



POISED TO STRIKE
against corruption

ANNUAL REPORT

2011/12



POISED TO STRIKE
against corruption

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.

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 2012

Dear Mr Sisulu

Special Investigating Unit Annual Report for 2011/12

On behalf of the Special Investigating Unit, I submit the SIU's annual report for 2011/12 as envisaged by section 4(1)(h) of the SIU Act. The report provides an overview of the Special Investigating Unit's financial status, performance and achievements during the period under review.

Yours sincerely



N Mokhatla
Acting Head of the Special Investigating Unit

VALUES

Integrity

Cooperation

Effectiveness

Professionalism

Drive

Equality

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List of Abbreviations

ACTT	Anti-corruption Task Team
AFU	Asset Forfeiture Unit
AGSA	Auditor-General of South Africa
AOD	Acknowledgement of Debt
BAC	Bid Adjudication Committee
BEC	Bid Evaluation Committee
CIDB	Construction Industry Development Board
CoGTA	Department of Cooperative Governance and Traditional Affairs
DAC	Department of Arts and Culture
DHA	Department of Home Affairs
DLTC	Driving Licence Testing Centre
DOE	Department of Education
DPCI	Directorate of Priority Crime Investigation (Hawks)
DPN	Department of Public Works
DPP	Director of Public Prosecutions
DPW	Department of Public Works
DRDLR	Department of Rural Development and Land Reform
ECD	Early Childhood Development
GDOH	Gauteng Department of Health
GHA	George Housing Association
KLM	Kopanong Local Municipality
ICT	Information and communication technology
IIC	Investing in Culture
ISM	Information System Management
MAWG	Multi-agency Working Group
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
NHA	National Housing Act
NHC	National Housing Code
NPA	National Prosecuting Authority
NRCS	National Regulator for Compulsory Specifications
PFMA	Public Finance Management Act
RDP	Reconstruction and Development Programme
SABC	South African Broadcasting Corporation
SAPS	South African Police Service
SARS	South African Revenue Service
SASSA	South African Social Security Agency
SCCU	Specialised Commercial Crimes Unit
SCM	Supply Chain Management
SIU	Special Investigating Unit
SIU Act	Special Investigating Units and Special Tribunal Act (Act No 74 of 1996)
SNS	School Nutrition System
SOCPEN	Social Pensions System
STS	Scholar Transport System

PROCLAMATIONS 2012

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

- Proclamation R58 of 2011, dated 12 October 2011 (*Government Gazette* No 34677) (**Kopanong Local Municipality**), directed an investigation alleged serious irregularities including procurement of consulting or related services; manipulation of the municipality's supply chain management or procurement processes and related unauthorised, irregular, fruitless and wasteful expenditure during the period 1 July 2006 to 31 March 2009.
- Proclamation R2 of 2012, dated 14 December 2011 (*Government Gazette* No 35017) (**Eskom**), directed an investigation into alleged irregularities and maladministration in the procurement of coal supplies and coal transport by, or on behalf of Eskom, and other serious irregularities in connection with the affairs of Eskom during the period 1 January 2006 to 7 February 2012.
- Proclamation R73 of 2011, dated 22 December 2011 (*Government Gazette* No 34896) (**South African Police Service**), was issued as an amendment to proclamation R42 of 10 August 2010 extending the end date of the investigation period from 10 August 2010 to 22 December 2011.
- Proclamation R12 of 2012, dated 29 February 2012 (*Government Gazette* No 35088) (**Swellendam**), directed an investigation into alleged serious maladministration in the affairs of the municipality in relation to supply chain management systems and the management of the municipality's finances and assets, among other things during, the period 1 January 2006 to 29 February 2012.
- Proclamation R14 of 2012, dated 2 March 2012 (*Government Gazette* No 31808) (**Department of Education: Mpumalanga in its scholar transport project**), was issued as an amendment to proclamation R2 of 21 January 2009, extending the end date of the investigation period from 30 July 2010 to 2 March 2012.
- Proclamation R15 of 2012, dated 5 March 2012 (*Government Gazette* No 35118) (**Extension to Housing/Human Settlement**), was issued as an amendment to Proclamation R7 of 25 April 2007, which was amended by proclamation R35 of 30 July 2010 by extending the end date of the investigation period from 30 July 2010 to 2 March 2012.
- Proclamation R16 of 2012, dated 5 March 2012 (*Government Gazette* No 35120) (**Former Department of Local Government and its successor in title Department of Cooperative Governance and Traditional Affairs (CoGTA): Mpumalanga in its water for all project**) directed an investigation into alleged serious irregularities in relation to procurement services and maladministration of the affairs at the department during period 1 April 2007 to 5 March 2012.
- Proclamation R21 of 2012, dated 23 March 2012 (*Government Gazette* No 35179) (**Limpopo Province Intervention**), directed an investigation into alleged serious maladministration in connection with the affairs of the Provincial Treasury, departments of Health and Social Development, Roads and Transport, Education and Public Works during the period 1 April 2010 to 23 March 2012.

