

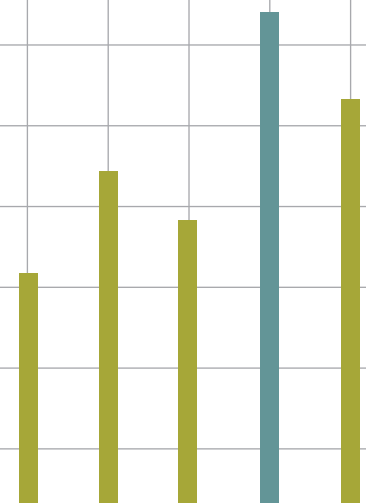
SIU



ANNUAL
REPORT
2008
2009

08

09



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.

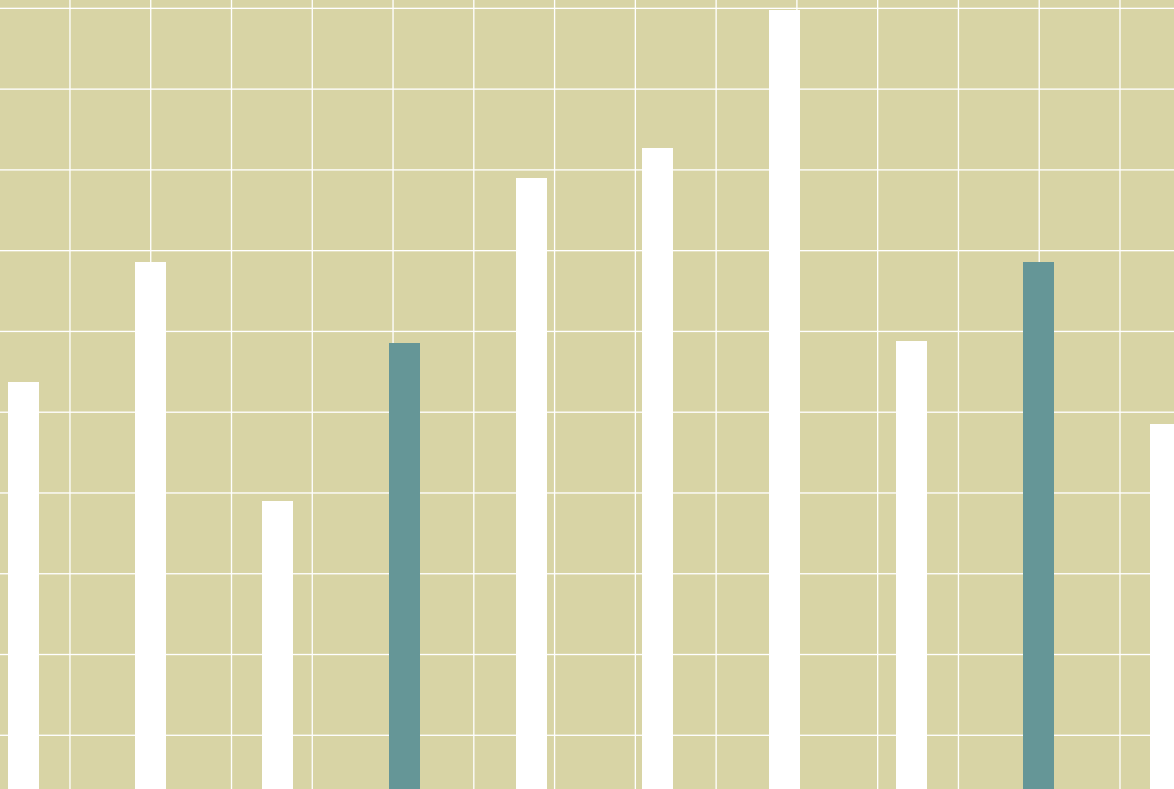
Vision

*Working together to rid society
of corruption*

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

Values

*Integrity | Co-operation
Effectiveness | Professionalism | Drive*



LETTER TO THE SPEAKER OF PARLIAMENT

The Honourable Speaker
Mr Max Sisulu
Parliament of the Republic of South Africa
P. O. Box 15
Cape Town
8000

31 August 2009

Dear Mr Sisulu,

Special Investigating Unit's Annual Report for 2008/09

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 2008/09 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 period under review.

Yours sincerely,



W A Hofmeyr

Head of the Special Investigating Unit

contents

General

Proclamations	6
Background to the Special Investigating Unit	7
Foreword and overview of the SIU's performance by the Head of SIU	9

Major Investigations

Overview of Major Investigations	12
Department of Social Development	16
Department of Transport	20
Department of Correctional Services	25
Department of Housing	29
Special Pension Fund	32
Provincial and Local Government	36
KwaZulu-Natal	36
Eastern Cape	37
Free State	38
Mpumalanga	40

Financial Statements

General Information	43
Report of the Auditor-General	44
Audit Committee Report	48
Approval of the Annual Financial Statements	50
Statement of Financial Position	51
Statement of Financial Performance	52
Statement of Changes in Net Assets	53
Cash Flow Statement	54
Summary of Accounting Policies	55
Notes to the Annual Financial Statements	64
Annexure A - Summary of Standards of GRAP	79
Annexure B - Other Expenses	80
Summary Report: Schedule A	81
Summary Report: Schedule B	82
Accounting Policies	83

Abbreviations

AFU	Asset Forfeiture Unit
AoD	Acknowledgement of debt
BEE	Black Economic Empowerment
DCS	Department of Correctional Services
DLTCs	Driving Licence Testing Centres
DPLG	Department of Provincial and Local Government
DoT	Department of Transport
DSD	Department of Social Development
DSO	Directorate of Special Operations
DWAF	Department of Water Affairs and Forestry
ECLG	Eastern Cape Department of Local Government and Traditional Affairs
ELBS	Electronic Licence Booking System
ENE	Estimates of National Expenditure
FSMRM	Free State Moral Regeneration Movement
FSPDF	Free State Provincial Development Fund
eNaTIS	(electronic) National Traffic Information System
ICT	Information and Communication Technology
MEC	Member of Executive Council
MEEC	Mpumalanga Economic Empowerment Corporation
MEGA	Mpumalanga Economic Growth Agency (formerly MEEC)
MFMA	Municipal Finance Management Act
NPA	National Prosecuting Authority
Persal	Personnel and salary management system used by the national and provincial government
SANDF	South African National Defence Force
SAPS	South African Police Service
SASSA	South African Social Security Agency
SCCU	Specialised Commercial Crimes Unit
SIU	Special Investigating Unit
SIU Act	Special Investigating Units and Special Tribunal Act, 1996 (Act 74 of 1996)
SOCPEN	Social Pensions System
SPF	Special Pensions Fund

General

Proclamations

The following new proclamations were issued by the President in terms of the Special Investigating Units and Special Tribunals Act, 1996 (Act 74 of 1996) (SIU Act) during the period under review:

- **Proclamation 2 of 2009, dated 21 January 2009 (Government Gazette No 31808) (Department of Education: Mpumalanga)**, which directed an investigation into the failure by the Department of Education: Mpumalanga to comply with procurement and tender procedures in the procurement of services for the provision of transport for scholars and related corruption by officials of the Department of Education: Mpumalanga, which occurred during the period 1 April 2001 to 31 December 2007.
- **Proclamation R.35 of 2008, dated 4 September 2008 (Government Gazette No 31394) (Mhlatuze Water: KwaZulu-Natal)**, which directed an investigation into the failure by Mhlatuze Water to comply with procurement and tender procedures in the procurement of various goods and services, allegations of serious maladministration in connection with the affairs of Mhlatuze Water and improper or unlawful conduct by the employees of Mhlatuze Water, which occurred during the period 1 January 2004 to 4 September 2008.
- **Proclamation R.36 of 2008, dated 4 September 2008 (Government Gazette No 31394) (Department of Health: Eastern Cape)**, which directed an investigation into the failure by the Department of Health: Eastern Cape to comply with procurement and tender procedures in the procurement of various goods and services, allegations of serious maladministration in connection with the affairs of the Department of Health: Eastern Cape and improper or unlawful conduct by the employees of the Department of Health: Eastern Cape, which occurred during the period 1 January 2003 to 4 September 2008.

Background to the Special Investigating Unit

The Special Investigating Unit (SIU) is an independent statutory body that is accountable to the President regarding proclaimed investigations and to Parliament in terms of the Unit's activities. The SIU was established by the President to investigate corruption and maladministration in government and report on the findings of these investigations. The SIU is funded through the budget vote of the Department of Justice and Constitutional Development.

The SIU was set up in terms of the Special Investigating Units and Special Tribunals Act, which primarily mandates the SIU to recover and prevent financial losses to the state due to various acts of corruption, fraud and maladministration. The SIU assists departments with systemic improvements that will impact on service delivery.

The SIU is principally a public forensic entity with powers of investigation and litigation. Following the issuing of a presidential proclamation, the SIU is given powers to subpoena, search, seize and interrogate witnesses under oath. While it does not have the power to arrest offenders, through its association with law enforcement partners, the SIU is able to assist with criminal prosecutions when criminal conduct is uncovered.

The SIU may investigate any matter set out in section 2 of the SIU Act regarding the following:

- 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. For example, the SIU can 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.

Although the SIU focuses primarily on the public sector, it also deals with private sector accomplices and can investigate private sector matters that may be harmful to the public interest.

The SIU applies a project-based approach and concentrates on processes, people and financial losses in client departments. Its unique integrated service offering to state institutions includes forensic audit and investigation, remedial legal actions encompassing civil, criminal and disciplinary action, and the recommendation and facilitation of systemic recommendations.

A portrait of a middle-aged man with grey hair and glasses, wearing a dark pinstripe suit, white shirt, and a patterned tie. He is smiling slightly. The background is a warm, orange-brown color.

... the SIU provides forensic services
that are **on par**
with the
best
in the private sector.



Foreword by the Head of the SIU

Willie Hofmeyr

Over the past 8 years the SIU has expanded rapidly from a small organisation of about 70 staff to a become a formidable force of nearly 600 staff, and it has become a vital part of the efforts by government to deal more effectively with corruption.

A large part of its success has been due to its innovative approach of building partnerships with government departments to fight corruption. Departments such as Correctional Services, Transport and Social Development committed significant funding to enable the SIU to build additional capacity to work with them. Such funding has grown to over 50% of the overall budget of the SIU.

A cornerstone of the success of the SIU has been the exceptional working relationships it has built with its partners in law enforcement which has lead to a great improvement in the ability of the justice system to deal with corruption related offences.

Corruption remains a global threat that compromises the integrity of state institutions, governance systems and processes. This poses a serious challenge to the poverty alleviation and other service delivery programmes of the state.

The SIU's forensic services has not only promoted good governance in the state, but has contributed to improved service delivery in key service delivery priorities, such as the social grants, housing and access to basic services.

The SIU has set itself a challenge to develop an integrated approach that deals effectively with fraud, corruption and maladministration, and can assist in

curbing future systemic abuse of the state's delivery systems.

Over the past two years, the SIU has embarked on a thorough organisational development process as its rapid growth had placed a massive strain on its support services and overall infrastructure.

As part of this process the SIU is implementing a proper project management approach and refining and improving the way it works to ensure that it can provide forensic services that are on par with the best in the private sector.

Despite the internal demands and strains resulting from the organisational development process, the SIU has again achieved a great deal of success through its forensic investigations, and has managed to assist state institutions in dealing with institutional corruption.

The SIU conducted a large number of investigations that spanned many areas. The major national investigations were for the departments of Social Development, Correctional Services, Transport, Housing and the National Treasury (Special Pensions Fund). These cover matters as diverse as social grants, special pensions, driving licences, procurement and housing delivery. The SIU has also conducted a significant number of investigations at a provincial and local government level in the provinces of KwaZulu-Natal, the Eastern Cape, the Free State, Mpumalanga and Limpopo.

As in past years, the SIU had set itself ambitious targets for 2008/09, based on its performance over



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the previous years. Overall, it performed well and exceeded almost all its targets. The work of the SIU yielded savings and recoveries of over R5 billion, far above its target of R2.7 billion and its performance in the previous year.

Cases in which evidence was prepared for use in civil litigation, criminal prosecutions and disciplinary proceedings exceeded the targets in almost all cases, and also reflected an increase over the previous year.

In the period under review, the SIU operated on two levels to make an impact in addressing the challenges of institutional corruption. Firstly, it ensured that some of the financial losses suffered by the state as a result of fraud, corruption and maladministration were recovered and that deterrent strategies, such as prosecutions, were implemented.

Secondly, it provided recommendations on closing the gaps on systemic breaches through interventions that safeguard systems from possible future abuse. The impact of this is long term savings to state departments and protecting the integrity of their systems to deliver key services.

The SIU's successes would not be possible without the outstanding co-operation and support it receives from departments, partners and other stakeholders. It is important to acknowledge its partner departments for their continued commitment to the fight against corruption and the assurance of good governance and service delivery, in particular the ministers and directors-general at a national level, and the

provincial members of executive council and heads of department.

It is also worth noting that the SIU's effectiveness and ability to grow would not be possible without the support received from key stakeholders in government, particularly National Treasury. In addition, the assistance received from the law enforcement community, especially the South African Police Service (SAPS) and the National Prosecuting Authority (NPA), have been instrumental to the achievements of the SIU for the period under review.

The SIU is particularly pleased that it is one of a small number of state institutions that obtained an unqualified audit report with no matters of emphasis. It has now achieved four consecutive clean audit reports. The SIU would like to thank the staff of the Auditor-General for the excellent working relationship that has been developed.

The SIU would like to extend its appreciation to the Presidency, Parliament, the Minister and Deputy Minister, as well as the Director-General, in the Department of Justice and Constitutional Development for the continued trust and support extended to it over this period.

Most importantly, the SIU would like to extend its deepest gratitude and appreciation to its dedicated staff members who continue to rise to the challenge of achieving the SIU's strategic objectives and ensure that it exceeds its targets every year.

Overview of the SIU's performance

Given that the primary purpose of the SIU is to enable the state to recover money and prevent losses due to corruption, the Unit has developed a series of performance indicators to gauge the impact and measure the results of its investigations. As indicated in the tables below, the SIU has set itself

ambitious targets as set out in the annual Estimates of National Expenditure (ENE), based on the previous year's performance. Overall, the SIU has operated excellently in all its key performance areas and has exceeded its ENE targets for the year.

