agencies at all levels; and
- recognition of the importance of people in the delivery of high-quality forensic services.

It is envisaged that the new design will be implemented and embedded in the SIU over the next 12 months.

Measuring Performance

The SIU adopted the Balanced Scorecard approach as the preferred methodology to implement and manage its organisational strategy. The Balanced Scorecard focuses on four areas to measure performance: learning and growth, business processes, customer relationships and financial management. The SIU has to date complied with or even exceeded most of its key performance measures in the four segmented perspectives of the Balanced Scorecard.

The unit developed 13 strategic objectives, which have been refined to seven strategic objectives for the coming year. The Operations component has set performance targets in all the major investigations and has managed to meet or exceed most of these targets.

The Shared Services component, which consists of the Human Resource Management and Development Division, Information Technology, the Finance and Administration Division, and Communications, has developed a number of key programmes. The performance targets and key performance indicators of these divisions have been aligned to the original 13 strategic objectives. In respect of this component, the key challenge has been to provide excellent project and corporate support in a fast-growing and ever-changing environment.

Human Resources

During the period under review, the Human Resource (HR) Division focused on providing an end-to-end service (from appointment to the termination of an employee's service).



The key HR programmes relate to the recruitment of project staff, the retention of skilled and talented staff, training and development, improving the employment equity profile of the SIU and enhancing internal social programmes.

Recruitment Programme

During the period under review, the HR Division significantly refined the recruitment process in respect of the following areas: incorporating integrity vetting into the recruitment process, introducing competency assessment as part of job interviews, enhancing the online application facility and improving the SIU's capacity to recruit on a large scale.

Staff Retention

As part of a broader retention strategy, the SIU is in the process of appointing a service provider to review the market-relatedness and competitiveness of its salary packages across all occupational categories. Skills development programmes are being developed or identified as part of a broader career progression programme for key occupational categories. The SIU has managed to reduce the loss of permanent staff members from 8% in 2005/06 to approximately 7.1% in 2006/07.

Employment Equity

A major focus for the SIU has been to improve its overall employment equity (EE) profile and its compliance with the EE



Plan. In terms of the EE Plan, the SIU established a target that 78% of the organisation be comprised of people from designated groups by September 2007. By March 2007, the SIU had exceeded the September 2007 target with 80% of the organisation being from designated groups.

Recruitment and the trainee investigator programmes are part of the intervention to speed up the appointment of suitable EE candidates in the SIU. The strong recruitment drive and the new intake of trainee investigators in the new financial year will prioritise EE candidates as part of the process. An HR service provider has already been appointed to review and refine the current EE Plan, and has already improved the functionality of the EE Committee, which meets regularly.

Training and Development

The Training and Development division recently completed an extensive training and development blueprint for all staff members. The next phase is to conduct competency assessments in respect of all the key occupational categories, which include forensic investigators, project managers and specialist positions. It has already completed competency assessments of all senior managers, which included a 360-degree assessment. Development programmes have been tailored for these key occupational categories. The roll-out of these programmes began during the 2007 Training Week and will be continued throughout the new year. Another key programme in the Training and Development section is the Trainee Forensic Investigator Programme. This programme was designed to increase the number of skilled investigators and address the EE deficit in the organisation.

The Trainee Forensic Investigator Programme was successfully implemented during the period under review, with 69 new trainees being appointed, of which all are EE candidates. Twenty trainees completed the programme during 2005/06 and have been absorbed into the SIU as junior forensic investigators. The SIU intends to recruit 120 trainees into the programme annually.

In an effort to ensure an ongoing improvement of the skills of forensic investigators in the SIU, it has initiated a partnership with the University of South Africa to develop a fully accredited programme for forensic investigators. The modules are aligned theoretically with the work of the SIU and will be open to the public. This initiative will be finalised in the new financial year.

Social Programmes

Two social programmes were implemented during the period under review: the Employee Wellness Programme and the HIV/Aids Programme.

The Employee Wellness Programme is aimed at providing SIU staff with full access to a 24-hour advisory centre related to the areas of stress management, financial matters, legal matters, relationship issues, substance abuse, family matters, health issues, work issues and bereavement.

The HIV/Aids Awareness Programme was introduced during 2005/06. During the period under review, the SIU initiated voluntary counselling and testing at its various regional offices. The programme includes services providing pre-test counselling, testing for HIV infection and post-test counselling for anyone wanting to know their HIV status.

Communications

The year under review was characterised by a focus on internal communication, with the objective of establishing the SIU as an employer of choice in its environment. A key initiative in achieving this objective was the series of executive roadshows that have promoted face-to-face interaction between the executive and all SIU members. Another initiative, the staff satisfaction survey, was useful in identifying areas for improvement, which were translated into programmes of action. Other activities that were developed and implemented during the period under review included the establishment of the intranet and website, general staff meetings and the launch of the *National Management Bulletin* and the *SIU Review*.

The Communications division's secondary focus on external communication involved coordinating the management of its media-related activities, promoting communication partnerships with government departments and partner agencies and promoting the reputation and image of the unit. During the year under review, the SIU maintained its relationships with government departments by including communication as part of its value-added service. The SIU assisted departments with joint media strategies with regard to their investigations as and when required.

Governance and Risk Management

Corporate Governance

Good governance is of critical importance to the SIU. A solid good governance structure means that the unit can maintain the confidence of stakeholders, clients, partners and staff. It also means that audits are unqualified, the integrity of staff is assured, management decisions are transparent and properly communicated and that the SIU can do the job for which it was established.

During the period under review, the SIU has focused on developing the organisational tools and structures needed to create a culture of ever-improving organisational good governance. This development has mainly come in the areas of internal integrity, audit and risk management.

Using Judge Mervyn King's principles of good governance (*The Corporate Citizen*, 2006), the SIU is striving towards being fair, accountable, responsible and transparent.

The focus on internal integrity has been on building and developing the section to ensure that the SIU's staff is beyond reproach. The screening process for new recruits has been enhanced and speeded up, policies have been developed and a code of ethics has been drafted for implementation. All work in the period under review was focused on meeting the objective of sustaining a high level of integrity in the SIU.



The role of the SIU's Audit Committee has been further developed. The Committee met four times during the period under review, with a panel of two external members and one internal member (along with additional invited members). The work of the panel has had a clear impact on the SIU's progress, with the organisation receiving its second consecutive unqualified audit with no matters of emphasis – an exceptional achievement for an organisation that is only five years old.

Internal Integrity Unit

The Internal Integrity Unit (IIU) focused primarily on building and developing policies for internal integrity, alerting the SIU to integrity risks, conducting the screening of employees and vendors and ensuring that members act with a high degree of integrity and ethics. During the period under review, the IIU improved the screening process of new members. It reduced the turnaround time for the integrity screening of new members by approximately 60%. It also finalised policies to maintain and sustain the internal integrity of the SIU, including a code of ethics.

Audit Committee

During the year under review, the SIU strengthened the role of the Audit Committee by increasing the number of external members. It refined the Audit Charter and increased the scope and role of the Committee. In addition, it increased the budgetary allocation for internal audits and risk management interventions during the year.



Operational Performance of the SIU over the Past Four Years

Overall, the SIU has performed excellently in all its key performance areas and has exceeded its Estimates for National Expenditure (ENE) targets set for the year.

Table 2: Results of investigations

Performance measures		2003/04	2004/05	2005/06	2006/07	2007/08
Evidence prepared for use in civil litigation	Target	100	40	40	5 025	10 000
	Actual (audited)	165	45	2 133	4 829	N/A
Evidence prepared for use in criminal prosecutions	Target	200	200	800	2 000	4 000
	Actual (audited)	52	165	1 263	3 302	N/A
Evidence prepared for use in disciplinary proceedings	Target	300	330	660	2 300	7 000
	Actual (audited)	114	207	666	7 551	N/A
Evidence prepared for use in other remedial action	Target	3 000	5 000	50 000	45 000	150 000
	Actual (audited)	10 000	0	27 758	95 846	N/A

Table 3: Savings, preventions and cash recoveries

Performance measures		2003/04	2004/05	2005/06	2006/07	2007/08
Savings (R)	Target	70 m	100 m	150 m	80 m	160 m
	Actual (audited)	373 m	92 m	299 m	231 m	N/A
Preventions (R)	Target	0	400 m	850 m	1 250 m	2 000 m
	Actual (audited)	0	3 435 m	3 270 m	1 759 m	N/A
Cash recoveries (R)	Target	50 m	30 m	40 m	20 m	40 m
	Actual (audited)	14 m	12 m	13 m	32 m	N/A
Total (R)	Target	120 m	530 m	1 040 m	1 350 m	2 200 m
	Actual (audited)	387 m	3 539 m	3 582 m	2 022 m	N/A

The table below summarises the achievements of the SIU against its strategic objectives

Table 4: Performance achievements measured against strategic objectives for 2006/07

Strategic focus	Measurement	Target	Results
CUSTOMER			
Operational performance	Value of savings, including preventions of loss (R)	1 250 000 000	1 758 746 853
	Value of recovered funds (R)	20 000 000	32 270 896
	Number of disciplinaries prepared	2 300	7 551
	Number of remedial actions prepared	45 000	97 846
FINANCIAL			
Effective financial management	PFMA compliance	Unqualified audit report	Unqualified audit report, no matter of emphasis
	Operating costs relative to operational payroll expense	Less than 18.1 %	17.9%
Expand budget through cooperation agreements to increase capacity	Funding from departments (R)	79.7 m	81.8 m
	Value of donor funding (R)	2.8 m	2.9 m
STAKEHOLDER			
Improve output through cooperation with law enforcement agencies	Number of SAPS arrests	2 000	3 302
INTERNAL			
High levels of integrity	Implementation of the SIU's IIU business plan	100% implementation	90% implementation Advocacy and awareness component delayed due to organisational design. To be implemented in 2007/08.
PEOPLE			
Management of the SIU's human resources	Growth of staff complement	134 increase in staff complement	116 increase in staff complement
	Attraction and Retention Strategy	Staff turnover should not exceed 7%	7.23%
	EE Plan	78% of staff from designated groups	80% of staff from designated groups



Major Investigations

Investigations are currently under way in a number of areas, including social grants, special pension grants, driving licences, procurement, municipal and provincial forensic matters, as well as housing, medical aid and tax fraud. A total of 14 proclaimed investigations are in place, including four new proclamations over the past year. Some 74 pre-investigations are also under way.

The major national investigations that were conducted during the period under review include those for the departments of Social Development, Correctional Services, and Transport, and for the Special Pensions Fund.

The Department of Social Development investigation into social grants fraud continues to be the SIU's biggest investigation and has continued to deliver excellent results. The focus is still primarily on the 43 705 social grants received by public servants who were found to be registered on the Social Pensions (Socpen) system. The SIU established that about 22 000 of these public servants are not entitled to receive these grants, and 20 307 public servants have already been removed from the Socpen system.