BACKGROUND TO THE SPECIAL INVESTIGATING UNIT

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

The SIU was set up by the President in terms of the Special Investigating Units and Special Tribunal Act, Act No 74 of 1996 (SIU Act). Its primary mandate is to recover and prevent financial losses to the state due to various acts of corruption, fraud and maladministration. The SIU also assists departments with systemic improvements that will improve service delivery.

The SIU is a public entity with powers of investigation and litigation. Following the issuing of a Presidential proclamation, the SIU has powers to subpoena, search, seize and interrogate witnesses under oath. The SIU can take civil action to correct any wrongdoing it uncovers in its investigations. For example, the SIU can obtain a court order to compel a person to pay back the wrongful benefit received and thus recover the money for the state. The SIU also works with the department concerned to cancel contracts when proper procedures were not followed.

While it does not have the power to arrest or prosecute offenders, where criminal conduct is uncovered, it will bring the matter to the attention of the Hawks in the South African Police Service (SAPS), as well as the National Prosecuting Authority (NPA). It works closely with them to ensure that there is an effective investigation and prosecution. The SIU also works closely with the Asset Forfeiture Unit (AFU) in the NPA, where its powers are more appropriate or effective in recovering the proceeds of crime.

The SIU may investigate any matter set out in section 2 of the SIU Act, including 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, cancel contracts when the proper procedures were not followed, and stop transactions or other actions that were not properly authorised.

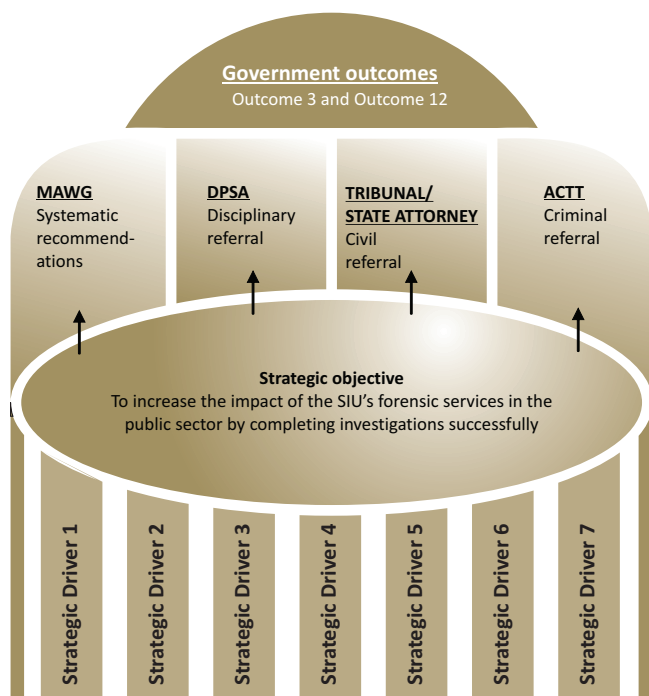
The SIU applies a project-based approach and offers a unique and integrated service, including the following:

- forensic audits and investigations;
- legal action, such as civil, criminal and disciplinary or other remedial action; and
- recommending and facilitating the implementation of improved systems.

FOREWORD TO THE ANNUAL REPORT

The 2011/12 financial year was an unpredictable one for the SIU when the Head of the Unit was unexpectedly changed. It was a busy year on the operations front, as government stepped up multi-agency efforts in the fight against maladministration and corruption. The SIU’s strategic objective is: To increase the impact of the SIU’s forensic services in the public sector by completing investigations successfully.