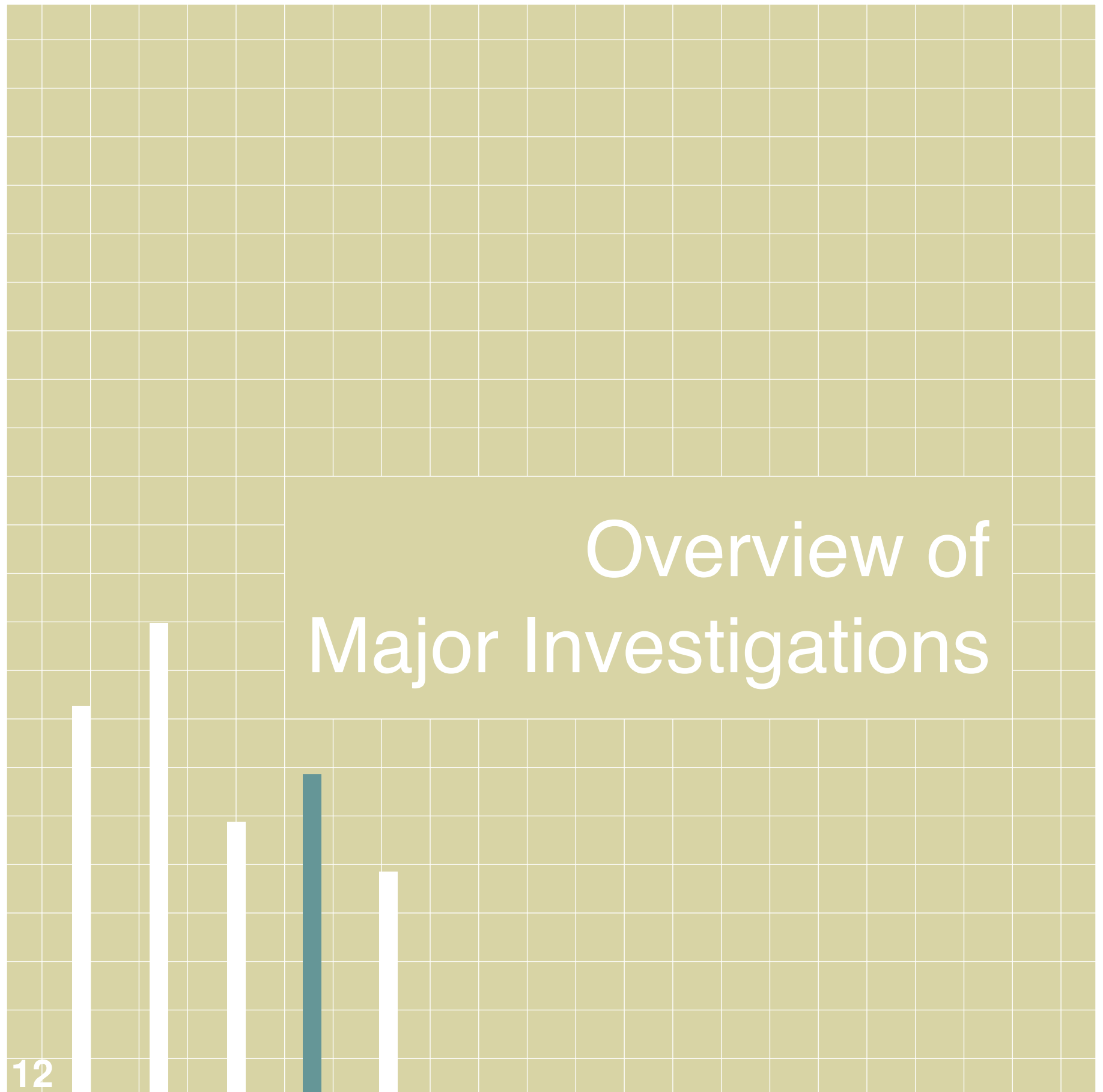
Table 1: Results of investigations

Performance measures		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Evidence prepared for use in civil litigation	Target	100	40	40	5 025	8 000	9 400
	Actual	165	45	2 133	4 829	9 696	11 177
Evidence prepared for use in criminal prosecutions	Target	200	200	800	2 000	3 943	4 050
	Actual	52	165	1 263	3 302	4 495	5 545
Evidence prepared for use in disciplinary proceedings	Target	300	330	660	2 300	7 000	1 300
	Actual	114	207	666	7 551	8 627	4 750
Evidence prepared for use in other remedial action	Target	3 000	5 000	50 000	45 000	130 600	200 020
	Actual	10 000	-	27 758	95 846	139 331	*198 052

* At the end of the financial year, the Department of Transport investigation into stolen vehicles had not yet resulted in the removal of stolen vehicles identified on eNatis, resulting in an under-delivery of 1% on the SIU's target for evidence prepared for use in other remedial action.

Table 2: Savings, preventions and cash recoveries

Performance measures		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Savings (R)	Target	70 m	100 m	150 m	80 m	160 m	156 m
	Actual	373 m	92 m	299 m	231 m	301 m	202 m
Preventions (R)	Target	-	400 m	850 m	1 250 m	2 000 m	2 500 m
	Actual	-	3 435 m	3 270 m	1 759 m	2 672 m	4 917 m
Cash recoveries (R)	Target	50 m	30 m	40 m	20 m	40 m	53 m
	Actual	14 m	12 m	13 m	31 m	61 m	72 m
Total (R)	Target	120 m	530 m	1 040 m	1 350 m	2 200 m	2 709 m
	Actual	387 m	3 539 m	3 582 m	2 021 m	3 034m	5 191 m



Over the past year, the SIU has continued its investigative work across a wide range of focus areas. Some of these investigations are new, while others are ongoing. The primary national programmes include investigations for the departments of Social Development, Correctional Services, Transport, Housing and the National Treasury (Special Pensions Fund). These cover matters as diverse as social grants, special pensions, driving licences, procurement, housing delivery, and municipal and provincial matters.

While the portfolio of investigations is diverse, the ability of the SIU to utilise specialised, skilled capacity, a project management approach and a value-based philosophy in conducting its business, underpinned by collaboration, has ensured that it delivers results to client departments.

In partnership with client departments, the SIU has targeted fraud, corruption, misconduct and maladministration, all of which materially affect a department's capacity to provide basic services and contribute to poverty alleviation.

Social grants

In 2005, the Department of Social Development conservatively estimated a loss of R1.5 billion per annum due to social grant fraud. Since the inception of the joint investigation into social grant irregularities in 2005, more than 438 000 irregular beneficiaries have been recommended to the South African Social Security Agency (SASSA) for removal from the Social Pensions System (SOCPEN), more than R11.3 billion in cumulative savings has been achieved through recoveries and the prevention of future losses, and over 11 000 criminal offenders have been prosecuted. During the period under review, this investigation resulted in a preventative future saving to government in excess of R3 billion, as well as the prosecution of almost 4 000 individuals for defrauding the social grant system.

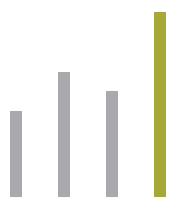
Irregular issuing of licences

The initial projections of illegally issued driving licences ranged from as low as 12 % to as high as 50%. The SIU has established through its investigation that 133 796 (8.9%) of the 1 511 101 million licences and conversions analysed to date were invalid. Of the invalid licences identified, 21.7% were obtained fraudulently, 19.9% were issued to applicants who were not medically fit to drive, 9.6% were issued to applicants who were not competent to drive (for example, applicants who had failed their driving tests) and 33.2% were invalid due to administrative infractions.

During the period under review, this investigation resulted in the identification of 41 332 invalidly issued licences and 5 377 invalidly converted licences. The investigation has been expanded to include the registration of stolen vehicles on the (electronic) National Traffic Information System (eNATIS), as well as a review of the business processes of the DLTCs of the Department of Transport.

Procurement investigations

The SIU has a significant procurement investigation portfolio at the Department of Correctional Services. The Unit audited 7 000 transactions resulting in the identification of 200 potential red-flag contracts through a unique procurement red-flagging system. This has dramatically improved the ability of the department to detect irregularities and ensure that the identified irregularities in its procurement division are investigated. The investigation has led to the seizure of R2.2 million worth of assets, with further seizures worth R17 million expected. The SIU's investigations resulted in improvements to the department's procurement system. It has also significantly improved good governance in the department. This has resulted in a decrease in the department's vulnerability to abuse.



The SIU has audited more than **8 000** files and found that 72% of individuals are legally entitled to receive a special pension...

Housing contracts and housing subsidies

The partnership with the Department of Housing, which is aimed at investigating the provision of housing through government's low-income housing scheme, resulted in the arrest of 900 unlawful beneficiaries, of which over 80% have thus far been prosecuted and convicted. The SIU also made recommendations to the department that will enable it to improve its internal processes and systems in order to prevent future abuse of the low-income housing system.

Special Pensions Fund

The investigation into the Special Pensions Fund (SPF) of the National Treasury is aimed at ensuring that special pensions are correctly allocated to individuals who were unable to provide for a pension

because of sacrifices made in working towards a democratic constitutional order. It focused on cleansing the SPF database to remove disentitled beneficiaries from the system. A key deliverable in this investigation is the verification of 13 583 special pension beneficiaries on the SPF database. The SIU has audited more than 8 000 files and found that 72% of individuals are legally entitled to receive a special pension. The SIU's recommendations have resulted in an improvement in the claims and administration process. A total of 143 fraud dockets were handed over to the SAPS for further action.

Provincial and local government investigations

The SIU has also built a significant provincial project profile, with provincial and local government investigations being conducted in KwaZulu-Natal, the Eastern Cape, the Free State and Mpumalanga.

A photograph of a large, curved, tiered stone structure, possibly a stadium or amphitheater, with a text overlay. The structure is made of light-colored stone blocks and is curved in a semi-circle. The text is overlaid on the right side of the image.

R11,3 billion in
cumulative savings has been achieved through
recoveries and the prevention of future losses, and
over 11 000 criminals have been prosecuted.

Department of Social Development

Background

The mandate of the investigation into the administration of the social grant system resides in Proclamation R18 of 2005, published in the Government Gazette on 6 April 2005, and further extended by Proclamation R5 of 2007, dated 30 March 2007.

This proclamation 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 South African Social Security Agency, custodian of the administration of social grants nationally, joined the partnership in 2006 to address fraud, corruption and maladministration in the system.

Deliverables

The SIU has committed itself to achieving the following:

- Deterring and dissuading irregular beneficiaries
- Recovering losses
- Enhancing savings

Its strategy to deter and dissuade irregular beneficiaries entails assisting the department with:

- the disciplining of public servants associated with facilitating irregular grants;
- identifying systemic gaps and implementing improvements, and

- increasing deterrence through better public awareness, prosecutions and recovery.

It aims to recover losses through the civil recovery of illegal benefits obtained through irregular grants, and to enhance savings by identifying and recommending the removal of disentitled beneficiaries, including public servants and private beneficiaries.

Results and achievements

To ensure qualitative and quantitative results, the SIU's investigation included the identification of trends in the payment of irregular grants and initiated an operation to identify gaps in the SASSA's processes through a formalised review process.

The forensic data analysis provided evidence of institutional corruption in the SASSA regarding procurement and financial systems, and an increase in the applications for and approval of disability grants. The identified trends and results of the data analysis indicated that a change in strategy was required to focus on preventing future systemic abuse and to address the gaps in the SASSA's internal support functions.

In previous reporting periods, initial analyses indicated that child support grants appeared to be more vulnerable than other grants, as 55% of approved beneficiaries were collecting child support grants. This is largely because the screening process is easier to manipulate than the process to receive other types of grants. The SIU thus increased its focus on these grants in terms of prosecutions and

recovery processes via acknowledgement of debt (AoD) agreements, the identification of systemic problems in grant administration and engaging in disciplinary action where public servants were found to have been involved. The impact of this increased focus can be seen in the consistent rise in grant cancellations (either voluntarily by a beneficiary or requested by the SIU) and the lapsing of grants due to non-collection.

During the period under review, however, there has been a marked increase in grant applications and approvals, which is directly related to an increase in the threshold for the means tests for all grants, a decrease in the old age criteria for men and the

relaxation of identification criteria when applying for a social grant.

In the period under review, the SIU also facilitated action by leveraging collaborative relationships with the NPA and the SAPS. The NPA established 33 criminal court centres nationally, while the commercial branches of the SAPS across the country investigated identified criminal activity (individuals and networks).

The success with which the SIU achieved its objectives of deterring and dissuading irregular beneficiaries, recovering losses and enhancing savings is reflected in the following results that were achieved during the period under review.

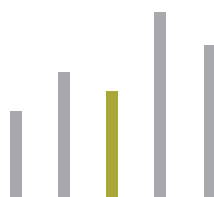
...there has been
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Table 4: Achievements from inception to date

	2005/06	2006/07	2007/08	2008/09	Total
Total new cases before court	632	2 675	4 204	3 930	11 441
Convictions	355	2 215	3 625	3 605	9 800
Disciplinaries prepared	-	6 797	8 018	4 100	18 915
Total AODs	2 120	4 677	9 391	9 680	25 868
Value of AODs	R12 091 848	R26 952 261	R50 826 557	R51 399 143	R141 269 809
Recommendations for removal from the Social Pension system	111 517	72 278	103 689	151 184	438 668
Actual savings	R280 879 732	R212 572 672	R299 907 298	R200 688 260	R994 047 962
Preventative savings	R3 104 353 800	R1 754 424 540	R2 671 603 712	R3 774 711 860	R11 305 093 912

Table 5: Recoveries in terms of admissions of debt

	2005/06	2006/07	2007/08	2008/09	Total
Total AODs	2 120	4 677	9 391	9 680	25 868
Value of AODs	R12 091 848	R26 952 261	R50 826 667	R51 399 143	R141 269 809
Recoveries to date	-	-	-	-	R40 184 277



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Future trends and opportunities

The SASSA faces multiple challenges in its role as custodian of the social grant administration process, including the need to address compliance measures and protection against external and internal threats. Anomalies found during investigations and the analysis of data show a direct correlation between weak systems (both electronic and manual), corrupt officials and members of the public at large.

During the period under review, the SIU identified a number of systemic issues, which will form the focus of the investigation in the 2009/10 period. These include the irregular payment of disability grants, the payment of old age grants to female beneficiaries

younger than 60, the payment of child support grants to children identified as directors of companies, as well as the irregular payment of foster care grants.