During the year under review, the second phase of the investigation was launched, which focused on the irregular issuing of social grants to private beneficiaries. Forensic data analysts have analysed 566 317 private beneficiary files and have recommended the cancellation of 60 606 social grants to date. Thus, the joint efforts of the department and the SIU have resulted in the cancellation of about 72 278 social grants, saving government about R212 million in the current year.

The Department of Transport investigation into the illegal issuing of driving licences focused on 55 driving licence testing centres (DLTCs) that were prioritised by the department. During the period under review, the SIU reviewed 716 144 driving licences and identified 30 553 invalid licences that had been referred to the DoT for cancellation.

The investigation into the conversion of foreign licences to South African licences continues to yield good success. The SIU referred 2 427 cases to the South African Police Service (SAPS) for registration as criminal cases. As a result of the SIU's investigations, 383 cases have resulted in convictions.

The Department of Correctional Services investigation is focusing on 17 procurement matters referred to the SIU by the department. During the year under review, 10 investigations have been finalised, which have resulted in criminal or disciplinary action against DCS officials and a combined saving and recovery of R7.8 million.

The Special Pensions Fund (SPF) investigation into the irregular obtaining of special pensions will include the auditing of approximately 16 000 beneficiaries. The current focus is on the 6 201 ongoing special pensions payments for the purpose of cleansing the SPF database.

The Department of Housing recently concluded a five-year agreement with the SIU to investigate the low-cost housing subsidy scheme at national level. The investigation team will consist of approximately 50 members nationally and will investigate the irregular awarding of housing subsidies, non-delivering contractors and the misconduct of officials.

The SIU's provincial project profile is also expanding significantly with the commencement of investigations in the Free State, Gauteng and KwaZulu-Natal. The unit recently concluded a service level agreement with North West to also provide forensic services in this province.

Building and Strengthening Partnerships

The ability of the SIU to successfully fulfil its mandate is largely due to the excellent cooperation and support it receives from departments, 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 in 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, the National Prosecuting Authority, the Directorate of Special Operations and the Asset Forfeiture Unit.

We would also like to thank the 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, in particular the outgoing Deputy British High Commissioner, Andrew Patrick, for his sterling support of the work of the SIU. The German Development Cooperation provided funding for developing the SIU's Internal Integrity Blueprint, which enabled the SIU to focus the majority of its government grant on its core functions of investigation.



Willie Hofmeyr,
Head of the SIU



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, we would like to thank the staff of the SIU for successfully taking on the formidable challenges of the year under review.



Faiek Davids,
Deputy Head of the SIU



OPERATIONS

DEPARTMENT OF SOCIAL DEVELOPMENT

The Department of Social Development (DSD) has the overall national responsibility to implement 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 related to the disbursement of social grants.

Proclamation

Proclamation R18, published in the Government Gazette on 6 April 2005, mandates 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 are as follows:

- 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
- Ensuring skills transfer to members of the department's Compliance and Support Unit

The SIU's overall approach to the investigation is to analyse and clean the Social Pensions (Socpen) database and address

improprieties identified in the process. The SIU has ongoing partnerships with the South African Police Service (SAPS), the Directorate of Special Operations (DSO) and the Asset Forfeiture Unit (AFU). The investigation, which commenced on 1 March 2005, is being conducted in phases over a three-year period.

The project has the following focus areas:

- Analysing, removing, prosecuting and recovering illegal social grant benefits from public servants registered on the Socpen database
- Identifying 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 financial institutions to the department
- Investigating maladministration by officials that have resulted in delays in the payment or non-payment of grants

Results and Achievements

By March 2007, the SIU had deployed 146 staff members on this investigation countrywide. These include lawyers, prosecutors, forensic data analysts, forensic accountants and investigators. By August 2007, the unit will have a maximum capacity of 200 members to conduct these investigations. In an analysis of the Socpen database, the SIU identified 43 705 public servants who were registered on the system across the nine provinces.

Table 1: Analysis of public servants registered on the system according to grant type

	Old Age Grant	War Veteran's Grant	Disability Grant	Foster Care Grant	Combination grants	Grant in Aid	Care Dependency Grant	Child Support Grant	Total
Eastern Cape	246	0	286	1 788	21	2	459	3 716	6 518
Free State	67	2	105	681	5	0	44	921	1 825
Gauteng	66	1	147	648	6	1	198	1 771	2 838
KwaZulu-Natal	1 163	0	2 356	1 620	49	5	704	16 224	22 121
Limpopo	592	5	145	497	1	2	177	2 948	4 367
Mpumalanga	128	0	91	244	1	0	70	1 790	2 324
Northern Cape	20	0	52	253	3	3	42	467	840
North West	40	0	66	395	4	1	67	908	1 481
Western Cape	74	0	80	470	4	2	63	608	1 301
Total	2 396	8	3 328	6 596	94	16	1 824	29 353	43 705
Percentage of total grants affected	5.48	0.02	7.61	15.09	0.22	0.04	4.17	67.37	100.00

Table 1 indicates that KwaZulu-Natal had the most officials (22 121) registered on the Socpen database, making up just over 50% of the total registered officials. The second highest number of registered officials was recorded in the Eastern Cape (6 518), followed by Limpopo (4 367) and Gauteng (2 838). Investigations further revealed that 67.37% of irregular 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%).

The following progress was made with this investigation during the period under review:

Table 2: DSD results and achievements for Phase 1 of the investigation (2006/07)

	Number of AODs signed	Value of AODs signed (R)	Preventative value of future savings of cancelled grants (R)	Number of cases brought before court	Number of cases finalised	Number of convictions	Number of disciplinary files prepared
Eastern Cape	406	2 870 052	9 436 500	34	18	16	-
Free State	159	642 581	3 302 800	53	36	30	-
Gauteng	582	3 002 461	9 910 800	449	297	279	-
KwaZulu-Natal	1 092	9 702 315	26 020 600	967	1 070	1 006	306
Limpopo	847	3 641 212	15 120 900	220	196	154	-
Mpumalanga	603	2 602 764	10 731 420	250	195	174	-
Northern Cape	129	575 928	3 073 500	32	28	23	31
North West	501	1 969 761	8 547 300	312	276	244	174
Western Cape	358	1 945 187	8 582 400	358	317	289	175
Total	4 677	26 952 261	94 726 220	2 675	2 433	2 215	686

Table 2 illustrates the outcomes achieved in the different focus areas in each of the provinces for the period under review. This is a significant improvement over the previous year, which can largely be attributed to an increase in person power and coordination in the project as it progressed into its second phase.



Table 3: Lapsing of grants due to non-collection by beneficiaries

	Actual			Increase	
	April 2004 to March 2005	April 2005 to March 2006	April 2006 to March 2007	2004/05 to 2005/06	2004/05 to 2006/07
Number of grants not collected	83 886	140 741	96 524	56 865	12 638
Actual savings to the department in the financial year (R)	185 066 202	324 184 944	242 814 310	139 118 742	57 748 108
Preventative value of future savings of cancelled grants (R)	2 648 118 960	4 478 735 160	3 363 855 300	1 830 616 200	715 736 340

Table 3 illustrates the escalation in the cancellation of grants that occurred through voluntary cancellation by beneficiaries and through the non-collection of grants by beneficiaries.

The results are attributed to:

- a strong deterrent strategy, which includes the vigorous prosecution of beneficiaries;
- a constant high-profile public awareness campaign by the Minister of Social Development; and
- the amnesty process that encouraged individuals receiving irregular benefits to remove themselves from the system.

As indicated in Table 3, the number of grants that lapsed as a result of non-collection of monies by beneficiaries was 15% higher than before the start of the investigation. This resulted in an increase in the actual saving of 31%. The preventative value of future savings increased by 27%.

Table 4: Lapsing of grants due to voluntary cancellations by beneficiaries

	Actual			Increase	
	April 2004 to March 2005	April 2005 to March 2006	April 2006 to March 2007	2004/05 to 2005/06	2004/05 to 2006/07
Number of grants not cancelled	24 926	63 606	19 635	36 680	-5 291
Actual savings to the department in the financial year (R)	45 957 360	160 324 150	48 876 070	114 366 790	2 918 710
Preventative value of future savings of cancelled grants (R)	920 256 840	1 814 527 440	711 262 800	894 270 600	-208 494 040

Table 4 illustrates that there has been a decrease in the number of voluntary cancellations during the period under review in comparison to the 2004/05 base year.

The following graph further illustrates a comparison of the 2004/05 period to the 2006/07 period. The levelling out of the voluntary cancellations and non-collection during 2006/07 is largely due to the finalisation of the public servants'

investigations. Increased results are expected in the new financial year, with a shift in project focus to private beneficiaries receiving grants illegally.

Figure 1: Voluntary cancellation of grants and non-collection by beneficiaries

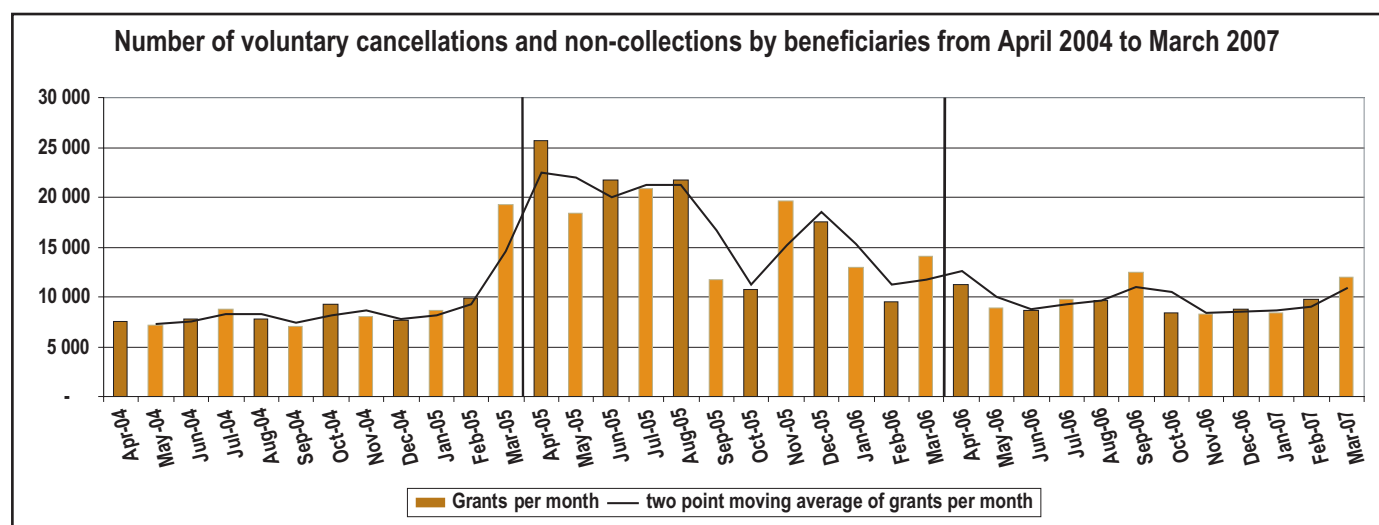


Table 5: Savings generated in the public servants' investigation

	April 2005 to March 2006	April 2006 to March 2007	Total
Number of public servant grants that are now inactive	15 982	4 325	20 307
Actual savings to the department from April 2005 to March 2007 (R)	27 394 200	13 724 174	41 118 374
Preventative value of future savings of lapsed grants (R)	379 467 000	211 319 640	590 786 640

Table 5 indicates the outcome of the investigation into the grants claimed by the 43 705 public servants that formed part of the investigation. This has resulted in huge savings and a prevention of loss to the state. Cumulatively, these statistics indicate the preventative effect of the project, as well as the success 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 became public.