This objective drove the SIU’s key outputs and its involvement in the various initiatives aimed at dealing with corruption and the improvement of the integrity of government systems. This informs the SIU’s involvement in the various initiatives such as the Multi-agency Working Group (MAWG) and the Anti-corruption Task Team (ACTT).



The SIU’s strategic drivers are as follows:

1. *To achieve optimum institutional form*
2. *To foster excellent cooperation with our law enforcement partners and stakeholders*
3. *To develop effective, accountable and engaging leadership*
4. *To secure appropriate capacity and funding*
5. *To align and improve systems and processes*
6. *To invest in appropriate technological capacity*
7. *To build an engaged, diverse and competent SIU*

During the year under review, the SIU continued to contribute towards the outcomes of government, specifically Outcome 3 (South Africans are and feel safe) and Outcome 12 (an efficient, effective and development-oriented state as set out by the Presidency).

The Unit is still implementing the strategy that was adopted in 2009 with its updates and has maintained external reporting on its strategic objective to increase the impact of its forensic services in the public sector. This was done by completing investigations successfully with nine key performance indicators, enabled by seven internally focused strategic drivers. Through systematic recommendations, and disciplinary, civil and criminal referrals, the Unit maintained its critical contribution towards the fight against corruption.

Employee relations

The SIU adopted a people-centred strategy to focus on issues affecting its members. This is part of its strategic drivers to build an engaged, diverse and competent SIU and to develop effective, accountable and engaging leadership in order to improve the engagement with staff and management. As part of this strategy, the relationship with the staff labour union NEHAWU has improved and has seen the two parties cooperating in resolving outstanding issues in the Unit.

Capacity

A number of initiatives and programmes aimed at capacitating its internal investigation staff were undertaken during the period under review. The SIU also managed to train 400 members (managers and investigators) in the Procurement Investigation Level 1 course, focusing on the regulatory environment and defining supply chain management. The Level 2 course, which focuses on the investigation process and investigative tools of the procurement investigation, is ready for rollout in the new financial year. The SIU and the University of Stellenbosch finalised a Project Management course for managers for rollout in the new financial year. These programmes have been developed specifically for the SIU.

Funding

The sustainability of the Unit’s funding model was always under threat in terms of the current SIU Act. The legal opinions against the SIU billing its client departments had an immediate negative impact to the Unit’s cash flow. In establishing a remedy for the situation, the Unit has initiated reviews to the SIU Act that will materialise during the next financial year. This will allow the Unit to receive both grant and project funding by billing client departments for services rendered. The Unit’s move away from project funding to rely more on Government Grant funding has seen the Unit grow its portfolio of work. This has also enabled the Unit to make long-term plans. The Grant funding has eliminated instances where corruption and wrongdoing have not been investigated due to a lack of project funding.

Analysis of results

The complexity of procurement matters, which form a majority of the SIU's current investigations, has resulted in a decline in project numbers. Procurement investigations necessitated the Unit to spend more time and resources on a single investigation. The Unit also has to rely on its partners in law enforcement to ensure the successful conclusion of investigations. This is contrary to the historic process-driven investigations, such as investigations into social grants, which enabled the Unit to produce better project numbers and meet ambitious targets over the years. The relative complexity and newness of procurement investigations have made it harder to achieve the results the Unit has produced over the years within a relatively shorter time span. Over a couple of periods, the gap between actual results and targets should be closer than it is currently.

Governance

During the last financial year, the SIU endeavoured to make its governance structures more inclusive. The Management Committee (Manco) structure was broadened and given a more participative role in the management of the SIU. This has contributed to better communication and wider participation in decision-making and policy formulation. In addition, the Executive Committee (Exco) was also made more inclusive by including the regional heads of SIU offices. The SIU anxiously awaits the final approval of the legislative amendments referred to above. In addition to the improved funding model that the amendments will bring, this will also restore the SIU's power to use civil litigation to enforce its findings. It is anticipated that this will make the SIU significantly more effective.