Furthermore, the investigation identified beneficiaries with irregular identity numbers, children with invalid identity numbers and SASSA employees who were collecting grants whilst employed. The investigation also identified SASSA employees who are directors of companies contracted to deliver services to the agency, and SASSA employees who have business interests outside of SASSA who failed to disclose their interests. Suspicious procurement contracts and issues relating to service delivery and payments were also identified.



46 709 invalidly issued licences and
invalidly converted licences were identified.

Department of Transport

Background

The mandate of the investigation into the issuing of illegal driving licences resides in Proclamation R5 of 2005, published in the Government Gazette on 31 January 2005, as amended by Proclamation R17 of 2008.

This proclamation mandates the SIU to:

- conduct an investigation in respect of the issuing of driving licences by examiners at DLTCs without complying with the requirements of applicable legislation;
- the conversion of forged, invalid and foreign driving licences to the credit card form driving licence;
- the registration of stolen vehicles on the (electronic) National Traffic Information System (eNaTIS), and
- the failure to properly manage and control the activities of officials to ensure compliance with the requirements of the relevant legislation regarding the issuing and/or conversion of driving licences.

As part of a joint initiative with the SIU, the Department of Transport is providing R16.8 million per annum for this investigation. The project started on 1 March 2005 for an initial period of three years, and the partnership has been extended until 2011.

Deliverables

The SIU has committed itself to investigate and make recommendations on the following matters:

- The issuing and conversion of driving licences
- The registration of stolen vehicles on eNaTIS
- The business processes of the DLTCs

The multidisciplinary investigation team followed a phased approach to the different focus areas, while working closely with officials of the Department of Transport at both national and provincial level.

Against the SIU's overall aim of assisting the Department of Transport to build an effective licensing system, its forensic solution is aimed at:

- understanding the nature and seriousness of the problems experienced in the licensing system and processes;
- identifying invalidly issued or converted licences and recommending the cancellation of such licences to remove illegal and potentially incompetent drivers from the country's roads;
- it is also aimed at identifying stolen vehicles registered on eNaTIS, and
- addressing systemic weaknesses.

This is done by facilitating criminal and disciplinary action against officials and/or private individuals and removing corrupt officials from the system in appropriate cases. The investigation team also facilitates the improvement of business processes, management and control measures and systemic weaknesses that have made the system vulnerable to exploitation, and bolsters the integrity of eNaTIS by removing stolen vehicles from the system and addressing the systemic weaknesses identified.

Results and achievements

Issuing and conversion of driving licences

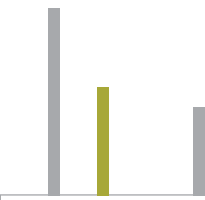
Previously, DLTCs were prioritised for investigation based on the high incidence of irregularities and unlawful activities or the high rate of specific transactions at such DLTCs. The SIU also investigated ad-hoc allegations received from the Department of Transport, DLTC, municipal personnel and members of the public. However, the SIU has refined its prioritisation model to ensure that the investigation remains focused on high-risk areas, such as DLTCs where the highest rate of irregular and/or unlawful conduct was detected. This has been achieved through an ongoing analysis of results to date and the eNaTIS data made available, which have enabled data analysts to customise data tests to identify high-risk areas for investigation.

During the period under review, the SIU continued this analysis of the eNaTIS database to identify sensitive transactions on eNaTIS (transactions

that can be abused to facilitate motor vehicle crime), analyse relevant data in relation to sensitive transactions to identify anomalies and/or trends in the occurrence of such transactions, establish the potential magnitude of the problem nationally and identify focus areas for further investigation.

The SIU's work with the Department of Transport has led to an in-depth understanding of the problem the department faces in relation to the issuing and conversion of driving licences. The SIU has established that 133 796 (8.9%) of the 1 511 101 million licences and conversions analysed to date were invalid. Of the invalid licences identified, 21.7% were obtained fraudulently, 19.9% were issued to applicants who were not medically fit to drive, 9.6% were issued to applicants who were not competent to drive (for example, applicants who had failed their driving tests) and 33.2% were invalid due to administrative infractions.

The following results were achieved during the period under review:



The SIU has established that 133 796 (8.9%) of the 1 511 101 million licences and conversions analysed to date were invalid.



Table 6: Invalidly issued and converted licences identified per province

	Invalidly issued licences			Invalidly converted licences		
	Licences identified	Referred for cancellation	Cancelled	Licences identified	Referred for cancellation	Cancelled
Eastern Cape	7 971	7 241	29	931	624	339
Northern Cape	208	33	-	31	-	-
Western Cape	3 642	3 209	85	386	197	197
Free State	-	-	-	-	-	-
KwaZulu-Natal	8 461	8 469	388	1	1	-
Gauteng	20 485	20 720	-	2 147	4 555	11
North-West	108	-	-	25	-	-
Mpumalanga	1 124	674	29	51	-	-
Limpopo	1 361	986	82	-	-	-
Totals	43 360	41 332	613	3 572	5 377	547

Table 7: Transport results and achievements for 2008/09

Results during the 2008/9 period	Target	Achievements
Files uplifted to be audited and verified	-	146 786
Files audited and verified	-	331 831
Invalidly issued licences and converted licences referred for cancellation	40 000	46 709
Criminal matters investigated and registered	600	967
Arrests made by the SAPS	-	359
Disciplinary cases investigated	302	786

Of the 967 criminal matters investigated and registered, 45 cases were registered against government officials, 35 against municipal officials, 109 against officials of the Department of Transport, and 778 against private individuals. Of the 359 arrests made by the SAPS, 70 were government officials, 5 were municipal officials, 31 were DLTC officials, and 253 were private individuals. Of the total number of arrests made, 194 prosecutions were instituted and 124 convictions were obtained. Of the 786 disciplinary cases investigated, 302 cases were referred to the Department of Transport, relevant municipality or relevant government department for the institution of disciplinary proceedings and 484 investigations are still ongoing.

In terms of section 29 of the National Road Traffic Act, 1996 (Act 93 of 1996) (as amended), invalidly issued or converted licences must be cancelled in the prescribed manner. The SIU has been working

closely with provincial department representatives to speed up the cancellation process.

Registration of stolen vehicles on eNaTIS

The first phase of the SIU's investigation into stolen vehicles registered on eNaTIS focused on an analysis of the eNaTIS database to identify sensitive transactions (transactions that can be abused to facilitate motor vehicle crime) and to identify anomalies and trends in such transactions. This phase was conducted in collaboration with the department, eNaTIS experts from Business Against Crime and Tasima (the department's consultants responsible for the migration to and management of eNaTIS).

This phase will help determine the magnitude of the problem nationally, while identifying focus areas for detailed investigation. The SIU has completed the identification of the sensitive transactions and has

received the relevant data from the Department of Transport for two of the sensitive transaction types. The investigation team is in the process of analysing the data and testing the efficacy of the process by investigating a sample of the discrepancies.

Review of business processes

The SIU has completed its review of the DLTC business processes to identify measures to reduce the high levels of fraud and corruption at DLTCs and to resolve inefficiencies that negatively affect service delivery. With the assistance of subject matter experts, the SIU conducted a pilot project at two DLTCs in the Western Cape. The aim of the pilot project was to develop and refine a sustainable best practice model implementable at any DLTC.

Throughout the pilot study, which was concluded on 31 March 2009, the pilot project team supported management at the DLTCs with the following:

- the implementation of the electronic licence booking system (ELBS);
- assessment of the DLTC-specific environment and implementing recommendations aimed at improving working conditions; and
- increasing operational efficiencies and enhancing available capacity.

During the pilot project, skills were transferred to DLTC staff who had received training and support in a number of areas, including client liaison practices, the operation of the ELBS and the minimum requirements for registration and retention of grading for DLTCs.

The pilot project team facilitated the development of a best practice manual for DLTCs, a proposed service level agreement (including performance measures and service targets) to govern the relationship between provincial departments and municipalities, job descriptions for all DLTC personnel, a management representative training manual to enhance uniformity in the management of DLTCs nationally, and a procedure manual for the

national inspectorate and provincial monitoring units to promote uniformity in the performance of DLTC inspections at national level.

The SIU also proposed certain amendments to the minimum requirements to align them to the best practice model.

To date, the SIU has reviewed compliance with the minimum requirements at 41 DLTCs, none of which complied. The investigation team has so far recommended improvements at 21 DLTCs and received undertakings to implement the recommended improvements from 12 of these centres.

Future trends and opportunities

Going forward, the aim is to continue to identify anomalies, basic trends and abnormal patterns by implementing a centralised, integrated data analysis approach. Through the SIU's work with the department since 2005, and the knowledge and experience gained in respect of departmental systems, processes and legislation, as well as the modus operandi of perpetrators, the SIU is developing new ways to identify and prioritise areas for investigation and intervention.

The excellent co-operation that exists between the SIU and the Department of Transport has ensured that unlawful practices are exposed, corrupt and incompetent officials are removed from the system and that licences irregularly issued to applicants are cancelled. Importantly, the SIU's efforts will remain focused on adding value to the department by recommending and implementing proactive measures through the analysis of data and trends to combat illegal practices and to improve service delivery at DLTCs.



...the SIU developed a **unique**
procurement red-flagging database...
to monitor expenditure in each correctional centre...

Department of Correctional Services

Background

The mandate of the investigation into allegations of corruption in the Department of Correctional Services resides in Proclamation R44 of 2007. This department is entrusted to take care of the country's prison population and those offenders who are awaiting trial. In executing its mandate, it is required to engage in a number of activities, which range from purchasing and providing food for inmates to ensuring that suitable accommodation is available to house the offenders.

The SIU has a long-standing relationship with the Department of Correctional Services and a second partnership agreement ended on 31 March 2009. Discussions with the Department are still underway about concluding a third agreement. The department specifically requested the SIU's assistance in areas in which it encountered problems relating to maladministration, fraud and corruption. Irregularities in the procurement division received specific emphasis, while irregularities relating to the department's medical aid scheme, asset management and correctional centre pharmacies were also investigated.

The SIU has already completed about 20 investigations related to procurement, as well as various investigations related to asset management and the department's correctional centre pharmacies. The overall purpose of these investigations was to review the level of internal compliance with the department's regulatory framework (policies and

relevant legislation) and the elimination of potential irregularities like tender rigging, cover quoting, corruption and black economic empowerment (BEE) fronting from the system.

Additional objectives include investigating fraudulent medical aid claims and ensuring that departmental officials and/or doctors who have committed these offences are held accountable. The investigation further focused on ensuring that the department's assets and correctional centre farms are managed properly and effectively, that correctional centre pharmacies are managed in accordance with policy, and that correctional centre inmates receive adequate services.

Deliverables

The SIU has committed itself to investigating the following matters and making recommendations:

- Procurement
- The department's medical aid scheme
- Asset management
- Correctional centre pharmacies

Through the SIU's intervention to ensure that corruption and maladministration are eradicated, the department is able to obtain goods and services at market-related prices, thus optimising service delivery by operating an efficient procurement system, which ultimately results in the effective use of state resources.



...a further
R17m
worth of assets is
expected to be
seized shortly.

Results and achievements

Procurement

During the period under review, the SIU developed a unique procurement red-flagging database to enable the SIU to monitor expenditure in each correctional centre and according to each contract and thus identify potential procurement irregularities on national and provincial level. Initial indications have shown that the database is highly effective and will be able to help the SIU and the Department of Correctional Services prioritise procurement matters requiring investigation. It will also dramatically improve the department's ability to detect irregularities and ensure that the identified irregularities are investigated. The investigation revealed that the department's procurement division has been compromised at both national and a provincial level.

The following results were recorded during the period under review:

- The seizure of R1.1 million in assets relating to procurement fraud, where the service provider presented falsified qualifications to the department to qualify for the tender
- The granting of a restraint order for R1.1 million in a fraud investigation (the Asset Forfeiture Unit is expected to obtain a further restraint order to the value of R14 million in a matter related to BEE fronting)

- The referral of four cases to the Specialised Commercial Crimes Unit (SCCU) and the Asset Forfeiture Unit (AFU) (further restraining orders for R3 million are expected to follow from these cases)
- The obtaining of two asset forfeiture applications in co-operation with the AFU to the value of R 2.2 million
- The registration of five cases with the SAPS and the AFU (a further R17 million worth of assets is expected to be seized shortly)
- The finalisation of eight cases involving departmental officials irregularly contracting with the department
- The recommendation of disciplinary action against 134 departmental officials and the referral of various cases to the SAPS for further action

Medical aid scheme

Until 2002, the department funded its own medical aid scheme, but because of fraud, the department lost millions of rands. The SIU investigation has recovered much of that money for the department, and officials and doctors who committed fraud against the department have been prosecuted and/or disciplined. The medical aid investigation was not a priority focus area for the period under review and only 12 matters were finalised. In addition, acknowledgements of debt to the value of R153 000 were signed and assets to the value of R380 000 were seized.

Asset management

The department has significant assets at correctional centres, especially at the centres' farms. The SIU aims to ensure that these assets are properly managed so that the centres produce food efficiently, thereby reducing the department's need to procure additional food.

Eight investigations were finalised during the period under review. As a result of these investigations, 28 disciplinary recommendations were made and assets worth R476 618 were recovered. The investigations revealed that the majority of the correctional centre farms investigated did not comply with the department's policies for managing farms.

Correctional centre pharmacies

The department is responsible for providing prisoners with primary health care at all correctional centres. A significant part of the department's budget is spent on medicine and health care professionals. The motivation for investigations into correctional centre pharmacies is to ensure that they are managed efficiently and in a cost-effective manner. A total of 28 investigations were finalised during the period under review and 96 disciplinary recommendations were made.

Future trends and opportunities

The SIU and the Department of Correctional Services are working together closely to implement the SIU's disciplinary and systemic recommendations that stem from the investigations. The most significant trend identified during the SIU's investigations into the four focus areas was that there was a significant amount of non-compliance with departmental policy and that the most serious transgressions related to procurement. Cases investigated during the period under review included incidents of corruption, BEE fronting, fraud committed by service providers, non-delivery and serious non-compliance with procurement policy.

Unlike the department's procurement matters, bringing its asset management and pharmacies in line with the department's policies should be less complicated. In future, the SIU would like to focus more intently on procurement. By making use of the new procurement red-flagging database, investigations should make a significant impact on the activities of the department, as it would be possible to prioritise cases involving serious irregularities. The increased impact of such investigations would enable the department to improve both its systems and the culture of compliance.