Table 6: Recoveries in terms of Acknowledgement of Debt

	April 2005 to March 2006	April 2006 to March 2007	Total
Number of AODs signed	2 120	4 677	6 797
Value of AODs signed (R)	12 091 848	26 952 261	39 044 109
Value of recoveries to date (R)			5 885 648

Table 6 indicates the recoveries achieved in the investigation. Recoveries have increased significantly over the 2005/06 period.

Table 7: Total savings for the department

	April 2005 to March 2006	April 2006 to March 2007	Recommendation for suspension	Total
Number of grants removed in excess of previous years	111 517	11 672	60 606	183 795
Actual savings to the department in the financial year (R)	280 879 732	74 390 992	138 181 680	493 452 404
Preventative value of future savings of cancelled grants (R)	3 104 353 800	718 061 940	1 036 362 600	4 858 778 340

The number of grants removed from the system, as well as the recommendation to the department to suspend 60 606 grants, potentially generated R212 572 672 in actual savings during the financial year, with the preventative value of future savings being R1 754 424 540.

As a whole, much of the success achieved with the Social Development investigation can be attributed to the collaborative efforts of the SIU, the DSD, the South African Social Security Agency (SASSA), the DSO, the SAPS, the NPA, the AFU and the national steering committee, which coordinates the investigation and the activities of the role-players.

DEPARTMENT OF CORRECTIONAL SERVICES

During 2002, the Department of Correctional Services (DCS) requested the SIU to investigate allegations of widespread corruption uncovered by the Jali Commission. The Jali Commission was established in September 2001 to conduct an enquiry into reports of corruption in the DCS.

The initial investigation partnership agreement between the DCS and the SIU commenced in 2002 and concluded in March 2006. The investigation focused on correctional centre visits, excessive claims against the department's medical aid fund and potential irregularities in its procurement division.

During the investigation, a total of 179 prisons were visited, where 143 887 prisoners and 33 132 officials of the department were interviewed. In addition, 8 150 investigations were conducted, resulting in 289 officials being investigated for contraventions of criminal law and 426 being referred for disciplinary action. The joint medical aid investigation resulted in the recovery of R22 795 297. The investigation has resulted in the prevention of R3.4 billion worth of losses. In addition, 26 medical practitioners were subjected to criminal investigations and disciplinary action was taken against 10 officials in the department.

In March 2006, the DCS extended the investigation agreement with the SIU for a further three-year period. During the new contract period, the SIU will conduct investigations in the areas of procurement, correctional centre pharmacies and asset management.

Results and Achievements

During the year under review, the SIU focused on the investigation of procurement contracts, the compliance of correctional centre pharmacies with departmental policies,



asset management and allegations of corruption and fraud in respect of the department's medical aid scheme.

Procurement Contracts

The investigations into procurement contracts originated from two sources. In the first instance, the DCS refers matters to the SIU for investigation. In the second instance, the SIU identifies contracts on the department's database for the period between 2000 and 2004 that require investigation. The procurement investigations concluded in this year have yielded the following results:

Boulevard Hotel: The DCS identified the need for a training academy. Following 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 R6.9 million. The department failed to occupy the building for the full period of the lease, notwithstanding its contractual obligation to do so. After an intensive investigation conducted under the direction of the National Legal Manager of the SIU, a final report was compiled and submitted to the DCS for consideration. This



report recommends that the department should recover the funds disbursed (R6.9 million) for this procurement, as various irregularities in the procurement process were uncovered. The SIU further recommended that disciplinary action be taken against a DCS procurement official because of the irregularities in the procurement process. The DCS took disciplinary action against the procurement official concerned and the official resigned when faced with the action. The DCS referred the SIU investigation report to the National Treasury so that the funds disbursed in respect of this procurement can be recovered from the Department of Public Works.

St Albans Correctional Centre: An investigation into the supply of inferior quality milk powder to the St Albans Correctional Centre was completed. The report detailing the SIU's findings has been forwarded to the DCS for consideration. No departmental official or third party was implicated in any irregularity with regard to this tender.

Sybase SA (Pty) Ltd: The State Tender Board awarded a tender to Sybase SA (Pty) Ltd, based on a recommendation by the DCS. The cost of acquiring the database amounted to R4 140 102. When the department investigated the cost of replicating the database, it established that replication would cost approximately R14 million. The department wished to challenge the contract on the basis of non-compliance with certain tendering processes. The investigation has been finalised, and the final report was submitted to the DCS for consideration. The key finding was that there was no irregularity in the tendering process.

Repair and Maintenance Programme: The Repair and Maintenance Programme (RAMP) in Klerksdorp was initiated by the Department of Public Works (DPW) in 1999. It is a national project aimed at repairing or improving all neglected state property. A number of concerns were raised regarding the management and supervision of the DCS projects initiated by the DPW. These included 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, as part of these investigations. Currently, the SIU is conducting two RAMP investigations: one at the Klerksdorp Correctional Centre and the other at the Barberton Correctional Centre. Various irregularities have been identified in both projects. The Barberton investigation has already resulted in a R4.8 million saving for the DCS. Both investigations have progressed significantly and should be completed within the next financial year.

Undisclosed business interests: The SIU has finalised five investigations involving DCS officials who were privately contracting with the department without having disclosed their interests in these private companies. The SIU has referred these investigation reports to the DCS and the SAPS, so that criminal and disciplinary action can be taken against the officials. In addition to these investigations, the SIU is currently conducting various procurement investigations for the department. The investigations involve BEE fronting, cover quoting, breach of contract and procurement fraud.

Correctional Centre Pharmacy Investigations

The investigation into the correctional centre pharmacies focuses on whether correctional centre pharmacies and primary health care centres of the DCS operate in accordance with departmental procurement and operating policies. The investigations have uncovered various areas of non-compliance with DCS procurement and/or operating policies.

Non-compliance differs from centre to centre, but can broadly be seen as including the following focus areas:

- the excessive ordering of medicine by a pharmacy or primary health care centre, which results in the over-stocking of medicines that expire before use and that result in wasted expenditure;

- storing medical supplies and medicines that have expired together with current medication that, if erroneously dispensed, could negatively impact on prisoners' health;
- not storing thermolabile (heat-sensitive) medicines in a fridge, which can cause the medicines to spoil and results in wasted expenditure;
- not storing medicines securely, which encourages theft;
- pharmacies not being fitted with air-conditioners as is required by DCS policy; and
- not updating patient files correctly, thus rendering accurate record-keeping of the dispensing of medicines impossible.

The SIU has completed 141 pharmacy investigations. The reports on these investigations have been submitted to the department. They detail 1 300 systemic recommendations and recommend that 516 DCS officials be subjected to disciplinary action. In the upcoming financial year, the SIU will assist the department with the processing of these disciplinary recommendations to ensure that the department's pharmacies and primary health care centres rapidly comply with DCS policies and procedures.

Asset Management

The asset management investigations relate to the operation of kitchens and farms at various correctional centres nationally. Each correctional centre operates a kitchen for the feeding of the prisoners detained there, but only 34 correctional centres operate farms. The correctional centre kitchens procure their foodstuff from external suppliers or from correctional centre farms. The correctional centre farms produce various products, including meat and vegetables. The SIU's investigations were aimed at determining whether kitchens and farms adhere to DCS procurement policy when procuring or distributing foodstuff. During these investigations, R362 057 was recovered. A saving of R418 224 was accomplished, and five disciplinary recommendations were made.



During the year under review, the SIU completed the investigation of five farms (Barberton, Thohoyandou, Ermelo, St Albans and Grootvlei) and eight kitchens (Kroonstad, Lindley, Harrismith, Bethlehem, Thohoyandou, Losperfontein, Mogwase and East London).

Medical Aid Scheme

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 had provided its officials with a fully subsidised medical aid scheme, 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.

In the first instance, collusion was uncovered between a medical practitioner and corrupt officials through whom fictitious services were charged to an innocent official's account. The medical practitioner submitted false claims to the medical aid scheme. The criminal proceeds were subsequently shared between the corrupt beneficiaries. In the second instance, medical practitioners submitted excessive claims where such



services could not reasonably have been performed, for example, a medical practitioner claimed for 200 consultations in one day. Finally, false claims were submitted to the medical aid scheme. Pharmacists would fraudulently claim for medical goods in cases where non-medical goods, such as groceries, had been purchased.

During the period under review, Acknowledgements of Debt to the value of R1 705 818 were signed and five investigations were finalised.

Departmental Investigating Unit

The DCS established a 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 (procurement and First Auto Card) with the DIU to ensure the transfer of forensic investigation skills.

In further efforts to ensure the transfer of skills between the SIU and the DIU, the two units have conducted various joint investigations. An example of this is the due diligence procurement inquiry into a tender that related to the procurement of X-ray scanners by the department. The SIU has also continued to render assistance in the First Auto Card investigations conducted by the DIU. The establishment of the DIU ensures that the department will be able to address corruption adequately and in an ongoing manner upon conclusion of the SIU's investigations.

Future Plans

The SIU's new partnership agreement with the DCS focuses the unit firmly on procurement in the department. In the new financial year, the SIU intends to finalise procurement investigations that will expose BEE fronting, cover quoting and procurement fraud. In addition, the SIU will be investigating national procurement by classified pharmacies. A new joint medical aid investigation with the cooperation of the DSO will also commence in the new financial year.

DEPARTMENT OF TRANSPORT

The Department of Transport (DoT) requested the initiation of a proclaimed investigation. Prior to the start of the investigation problems relating to the irregular issuing of driving licences had reached unacceptably high levels. This ongoing investigation, launched in 2004, focuses on the irregular issuing of driving licences at driving licence testing centres (DLTCs). The major concerns related to instances of serious maladministration, corruption and fraud at DLTCs. Previous audit reports also highlighted a lack of proper control measures and a failure to manage the activities and transactions executed by officials at DLTCs.