ANNUAL PERFORMANCE REPORT

Strategic objective: To increase the impact of the SIU's forensic services in the public sector by completing investigations successfully

Results of investigations		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Narrative
Performance measures									
Evidence prepared for civil litigation. (Number of cases in which evidence is prepared for a formal civil litigation process e.g. AODs).	Target	40	5 025	8 000	9 400	10 000	11 400	2 500	Our current investigation teams are well established and able to maintain the delivery of acknowledgement of debts (AODs).
	Actual	2 133	4 829	9 696	11 177	9 843	7 654	6 412	
Evidence prepared for criminal action. (Evidence prepared for use in criminal prosecutions).	Target	800	2 000	3 943	4 050	4 600	5 500	2 000	Our current investigation teams are well established and able to maintain the delivery of acknowledgement of debts (AODs).
	Actual	1 263	3 302	4 495	5 545	5 350	4 179	2 499	
Evidence prepared for disciplinary action. (Evidence prepared for use in disciplinary action).	Target	660	2 300	7 000	1 300	2 600	8 000	2 500	This is a declining indicator as the number of government officials identified as having received social grants or housing subsidies irregularly has reduced. The housing subsidies investigation is winding down and the social grants investigation is re-focusing its areas of priority.
	Actual	666	7 551	8 627	4 750	3 870	2 814	2 731	
Evidence prepared for other remedial actions. (Recommendations made to improve systems to prevent future irregularities or to terminate a particular irregularity such as an irregular driving licence or social grant).	Target	50 000	45 000	130 600	200 020	140 000	200 000	3 000	Includes AODs signed and recommendations for removal from the Social Pension System, as well as system improvements which should prevent further abuse when implemented by the respective departments under investigation.
	Actual	27 758	95 846	139 331	198 052	50 357	52 192	5 431	
Total (civil disciplinary criminal other remedial actions)	Target	51 500	54 325	149 543	214 770	157 200	224 900	10 000	Total
	Actual	31 820	111 528	162 149	219 524	69 420	66 839	17 073	

Results of investigations		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Narrative
Performance measures									
Savings for financial year (the value of savings in the current financial year generated by actions taken in the reporting period).	Target	150	80	160	156	80	450	30	This number is based predominantly on the value of social grants recommended for removal from the Social Pension System for the remainder of the current financial year. It also reflects any prevention of irregular payments that may result in losses to the department.
	Actual	299	231	301	202	12	10	15	
Prevention of future losses (The approximate value of future savings generated by actions taken in the reporting period e.g. the cancellation of a contract or the removal of a recurrent payment such as a social grant or other payment due under an existing contract)	Target	850	1 250	2 000	2 500	2 100	4 000	200	Target Revision Recommendation: Prevention of future losses: R 200 m to be reduced to R 145 m. Reason: This figure is a calculation based on the savings figure mentioned above for each grant recommended for removal from the Social Pension System. As this savings figure reduces, so does this indicator reduce due to its dependence on it.
	Actual	3 270	1 759	2 672	4 917	197	185	169	
Cash Recoveries (the value of cash or assets recovered).	Target	40	20	40	53	70	80	30	The seizure of farms in the Land Affairs investigation has added substantially to our recoveries and additionally to the value of AODs signed. This has resulted in substantially exceeding this target.
	Actual	13	31	61	72	69	74	224	
Value of procurement matters where irregularities were found (value of the contracts where irregularities were found due to conflicts of interest or procurement or other irregularities).	Target	0	0	0	0	0	0	20 000	This includes all contracts and not only procurement Contracts. We have recommended a more realistic target for this indicator as we come to grips with the procurement type investigations.
	Actual	0	0	0	0	0	0	5 066	
"No of completed investigations contributing to JCPS Output 5 (number of Output 5 persons arrested where SIU contributed significantly to the investigation. An Output 5 individual is a person who benefitted from corruption by more than R5 m and against whom a freezing order of more than R5 m can be obtained).	Target	0	0	0	0	0	0	20	We have recommended a revised target here as we are dependent on third parties to achieve this target.
	Actual	0	0	0	0	0	0	15	
Total (R million)	Target	1 040	1 350	2 200	2 709	2 250	4 530	260	
	Actual	3 582	2 021	3 034	5 191	278	269	408	

Department of Arts and Culture

Proclamation R36 of 2010, published on 30 July 2010

Background

The SIU was mandated to conduct an investigation into allegations of mismanagement and/or misconduct by officials of the Department of Arts and Culture (DAC) and/or service providers contracted by the department and any other third party.