R22 million was
recovered by way of acknowledgement of debt.

Department of Housing

Background

The mandate of the investigation into the provision of low-income housing resides in Proclamation R7 of 2007. This proclamation lists a number of areas of investigation, which broadly cover the loss of state funds allocated to low-income housing schemes as a result of the mismanagement and/or misuse of the low-cost housing schemes.

The Department of Housing has experienced the challenges of both corruption and maladministration relating to the development and delivery of houses through its low-income housing scheme. The SIU was tasked with the provision of a forensic solution to redress these challenges, with a particular emphasis on seeking to prevent future abuse of the system.

The department identified three focus areas for investigation: the irregular awarding of subsidies to non-qualifying beneficiaries, underperformance by contractors in the delivery of houses and the irregular awarding of such contracts, and the conduct of officials administering low-income housing schemes and awarding subsidies or development contracts.

Deliverables

The SIU has committed itself to investigating the following matters:

- Irregular subsidies
- Irregular low-income housing contracts

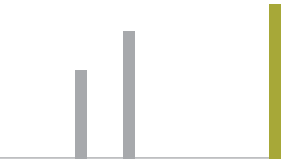
Housing subsidies and contracts are being investigated by a multidisciplinary team in accordance with the SIU's phased project management methodology with the relevant forensic analysis and legal experts involved in formulating the approach. This ensures that appropriate evidence is gathered to assist with any civil, criminal or disciplinary action and that data is analysed not only to establish eligible beneficiaries, for example, but also to identify trends and patterns in order to gain an understanding of irregularities and fraudulent activities.

Results and achievements

Subsidy investigations

The investigations into subsidies commenced in January 2008 with a focus on government employees who allegedly received an undue benefit as identified by the Auditor-General's January 2006 report. This investigation into government employees has since been finalised and the investigation has moved on to a second focus area, the investigation of municipal employees who allegedly received an undue benefit as identified in the Auditor-General's March 2008 report. This focus area is still in the assessment and planning phase.

The Department of Housing, in partnership with the SIU, decided to focus on public servants as there was a greater likelihood of tracing the officials and encouraging a culture of compliance among officials charged with administering the systems.



The arrest of 900 unlawful beneficiaries in joint operations with the SAPS ... resulted in an **80%** conviction rate.

Contract investigations

The investigations into housing contracts are currently in the assessment phase, with the SIU conducting walkthrough audits at the different provincial housing departments to fully understand the department’s processes and systems when awarding contracts of this nature. This will enable the SIU to identify possible contracts for investigation. So far, walkthrough audits have been conducted in five provinces.

This phased approach will assist both the department and the SIU to address the systemic abuse of the national housing programmes and to understand the types of abuse that result in ‘blocked contracts’. This relates to incomplete projects or phases of projects that cannot be completed or closed off due to the impact of inflation and other related bona fide circumstances. This approach will also provide a consolidated national view of the problem and priority risk contracts.

The following results were recorded during the period under review:

- The recovery R22 million by way of AoDs
- The arrest of 900 unlawful beneficiaries in joint operations with the SAPS (the court appearance

of these individuals throughout the country resulted in an 80% conviction rate)


- The preparation of 777 disciplinary cases
- Systemic recommendations to improve internal systems and processes in the department to prevent future abuse of the housing subsidy scheme through fraud, corruption and maladministration

Table 8: Housing results and achievements for 2008/09

Deliverables	Target	Actual achievements
Number of AoDs signed	1000	1 475
Value of AoDs signed	R10 000 000	R22 000 000
Evidence prepared for criminal actions	200	900
Number of convictions	160	576
Number of disciplinaries prepared	400	777

Future trends and opportunities

The SIU’s investigations will help improve governance structures and compliance in the department. More importantly, the investigations conducted have created greater awareness among South Africans of the repercussions of committing fraud and corruption.



SIU's investigations have revealed that **72%**
of monthly special pension applicants were lawfully entitled
to their pensions...

Special Pensions Fund

Background

The Special Pensions Act was enacted to give effect to section 189 of the Constitution and to provide for special pensions to be paid to persons who made sacrifices, suffered financial deprivation or served in the public interest during the liberation struggle. The Special Pensions Act also makes provision for the establishment of a Special Pensions Board and Special Pensions Review Board, and prescribes their scope and powers.

The mandate of the investigation into the Special Pensions Fund (SPF) resides in Proclamation R50, published in the Government Gazette on 7 December 2006. This proclamation mandates the SIU 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 and offences 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 further mandates the SIU to investigate the 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 board from 1 December 1996 to the date of the proclamation.

Deliverables

During the period under review, the deliverables for the investigation were revised as follows:

- Audit and investigate 6 053 monthly beneficiaries on the Special Pensions Fund database
- Recommend the cancellation of disentitled beneficiaries
- Facilitate criminal prosecutions
- Develop a cleansed Special Pensions Fund database containing entitled beneficiaries
- Audit and investigate 7 451 additional beneficiaries
- Assist the Special Pensions Fund with integrity vetting of the new board and officials
- Provide training to the adjudicating committee

The key objectives are as follows:

- Conduct a forensic audit and investigation to understand the nature and seriousness of the

problems experienced at the SPF, as well as identify the underlying causes of these problems, such as systemic gaps and non-compliance with prescripts of the act

- Effectively address the problem by way of remedial action, including the removal of unlawful beneficiaries from the SPF system, and where SPF officials facilitated the unlawful granting of such pensions, facilitate disciplinary and criminal action
- Review and improve the effectiveness of the application and screening process at the SPF by recommending amendments to the application form and formulating a legal checklist to ensure compliance with prescripts of the Special Pensions Act
- Identify underlying constraints at the SPF, including capacity, training needs, legislative gaps and inadequate compliance monitoring
- Detect fraud trends through the analysis of data
- Generate actual and future savings through the removal of illegal beneficiaries from the Special Pensions system
- Update and cleanse the SPF database by ensuring that only lawful beneficiaries are reflected on the system and that all information on the database is current and relevant

Results and achievements

The initial brief agreed to between National Treasury and the SIU required the SIU to conduct a forensic audit of the entire SPF database, which at the time contained 13 583 beneficiaries. It was initially anticipated that the SIU would only conduct

interviews in exceptional circumstances. However, as the investigation progressed, it became apparent that a more in-depth investigation was required. It was therefore agreed that the SIU would focus on verifying the 6 053 monthly beneficiaries, as this presented the best possibility of preventing future and ongoing losses, as well as removing undeserving beneficiaries from the system.

The SIU assisted National Treasury by investigating both the process followed in awarding special pensions, as well as the recipients of special pensions. By understanding the process, the SIU was able to identify how the system had been abused and could then recommend the removal of unlawful beneficiaries from the system, facilitate the criminal prosecution of corrupt officials and recommend improvements to the SPF system to ensure that only those eligible for special pensions receive them.

Through the investigation of criminal activities and the identification of the practices adopted by fraudsters and syndicates, the SIU endeavoured to identify and close the systemic gaps that have made the SPF system vulnerable to exploitation, as well as to remove any corrupt officials who have colluded to defraud the SPF. A major challenge for the SIU has been to protect the integrity of the SPF system. In addressing this challenge, the SIU's forensic solution focused i) people (internal and external); ii) processes (legal framework) and structures; and iii) finance (recovery and savings).

To ensure impact in this regard, the SIU conducted an audit and investigation of the 6 053 monthly recipients of special pensions to verify whether the beneficiaries



the SIU conducted
an audit and
investigation of
the **6 053**
monthly recipients
of special
pensions...



The SIU also performed a low-level investigation and desktop audit of **7 451** new applications...

were entitled to such benefits. It also performed a low-level investigation and desktop audit of 7 451 new applications, which involved comparing information in the file against a legal checklist compiled by the SIU, as well as running identity numbers against the databases of the Department of Home Affairs, the Department of Correctional Services, the SANDF and Persal to ensure that these applicants have been properly vetted and that there is compliance with the prescripts of the Special Pensions Act.

Furthermore, investigators reviewed the SPF database to ensure that disentitled beneficiaries have been removed from the system. Following a verification process, only legally entitled beneficiaries would be reflected on the database. Applications were identified where the pensions were incorrectly granted due to fraud, or where beneficiaries have Schedule 1 offences (in terms of the Criminal Procedure Act) after February 1990. This would enable the board's successor to revoke the board's earlier decision and remove the beneficiary from the SPF system, which would result in significant savings.

The investigation phase of this programme was completed on 30 December 2008 and the investigation is presently in the closing phase. This includes the handing over of a cleansed database to National Treasury, the handing over of 143 fraud dockets to the SAPS, and the compilation of the closure report.

The files under review have been legally certified as follows:

Table 9: Certification of files under review

Category	Total	Percentage
*Verification	4 549	72.6
Deceased	523	8.4
Errors of the board	752	12.0
Fraud	143	2.3
Schedule 1	295	4.7
Total	6 262	100

*The verification category relates to beneficiaries who were considered to be entitled to special pensions after it had been established that all essential requirements for the awarding of a pension had been satisfied.

Future trends and opportunities

The SIU's investigations have revealed that 72% of monthly special pension applicants were lawfully entitled to their pensions. However, the investigation also revealed instances where special pensions were issued when there had been non-compliance with the Special Pensions Act.

An analysis of the investigation results has attributed the key causes of the awarding of irregular pensions to the conduct of board members misinterpreting the Special Pensions Act, the process of applying for a special pension and the legislative framework.

Board members were found not to be conversant with the prescripts of the Special Pensions Act. Negligence was identified among board members assessing applications for special pensions. Board members were also found to be exploiting systemic weaknesses. In terms of the process of applying for a special pension, there was a lack of standard operating processes and inadequate compliance monitoring by the SPF Screening Committee, while legislative gaps were identified in the legislative framework.

A photograph of a coastal wind farm. Several large white wind turbines are situated on a rocky, grassy shoreline. The sky is filled with dramatic, dark blue and grey clouds, with some light breaking through. The water is visible in the foreground and middle ground.

The SIU has also built a
**significant provincial
project profile...**

Provincial and Local Government Investigations

During the period under review, the SIU's provincial and local government investigations were focused primarily on municipalities and provincial treasury issues, particularly matters related to procurement. The general lack of compliance with the provisions of the Municipal Finance Management Act (MFMA) means that a major focus of the SIU's intervention has been targeted at improving compliance with applicable legislation. The SIU has worked to forge good relations with provincial departments and is looking to make an even bigger impact by continuing to assist its partners at provincial and municipal level by focusing on improving systems and procedures to ensure the continued improvement of service delivery.

Kwazulu-Natal

Msunduzi Local Municipality

This investigation was carried out under section 28 of the NPA Act. The Department of Provincial and Local Government (DPLG) requested the SIU to help identify procurement irregularities affecting the expenditure of the budgetary allocation of funds in its vote accounts. This investigation was prompted by a whistleblower at the municipality's Parks and Recreation Department.

The investigation team successfully carried out section 28 search and seizures, together with the Directorate of Special Operations (DSO) at the municipal offices (the Department of Parks and Recreation) and the premises of the two main service providers. The SIU reviewed and analysed the municipality's financial documents and procurement processes, and identified irregularities and abuse

of the system. The investigation led to criminal and disciplinary charges being brought against corrupt municipal officials and service providers. Civil recovery processes for R3.5 million have been instituted through the AFU.

Department of Transport cost centres

This investigation was carried out under Proclamation R45 of 2007. The Department of Transport requested the SIU to investigate fraud and corruption at three of its cost centres (Stanger, Merebank and Port Shepstone) because it had become aware of service providers attempting to circumvent tender procedures affecting the ability of the centres to deliver a cost-effective supply of resources to various Department of Transport offices in the region. The SIU was asked to identify the officials and service providers circumventing the tender procedures, as well as any officials receiving bribes and service providers paying off departmental officials.

Relevant financial documentation was received from the cost centres, which was reviewed and analysed to identify irregularities and systemic gaps. Irregularities that were uncovered included fraudulent invoices by service providers, duplicate invoices submitted by service providers and the payment of kickbacks to the value of R500 000 to departmental officials into their private bank accounts. This matter will be handed to the Commercial Branch of the SAPS for further investigation, with criminal charges being brought against corrupt departmental officials and service providers.

Mhlatuze Water Board

This investigation was carried out under Proclamation R35 of 2008. It was launched after reports were

received from a number of whistleblowers employed by the board. The SIU received the full co-operation of the Department of Water Affairs and Forestry (DWAF), which instructed the board to cooperate with the investigation.

The main objectives in this investigation were to uncover non-delivery, fraudulent invoicing, procurement irregularities and the circumvention of tender procedures. The available relevant documentary and electronic evidence has been uplifted and analysed. Although certain key documentary evidence is not yet available, the SIU's analysis to date has already confirmed incidents of fraudulent invoicing, procurement irregularities and circumvention of tender procedures.

The investigation is in the delivery phase and systemic processes are being scrutinised as the SIU's analysis of financial documents has indicated glaring deficiencies. Once the investigation phase is complete, the SIU will submit systemic recommendations to the DWAF for the Mhlathuze Water Board to rid itself of corrupt officials and service providers. This will enhance its ability to provide the critical service to the community of providing water services.

Eastern Cape

Department of Local Government and Traditional Affairs

The Eastern Cape Department of Local Government and Traditional Affairs (ECLG) continues to be the

major source of referrals to the SIU in the region. At the end of the three-year partnership agreement in October 2007, the ECLG immediately indicated its willingness to renew the partnership for a further three years. After consultation with various stakeholders, the ECLG identified gaps, which particularly affect delivery at municipalities in terms of procurement, service delivery, good governance, recruitment, financial mismanagement and technical support. Its brief to the SIU was to investigate specific allegations and, as agreed by the parties and where necessary, to apply for proclamations to conduct investigations.

The SIU's objectives are therefore as follows:

- Conduct forensic audits and investigations aimed at understanding the nature and seriousness of the problems experienced at the identified municipalities
- Effectively address such problems through remedial action, such as disciplinary and criminal action, in conjunction with its partners in law enforcement in instances where municipal officials are identified as being guilty of mismanagement and misappropriation of municipal funds and assets
- Review and improve the effectiveness of policies and procedures at municipalities by recommending amendments to the existing policies
- Identify underlying constraints at the municipalities, including lack of capacity, training needs, legislative gaps and inadequate compliance monitoring, and make recommendations on the constraints and provide support in terms of skills transfer

...the SIU's analysis
to date
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circumvention of
tender procedures.