As part of a joint initiative with the SIU, the DoT is funding a dedicated capacity of 75 project members to conduct the investigation. The SIU received funding of R16.8 million per annum from the DoT. The unit works closely with the DoT, the South African Police Service (SAPS), the National Intelligence Agency (NIA) and the National Prosecuting Authority (NPA) as part of a nationally coordinated approach to tackle the problem of irregular driving licences.

The project commenced on 1 March 2005 for an initial period of three years, and the partnership with DoT was recently extended for a further five years until March 2011. Funding for the additional five-year period will amount to R20 million per annum.

Proclamation

Presidential Proclamation R5, published in the Government Gazette on 31 January 2005, mandates the SIU to investigate:

- the irregular issuing of driving licences, including professional driving permits and learner's licences;
- the conversion of forged local and foreign driving licences to the credit card-form driving licence;
- the registration of stolen vehicles on the National Traffic Information System (NaTIS); and



- mismanagement and maladministration regarding the issuing and/or conversion of driving licences.

The key aims of the project are as follows:

- Identifying invalid driving licences and recommending the cancellation of these licences. Through the cancellation of these licences, potentially incompetent drivers will be removed from our roads, thereby contributing to reduced injuries and deaths.
- Identifying stolen vehicles on NaTIS, as well as systemic weaknesses that enable criminals to abuse the system.
- Reducing the criminal trade in motor vehicles and bolstering the integrity of NaTIS by removing stolen vehicles from the system and addressing the systemic weaknesses identified.
- Creating a strong deterrent for corrupt officials and private individuals through visible criminal and disciplinary sanctions. This process will include identifying and prosecuting corrupt officials and private individuals, removing corrupt officials from the system through disciplinary action and identifying incompetent officials and recommending appropriate training or removing them from the system through disciplinary action.



- Identifying and facilitating the improvement of management and control measures and systemic weaknesses in order to address the weak control environment at DLTCs and, in so doing, reducing the occurrence of fraud, corruption and maladministration.

There are 360 DLTCs and registering authorities in South Africa. As a result of the large volumes of transactions executed at these DLTCs and authorities over the period under review, the project is being implemented in two phases.

The SIU is currently conducting Phase 1 of the project, which focuses on driving licences, learner's licences and professional driving permits issued at 55 prioritised DLTCs during 2004; the 218 501 licences that were converted to South African credit card-form licences; ad hoc cases referred to the SIU; management and control measures in operation at DLTCs; and business processes in operation at DLTCs.

During Phase 2 of the project the focus will be on the stolen vehicles registered on the NaTIS database.

Results and Achievements

Table 8: Achievement of key performance objectives

Key objectives	Key actions	Key results	Key achievements
To identify invalid driving licences	Audit all driving licences at priority DLTCs	<ul style="list-style-type: none"> 230 DLTCs visited 1 145 645 driving licence files collected 851 903 files analysed Audit process 65% complete 	42 229 driving licences found to be invalid
To ensure the removal of legally incompetent drivers through the cancellation of driving licences found to be invalid	Recommend the cancellation of driving licences found to be invalid	<ul style="list-style-type: none"> 26 435 driving licences found to be invalid and recommended for cancellation 	1 527 driving licences cancelled
To deter and remove corrupt officials and driving licence holders from the system	Visible criminal and disciplinary action	<ul style="list-style-type: none"> 3 768 criminal investigations initiated with the SAPS 141 criminal cases against officials investigated 3 382 criminal cases investigated against driving licence holders 258 disciplinary investigations against officials initiated 242 disciplinary cases referred for departmental action 64 officials arrested at 29 DLTCs 	<ul style="list-style-type: none"> 64 officials arrested at 29 DLTCs 950 driving licence holders arrested 621 prosecutions instituted 548 convictions obtained 16 disciplinary hearings pending and 16 officials dismissed 8 officials resigned before internal hearings 6 officials convicted after hearings and awaiting sentences 12 officials sentenced
To identify system and control gaps at DLTCs	Review compliance by DLTCs with the prescribed minimum requirements for operation as DLTCs. Review legal compliance by DLTC officials. Review business processes at DLTCs.	<ul style="list-style-type: none"> 39 DLTCs reviewed 	<ul style="list-style-type: none"> 38 DLTCs found to be non-compliant 7 DLTCs initiated improvements Recommended amendments to the NRTA Recommended improvements to business processes Initiated piloting of an improved business process model at three DLTCs

Table 9: DoT results and achievements for 2006/07

Province	Files scanned	Files audited	Invalid licences	Disciplinary referrals to the department	Criminal matters under investigation		Number of arrests		Number of convictions
					Jointly with SAPS	Other	Officials	Private individuals	
Western Cape	3 502	177 814	3 835	31	142	8	-	1	1
Gauteng	36 810	71 617	717	4	417	5	4	278	194
Eastern Cape	10 676	39 559	5 140	27	240	-134	3	1	-
KwaZulu-Natal	53 622	148 439	4 028	34	254	66	-	137	78
North West	9 110	85 069	2 707	21	48	3	-	1	-
Free State	64 185	32 982	132	7	4	-	-	4	4
Mpumalanga	8 901	37 651	2 490	17	204	1 138	18	154	106
Northern Cape	255	12 730	245	2	-	-	-	-	-
Limpopo	131 647	110 283	11 259	37	32	-	5	-	-
Total	318 708	716 144	30 553	180	1 341	1 086	30	576	383

The cancellation of invalid driving licences is the responsibility of the provincial offices of the DoT. The process of cancellation is cumbersome and involves affording invalid licence holders the opportunity to make representations as to why their licences should not be cancelled. This has resulted in a lower rate of cancellation of invalid driving licences than initially expected. The SIU recommended a uniform process of cancellation that complies with the National Road Traffic Act (Act No 96) (as amended) (NRTA) and provided training to DoT officials on the process of cancellation.

The SIU's investigation has resulted in criminal or disciplinary action against a number of officials, often in key positions at DLTCs. Many of these officials have been implicated in corrupt and/or irregular activities at DLTCs. The SIU also identified members of the public who obtained their licences in a corrupt or fraudulent manner. The unit is currently investigating fraud-and/or corruption-related cases at 123 DLTCs nationwide.

To date, criminal action has been successfully concluded against six officials. Disciplinary action instituted on the basis of the SIU's investigations has, to date, resulted in the removal of 30 officials from the system. The following are examples of these cases:

- Eight officials were arrested for selling licences at a DLTC in North West. Four of these officials have been dismissed and the others are awaiting sentencing. To date, these officials have been linked to 263 licences issued invalidly.
- An official at a DLTC in Limpopo was arrested as a result of a sting operation during which he tried to sell a licence to a member of the SIU. This official has since been linked to over 1 000 licences issued invalidly and has been suspended, pending the finalisation of disciplinary action.
- The chief examiner at a DLTC in the Eastern Cape was arrested on charges of fraud and bribery, and subsequently dismissed. The official involved instructed two other officials



at the DLTC to issue licences to members of the public without conducting tests. To date, these officials have been linked to 305 licences issued invalidly.

- Nine officials employed at a DLTC in Mpumalanga were given written warnings for failure to comply with the provisions of the NRTA in the issuing of 466 licences.
- An official at another DLTC in Mpumalanga was convicted for selling licences and was sentenced to a fine of R9 000 or 24 months imprisonment.
- Four officials were arrested for selling 50 learner's licences at a DLTC in Gauteng. They have all been convicted and sentenced to fines varying between R6 000 and R8 000 or imprisonment for periods varying between 18 and 24 months. They have all been dismissed from the DLTC in question.

To date, 950 private individuals have been arrested for fraudulent and corrupt activities, which resulted in them obtaining invalid licences from 87 DLTCs. Some 542 of these individuals have been convicted and their licences have been cancelled or are in the process of being cancelled. In one instance, a private individual was convicted of corruption and sentenced to five years' imprisonment for selling 113 false Ivory Coast licences, which were subsequently converted to South African credit card-form licences.

The SIU's visibility at 230 DLTCs when uplifting files and instituting action against corrupt officials has resulted in a heightened public awareness of the detrimental consequences to those who involve themselves in fraudulent and corrupt activities. To date, the SIU has identified a number of provisions in the NRTA and the NRTA regulations that call for amendments in certain respects in order to promote efficient administration and reduce the climate for corruption. The SIU's proposals in this regard have been submitted to the DoT for consideration.

The SIU has also focused on facilitating improvements in the day-to-day operations of DLTCs, in particular, with regard to the environment in which DLTC officials operate and the equipment and other resources available to them. Some of the improvements facilitated by the SIU include ensuring that testing functions are taken over by qualified personnel at DLTCs where testing was found to be conducted by unqualified personnel; implementing a face-value document control system at a DLTC; training filing clerks to comply with the requirements of the NRTA; and repairing the vision-testing equipment and installation of a NaTIS terminal at a DLTC.

Challenges

The migration from the old NaTIS to eNaTIS has resulted in a number of challenges for SIU investigators. These include the need for team members to apply for eNaTIS access, as well as the need for training in the operation of eNaTIS. These challenges, coupled with long periods of downtime of eNaTIS, have resulted in delays in finalising audit and investigation processes. Furthermore, the speedy prosecution of offenders remains a challenge.

Future focus areas include finalising the auditing of all licence and conversion files uplifted to date. By the end of this period, the SIU endeavours to be in a position to report an invalidity rate in respect of the licences it has audited. Furthermore, the investigation will continue its assessment of management and keep control measures in place at DLTCs, as well as monitor the compliance of DLTCs with the prescribed minimum requirements for grading and operation as DLTCs. The investigation will also focus on the re-engineering of current business practices in order to increase service delivery. The investigation of stolen vehicles registered on NaTIS will commence in the near future.

SPECIAL PENSIONS FUND

The National Treasury requested the President to mandate the SIU to identify, investigate and redress alleged fraud, corruption and maladministration in the Special Pensions Fund. The National Treasury, through the Special Pensions Board, administers the payment of special pensions through the fund.

The Special Pensions Act, 1996 (Act No 69 of 1996) (as amended) was enacted to give effect to section 189 of the Constitution and to provide for special pensions to be paid to persons who have made sacrifices, suffered financial deprivation or served in the public interest during the liberation struggle in the course of establishing a democratic constitutional order in South Africa. The Act also provides for the establishment of a Special Pensions Board and Special Pensions Review Board and prescribes their scopes and powers.

The type and value of benefit will vary significantly in some cases, depending on the benefit category that the Special Pensions Board approves. The board is vested with the authority to determine whether a person qualifies for a special pension and the benefit category based on qualification criteria determined in the Act. The Act was initially intended to apply only for one year. However, it proved impossible to cope with all the applications and, following an amendment to the Act, late applications were considered until as recently as 31 December 2006.