The scope of this investigation includes confirming compliance with the relevant legislation, identifying losses suffered by the department, as well as assisting the DAC to recover some of the losses. Furthermore, identifying criminal, irregular and/or improper conduct by state officials or third parties involved in the awarding of contracts and collecting evidence for the facilitation of disciplinary processes and/or referring it to the SAPS for criminal action. The scope of the investigation also includes determining the possibility of and facilitating asset forfeiture in respect of acts committed by any official or former official of the DAC.

Focus areas

- Underspending/misspending of funds
- Irregular expenditure
- Fruitless and wasteful expenditure
- Possible civil recovery
- Possible criminal investigation
- Possible conflict of interests

Investigations and findings

The SIU investigation found that funds allocated to the FIFA World Cup Project were used for purposes not related to the 2010 Soccer World Cup, and an amount of approximately R42 million was identified as unauthorised expenditure.

The investigation into irregular expenditure revealed that 17 service providers were appointed in contravention of the prescribed procurement procedures. A payment of R4.5 million was identified as unauthorised expenditure in that funds earmarked for Investing in Culture (IIC) projects were used to pay for a project that did not relate to IIC. A total of R67.1 million was identified as irregular expenditure on 11 contracts that were awarded in contravention of the procurement policies and procedures. Fruitless and wasteful expenditure of R150 000 was incurred on two contracts. A criminal case was opened against one service provider.

A total of 39 IIC matters were identified for investigation by the SIU. Reports on all these matters were finalised, and the SIU recommended that payments of approximately R8.5 million should not be made and that the contract should be cancelled. Seven criminal cases were registered with the SAPS and two acknowledgements of debt (AODs) were obtained.

A total of 61 contracts at the DAC, to a total value of R137 million, were investigated. Recoveries to the amount of R351 000 have been made so far.

Department of Social Development

Proclamation R18 of 2005, published on 30 March 2007

Amended and extended by Proclamation R5 of 2007, published on 30 March 2007

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 Proclamation was further amended by Proclamation R27 of 2010, to include matters that are related to procurement.

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.

Focus areas

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

The SIU’s strategy to deter and dissuade irregular beneficiaries entails assisting 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.

Investigation and findings

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. The preventative future saving to government is determined according to a formula approved by the Auditor-General.

Achievements	Results 2010
Total new cases before court	2 488
Convictions	2 258
Disciplinaries prepared	2 213
Total AODs	5 487
Value of AODs	R56 803 938
Recommendations for removal from Social Pensions System	5 487
Actual savings	R9 134 000
Preventative savings	R198 863 180

Department of Rural Development and Land Reform

Land Reform Investigation

Proclamation R8 of 2011, published on 18 February 2011

Background

The proclamation mandated the SIU to investigate allegations of irregularities in the application, awarding and administration of grants and funds under the Land Reform Programme of the Department of Rural Development and Land Reform (DRDLR). The above allegations include possible fraud and corruption levelled against employees of the DRDLR, as well as irregular, unauthorised and fruitless and wasteful expenditure. The investigation was focused on KwaZulu-Natal, the Western Cape and Gauteng for the period 1 April 2011 to 31 March 2012.

Focus areas

- DRDLR Land Reform Programme
- Irregular, unauthorised, fruitless and wasteful expenditure

Investigations and findings

The SIU dealt with approximately 36 different matters, all related to funds paid out in the form of land grants, intended for thousands of beneficiaries across the country, under the department's Land Reform Programme. The total value of the grants under investigation was estimated to be in the region of R495 million.

The SIU team has to date uplifted and reviewed several thousand documents and obtained affidavits from more than 2 000 individuals.

A summary of the findings relating to the above investigations include the following:

- Inflated numbers of beneficiaries
- Non-existent/false beneficiaries
- Duplication of beneficiaries across projects
- Beneficiaries that were unaware that they were beneficiaries to a particular grant
- Forgery of valuation documents and other documents
- Allegations of officials soliciting bribes/benefits from property owners

- Officials' family members being listed as beneficiaries
- Officials and their family members being registered as owners of properties acquired through the DRDLR
- Previous owners of the farms never having moved off the property after the property had been purchased by the DRDLR
- Inflated prices paid to service providers for services rendered
- DRDLR officials fraudulently certifying that services were satisfactorily rendered when in fact no services or only partial services had been rendered

During the period under review four officials and a prominent business man, had been arrested in KwaZulu-Natal. All five individuals are currently out on bail and the officials were suspended pending the outcome of the investigation. The officials were found to be involved in the fraudulent awarding of grants to individuals and entities that either did not qualify or did not deserve the benefits/grants awarded under the DRDLR's Land Reform Programme.