In one district,
12 illegal
cottage owners
have been served
with notices to
break them down.

- Generate actual and future savings through identifying unpaid loans and allowances, the irregular awarding of contracts, as well as misuse of municipal funds

The MEC of Local Government and Traditional Affairs has continued to refer specific matters on an ad-hoc basis to the SIU for investigation. These include matters at Buffalo City Municipality (a tender worth R10 million for waste removal, which was irregularly awarded to a specified service provider, and has been set aside following the SIU's intervention), Ndlambe Municipality (the municipality paid R200 000 for laptops that were never delivered; the municipal manager has since signed an AoD for the full amount in monthly instalments of R2 000 a month) and Mnquma Municipality (the SIU gave the department a legal opinion on a number of issues, including the exit package of the municipal manager who wanted to resign on his own inflated terms).

Great Kei Municipality

This investigation was carried out under Proclamation R25 of 12 September 2007. The SIU was mandated to investigate allegations of serious maladministration, corruption and misappropriation of funds in respect of the affairs of the Great Kei Municipality.

Phase 1 addressed allegations relating to the failure to comply with statutory prescripts regarding the alienation of land in respect of a golf estate and 11 additional supply chain management irregularities, including a R3 million contract for mobile toilets, R2 million in irregular expenditure on endowment policies, the irregular payment of performance bonuses to the value of R205 000, and irregularities in relation to overtime payments to the value of R202 000. The sale of land (golf estate and 11 erven) was stopped, representing a saving of R35 million for the municipality.

Phase 2 investigated supply chain management irregularities related to the conversion of the Royal Hotel (R4 million), the paving of the Great Hall

(R160 000), the road works contract (R4 million), catering (R50 000) and irregular expenditure in respect of trips abroad by councillors and municipal officials.

Transkei Wild Coast

Previously, the SIU had obtained a proclamation to investigate the irregular, illegal and unauthorised construction of coastal cottages and vacation homes in protected areas or areas not zoned for such construction along the Transkei Wild Coast. Investigations revealed that affluent businesses had irregularly colluded with unsuspecting local tribal chiefs to obtain permission to occupy the sites. It was recommended that the department reclaim the land and evict the people who had received such permission in an irregular manner. A fierce legal battle ended with the Supreme Court of Appeal ruling in the department's favour.

On 20 November 2008, the department entered into a one-year agreement with the SIU, realising that it lacked effective expertise and capacity to investigate and deal with the continued occurrence of the above-mentioned allegations. Furthermore, the SIU helped the department compile investigation dockets for criminal prosecution and build investigation and enforcement capacity in the department. Forty new criminal cases have been registered to date and 41 old cases continue to be investigated. In one district, 12 illegal cottage owners have been served with notices to break them down.

Free State

Dihlabeng Local Municipality

This investigation was carried out under Proclamation R39 of 2007. With the support of the Free State Premier, the SIU investigated allegations of the irregular alienation of municipal land and the procurement of vehicles representing losses to the municipality of R3 707 664. The investigation

revealed non-compliance with the MFMA and financial misconduct by a municipal official. With the municipality's co-operation, the SIU plans to take steps to recover losses to the municipality of R3.707 million and is in the process of submitting recommendations for possible changes to the municipality's systems and processes.

Metsimaholo Local Municipality

This investigation was carried out under Proclamation R38 of 2007. A former MEC for Local Government and Housing in the Free State approached the SIU to investigate a number of issues at several local municipalities in the Northern Free State, including the allegation that the sale of prime municipal land to a private developer had not been done in a fair, equitable, transparent and competitive way. The investigation revealed that losses were not sustained by the municipality in respect of the sale of the land, although a municipal official did not comply with the MFMA. The SIU is in the process of completing the final report containing its findings and recommendations.

Matjhabeng Local Municipality

This investigation was carried out under Proclamation R41 of 2007. The municipal manager approached the SIU to investigate various procurement allegations. The investigation was divided into focus areas with the first phase investigating priority matters being concluded during the period under review. The second phase has commenced, which deals with the procurement of services for the maintenance of street and public lights and the procurement of financial management advisory services, as well as the hiring of fixed property. A criminal case against a municipal official has been compiled and forwarded to the SAPS for registration over the contravention of certain sections of the MFMA. The investigation has also identified grounds for a civil claim against a municipal official and, with the co-operation of the municipality, will take action to recover R133 052 of losses associated with non-compliance with the MFMA.

Free State Moral Regeneration Movement

This investigation was carried out under Proclamation R37 of 2007. A former MEC for Finance in the Free State referred to the SIU certain irregular procurement and maladministration matters at the Free State Moral Regeneration Movement (FSMRM) that arose from a report by the Internal Audit Division of the Free State Provincial Treasury.

The SIU was required to investigate the allegations and take appropriate action to rectify any wrongdoing, including setting aside irregularly procured contracts, identifying officials and third parties responsible and accountable, and recommending and facilitating the institution of appropriate civil, criminal and disciplinary action against the individuals concerned.

The investigation also aims to recover losses suffered by the Provincial Treasury. The SIU used the powers conferred on it in terms of section 5 of the SIU Act to gather evidence and conducted four section 5(2)(b) and (c) hearings with witnesses. The forensic investigation phase has progressed well during this reporting period and is nearing conclusion. The next step for the SIU is to finalise the investigation and to make recommendations to the department.

Free State Provincial Development Fund

This investigation was carried out under Proclamation R21 of 2007. A former MEC for the Free State Provincial Treasury and Finance handed over an audit report to the SIU concerning irregularities in respect of certain projects. The SIU was asked to investigate as the officials of the Internal Audit Committee of the Free State Provincial Treasury indicated that they did not have the resources to conduct a comprehensive investigation into the matters.

Preliminary investigations have established that payments of approximately R34 million, authorised by the then Chief Executive Officer of the Free State Provincial Development Fund (FSPDF) were made to 11 private entities. The SIU's intervention aims to



...the SIU has managed to conduct a forensic **audit** and investigation into 14 non-performing loans.

recover losses suffered by the Provincial Treasury as well as to improve the department's control over such expenditure and, in doing so, to prevent it from happening again. The forensic investigation phase was concluded at the end of the period under review and the investigation team is evaluating the evidence gathered for the final report.

The department has indicated that it wants to revive the FSPDF after the SIU has made its recommendations. This creates the opportunity for future co-operation and puts the SIU in a position to assist the department with the establishment of improved evaluation, control and monitoring measures for the new fund.

Mpumalanga

Mpumalanga Economic Growth Agency

This investigation was carried out under Proclamation R22 of 2007. In November 2005, the former Mpumalanga Economic Empowerment Corporation (MEEC), now known as the Mpumalanga Economic Growth Agency (MEGA) approached the SIU to investigate the circumstances under which loans were granted, irregular payments made to the former Chief Executive Officer, and the irregular awarding of procurement contracts.

Through the recovery of non-performing loans, MEGA will improve its cash flow and be able to reinvest the recovered money for the benefit of the corporation and its stakeholders, as well as expand its new client profile in the province. Furthermore, the SIU's systemic recommendations will assist it in identifying and preventing irregularities in the supply chain and management section, which will enable greater compliance with legislation, policies and procedures.

The project is in the delivery phase and the SIU has managed to conduct a forensic audit and investigation into 14 non-performing loans. Through its investigation, the SIU discovered that although some of the loans had been written off as irrecoverable, there is a possibility of recoveries by means of AoD contracts. The SIU has not finalised its investigations on all focus areas due to pending prosecutions by the NPA in cases previously investigated by the former DSO.

Mpumalanga Department of Education

This investigation was carried out under Proclamation R2 of 2009. In October 2007, the Mpumalanga Department of Education approached the SIU and requested its assistance in investigating irregularities identified in awarding contracts to service providers for the scholar transport scheme, as well as corrupt activities by departmental officials involved in the administration of the scheme for the period 1 April 2001 to 31 December 2007.

Through the recovery of losses through overpayments from service providers, the department will be able to improve the quality of education provided by making use of the recovered money for other purposes. The identification of corrupt officials will assist the department in taking appropriate action against the officials, which will help promote a culture of compliance and service to others. The SIU's systemic recommendations will help the department identify, and thus prevent, irregularities in the supply chain and management section, which will also lead to improved compliance with the legislation, policies and procedures.

The investigation is still in the scoping and planning phase, and the forensic investigation will commence once the relevant evidence has been gathered and assessed.

The background of the page is a close-up, artistic photograph of the pages of a thick book. The pages are fanned out, creating a sense of depth and movement. The lighting is soft, highlighting the texture of the paper. The overall color palette is a range of blues, from light, airy tones to deeper, more saturated hues.

... the SIU has received a
clean audit report
for four consecutive years...

Annual Financial Statements

for the year ended 31 March 2009

General Information	43
Report of the Auditor-General	44
Audit Committee Report	48
Approval of the Annual Financial Statements	50
Statement of Financial Position	51
Statement of Financial Performance	52
Statement of Changes in Net Assets	53
Cash Flow Statement	54
Summary of Accounting Policies	55
Notes to the Annual Financial Statements	64
Annexures	
Annexure A: Summary of Standards of GRAP	79
Annexure B: Other Expenses	80
Summary Report: Schedule A	81
Summary Report: Schedule B	82
Accounting Policies	83

General Information

Background

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

The SIU was created in terms of the Special Investigating Units and Special Tribunals Act, Act 74 of 1996 (SIU Act).

The President established the SIU by Proclamation 118 of 2001 and appointed Mr Willie Hofmeyr as its head.

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

Address:

Rentmeester Park
74 Watermeyer Street
Meyerspark
0184

Bankers:

First National Bank of South Africa

Auditors:

Auditor-General of South Africa

Report of the Auditor-General

TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE SPECIAL INVESTIGATING UNIT FOR THE YEAR ENDED 31 MARCH 2009

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 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 51 to 84.

The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set on in accounting policy note 1.1 to the financial statements and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

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) (PAA), 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 read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

7. In my opinion the financial statements present fairly, in all material respects, the financial position of the Special Investigating Unit as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the PFMA.

Basis of accounting

8. Without qualifying my opinion, I draw attention to accounting policy note 1.1 to the financial statements. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

9. The supplementary information set out on pages 79 to 80, Annexure A and B, does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Governance framework

10. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

11. The PFMA tasks the accounting authority with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 55 of the PFMA.	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none">The public entity had an audit committee in operation throughout the financial year.	X	
	<ul style="list-style-type: none">The audit committee operates in accordance with approved, written terms of reference.	X	
	<ul style="list-style-type: none">The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	X	
7.	Internal audit		
	<ul style="list-style-type: none">The public entity had an internal audit function in operation throughout the financial year.	X	
	<ul style="list-style-type: none">The internal audit function operates in terms of an approved internal audit plan.	X	
	<ul style="list-style-type: none">The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	X	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	X	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	X	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	X	
12.	Powers and duties have been assigned, as set out in section 56 of the PFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	X	
14.	SCOPA/Oversight resolutions have been substantially implemented.	Not applicable	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	X	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	X	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the SIU against its mandate, predetermined objectives, outputs, indicators and targets as required by Treasury Regulation 29.1/30.1.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

Report on Other Legal and Regulatory Requirements

Report on performance information

12. I have reviewed the performance information as set out on page 11.

The accounting authority's responsibility for the performance information

13. 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 predetermined objectives of the public entity.

The Auditor-General's responsibility

14. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.
15. 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.

16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

Appreciation

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

Auditor-General

Pretoria
31 July 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Audit Committee Report

for the year ended 31 March 2009

We are pleased to present our report for the financial year ended 31 March 2009.

Audit Committee Members and Attendance:

The audit committee consists of the members listed hereunder and should meet 3 times per annum as per its approved terms of reference. During the current year 3 meetings were held.

Name of Member	Number of Meetings Attended
Prof H de Jager (Chairperson) (external member)	3
SK Whitfield (external member)	3
G Visagie (SIU)	3

Audit Committee Responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of Section 51(1) (a) of the PFMA and Treasury Regulation 27.1. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal control applied by the entity over financial and risk management is effective, efficient and transparent.

In line with the PFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate

and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the draft Audit Report on the Annual Financial Statements and the interim management report of the Auditor-General of South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the PFMA

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Head of the Unit during the year under review.

Evaluation of Financial Statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General of South Africa and the Accounting Authority.
- Reviewed the Auditor-General of South Africa's management report and management's response thereto.
- Reviewed the compliance with legal and regulatory provisions.

- Reviewed significant adjustments resulting from the audit.

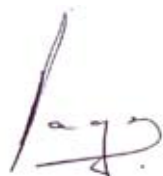
We concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted read together with the report of the Auditor-General of South Africa.

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity in its audits.

Auditor-General of South Africa

We have met with the Auditor-General of South Africa to ensure that there are no unresolved issues.



Chairperson of the Audit Committee

Date: 31 July 2009

Approval of the Annual Financial Statements for the year ended 31 March 2009

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, affected by the Head of the Unit, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

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

The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility for the circumvention or overriding of controls. One of the aims of an effective system of internal control is to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of the financial statements. Furthermore, 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 2008 to 31 March 2009 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 2009, which appear on pages 51 to 84, were approved and signed by me in my capacity as Head of the Unit. The annexures do not form part of the annual financial statements.