Proclamation

Proclamation R50, published in the Government Gazette on 7 December 2006, mandates the SIU to exercise or perform all functions and powers assigned to or conferred on the unit, and to investigate:

- any serious maladministration in connection with the affairs of the Special Pensions Board;



- improper or unlawful conduct by officials of the board;
- any unlawful appropriation or expenditure of public money or property;
- any unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having bearing upon state property;
- any intentional or negligent loss of public money or damage to public property, any offence referred to in part 1 to 4, or section 17, 20, or 21 (insofar as it relates to the abovementioned offences) of Chapter 2 of the Prevention and Combating of Corrupt Activities Act, 2004, and which offences were committed in connection with the affairs of the board; and
- any unlawful or improper conduct by any person that has caused or may cause serious harm to the interests of the public or any category thereof, which took place between 1 December 1996 and the date of proclamation.

The proclamation also mandates the SIU to investigate the payment of special pensions by the board to persons who were not entitled to receive special pensions and/or submitted false, irregular, invalid or defective applications for special pensions to the board from 1 December 1996 to the date of the proclamation, and to exercise or perform all functions and powers assigned to or conferred upon it.



The project has the following focus areas:

- Investigating the irregular or unauthorised payment of special pensions to living applicants, or persons receiving benefits as either the spouses or dependents of such deceased persons, who would otherwise not have qualified for special pensions in terms of the Act
- Investigating irregular or unlawful conduct of officials employed by the Special Pensions Board in the processing, authorising and payment of special pensions
- Investigating unlawful conduct of persons facilitating applications for special pensions by disentitled beneficiaries
- Investigating systemic gaps in the processing, authorising and payment of special pensions

The investigation, which commenced on 1 January 2007, is being conducted in phases over an 18-month period, and will encompass:

- stopping the payment of special pensions to beneficiaries not entitled to a special pension, either in full or in part;
- recommending the removal of disentitled beneficiaries from the system;
- recovering undue benefits from such disentitled beneficiaries;
- identifying Special Pensions Fund officials responsible for the fraudulent and/or irregular authorisation and payment of special pensions;
- recommending and facilitating the institution of appropriate action against such officials;
- ensuring the institution of appropriate action against such disentitled beneficiaries who unduly benefited from a special pension or those persons responsible for facilitating the irregular application and payment of undue special pensions;
- making recommendations on the improvement of the authorising and processing of special pensions; and
- developing a database of entitled special pension beneficiaries.

KWAZULU-NATAL REGIONAL INVESTIGATIONS

LOCAL MUNICIPALITIES

An investigation was conducted into allegations of the irregular and/or unlawful investment of municipal funds in three municipalities in KwaZulu-Natal, while a pre-investigation was conducted at a fourth municipality in this province in respect of two cases of irregularity.

The municipalities under investigation for the irregular and/or unlawful investment of municipal funds to the value of R27.2 million included the erstwhile Umzinyathi Regional Council (R16 million), the erstwhile uThungulu District Municipality (R10 million) and the Umtshezi Local Municipality (the erstwhile Escourt/Wembezi Transitional Local Council) (R1.2 million).

It was alleged that certain municipal directors of finance had invested municipal funds with Transglobe Industrial Holdings Ltd, with SA Corporate Brokers acting as intermediaries. The SIU also investigated the 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. This proclaimed investigation started in 2004 and amended proclamation R49 of 2006 was published on 7 December 2006.

DEPARTMENT OF TRANSPORT

A pre-investigation was initiated in November 2005 of theft and maladministration that was suspected to have occurred since 2003 at three of the department's provincial cost centres. The SIU is in the process of obtaining a proclamation. Sample audits have been conducted.

The pre-investigation thus far has dealt with the awarding of contracts, including cover quotations, the involvement of



officials in the procurement process, the process in respect of approved suppliers and stock control and stock loss.

This resulted in the identification of irregular payments and awarding of contracts to the value of almost R1.6 million, disciplinary action against three officials with one official being charged in terms of the Public Finance Management Act (PFMA), which led to the dismissal of two officials, and the contemplation of criminal charges of theft against two individuals by the department.

WITNESS PROTECTION PROGRAMME

A proclaimed investigation is being conducted into the irregular lease of safe houses by the Witness Protection Unit (WPU) between 1999 and 2002. These irregularities were highlighted in the report of the Auditor-General in 2001.

It was alleged that employees of the KwaZulu-Natal Witness Protection Programme (WPP) defrauded the programme by leasing property in which 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 amounted to R4 252 637.



The investigation has been conducted in five phases, four of which have been completed. The cooperative approach to this investigation has seen the SIU assisted by the Commercial Crime Unit of the SAPS, as well as the NPA and AFU.

Results and Achievements

To date, the SIU's forensic audit has revealed a 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, a lack of compliance with regard to tender procedures, a lack of proper securing and supervision of witnesses and a lack of a proper asset verification system with regard to properties under the control of the WPP.

The criminal case against eight accused, including the former regional head of the WPU in KwaZulu-Natal, is ongoing. A civil claim of R4.7 million has been instituted against the former regional head of the WPU. A further criminal case has been registered and is currently under investigation by the Commercial Crime Unit of the SAPS in respect of phases 3 and 5 of the investigation. The NPA has instituted disciplinary action against two officials of the WPU in KwaZulu-Natal.

DEPARTMENT OF HOUSING

A proclaimed investigation is being conducted into fraud and corruption in the Housing Subsidy Scheme in KwaZulu-Natal, which is administered by contracted conveyancing attorneys. The SIU commenced its investigation in 1998 with an audit of 111 firms of attorneys. The investigation includes a detailed forensic audit, deeds search of all properties and tracing all parties involved in transactions.

Results and Achievements

To date, the SIU has identified fraud committed by contracted conveyancing attorneys in partnership with criminal syndicates. It has also reviewed 1 547 suspected transaction

files, of which more than 74% have been fully investigated and audited. It obtained the conviction of an attorney on charges of theft and fraud, and was instrumental, through investigation and audit reports, in an attorney being struck from the role. Claims totalling R8 486 397 were lodged with the AFU, while 28 Acknowledgements of Debt totalling R1 893 918 were obtained from individuals who benefited illegally from the Housing Subsidy Scheme. A claim of R472 000 was lodged against a deceased individual's estate, and a criminal case was prepared in conjunction with the Commercial Crime Unit of the SAPS against an attorney and two other accused on charges of fraud and theft. This matter has been postponed to July 2007.

DEPARTMENT OF HEALTH

A pre-investigation was conducted on allegations of procurement irregularities and ghost workers at the Department of Health since March 2006. The estimated value of the irregular procurement over a period of one year is between R3 million and R4 million, while the estimated money lost in respect of ghost workers over a two-month period is R1.2 million.

This pre-investigation began during June 2006. The application for proclamation is pending the outcome of the two forensic audit reports.

DEPARTMENT OF EDUCATION

A pre-investigation was conducted in respect of stationery and textbook procurement payments by the Department of Education to the value of approximately R156 million. The assistance of the SIU was requested in October 2006 when two senior officials were suspended. The pre-investigation began during November 2006 and the SIU has worked closely with the department's appointed forensic auditors. The SIU was mandated to assist with the disciplinary hearings of the two suspended officials. Both officials were reinstated due to insufficient control measures by the department. Within the SIU's civil mandate, the pre-investigation is pending the outcome of the report of the department's appointed auditor.

EASTERN CAPE REGIONAL INVESTIGATIONS

DEPARTMENT OF LOCAL GOVERNMENT

The Department of Local Government in the Eastern Cape, in partnership with the SIU, expressed a desire to create capacity in the SIU to function as a special anti-corruption unit for the investigation of local government matters in the province. On 17 October 2004, the department entered into an agreement with the SIU in terms of which it undertook to provide the SIU with annual funds to the value of R6 million for the duration of a three-year contract.

Proclamation

Proclamations R26 and R27 of 2005 mandate the SIU to investigate allegations of maladministration, fraud and corruption at 12 municipalities in the Eastern Cape. These municipalities have long been plagued by allegations of poor governance, lack of service delivery, corruption and maladministration.

The SIU aligned its investigations with Project Consolidate, an initiative of the national Department of Provincial and Local Government, with the primary focus areas being procurement, financial mismanagement, recruitment, a lack of service delivery and lack of good governance. Project Consolidate entails a partnership between all three spheres of government for the purpose of strengthening systems and operations in order to ensure the effective and efficient delivery of basic needs. The SIU completed investigations at the municipalities of Whittlesea, Ikwezi, Ndlambe, Somerset East, Inxuba Yethemba, Inkwanca, Emalahleni and Mquma. Investigations are ongoing at Maletswai, OR Tambo, KSD and Nyandeni.

Results and Achievements

Since the inception of the project, the following progress has been made:

Outcome	Result
Acknowledgements of Debt signed	34
Registered criminal cases	8
Arrests with the SAPS	3
Convictions	3
Joint cases with the DPP	4
Disciplinary referrals (dismissals)	1
Disciplinary referrals (warnings)	2
SARS referrals	7
Systemic recommendations made by the SIU	54
Other remedial action recommended	8
SIU recommendations implemented	17
Auditor-General recommendations implemented	46
Identified cases of social grant fraud	919

During the past financial year, cash recoveries amounted to R613 658, while savings in social grants per annum amounted to R77 760. Systemic recommendations make up an integral part of this project. The following recommendations have been made and implemented at some of the municipalities under investigation and in the past financial year:

- The amendment and implementation of human resource policies at five municipalities. These policies relate to subsistence and travel, telephone and cellular phone usage, procurement, recruitment and motor vehicles.
- The implementation of safekeeping measures for current and old files and documentation, debtor management systems to collect rates and property taxes, and proper



asset registers. At several municipalities these were non-existent or not properly maintained, resulting in a lack of control over assets.

The SIU is monitoring the implementation of the recommendations made. At the time of reporting, 34 of the 54 recommendations had been implemented at the relevant municipalities.

NELSON MANDELA METROPOLE HOUSING PROJECTS

As a result of irregularities identified by the Auditor-General in the housing project of the Nelson Mandela Metropole, the SIU was requested to investigate three project-linked subsidy schemes in Jacksonville (1 200 houses), Motherwell Tjoksville (1 500 houses) and Bloemendal South (1 685 houses). The investigation is being conducted with the assistance of the SAPS and the Unemployment Insurance Fund (UIF).

Proclamation

Proclamation R63 of 2005 mandates the SIU to investigate irregularities at three housing developments in the Nelson Mandela Metropole. The investigation is funded by the SIU, with no financial contribution from the department.