The investigation also revealed that the farms were never transferred to the intended beneficiaries, farmworkers and rural communities, but to external entities not linked to the grant processes.

This investigation has also led to the forfeiture of three farms valued at approximately R51 million to the state, as proceeds of crime, through the assistance of the Asset Forfeiture Unit. In addition, preservation orders were obtained for a further two farms, valued at R10 million, with the view to also having such farms forfeited to the department.

During the period under review, the SIU referred seven matters to the ACTT for further investigation into fraud and corruption, including the abovementioned matters.

The SIU engaged the department on possible disciplinary action against eight officials identified during the investigation.

Department of Human Settlements

Proclamation R7 of 2007, published on 25 April 2007

Extended by proclamation R35 of 2010 and R15 of 2012

Background

In terms of Proclamation R7 of 2007, the SIU was mandated to conduct an investigation into allegations of fraud, corruption and maladministration in the development and delivery of low-cost housing in South Africa.

Focus areas

- Maladministration
- Fraud and corruption
- Recovering losses
- Recommending corrective action
- Identifying weaknesses in the Housing Subsidy Portal (HSP), including the absence of internal controls and policies
- Recommending improvements to policies and control measures

Investigations and findings

Subsidies

The SIU facilitated a recovery of losses amounting to approximately R10 million during the 2011/12 financial year. A total of 993 AODs, amounting to approximately R11 million, were signed during the year under review.

The investigation also allowed the national department to review and enhance its systems and processes to ensure more efficient and effective service delivery.

Contracts

During the period under review, the SIU conducted 42 low-income housing investigations out of a total of 59 matters identified for investigation. The total value of the matters under investigation is approximately R4 billion.

In the completed low-cost housing contract investigations, the SIU made findings that included the following:

- Non-compliance with the National Housing Act and National Housing Code in respect of, inter alia, project application and evaluation processes, project payment regimes, contract administration and management, project management and quality monitoring, and value created vs expenditure

- Fruitless and wasteful expenditure amounting to R27.9 million (three investigations)
- Potential losses suffered by the provincial departments of Human Settlements amounting to R71.8 million (five investigations)
- Potential recoveries amounting to R101.9 million (three investigations)
- Disciplinary matters (misconduct) in respect of departmental officials not adhering to the National Housing Act (NHA), the National Housing Code (NHC) and the Public Finance Management Act (PFMA) (eight investigations)
- Criminal referrals in terms of section 86 of the PFMA in respect of previous and/or current heads of provincial departments of Human Settlements (five investigations)
- Evidence of potential criminal activity was identified in six matters and was referred to the SAPS.

People's Housing Programme in the Western Cape

A total of 29 investigations were finalised out of 44 matters investigated related to the People's Housing Process referred to the SIU in the Western Cape. The investigations revealed the following:

- Various systemic inadequacies were identified and reported on.
- A total of eight matters were referred to the provincial offices of the Directorate of Public Prosecutions (DPP) for possible criminal prosecution.
- The Western Cape Department of Human Settlements implemented various recommendations made by the SIU in respect of systemic inadequacies identified, and also implemented a revised provincial People's Housing Process Policy to ensure legislative compliance in line with the SIU's findings and recommendations.

Department of Public Works

Proclamation R38 of 2010, published on 30 July 2010

Background

The SIU was requested by the Department of Public Works (DPW) to assist in identifying, investigating and redressing irregularities in its supply chain management. The challenges faced by the DPW are extremely serious and deep rooted and the areas requiring investigation and resolution span various functional areas in the department, particularly procurement, where vulnerabilities within the supply chain management process lead to abuse.