W A Hofmeyr

Head of the Special Investigating Unit
31 July 2009

Statement of Financial Position at 31 March 2009

	Notes	2009 R	2008 R
ASSETS			
Non-Current Assets		75 580 793	48 078 657
Property, plant and equipment	2	22 921 461	23 877 818
Intangible assets	3	1 635 422	86 525
Bank balances – recoveries	4.1	51 023 910	24 114 314
Current Assets		74 262 582	71 712 484
Inventory	5	1 496 393	166 153
Trade and other receivables	6	37 851 406	16 454 265
Prepayments		1 294 345	140
Cash and cash equivalents	7	33 620 438	55 091 926
Total assets		<u>149 843 375</u>	<u>119 791 141</u>
LIABILITIES			
Non-current liabilities		51 203 381	24 419 676
Finance lease obligations	8	179 471	305 362
Payables – Recoveries	4.2	51 023 910	24 114 314
Current Liabilities		45 687 869	39 355 607
Trade and other payables	9	23 433 747	20 990 946
Current portion of finance lease obligations	8	164 007	115 331
Revenue received in advance	10	22 090 115	18 249 330
Total liabilities		<u>96 891 250</u>	<u>63 775 283</u>
Net assets		<u>52 952 125</u>	<u>56 015 858</u>
EQUITY AND RESERVES			
Accumulated surplus/(deficit)		<u>52 952 125</u>	<u>56 015 858</u>

Statement of Financial Performance for the year ended 31 March 2009

	Notes	2009 R	2008 R
Revenue	11	242 197 540	228 042 341
Operating expenses		253 162 276	194 707 804
Employee cost	12	154 384 132	138 298 155
Travel and accommodation		6 788 277	6 505 026
Depreciation	2	4 720 484	6 594 395
Amortisation costs	3	722 686	373 955
Other expenses		86 546 697	42 936 273
Operating surplus/(deficit)		(10 964 736)	33 334 537
Other operating income	13	959 928	921 632
Operating surplus/(deficit) before interest		(10 004 808)	34 256 169
Interest Received	14	8 732 294	5 191 681
		(1 272 514)	39 447 850
Finance Costs	15	(1 791 219)	(1 046 797)
Surplus/(deficit) for the period		(3 063 733)	38 401 053

Statement of Changes in Net Assets for the year ended 31 March 2009

Balance at 31 March 2007

Movement for the year

Balance at 31 March 2008

Movement for the year

Balance at 31 March 2009

Accumulated surplus/ (deficit) R	Total R
17 614 805	17 614 805
38 401 053	38 401 053
56 015 858	56 015 858
(3 063 733)	(3 063 733)
52 952 125	52 952 125

Cash Flow Statement for the year ended 31 March 2009

	Notes	2009 R	2008 R
Cash inflow from operating activities		(15 389 523)	49 581 157
Cash receipts from departments		220 800 399	220 033 488
Cash paid to suppliers and employees		(243 130 997)	(174 597 215)
Cash generated from operations	22.1	(22 330 598)	45 436 273
Interest received		8 732 294	5 191 681
Finance cost		(1 791 219)	(1 046 797)
Cash outflow from investing activities		(6 004 750)	(15 130 323)
Investment to maintain operations			
Proceeds from sale of moveable property and equipment		82 656	261 495
Investment to expand operations			
Purchase of moveable property and equipment		(6 087 406)	(15 391 818)
Cash flow from financing activities			
Long term loan increase / (decrease)		(77 215)	420 693
Net increase/(decrease) in cash and cash equivalents		(21 471 488)	34 871 527
Cash and cash equivalents at beginning of year		55 091 926	20 220 399
Cash and cash equivalents at end of year	7	33 620 438	55 091 926

Summary of Accounting Policies for the year ended 31 March 2009

1. Accounting policies

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

1.1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP), including any interpretations of such statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statement as follows:

Standard of GRAP

GRAP 1: Presentation of financial statements

GRAP 2: Cash flow statements

GRAP 3: Accounting policies, changes in accounting estimates and errors

Replaced statement of GAAP

AC101: Presentation of financial statements

AC118: Cash flow statements

AC103: Accounting policies, changes in accounting estimates and errors

Currently, the recognition and measurement principles in the above GRAP and GAAP statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP

Statement of financial performance

Statement of financial position

Statement of changes in net assets

Net assets

Surplus/deficit

Accumulated surplus/deficit

Contributions from owners

Distributions to owners

Replaced statement of GAAP

Income statement

Balance sheet

Statement of changes in equity

Equity

Profit/loss

Retained earnings

Share capital

Dividends

Summary of Accounting Policies for the year ended 31 March 2009

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information has been presented separately on the statement of financial position such as:
 - a. Receivables from non-exchange transactions, including taxes and transfers
 - b. Taxes and transfers payable
 - c. Trade and other payables from non-exchange transactions
4. Amount and nature of any restrictions on cash balances is required.

Paragraph 11 – 15 of GRAP 1 has not been implemented due the fact that the local and international budget reporting standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect the objective of the financial statements.

The financial statements have been prepared on a going concern basis.

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

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

Summary of Accounting Policies for the year ended 31 March 2009

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

1.3 Accounting for government grants and disclosure of financial assistance

Government grants are recognised when there is reasonable assurance that:

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

Government grants are recognised as income over the periods necessary to match them with the related costs 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 of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position 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.

1.4 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 they are incurred.

Summary of Accounting Policies

for the year ended 31 March 2009

1.5 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

1.6 Moveable property and equipment

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

Office furniture	10 years
Office equipment	5 years
Computer equipment	3 years
Books and law reports	5 years
Motor vehicles	4 years
Leasehold Improvements	Life of lease, 3 – 10 years

Summary of Accounting Policies for the year ended 31 March 2009

The remaining estimated useful lives of assets are reassessed on an annual basis. The effect of the reassessment is disclosed in the notes to the financial statements.

1.7 Intangible assets

Intangible assets that are acquired and have finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognising of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of financial performance in the year the asset is derecognised.

The assets' residual values, useful lives and methods of amortisation are reviewed and adjusted if appropriate, at each financial year end. The effect of the reassessment is disclosed in the notes to the financial statements.

Amortisation is recognised in the statement of financial performance and is provided on the straight-line basis which, it is estimated, will reduce the carrying amount of the assets to their residual values at the end of their useful lives.

Intangible assets are amortised over their useful lives as follows:

Computer software	2 years
-------------------	---------

1.8 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 of 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.

Summary of Accounting Policies for the year ended 31 March 2009

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

When inventories are sold, the carrying amounts of those inventories are 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 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;
- a reliable estimate can be made of the obligation; and
- 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.

Summary of Accounting Policies for the year ended 31 March 2009

1.10 Financial instruments

Initial recognition

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

Financial assets and financial liabilities are recognised on the SIU's 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 instrument are added to the fair value.

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

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

Subsequent measurement

After initial recognition financial assets are measured as follows:

- Loans, 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, at fair values, 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

Summary of Accounting Policies for the year ended 31 March 2009

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 financial 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. They are initially measured at fair value and subsequently measured as follows:

Trade and other receivables

Trade and other receivables originated by the enterprise are treated as loans and receivables and are carried at amortised cost. Trade receivables are assessed on an annual basis with regard to recoverability and where necessary, any doubtful debt will be provided for. The fair value of trade and other receivables is the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held on call with banks and are measured at fair value.

1.11 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.

Summary of Accounting Policies for the year ended 31 March 2009

Finance leases are recognised as assets and liabilities in the statement of financial position 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.

1.12 Cash and cash equivalents

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

Cash and cash equivalents are measured at fair value.

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

1.13 Events after the statement of financial position date

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

1.14 Comparative figures

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

1.15 Finance cost

Finance cost comprises interest expense on finance leases and impairment of financial liabilities, carried at amortised cost, using the effective interest rate.

Notes to the Annual Financial Statements for the year ended 31 March 2009

2 PROPERTY, PLANT AND EQUIPMENT

Description	2009			2008		
	Cost	Acc. Depr	Carry Value	Cost	Acc. Depr	Carry Value
Books and law reports	186 805	63 973	122 832	186 805	109 810	76 995
Computer equipment	10 766 032	6 344 265	4 421 767	10 320 840	6 429 426	3 891 414
Office furniture	8 265 110	2 006 268	6 258 842	7 415 737	2 171 330	5 244 407
Office equipment	5 869 618	3 445 081	2 424 537	5 790 984	3 013 471	2 777 513
Motor vehicles	10 109 067	4 666 678	5 442 389	10 992 858	3 373 387	7 619 471
Lease equipment	489 904	174 797	315 107	414 154	11 504	402 650
Leasehold improvements	5 795 618	1 859 631	3 935 987	4 993 731	1 128 363	3 865 368
Total	41 482 154	18 560 693	22 921 461	40 115 109	16 237 291	23 877 818

Reconciliation 2009

Description	Opening balance 01/04/2008	Additions in period	Disposals in period	Depr.	Balance at 31/03/2009
Books and law reports	76 995	-	-	(45 837)	122 832
Computer equipment	3 891 414	2 010 180	51 675	1 428 152	4 421 767
Office furniture	5 244 407	849 373	-	(165 062)	6 258 842
Office equipment	2 777 513	78 634	-	431 611	2 424 536
Motor vehicles	7 619 471	-	21	2 177 061	5 442 389
Lease equipment	402 650	75 749	-	163 293	315 106
Leasehold improvements	3 865 368	801 887	-	731 266	3 935 989
Total	23 877 818	3 815 823	51 696	4 720 484	22 921 461

Reconciliation 2008

Description	Opening balance 01/04/2007	Additions in period	Disposals in period	Depr.	Balance at 31/03/2008
Books and law reports	99 780	-	-	22 785	76 995
Computer equipment	4 597 712	2 323 830	89 953	2 940 175	3 891 414
Office furniture	4 259 250	1 690 482	-	705 325	5 244 407
Office equipment	1 504 249	2 126 050	4 705	848 081	2 777 513
Motor vehicles (restated)	2 815 080	6 432 869	193 457	1 435 021	7 619 471
Lease equipment	-	414 154	-	11 504	402 650
Leasehold improvements	2 324 632	2 305 710	133 470	631 504	3 865 368
Total	15 600 703	15 293 095	421 585	6 594 395	23 877 818

Notes

Motor vehicle cost for 2008 has been restated with R4 196 017 due to a prior year error - refer note 17.

The useful lives of certain property, plant and equipment have been reassessed. This resulted in an increase in the carry amount of property, plant and equipment of R3 064 175 - refer note 16.1.

Notes to the Annual Financial Statements for the year ended 31 March 2009

3 INTANGIBLE ASSETS

Description	2009			2008		
	Cost	Acc. Depr	Carry Value	Cost	Acc. Depr	Carry Value
Computer software	5 298 929	3 663 507	1 635 422	3 024 919	2 938 394	86 525

Reconciliation 2009

Description	Opening balance 01/04/08	Additions in period	Disposals in period	Amort. charge	Balance at 31/03/2009
Computer software	86 525	2 271 583		722 686	1 635 422

Reconciliation 2008

Description	Opening balance 01/04/07	Additions in period	Disposals in period	Amort. charge	Balance at 31/03/2008
Computer software	361 757	98 723	-	373 955	86 525

Note

The useful lives of certain intangible assets have been reassessed. This resulted in an increase in the carry amount of intangible assets of R73 354 - refer note 16.2.

	2009 R	2008 R
4 BANK BALANCES/PAYABLES – RECOVERIES		
4.1 Bank balances	51 023 910	24 114 314
4.2 Payables		
Recoveries	51 023 910	24 106 843
Accrued interest payable to National Treasury	-	7 471
Total payable	51 023 910	24 114 314

The amount reflected is owed to third parties and was obtained through either signed acknowledgement of debts or through court orders issued by the Special Tribunal. Amounts are held in trust and paid over to relevant third parties on the final settlement of each case. These cash balances are held in trust on behalf of third parties and are not available for use by the Unit.

5 INVENTORY

IT equipment and consumables	1 236 648	-
Stationery and toner	259 745	166 153
Total	1 496 393	166 153

Stationery and toner comprise stock on hand at the various regions.

IT equipment comprises equipment bought, not ready for use and general IT consumables

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
6 TRADE AND OTHER RECEIVABLES		
Trade debtors	37 581 372	16 310 015
Gross trade debtors	38 143 890	16 676 578
Interest in terms of IAS 39	(562 518)	(366 563)
Employee study loans	168 743	54 072
Leave provision	98 791	36 363
Deposits	2 500	53 815
Other receivables	-	-
	<u>37 851 406</u>	<u>16 454 265</u>

The carrying amounts of trade and other receivables approximate their fair value.

7 CASH AND CASH EQUIVALENTS

Current account	15 098 359	34 466 486
Trust account – Income received in advance	18 522 079	20 625 440
	<u>33 620 438</u>	<u>55 091 926</u>

Cash and cash equivalents comprise bank deposits that are available on demand.

8 FINANCE LEASES

The long term loans consist of amounts paid towards the lease of copiers ranging over a period of 3 years and are repayable in monthly instalments. The interest rate implicit in the leases is the prime rate plus 3.5% for the duration of the lease term. The Carry value of the assets of the leases is R 315 107 (2008 R402 650)

Contractual cash flows		
Within one year	214 567	181 390
Later than one year but not later than 3 years	196 686	362 779
	<u>411 253</u>	<u>544 169</u>
Less unearned finance income	67 775	123 476
Present value of lease payments	<u>343 478</u>	<u>420 693</u>
Included in the financial statements as:	343 478	420 693
Current liabilities	164 007	115 331
Non-current liabilities	179 471	305 362

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
9 TRADE AND OTHER PAYABLES		
Trade payables	11 531 838	10 448 203
Gross trade payables	11 664 792	10 553 787
Interest in terms of IAS 39	(132 954)	(105 584)
Accrual for leave pay	6 263 204	5 138 953
Employee costs – deductions	3 558 512	3 083 749
Lease smoothing provision	2 080 193	2 320 041
	<u>23 433 747</u>	<u>20 990 946</u>
<ul style="list-style-type: none"> Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amounts approximate fair value. The leave pay accrual is the employees' entitlement to annual leave, recognised when it accrues to employees. A provision is made for the estimated liability for annual leave due as a result of services rendered by employees up to the date of the Statement of Financial Position. Employees cost - deductions comprise statutory salary deductions to be paid over to the relevant authorities. The lease smoothing provision comprises the aggregate of all operating leases, amortised on the straight line basis over the periods of the individual leases. Trade payables for 2008 has been restated with R4 196 017 due to a prior year error - refer note 17. 		
10 REVENUE RECEIVED IN ADVANCE		
Special Pensions	-	1 126 664
Department of Transport	18 417 449	16 666 666
Department of Housing	1 500 000	-
Mpumalanga provincial government	1 666 666	-
Alexander Forbes	50 000	-
Building renovations from Lessee	456 000	456 000
	<u>22 090 115</u>	<u>18 249 330</u>