The focus areas of this investigation are:

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

Results and Achievements

By the end of the period under review, the SIU had visited 4 385 sites to establish whether all the top structures had been built and whether services (water and sanitation) had been connected. A total of 27 unlawful beneficiaries were identified and have signed Acknowledgements of Debt, repaying an amount of R371 042.

In the Bloemendal South Housing Project, the SIU identified irregularities at 1 685 sites. In the Motherwell Tjoksville investigation, irregularities identified by the SIU include the granting of housing subsidies by the municipality to non-qualifying beneficiaries and 11 employees of the Nelson Mandela Metropole who are beneficiaries.

FREE STATE REGIONAL INVESTIGATIONS

DITSWAKOTLENG FRESH FARM PRODUCTION PROJECT

The matter of the Ditswakotleng Fresh Farm Production Project was referred to the SIU by the Head of the Department of Agriculture after several irregularities pertaining to the project were identified in a report by the Auditor-General in June 2003.

Proclamation

Proclamation R33 of 2006 mandates the SIU to investigate the approval and funding of the Ditswakotleng Fresh Farm Production Project as a community project qualifying for funding by the Community Projects Fund Support Programme of the Department of Agriculture.

The primary focus area is the investigation of procurement irregularities, in particular the manner in which the department procured goods and services for the Ditswakotleng Fresh Farm Production Project, as well as the resultant shortages of materials and equipment procured for the project.

The primary objective of the project is to recover losses suffered by the department. This project is funded by the SIU, with no financial contribution from the department. Although no recoveries have yet been made, the SIU has been assisting the department with the institution of disciplinary action against the suspended chief financial officer.

LEJWELEPUTSWA BUCKET ERADICATION SANITATION PROJECT

An audit by the Auditor-General's office revealed irregularities pertaining to the Lejweleputswa Bucket Eradication Sanitation



Project. A possible overpayment of R1 867 993 to the contractor was identified. The circumstances surrounding the appointment of the project manager by the Lejweleputswa District Municipality were also questioned in the report of the Auditor-General.

Proclamation

Proclamation 23 of 2006 mandates the SIU to investigate the procurement of services and the losses suffered by the Lejweleputswa District Municipality as a result of payments made to a contractor for services not rendered. This is a joint investigation between the SIU, the DSO and the AFU. The primary objective of the investigation is to recover the losses suffered by the Lejweleputswa District Municipality. This project has been funded by the SIU, with no financial contribution from the department.

Results and Achievements

The contractor in question has signed a deed of settlement, in terms of which he agreed to repay an amount of R1.3 million due and owing to the Lejweleputswa District Municipality.



WESTERN CAPE REGIONAL INVESTIGATIONS

WESTERN CAPE LOCAL MUNICIPALITIES

In February 2005, the MEC for the Department of Local Government and Housing of the Western Cape requested the SIU to conduct preliminary investigations into allegations of fraud, corruption and maladministration in the department. This resulted in an agreement between the SIU and the department, signed on 15 February 2005. In terms of the agreement, the SIU will provide forensic investigative assistance to the department in respect of matters falling within the scope of the department.

During the 2006/07 financial year, the department made financial contributions to the value of R1 825 658 in terms of a partnership agreement. The capacity allocated to the project has been significantly increased due to the referral of housing matters from the department.

The SIU provided forensic investigative assistance on 11 matters to the department, including the conducting of scoping exercises, the drafting of work plans outlining the methodology and approach of the SIU to the investigation, the conducting of forensic investigations of the allegations, the compiling of detailed investigation reports on the findings of the forensic investigation and making recommendations to the department on possible corrective action, including disciplinary, civil and criminal action.

The SIU assisted and advised the department on a proposal for minimum anti-corruption capacity, which included the structure, functions and capacity required for such minimum anti-corruption capacity. During the period under review, the SIU followed an integrated economic crime combating strategy together with the department and various other role-players, such as the department's own Forensic Investigative Unit (FIU), the DSO and the AFU, to investigate various allegations regarding municipal irregularities and specific housing projects.

In the Twins and the Chicago Bulls People's Housing Project, the accused entered into a plea and sentence agreement. He was found guilty on one count of fraud and was sentenced to six months' correctional supervision in terms of section 276(1)(h) of the Criminal Procedure Act, 1997 (Act No 51 of 1997) and three years' imprisonment suspended in its entirety for a period of five years, on condition that he is not again convicted of fraud or theft committed during the period of suspension. A confiscation order was made in terms of section 18(1) of the Prevention of Organised Crime Act, 1998 (Act No 121 of 1998), ordering the accused to pay R292 236.

Results and Achievements

Outcome	Result
Joint cases with DSO/AFU	5
Disciplinary referrals	2
Value of recoveries	R292 236
Value of savings/preventions	R12 658 464
Value of AFU referrals	R292 236

ANNUAL FINANCIAL STATEMENTS

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REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee members and attendance

The Audit Committee consists of the members listed below. During the current year, four meetings were held.

Name of member	Number of meetings attended
SK Whitfield (Chairperson) (external member)	4
B Amery (resigned 31 May 2006)	1
Prof H de Jager (external member)	3
R Francis – SIU (appointed 1 June 2006)	4

The Auditor-General and representatives of the firm PricewaterhouseCoopers, to whom the internal audit function was outsourced, were invited and attended all the meetings. The Head of the SIU and other senior staff were also invited to and attended some of the meetings.

Audit Committee responsibility

The Audit Committee reports that it complied with the responsibilities arising from section 38(1)(a) of the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA) and section 27.1.1 of the Treasury Regulations. The Audit

Committee also reports that it adopted appropriate formal terms of reference, which are contained in its Audit Committee Charter, regulated its affairs in compliance with this charter and discharged all its responsibilities as contained therein. During the year under review, the Audit Committee Charter was revised to ensure relevance.

The effectiveness of internal control

The Special Investigating Unit's systems of internal control are designed to provide assurances that, inter alia, assets are safeguarded and liabilities and working capital are managed effectively and efficiently. From the various reports submitted by the SIU's internal auditors and the management report of the Auditor-General, the committee concluded that no fundamental non-compliance with prescribed policies and procedures had been identified.

The Audit Committee is satisfied with management responses in respect of aspects identified by Internal Audit and the Auditor-General for corrective actions and/or suggested improvements to controls and processes.

During the period under review, the internal audit function continued to provide the Audit Committee and management with independent assurances that internal controls were appropriate and effective for the areas examined in terms of the Audit Committee-approved coverage plan, based on the risk assessment.

Evaluation of financial statements

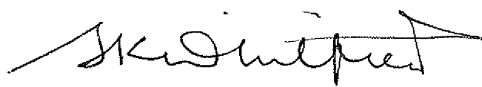
The Audit Committee :

- reviewed and discussed with the Auditor-General, as well as representatives of management, the audited annual financial statements to be included in the annual report;
- reviewed the Auditor-General's management letter and management response; and
- reviewed changes in accounting policies and practices.

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 of the SIU fairly present the financial position and performance of the unit based on the report of the Auditor-General.

Management reports

The Audit Committee is satisfied with the content and quality of the management reports prepared and issued by the SIU for the period under review.



SK Whitfield

Chairperson of the Audit Committee

31 July 2007

REPORT OF THE AUDITOR-GENERAL

FOR THE YEAR ENDED 31 MARCH 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1 I have audited the accompanying financial statements of the Special Investigating Unit, which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in funds and cash flow statement for the year ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 15 and 37 to 62

Responsibility of the accounting authority for the financial statements

2 The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP), Standards of Generally Recognised Accounting Practices (GRAP) and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA), the Treasury Regulations for public entities issued in terms of the Act. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;

- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

- 3 As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
- 4 I conducted my audit in accordance with the International Standards on Auditing and General Notice 646 and 647 of 2007, issued in Government Gazette No 29919 of 25 May 2007. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 5 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6 An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

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

Basis of accounting

8 The entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in the accounting policy notes to the financial statements.

Opinion

9 In my opinion the financial statements present fairly, in all material respects, the financial positions of Special Investigating Unit as at 31 March 2007 and its financial performance and 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 the accounting policies to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999).

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

10 I have audited the performance information as set out in tables 2, 3 and 4 on pages 12 and 13.

Responsibility of accounting authority

11 The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against the predetermined objectives of the Special Investigating Unit.

Responsibility of the Auditor-General

12 I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No 25 of 2004) read with General Notice 646 of 2007, issued in Government Gazette No 29919 of 25 May 2007.

13 In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

14 I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

15 No audit findings.

APPRECIATION

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



Simphiwe Cele for the Auditor-General

Pretoria

31 July 2007



POISED TO STRIKE
against corruption

APPROVAL OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

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, and designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Economy, efficiency and effectiveness of operations
- Internal financial controls
- 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 of 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, due to 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 2006 to 31 March 2007 and I am of the opinion that the system of internal control was effective for the period under review.

The financial statements for the year ended 31 March 2007, which appear on pages 37 to 68, were approved and signed by me in my capacity as Head of the Unit.

W A Hofmeyr
Head of the Unit
31 July 2007

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2007

	Notes	2007 Rm	2006 Rm
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	1	15 962 460	12 150 127
BANK BALANCES - RECOVERIES	2.1	13 540 388	4 668 382
CURRENT ASSETS		28 738 231	26 466 422
Inventory	3	106 348	92 483
Trade and other receivables	4	8 409 049	5 886 237
Prepayments		2 435	-
Cash and cash equivalents	19.2	20 220 399	20 487 702
TOTAL ASSETS		58 241 079	43 284 931
EQUITY AND LIABILITIES			
EQUITY AND RESERVES			
Capital reserve		15 962 460	12 150 127
Retained income(deficit)		1 652 345	1 944 659
PAYABLES - RECOVERIES	2.2	13 540 388	4 668 382
CURRENT LIABILITIES		27 085 886	24 521 763
Trade and other payables	5	8 484 228	7 721 763
Revenue received in advance	6	18 601 658	16 800 000
TOTAL EQUITY AND LIABILITIES		58 241 079	43 284 931

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 R	2006 R
REVENUE	9	138 360 719	99 695 645
OPERATING EXPENSES		138 893 329	92 749 172
Employee cost	10	96 465 436	64 573 816
Travel and accommodation		4 564 575	6 467 079
Depreciation		5 017 351	1 699 877
Other expenses	11	32 845 967	20 008 400
OPERATING PROFIT/(LOSS)		(532 610)	6 946 473
OTHER OPERATING INCOME	12	2 076 771	1 104 658
OPERATING PROFIT/(LOSS) before interest		1 544 161	8 051 131
INTEREST RECEIVED	13	2 307 761	691 668
		3 851 922	8 742 799
FINANCE CHARGES	14	(331 903)	-
PROFIT for the year		3 520 019	8 742 799
TRANSFER TO CAPITAL RESERVE		3 812 333	8 361 335
TRANSFER (FROM)/TO ACCUMULATED SURPLUS		(292 314)	381 464