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
11 REVENUE		
11.1 Grant received from Department: Justice and Constitutional Development	116 297 000	103 111 000
11.2 Income received from other departments	130 189 232	127 173 787
Department of Transport	20 350 000	21 837 490
Department of Correctional Services	16 781 252	15 107 110
Provincial Department of Transport	2 065 703	718 633
Department of Housing	11 597 845	9 999 999
Department of Social Development	57 500 000	59 373 365
National Treasury Pension Administration	11 734 057	12 393 278
ECPG: Dept of Econ Dev & Env Affairs	245 896	-
Mpumalanga Provincial Government	3 333 332	-
Limpopo Provincial Government	3 395 549	-
UN Development Programme	250 000	-
Eastern Cape Local Government	-	5 724 000
Department of Economic Affairs	-	97 500
Western Cape Local Government	2 935 598	1 922 412
	1 433 167	1 056 934
11.3 Dir of Special Operations (NPA)	213 718	503 501
AFU – rental & secondment of staff	1 219 449	553 433
11.4 Impairment of financial assets carried at amortised costs	(5 721 859)	(3 299 380)
Revenue transferred to interest received as a result of discounting accounts receivable using the effective interest method, as per IAS 39	(5 159 341)	(2 932 817)
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	(562 518)	(366 563)
	242 197 540	228 042 341

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
Rental paid by Department of Public Works – not included in expenditure.	<u>2 825 793</u>	<u>2 619 458</u>
12 EMPLOYEE COSTS		
Total expenses include:		
Salaries and wages	139 103 053	125 632 508
Provident and funeral fund contributions	11 458 874	8 853 298
Medical aid contributions	896 393	865 598
Training	461 820	892 095
Relocation cost	197 041	271 419
UIF, COID & RSC levies	1 205 128	955 880
Accrual for leave pay	1 061 823	827 357
	<u>154 384 132</u>	<u>138 298 155</u>
13 OTHER OPERATING INCOME		
Computer expenses recovered from staff members	431 852	563 755
TFI Contract Recoveries	22 897	
Donation from Royal Danish Embassy	-	-
Donation from Commonwealth	-	-
Donation from British High Commission	-	258 100
Sundry income	505 179	99 777
	<u>959 928</u>	<u>921 632</u>
14 INTEREST RECEIVED		
Call accounts	3 572 953	2 258 864
Staff loans	-	-
Interest income on impaired financial assets amortised at the effective interest rate, as per IAS 39	<u>5 159 341</u>	<u>2 932 817</u>
	<u>8 732 294</u>	<u>5 191 681</u>
The interest rate risk is detailed in note 23.5.		

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
15 FINANCE COSTS		
Finance charge on impairment of financial liabilities amortised at the effective interest rate, as per IAS 39	(1 847 066)	(1 145 842)
Unpaid portion transferred to accounts payable	132 954	105 584
Interest paid on finance leases	(77 107)	(6 539)
	<u>(1 791 219)</u>	<u>(1 046 797)</u>
The interest rate risk is detailed in note 23.5.		

16 CHANGES IN ESTIMATES: USEFUL LIFE OF ASSETS REVIEWED

16.1 Fixed assets

A change in the estimated useful life of certain assets resulted in the following changes in depreciation for the current year:

	Initial estimate	Re-estimate	Decrease in depr. Charge
Books and law reports	130 337	65 169	65 168
Computer equipment	4 875 974	3 465 265	1 410 709
Office furniture	2 944 350	2 006 268	938 082
Office equipment	1 202 458	920 107	282 351
Motor vehicles	853 519	644 249	209 270
Leasehold improvements	2 018 224	1 859 629	158 595
Change in depreciation: 2009	<u>12 024 862</u>	<u>8 960 687</u>	<u>3 064 175</u>
Change in depreciation: 2008	<u>-</u>	<u>-</u>	<u>-</u>

The effect of the change in the estimated useful life of assets in the current year is to increase the carrying amount of Property, plant and equipment by R3 064 175 and decreased the depreciation expense by R3 064 175. The effect on future years will be an increase in the depreciation charge of R3 064 175, reversing the credit of R3 064 175 created in the current year.

Notes to the Annual Financial Statements for the year ended 31 March 2009

16.2 Intangible assets

A change in the estimated useful life of certain computer software resulted in the following change in the amortisation charge for the year:

	Initial estimate	Re-estimate	Decrease in depr. charge
	R	R	R
Change in amortisation: 2009	<u>339 409</u>	<u>266 055</u>	<u>73 354</u>
Change in amortisation: 2008	<u>-</u>	<u>-</u>	<u>-</u>

The effect of the change in the estimated useful life of certain computer software on the current year is to increase the carrying amount of Intangible assets by R73 354 and decreasing the amortisation charge by R73 354. The effect on future years will be an increase in the amortisation charge of R73 354, reversing the credit of R73 354 created in the current year.

17 PRIOR YEAR ERROR

During the current year the Unit corrected a fundamental error. An amount of R4 196 016, relating to the purchase of motor vehicles, was included in accruals in the financial statements for the year ended 31 March 2008. On receipt of the invoice, the amount has also been included in the asset register. The error had no effect on the Statement of Financial Performance or the accumulated surplus, as no depreciation has been provided on the accrued assets in the previous year. The comparative figure for Motor vehicles has been restated at R10 992 858 - refer note 2. It has previously been shown as R15 188 874. The comparative figure for Trade payables has been restated at R10 553 787 - refer note 9. It has previously been shown as R14 749 803.

18 EXPENDITURE

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

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009	2008
	R	R
18.1 Irregular expenditure		
Opening balance	-	-
Add: Irregular Expenditure – current year	3 296 810	-
Less: Amounts condoned	-	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular Expenditure awaiting condonation	<u>3 296 810</u>	<u>-</u>
Analysis of expenditure awaiting condonation per age classification		
Current year	3 296 810	-
Prior years	-	-
Total	<u>3 296 810</u>	<u>-</u>

Details of Irregular Expenditure – Current year

Amount

During the period under review, the Unit entered into a competitive bid process to host its 2009 Change Management Conference.

R 3 296 810

Based on the Bid Evaluation committee's recommendation, the bid was awarded without convening the Bid Adjudication Committee. An internal inquiry was initiated to investigate the incident.

The Executive is satisfied that:

- 1) There is no evidence of fraud, corruption or other criminal conduct on the part of the Unit or the officials;
- 2) The Unit received value for money from the appointed service provider, did not suffer financial loss and/or is not at risk in respect of claims by third parties;
- 3) Recovery procedures are not required given that no official or employee of the Unit is liable in law.

The Unit is currently in the process of notifying Treasury of the irregularity as well as motivating for a condonation in this regard.

Actions are currently under consideration by the Executive to reduce the opportunity of such a reoccurrence, including expediting the appointment of the Head of Supply Chain Management and initiating ad hoc reviews by the Unit's Risk and Governance committee.

Disciplinary steps taken/criminal proceedings

The Executive has started the necessary internal processes to consider and initiate the appropriate disciplinary steps as required.

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
19 RELATED PARTY TRANSACTIONS		
19.1 Related party outstanding balances at year end:		
Trade creditors		
Telkom : telephone accounts	46 372	209 083
Municipal accounts paid directly : water & electricity	-	8 947
SA Post Office : postage and post box rentals	-	1 178
Salary related - statutory payables		
SARS : PAYE recoveries	2 245 132	1 949 763
Unemployment Insurance Fund : salary recoveries	130 636	131 745
Department of Labour - COID	-	265 355
	<u> </u>	<u> </u>
19.2 The following related party transactions are included in trade receivables:		
Trade receivables : services rendered		
Asset Forfeiture Unit	921 936	415 844
Department of Correctional Services	12 494 430	6 691 981
Department of Social Development	16 104 493	5 175 953
Eastern Cape Local Government	-	884 628
Directorate of Special Operations	104 098	294 184
Western Cape Local Government	351 624	-
Special Pensions Fund	3 603 698	3 379 985
Department of Housing	847 845	-
Limpopo provincial government	3 037 329	-
Western Cape : Provincial Department of Transport	628 436	718 633
	<u> </u>	<u> </u>
19.3 The following related party transactions are included in operating expenses:		
Operating costs		
Municipal accounts paid directly : water & electricity	192 917	327 295
SAA : air travel	3 168 824	2 302 450
SA Post Office : postage and post box rentals	119 273	17 772
Telkom : telephone accounts	3 505 037	3 287 742
Salary related - statutory payments		
SARS : PAYE recoveries	28 115 212	22 785 048
Department of Labour - COID	398 032	265 355
Unemployment Insurance Fund : salary recoveries	1 614 192	1 337 585
	<u> </u>	<u> </u>

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
19.4 The following related party transactions are included in revenue:		
Trade income for services rendered		
Asset Forfeiture Unit	1 219 449	553 433
Dept. of Economic Affairs and Tourism	245 896	-
Department of Correctional Services	16 781 252	15 107 110
Department of Social Development	57 500 000	59 373 365
Eastern Cape Local Government		6 608 625
Directorate of Special Operations	213 718	503 501
Western Cape Local Government	2 935 598	1 922 412
Department of Housing	11 597 845	10 000 000
Special Pensions Fund	11 734 657	13 519 938
Department of Transport	20 350 000	21 837 491
Limpopo provincial government	3 395 549	-
Mpumalanga provincial government	3 333 332	-
Western Cape : Provincial Department of Transport	<u>2 065 703</u>	<u>718 633</u>

An amount of R258 100, received from the British High Commission was reflected under related parties in the 2008 financial statements.

19.5 The following related party transactions are included in Payables - Recoveries:

Department of Social Development	37 604 601	18 437 404
Department of Correctional Services	3 282 321	567 710
Department of Housing	3 006 160	1 142 336
Department of Justice	440 561	440 261
Department of Transport	134 849	132 237
Eastern Cape Local Government	1 650 325	1 792 184
Eastern Cape Local Government - (Development Corp.)	2 158 886	-
Department of Finance	1 000	1 000
Mpumalanga Local Government	7 000	7 000
Department of Traditional and Corp Affairs	1 400	1 400
Department of Education	1 447 329	1 447 329
Department of Agriculture	57 600	57 600
Dept of tourism Environ and Econ Affairs	57 500	57 500
National Treasury	<u>-</u>	<u>7 471</u>

The amounts due to related parties for 2008 were not indicated in the 2008 financial statements as related parties. The total liability was included in Payables - Recoveries - note 4.2.

Notes to the Annual Financial Statements for the year ended 31 March 2009

20 OPERATING LEASES	2009 R	2008 R
Rental commitments in respect of properties	76 440 512	77 653 874
Payable within 1 year	15 581 534	13 929 997
Payable within 2 – 5 years	48 533 052	47 161 794
Payable thereafter	12 325 926	16 562 083

The above commitments are in respect of 14 rental agreements for premises for periods ranging from 2 years to 10 years. The average monthly rental is R1 352 182 (2008: R1 114 198). The balance of the lease smoothing provision is R2 080 193 (2008: R2 320 040). There are also 21 copier rental agreements ranging from 1 year to 2 years. The average monthly rental is R 97 067.

21 SENIOR MANAGEMENT REMUNERATION

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

	Salary	Medical/ Pension	Other benefits	Total 2009	Total 2008
Executive management					
W. Hofmeyr* Head of Unit	-	-	-	-	-
F. Davids** Deputy Head	969,211	101,189	1,566	1,071,966	943,831
G. Visagie Exec manager: Governance	755,837	168,658	1,566	926,061	796,266
Senior management					
V MarshSmit CFO	721,815	107,584	1,566	830,965	717,702
	<u>2 446 863</u>	<u>377 431</u>	<u>4 698</u>	<u>2 828 992</u>	<u>2 457 799</u>

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

**Mr F Davids received a payment of R216 597 relating to his 2008 performance increase; and a back dated relocation allowance of R48 841

21.2 Remuneration of Audit Committee members	2009 R	2008 R
S. Whitfield	15,115	15,204
H de Jager (Chairman)	44,176	23,345
	<u>59,291</u>	<u>38,549</u>

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
22 NOTES TO THE CASH FLOW STATEMENT		
22.1 Reconciliation of profit/(loss) to cash generated from operations		
Operating profit/(loss)	(1 272 514)	39 447 850
Adjusted for:		
Depreciation	4 720 484	6 594 395
Amortisation costs	722 686	373 955
Interest received	(8 732 294)	(5 191 681)
Loss on sale of moveable property & equipment	(30 960)	160 090
Operating profit before working capital changes	<u>(4 592 598)</u>	<u>41 384 609</u>
 (Increase)/decrease in inventory	 (1 330 241)	 (59 805)
(Increase)/decrease in trade receivables	(21 397 141)	(8 008 853)
Decrease/(increase) in prepayments	(1 294 205)	2 295
Increase/(decrease) in trade payables	2 442 801	12 470 355
Increase/(decrease) in revenue received in advance	3 840 786	(352 328)
 Net changes in working capital	 <u>(17 738 000)</u>	 <u>4 051 664</u>
Net cash flows from operating activities	<u>(22 330 598)</u>	<u>45 436 273</u>

23 FINANCIAL INSTRUMENTS

23.1 Financial risk management objectives

The SIU's risk management committee monitors and manages the financial risks relating to the operations of the Unit through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk and liquidity risk.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continual basis and report regularly to the audit committee.

The SIU does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

23.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in note 1.10 to the financial statements.

Notes to the Annual Financial Statements for the year ended 31 March 2009

	2009 R	2008 R
23.3 Categories of financial instruments		
<u>Loans and receivables</u>		
Loans and trade receivables (including cash and cash equivalents)	72 766 189	71 509 968
<u>Financial liabilities measured at amortised cost</u>		
Trade and other payables	45 523 862	43 399 929
Current portion of financial leases	164 007	115 331
All amounts except for the finance leases are short-term and the carrying values are considered to be a reasonable approximation of the fair value.		
23.4 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 standing and limits exposure to any one counter-party.		
Trade receivables comprise other departments in terms of partnership agreements to carry out specific engagements accounted for on the accrual basis. Management evaluated credit risk relating to customers on an ongoing basis.		
The carrying amount of financial assets in the financial statements, which is net of impairment losses, represents the maximum exposure of the SIU to credit risk.		
Current	13 433 931	7 462 570
60 days	12 151 771	2 715 093
90 days	12 508 187	6 498 915
Impairment in terms of IAS 39	(562 518)	(366 563)
Total	37 531 371	16 310 015
Impairment of trade and other receivables		
Opening balance	(366 563)	(80 788)
Impairment	(195 955)	(285 775)
Closing balance	(562 518)	(366 563)
23.5 Interest rate risk		
Deposits attract interest at a rate that vary with prime. The SIU policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on profit (loss).		
23.6 Liquidity risk		
The SIU manages liquidity by monitoring forecast and accrual cash flows and matching the maturity profiles of financial assets and liabilities.		