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

FOR THE YEAR ENDED 31 MARCH 2007

	Accumulated surplus/(deficit)	Capital reserve	Total
	R	R	R
Balance at 31 March 2005	1 563 195	3 788 792	5 351 987
Movement for the year	381 464	8 361 335	8 742 799
Balance at 31 March 2006	1 944 659	12 150 127	14 094 786
Movement for the year	(292 314)	3 812 333	3 520 019
Balance at 31 March 2007	1 652 345	15 962 460	17 614 805

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 R	2006 R
CASH INFLOW FROM OPERATING ACTIVITIES		8 577 588	9 859 202
Cash receipts from departments		135 837 907	99 321 782
Cash paid to suppliers and employees		(129 236 177)	(90 154 248)
Cash generated from operations	19.1	6 601 730	9 167 534
Interest received		2 307 761	691 668
Finance cost		(331 903)	-
CASH OUTFLOW FROM INVESTING ACTIVITIES		(8 844 891)	(10 076 825)
Investment to maintain operations			
Proceeds from sale of moveable property and equipment		60 000	18 006
Investment to expand operations			
Purchase of moveable property and equipment		(8 904 891)	(10 094 831)
CASH FLOW FROM FINANCING ACTIVITIES		-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(267 303)	(217 623)
CASH AND CASH EQUIVALENTS			
at beginning of year		20 487 702	20 705 325
CASH AND CASH EQUIVALENTS			
at end of year	19.2	20 220 399	20 487 702

SUMMARY OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2007

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.
- 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. The stage

of completion is determined by services performed to date as a percentage of the 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 and 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 attached 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 that 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 for 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 decreasing 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 – is recognised in the period in which the service is rendered and is not discounted.

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

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 retirement 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 accumulated depreciation. Depreciation is calculated on a straight-line method to write off the cost, less the estimated residual value, 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. No change in estimate is required for the current year.

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. This cost 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 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 and 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 measured at amortised cost using the effective interest rate method. Trade receivables are assessed on an annual basis with regard to

recoverability and, where necessary, any doubtful debt will be provided for.

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 at amortised cost using the effective interest rate method.

Financial instruments

Initial recognition

The SIU classifies financial instruments, or their component parts, on initial recognition as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement.

Financial assets and liabilities are recognised on the statement of financial position when the SIU 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 instruments 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 are measured 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, are measured at cost.

- Other financial assets, including derivatives, are measured at fair value, without any deduction for transaction costs which 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.
- Other financial liabilities are measured 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.
- Financial assets and liabilities 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 SIU only deposits cash with major banks with high-quality credit standings and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Credit guarantee insurance is purchased when deemed appropriate.

Interest rate risk

Deposits all attract interest at rates that vary from prime. The SIU's policy is to manage interest rate risk, so that fluctuations in variable rates do not have a material impact on profit or loss.

Leases as lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially 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 sheet 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 risks 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 presentation in the current year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007

Note		2007	2006
		R	R
1.	PROPERTY, PLANT AND EQUIPMENT		
1.1	Books and law reports		
	Opening net carrying amount	11 692	19 909
	- Gross carrying amount	90 003	90 003
	- Accumulated depreciation	(78 311)	(70 094)
	Additions	96 802	-
	Depreciation	(8 715)	(8 217)
	Closing net carrying amount	99 779	11 692
	- Gross carrying amount	186 805	90 003
	- Accumulated depreciation	(87 026)	(78 311)
1.2	Computer software and equipment		
	Opening 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)
	Additions	1 823 327	6 332 207
	Disposals	(40 405)	(23 619)
	Depreciation	(2 671 405)	(1 575 239)
	Closing net carrying amount	4 959 469	5 847 952
	- Gross carrying amount	11 667 424	9 906 011
	- Accumulated depreciation	(6 707 955)	(4 058 059)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note		2007	2006
		R	R
1.	PROPERTY, PLANT AND EQUIPMENT (continued)		
1.3	Office furniture and equipment		
	Opening 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)
	Additions	1 711 749	3 010 112
	Disposals	223	(10 000)
	Depreciation	(1 048 025)	(389 124)
	Closing net carrying amount	5 763 499	5 099 552
	- Gross carrying amount	9 398 991	7 687 251
	- Accumulated depreciation	(3 635 492)	(2 587 699)
1.4	Motor vehicles		
	Opening net carrying amount	620 625	165 718
	- Gross carrying amount	2 179 510	2 179 510
	- Accumulated depreciation	(1 558 885)	(2 013 792)
	Additions	3 088 909	-
	Disposals	(34 783)	-
	Depreciation	(859 670)	454 907
	Closing net carrying amount	2 815 081	620 625
	- Gross carrying amount	4 826 237	2 179 510
	- Accumulated depreciation	(2 011 156)	(1 558 885)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note		2007 R	2006 R
1.5	Leasehold improvements		
	Opening net carrying amount	570 308	-
	- Gross carrying amount	752 512	-
	- Accumulated depreciation	(182 204)	-
	Additions	2 183 860	752 512
	Depreciation	(429 536)	(182 204)
	Closing net carrying amount	2 324 632	570 308
	- Gross carrying amount	2 936 372	752 512
	- Accumulated depreciation	(611 740)	(182 204)
	TOTAL PROPERTY, PLANT AND EQUIPMENT	15 962 460	12 150 127
2.	BANK BALANCES/PAYABLES – RECOVERIES		
2.1	Bank balances	13 540 388	4 668 382
2.2	Payables – recoveries	13 445 196	4 707 507
	Accrued interest payable to National Treasury	95 192	(39 125)
	Total payable	13 540 388	4 668 382
	Amount reflected is owed to third parties and was obtained through either signed admission of guilt or through either signed admission of guilt or through court orders issued by the Special Tribunal. Amounts are held and paid over to relevant third parties on completion of each case.		
3.	INVENTORY		
	Stationery and toner	106 348	92 483
4.	TRADE AND OTHER RECEIVABLES		
	Trade debtors	8 336 839	5 793 008
	Interest in terms of IAS 39	(80 788)	-
	Employee study loans and advances	55 820	90 729
	Deposits	53 815	2 500
	Other receivables	43 363	-
		8 409 049	5 886 237

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note	2007	2006
	R	R
5. TRADE AND OTHER PAYABLES		
Accrual for leave pay	4 275 233	2 249 008
Employee costs – deductions	25 880	79 129
Lease smoothing provision	1 663 257	664 557
Other payables	2 525 692	4 729 069
Interest in terms of IAS 39	(5 834)	-
	<u>8 484 228</u>	<u>7 721 763</u>
6. REVENUE RECEIVED IN ADVANCE		
Department of Transport	18 504 158	16 800 000
Department of Economic Affairs (Eastern Cape)	97 500	-
	<u>18 601 658</u>	<u>16 800 000</u>
7. COMMITMENTS		
Rental commitment in respect of properties and equipment	37 067 525	33 953 792
Payable within 1 year	7 700 201	7 304 904
Payable within 2 – 5 years	20 064 439	15 475 408
Payable thereafter	9 302 885	11 173 480
<p>The above commitments are in respect of seven rental agreements for premises and 26 rental agreements for equipment for periods ranging from 36 to 120 months. The average monthly rental is R658 253. The balance of the lease smoothing provision is R1 663 257.</p>		
8. CAPITAL COMMITMENTS		
<p>Commitments for the acquisition of vehicles contracted for but not provided for in the annual financial statements amounted to R4 067 949 (2006: R2 027 370).</p>		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note		2007	2006
		R	R
9.	REVENUE		
9.1	Grant received from Department of Justice and Constitutional Development	55 582 000	43 851 000
9.2	Income received from other departments	81 727 497	53 400 334
	Department of Transport	17 572 800	16 800 000
	Department of Correctional Services	11 693 311	6 000 000
	Department of Justice and Constitutional Development	-	5 000 000
	Department of Housing (National)	-	-
	Department of Social Development	38 359 730	17 755 374
	National Treasury Pension Administration	6 000 000	-
	Department of Eastern Cape Local Government	6 276 000	6 000 000
	Department of Economic Affairs (Eastern Cape)	-	-
	Department of Western Cape Local Government	1 825 656	1 844 960
		1 051 222	2 444 311
9.3	NPA – rental	-	667 800
	NPA – secondment of staff	-	541 767
	NPA – use of vehicles	38 511	292 766
	AFU – rental and secondment of staff	1 012 711	941 978
		138 360 719	99 695 645
	Rental paid by Department of Public Works – not included in expenditure	2 103 088	2 354 510
10.	EMPLOYEE COSTS		
10.1	Total expenses include:		
	Salaries and wages	84 033 785	53 206 855
	Provident and funeral fund contributions	6 036 232	4 357 963
	Travel and subsistence allowance	2 968 231	4 525 033
	Medical aid contributions	759 229	739 063
	UIF, COID and RCS levies	641 734	556 224
	Leave provision	2 026 225	1 188 678
		96 465 436	64 573 816

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note	2007	2006
	R	R
11. OTHER EXPENSES		
Auditors' remuneration	315 336	340 741
Bad debts	-	41 890
Bank charges	117 223	129 123
Books and publications	560 702	296 374
Car hire and taxi expenses	1 054 110	537 277
Conferences and seminars	66 036	24 144
Consultancy fees	7 067 858	1 393 881
Consumables	227 599	179 927
Courier services	375 869	327 768
Data scanning, traces and deed searches	493 275	487 587
Donations	3 214	-
Entertainment	475 810	30 900
Insurance	365 676	213 625
Internal audit fees	472 745	118 223
Internal integrity expenses	1 069 308	79 036
Legal fees	42 504	30 199
Loss on disposal of property and equipment	15 207	15 616
Media and promotions	656 064	510 651
Motor vehicle expenses	1 023 525	279 808
Office expenditure	658 130	632 192
Professional membership fees	10 244	5 070
Revenue stamps	16 978	266
Relocation and recruitment costs	1 106 875	629 862
Rent paid – properties	6 169 101	5 384 045
Rental – equipment	2 426 723	1 288 254
Repairs and maintenance	645 806	314 790
Security	138 357	2 473
Software licences	1 407 607	723 229
Stationery and printing	1 121 570	1 066 316
Telephone, fax and posting expenses	3 018 975	2 636 812
Training and development	1 714 656	2 288 321
Transcription fees	8 884	-
	<u>32 845 967</u>	<u>20 008 400</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note	2007	2006
	R	R
12. OTHER OPERATING INCOME		
Revenue transferred to interest received as a result of discounting accounts receivable using the effective interest method, as per IAS 39	(1 400 261)	-
Revenue transferred to accounts receivable, portion not yet received, as a result of discounting accounts receivable using the effective interest method, as per IAS 39	(80 788)	
Computer expenses recovered from staff members	589 093	338 379
Donation from Royal Danish Embassy	2 156 000	-
Donation from Commonwealth	28 427	-
Donation from British High Commission	774 300	759 164
Sundry income	10 000	7 115
	<u>2 076 771</u>	<u>1 104 658</u>
13. INTEREST RECEIVED		
Call account	-	639 053
Current accounts	907 500	51 065
Staff loans	-	1 550
Interest received as a result of discounting accounts receivable using the effective interest method, as per IAS 39	1 400 261	-
	<u>2 307 761</u>	<u>691 668</u>
14. FINANCE CHARGES		
Interest paid as a result of discounting credit received from suppliers, as required by IAS 39	(337 737)	-
Unpaid portion transferred to accounts payable	5 834	-
	<u>(331 903)</u>	<u>-</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note	2007	2006
	R	R
15. EXPENDITURE		
<p>The unit has not incurred any material loss as a result of criminal conduct in 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.</p>		
16. TAXATION		
<p>The unit is not a registered vendor for VAT purposes, as no taxable supplies are delivered. No provision for normal income tax is made, as the unit is a public enterprise and funded with government grants.</p>		
17. RELATED PARTY TRANSACTIONS		
<p>All revenue as disclosed in note 9 is considered revenue from related parties.</p>		
<p>The following related party transactions are included in operating expenses:</p>		
Department of Labour – COID	143 134	98 725
Municipal accounts paid directly	142 713	64 921
Regional services levies	56 416	179 499
SAA	1 196 299	1 323 425
SA Post Office – postage and Post box rentals	5 387	19 383
SARS – PAYE	15 421 492	11 182 420
Telkom	1 513 577	1 446 068
Unemployment Insurance Fund	884 368	556 038