Notes to the Annual Financial Statements for the year ended 31 March 2009

24 TAXATION

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

25 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

All assets and liabilities are measured at fair value based on recent observed market prices. No key assumptions concerning the future or other key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, were applied in determining the carrying amounts of any asset and liability.

26 GUARANTEES

The SIU has a guarantee in place with First National Bank in favour of Atlas Properties Limited to the value of R231 817.20. The guarantee is for the Unit's offices in Cape Town and the expiry date is 29 October 2017.

27 CAPITAL COMMITMENTS

Commitments for the acquisition of fixed assets, contracted for but not provided in the Annual Financial Statements amounted to R553 787 (2008: R2 844 284).

28 CONTINGENT LIABILITIES

28.1 The SIU is currently involved in two litigation matters. The SIU is the Defendant/Respondent in both. However, the constitutional court ruled that the current SIU (Headed by W Hofmeyr) is not liable for the claims emanating from the old SIU (Headed by Judge W Heath). Consequently no legitimate liability exists against the current SIU.

Currently an application against the SIU is pending in the North Gauteng High Court for a cost order relating to an ongoing investigation.

No provision has been made in the Annual Financial Statements due to the uncertainty of the outcomes.

29 SUBSEQUENT EVENTS

The SIU's request for the roll over of its cash funds as at year end has been authorised. There have been no events following the date of the statement of the financial position that materially affect any of the information contained in this statement.

30 STANDARDS OF GRAP APPROVED BUT NOT YET EFFECTIVE

The standards of GRAP with an effective date of 1 April 2009 set out in Annexure A have not been implemented by the Unit. It is not expected that the initial application of these standards of GRAP will have a significant impact on the Unit's financial statements.

Annexure A

Summary of Standards of GRAP

SUMMARIES OF STANDARDS OF GRAP

GRAP statements

GRAP 4 - The Effects of Changes in Foreign Exchange Rates
GRAP 5 - Borrowing Costs
GRAP 6 - Consolidated & Separate Financial Statements
GRAP 7 - Investments in Associates
GRAP 8 - Interests in Joint Ventures
GRAP 9 - Revenue from Exchange Transactions
GRAP 10 - Financial Reporting in Hyperinflationary Economies
GRAP 11 - Construction Contracts
GRAP 12 - Inventories
GRAP 13 - Leases
GRAP 14 - Events after the reporting date
GRAP 16 - Investment Property
GRAP 17 - Property, Plant & Equipment
GRAP 18 - Segment Reporting
GRAP 19 - Provisions, Contingent Liabilities & Contingent Assets
GRAP 23 - Revenue from Non-exchange Transactions
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 100 - Non-Current Assets Held for Sale & Discontinued Operations
GRAP 101 - Agriculture
GRAP 102 - Intangible Assets
GRAP 103 - Heritage Assets

Effective date

01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
01 April 2009
Not yet effective
01 April 2009
Not yet effective
Not yet effective
01 April 2009
01 April 2009
01 April 2009
Not yet effective

Annexure B

Other Expenses

	2009 R	2008 R
OTHER EXPENSES		
Auditors remuneration	463 919	474 517
Bad debts	-	-
Bank charges	229 321	138 818
Books and publications	416 339	417 973
Car hire and taxi expenses	1 005 289	1 065 971
Conferences and seminars	787 107	604 143
Consultancy fees	44 943 734	6 784 294
Consumables	80 899	254 927
Courier services	384 567	373 925
Data scanning, traces and deed searches	37 793	101 078
Donations	-	1 388
Entertainment	14 770	37 519
Insurance	709 081	541 858
Internal audit fees	744 754	505 525
Internal integrity expenses	1 245 239	730 226
Legal fees	237 434	253 251
Loss on disposal of property & equipment	(30 960)	160 090
Media and promotions	594 317	546 012
Motor vehicle expenses	2 461 512	1 279 585
Office expenditure	1 878 675	860 027
Professional membership fees	34 723	10 407
Revenue stamps	20	-
Relocation and recruitment costs	1 018 092	530 370
Rent paid - properties	10 009 030	10 142 235
Rental - equipment	1 217 164	1 322 023
Repairs and maintenance	311 115	354 662
Security	(356 866)	352 347
Software licences	399 109	215 423
Stationery and printing	1 728 112	1 777 290
Travel and subsistence	6 411 908	5 434 424
Telephone, fax and posting expenses	5 595 960	4 954 450
Training and development	3 966 031	2 679 775
Transcription fees	8 509	31 740
	<u>86 546 697</u>	<u>42 936 273</u>

Summary Report: Schedule A for the year ended 31 March 2009

VALUE OF COMPLETED INVESTIGATIONS AND RECOVERIES

for the year 1 April 2008 - 31 March 2009

Province	Recoveries (Rand Value of AOD's Signed)	Recovery of cash / asset to 3rd party	Prevention of loss: future projected savings	Prevention of loss: current year	Total value of all recoveries	Cash received into SIU trust accounts
North-West	4 272 441	-	-	-	4 272 441	87 027
Mpumalanga	7 341 445	-	-	-	7 341 445	161 177
Northern-Cape	2 003 152	-	-	-	2 003 152	-
Eastern-Cape	9 389 394	-	-	-	9 389 394	125 462
Free State	2 290 488	-	-	-	2 290 488	165 441
Gauteng	8 864 109	-	-	-	8 864 109	26 329 042
Western Cape	10 882 092	-	-	-	10 882 092	143 026
Northern Province	3 265 865	-	-	-	3 265 865	321 236
KwaZulu-Natal	22 437 919	-	-	-	22 437 919	1 671 343
	70 746 905	-	-	-	70 746 905	29 003 754
National	-		4 917 423 759	210 258 486	5 127 682 245	
Mpumalanga: AFU recovery		953 326			953 326	
Total Trust creditors	70 746 905	953 326	4 917 423 759	210 258 486	5 199 382 476	29 003 754

Summary Report: Schedule B for the year ended 31 March 2009

ANALYSIS OF RECOVERIES THROUGH UNIT'S TRUST ACCOUNTS for the year 1 April 2008 - 31 March 2009

<u>AMOUNTS TO BE COLLECTED</u>						<u>CASH POSITION</u>				
Province	Notes	Balances c/forward	New cases	Closed Cases	Total	Beginning of year	Cash recovered	Amounts paid over	Amount paid over to 3rd Party	Balances c/forward
North-West		9 668 859	4 272 441	852 533	13 088 767	810 279	87 027	-		897 306
Mpumalanga		7 202 807	7 341 445	1 104 417	13 439 835	714 553	161 177	-		875 730
Northern-Cape		1 266 186	2 003 152	179 502	3 089 836	-	-	-		-
Eastern-Cape	1	12 707 141	9 389 394	1 688 182	20 408 353	1 579 738	125 462	51 786		1 653 414
Free State		3 732 573	2 290 488	495 230	5 527 831	818 784	165 441			984 225
Gauteng	2	10 497 254	8 864 109	1 112 172	18 249 191	10 535 295	26 329 042	1 811 229		35 053 108
Western Cape		9 637 390	10 882 092	454 718	20 064 764	648 496	143 026			791 522
Limpopo		4 496 178	3 265 865	1 120 685	6 641 358	1 145 140	321 236	-		1 466 376
KwaZulu-Natal		40 376 627	22 437 919	2 821 782	59 992 764	5 955 670	1 671 343	-		7 627 013
Total AOD trust creditors		99 585 015	70 746 905	9 829 221	160 502 699	22 207 956	29 003 754	1 863 015	-	49 348 695
Other Trust creditors						Beginning of year	Other recoveries	Transferred	Amount paid over to 3rd Party	Balances c/forward
ECLG: Liquidation matter	3					1 898 886			223 671	1 675 215
Interest less bank charges paid to	4						3 081 986	3 081 986		-
National Treasury										
Total other trust creditors						1 898 886	3 081 986	3 081 986	223 671	1 675 215
Total Trust creditors						24 106 842	32 085 740	4 945 001	223 671	51 023 910

NOTES

1. During June 2008 R51 786 was paid over to Emahlaleni Municipality
2. During March 2008 R1 811 229 was paid over to the National Department of Housing
3. Legal fees of R223 671 was paid to the attorneys of the Transkei Road Transport Corporation (in liquidation)
4. Interest earned on Trust Accounts for the year was paid over to National Treasury

OVERVIEW

During the year under review cash recoveries amounted to R29 003 754, a 76% increase over the 2008 financial year.

The collection rate has remained relatively stable at 22.3% (2008: 23%) with five years the maximum repayment period allowed.

Collecting from defaulting debtors remains a constant challenge with up to 27% defaulting monthly on debit orders. In an effort to improve the collection process, we have changed our main recovery mechanism from debit orders to direct Persal deductions. Implementation was slow with numerous teething problems but these issues have now mostly been addressed. The new streamlined recovery process should be evident in the recovery figures for the coming year.

Following up on defaulters are particularly difficult in the rural areas. To address this issue, a number of tracers have been contracted. The composition of the debtors book also precludes us from attaining high recovery rates, as we are frequently faced with situations of genuine hardship and misunderstanding. Our legal position is also difficult as we are acting as agent.

Accounting Policies

Recognition and measurements of achievements for the year ended 31 March 2009

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

Schedule A - Value of Completed Investigations and Recoveries

Recognition

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

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

Measurement

Prevention of loss - new cases

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

Prevention of loss - existing cases

Where investigations continue into the following years, the value of preventions for the cases are measured by comparing the current actual expenditure reported by the third party with projected expenditure, using the results of the year before the Unit's intervention and escalating the expenditure by an inflation 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 Special Investigating Unit - 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 Unit or the relevant institution.

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

Assets recovered as a result of Unit 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 Unit, 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.

Accounting Policies
Recognition and measurements of achievements
for the year ended 31 March 2009

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 Unit.

Measurement

Cash recoveries are presented as follows:

Amounts to be collected

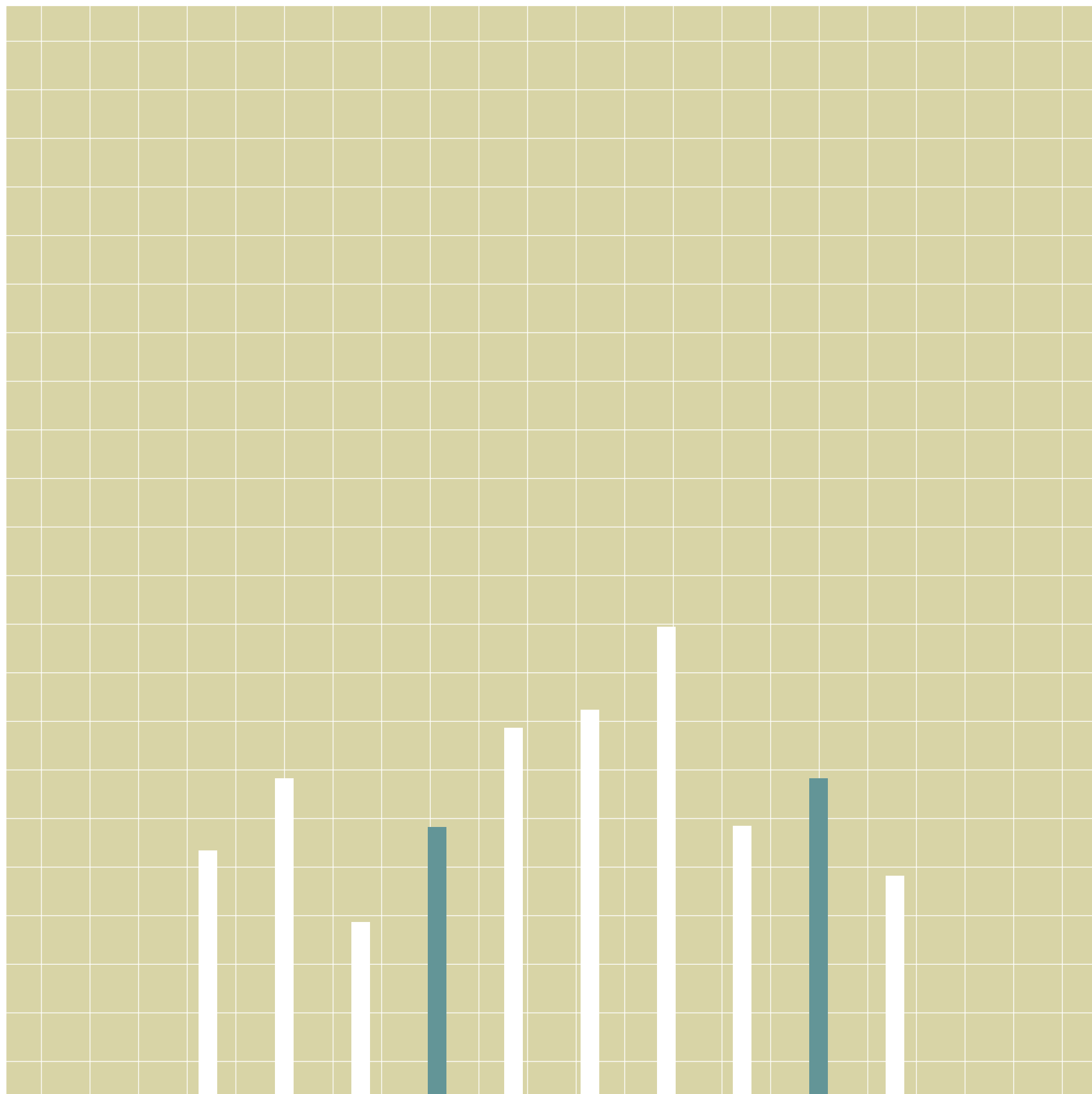
- Balances brought forward: this represents monies owing in terms of AOD's signed in prior years, payable directly to the Unit.
- AOD's in favour of the Unit: this represents monies payable directly to the Unit as a result of AOD's being signed during the current year.
- Balances carried forward: total value of AOD's signed in favour of the Unit as at 31 March 2009

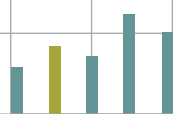
Amount of cash recovered

- Cash recovered during the current year.

Trust Bank accounts

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





ANNUAL REPORT 2008 2009

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