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note

18. SENIOR MANAGEMENT REMUNERATION

The following records the emoluments paid to each executive and management member reporting directly to the Deputy Head of the Unit during the year:

		Salary	Medical/ pension	Bonus	Other benefits	Total 2007	Total 2006
Executive							
W Hofmeyr*	Head of SIU						
F Davids**	Deputy Head	830 480	98 368	-	-	928 848	808 877
G Visagie	Operations Director	586 377	134 838	-	-	721 215	654 467
Senior Management							
S Meyer	Unit Sec – 5 months 2007	350 624	-	-	-	350 624	628 245
M Hughes	CFO – 2 months 2006	-	-	-	-	-	108 479
B Amery	CFO – 2 months 2007	131 468	-	-	-	131 468	-
	11 months 2006	-	-	-	-	-	452 856
R Francis	CFO – 11 months 2007	535 450	-	-	-	535 450	-
						2 667 605	2 652 924

* Mr W Hofmeyr is paid by the NPA as a Deputy National Director of Public Prosecutions.

** Mr F Davids received a payment of R99 064 relating to the backdated payment of a performance increment for the previous two years.

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

Name	Commencing	Termination
B Amery	18 May 2005	31 May 2006
R Francis	1 May 2006	31 August 2007

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note		
	2007 R	2006 R
Remuneration of Audit Committee members:		
S Whitfield (Chairman)	15 629	6 600
H de Jager	18 071	-
19. NOTES TO THE CASH FLOW STATEMENT		
19.1 Reconciliation of profit/(loss) to cash generated from operations		
Operating profit/(loss)	3 851 922	8 742 799
Adjustments for:		
Depreciation	5 017 351	1 699 877
Interest received	(2 307 761)	(691 668)
Loss on sale of moveable property and equipment	15 207	15 616
Operating profit before working capital changes	6 576 719	9 766 624
(Increase)/decrease in inventory	(13 865)	(71 510)
(Increase)/decrease in trade receivables	(2 522 812)	(1 478 521)
Decrease/(increase) in prepayments	(2 435)	39 414
Increase/(decrease) in trade payables	762 465	3 511 527
Increase/(decrease) in revenue received in advance	1 801 658	(2 600 000)
	25 011	(599 090)
Cash generated from operations	6 601 730	9 167 543
19.2 Cash and cash equivalents		
Current account	1 715 241	3 687 702
Trust account – Income received in advance	18 505 158	16 800 000
Bank balances	20 220 399	20 487 702

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2007 [continued]

Note

20. 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.

21. CONTINGENT LIABILITIES

The SIU is currently involved in two litigation matters. The SIU is the defendant/respondent in both.

The first 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 this financial year, but the SIU is confident that it will in any event be successful in opposing the appeal.

The second 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 this financial year, but 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 [FACTUAL FINDINGS ON ACHIEVEMENTS]

FOR THE YEAR ENDED 31 MARCH 2007

Scope

I have performed the procedures agreed with the SIU and described below with respect to Schedule A and Schedule B on pages 65 to 68. My engagement was undertaken in accordance with the International Standards and Related Services applicable to agreed-upon procedures engagements. The responsibility for determining the adequacy or otherwise of the procedures agreed to be performed is that of the Special Investigating Unit. 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. Reperform 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. Reperform 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. Assessed 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 debt.
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 three 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 an 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 2007

SCHEDULE A

VALUE OF COMPLETED INVESTIGATIONS AND RECOVERIES

FOR THE YEAR 1 APRIL 2006 TO 31 MARCH 2007

Province	Total value of cases	Prevention of loss: current year	Recovery of cash to SIU	Recovery of cash/ asset to third party	CASES – AODs			Cash paid to SIU's trust accounts	Prevention of loss: future projected savings
					Per court ruling	Unit	Third parties		
North West	-	-	-	-	-	-	-	210 005	-
Mpumalanga	-	-	-	-	-	-	-	249 683	-
Northern Cape	-	-	-	-	-	-	-	-	-
Eastern Cape	301 173	-	301 173	-	-	301 173	-	2 177 945	-
Free State	1 900	-	1 900	1 300 000	1 300 000	1 900	-	250 576	-
Gauteng	-	-	-	-	-	-	-	2 486 265	-
Western Cape	-	-	-	292 236	-	-	292 236	313 249	-
Limpopo	-	-	-	-	-	-	-	468 149	-
KwaZulu-Natal	824 458	-	824 458	-	-	824 458	-	2 671 817	-
National	259 146 066	231 377 475	27 768 591	1 782 538	-	27 768 591	1 782 538	-	1 758 746 853
Total trust creditors	260 273 597	231 377 475	28 896 122	3 374 774	1 300 000	28 896 122	2 074 774	8 827 689	1 758 746 853

SCHEDULE B

ANALYSIS OF CASH RECOVERIES

FOR THE YEAR 1 APRIL 2006 TO 31 MARCH 2007

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	210 005	401 304	210 005	-	611 309
Mpumalanga	862 598	-	-	862 598	249 683	206 111	249 683	-	455 794
Northern Cape	-	-	-	-	-	-	-	-	-
Eastern Cape (Note 1)	243 157	301 173	-	544 330	2 177 945	1 197 971	2 177 945	20 000	3 355 916
Free State	902 896	1 900	-	904 796	250 576	320 476	250 576	-	571 052
Gauteng	3 486 400	-	-	3 486 400	2 486 265	993 288	2 486 265	70 000	3 409 553
Western Cape	416 113	-	-	416 113	313 249	330 038	313 249	-	643 287
Limpopo	-	-	-	-	468 149	187 876	468 149	-	656 025
KwaZulu-Natal	5 685 522	824 458	-	6 509 980	2 671 817	1 070 443	2 671 817	-	3 742 260
National	5 451 931	27 768 591	-	33 220 522	-	-	-	-	-
Amounts collected on third-party AODs									
Total trust creditors	17 395 242	28 896 122	-	46 291 364	8 827 689	4 707 507	8 827 689	90 000	13 445 196
Interest less bank charges, paid to National Treasury						-39 125	294 924	160 607	95 192
						4 668 382	9 122 613	250 607	13 540 388

Note 1: Eastern Cape collections include an amount of R1 899 086 in respect of third-party acknowledgements of debt (AODs).

During the year under review, the rate of collection has been steadily improving as new collection methods have been introduced to address the relatively high level of defaulting debtors. The amount collected in the year relating to AODs was R6 928 603, being R8 827 689, less third-party AODs of R1 899 086. This represents 22% of the total average outstanding debt (2006: R2 501 132 – 22%) of the average total outstanding, implying an average collection period of four years and six months. The maximum repayment period allowed is five years.

Defaulting debtors are being contacted by newly appointed collectors and payment terms are constantly being enforced. The results of a debit order system introduced in December 2006 are also starting to show, although an average failure rate of 30% is being experienced. Other available avenues

being explored include garnishee orders and direct PERSAL deductions, as well as options to attach the pension payouts of defaulters.

The composition of the debtor's book also precludes the SIU from attaining high recovery rates, as it is frequently faced with situations of genuine hardship and misunderstanding. Following up the defaulting debtors from rural areas has been a particular challenge. To address this challenge, the SIU is in the process of recruiting a number of tracers/collectors around the country, but the process has been delayed by the lack of suitably qualified people who match the required integrity standards.

In addition, the SIU's legal position is difficult, as it is in most instances acting as an agent. This issue is being addressed by obtaining more comprehensive representation contracts.

The SIU is confident of further improvement in the rate of collection in the future.

ACCOUNTING POLICIES ON ACHIEVEMENTS

Recognition and measurement of achievements for the year ended 31 March 2007

The following are the principal accounting policies and procedures being applied by the SIU to recognise and measure its achievements disclosed in schedules A and B. These policies and procedures are consistent in all material respects with those applied in previous years, with the exception of the recognition and measurement of the present value of future savings, which were introduced for the first time during the year under review. New and rollover cases are also reported separately for the first time.

Schedule A

Value of completed investigations and recoveries

Recognition

Items recognised represent the total value of cases and are presented in the following categories:

- 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
- 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
- Projected savings to third parties due to its intervention

Measurement

Prevention of loss – new cases

Where cases have been initiated in the current year, the prevention of loss 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 – existing cases

Where investigations continue into the following years, the value of prevention is measured by comparing the current actual expenditure reported by the third party with the projected expenditure, using the results of the year before the unit'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 existing 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 existing cases

Assets recovered as a result of the SIU's 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 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 acknowledgement of debt has been signed between the relevant parties and the SIU.

Measurement

Cash recoveries are presented as follows:

Amounts to be collected:

- Balances brought forward: these represent monies owing in terms of AODs signed in prior years, payable directly to the SIU
- AODs in favour of the SIU: these represent monies payable directly to the SIU as a result of AODs being signed during the current year
- Balances carried forward: total value of AODs signed in favour of the SIU as at 31 March 2007

Amount of cash recovered:

- Cash recovered during the current 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

NOTES

Ground Floor, Rentmeester Park
74 Watermeyer Street Meyerspark
Pretoria
0184

Tel: +27 (0) 12 843 0000

Fax: 27 (0) 12 843 0113

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