Focus areas

- Specific contracts/tenders
- Leasing of buildings for client departments
- Prestige accommodation
- General procurement irregularities

The SIU was requested to assist the DPW in identifying, investigating and redressing improprieties, which include fraud, corruption and maladministration, within supply chain management, with the aim of doing the following:

- Identifying systemic weaknesses
- Identifying procurement irregularities
- Assessing delivery in terms of the contracts
- Identifying corrupt practices and instances of serious maladministration
- Recovering any losses identified
- Facilitating the institution of criminal and/or civil action where appropriate
- Reviewing the supply chain management processes to confirm whether the system complies with the applicable legislation and prescripts
- Advising the DPW on appropriate remedial action where the awarding of contracts took place contrary to accepted supply chain management procedures

Investigations and findings

The investigation into irregularities related to leased accommodation by the DPW is a major focus area with approximately 58 leases currently being investigated by the SIU.

To date, the SIU has identified numerous irregularities in the awarding and administration of leases. The leasing environment as a whole remains a key area of concern for both the DPW and the SIU.

The most common irregularities identified to date include, inter alia, the following:

- Overpayments – in excess of R11 million in one instance alone
- No evidence of legal review of leases
- No approvals for renewals of lease agreements
- Lease agreements signed prior to the client being satisfied with the condition of the building
- Lease agreements signed before bid committee approval
- Renewal rates have increased by as much as 34% in certain instances

Evidence has been obtained that indicates that DPW officials colluded with service providers and leases were irregularly awarded in return for significant financial benefit. In one particular instance, 28 leases, totaling approximately (R320 million), was found to have been awarded to one landlord, in return for which the two DPW officials received financial benefits totaling almost R4 million.

In the year under review, 10 investigations were finalised. A total of 64 systemic recommendations were made. Criminal action was instituted in four of the cases. Disciplinary action has been recommended in two investigations, and has already been instituted against three officials. Furthermore, a high-ranking police official has been dismissed. The SAPS Middestad lease contract, to the value of R780 million, was set aside by the court. Another lease award was stopped and resulted in savings of R1.68 million.

South African Police Service

Proclamation R42 of 2010, published on 10 August 2010

Background

Proclamation R42 of 2010 mandated the SIU to investigate serious maladministration at the SAPS, improper or unlawful conduct by officials and officers, and irregularities in tender and procurement processes. The mandate covers the period 1 January 2005 to 10 August 2010.

Focus areas

- Unlawful and/or irregular conduct by the Expert and Facility Management Services of the SAPS, in particular with regard to building and/or renovation projects
- Conflict of interest
- Procurement irregularities

Investigations and findings

On the matter of conflict of interest, the SIU identified 88 members that were doing business with the SAPS without

the requisite authority in terms of the relevant legislation. There are 88 potential disciplinary matters currently under investigation.

During the period under review, the investigation into the building and renovation projects of the 33 police stations focused on the legislative mandate of the SAPS. The investigation found that the SAPS did not have any legislative mandate to build their police stations. (The support by National Treasury and the Department of Public Works does not translate to legislative powers.)

The investigation into allegations of supply chain management irregularities is still in process. The SIU identified procurement irregularities, control weaknesses, irregular expenditure and poor project management, which resulted in fruitless and wasteful expenditure in four contracts worth R287 million, R18 million, R900 million and R503 000 respectively. The investigations into these matters are continuing.

Department of Health: Gauteng

Proclamation R21 of 2010, published on 14 May 2010

Background and scope

National Treasury requested the SIU to conduct an investigation at the Gauteng Department of Health (GDOH). This is after the Auditor-General's report of March 2008 and an investigation by a private forensic firm highlighted irregularities in the department's financial affairs.

Although a substantial amount of work has been done, three of the investigations have been finalised and final reports are being drafted for issue to National Treasury.

Focus areas

- Irregularities in compiling the 2007/08 budget
- Irregularities relating to procurement
- Irregularities relating to tender processes
- Fruitless and wasteful expenditure

Investigations and findings

The following preliminary findings were made during the period under review:

- Charges of fraud to the value of approximately R650 000 were registered with the SAPS against four former senior officials, as well as the directors of the service provider, for misrepresentations in the preparation and compilation of the 2007/08 budget.

- It was recommended that a claim for damages be instituted against senior officials involved in the loss of R15.3 million incurred as a result of an irregular administration fee paid to a service provider. A charge of fraud has also been registered with the SAPS against some of these officials and the service provider for misrepresentation when the loss was incurred by the department.
- It was recommended that a claim for damages be instituted against senior officials involved in the loss of R1.1 million incurred as a result of irregular award to host an AIDS conference. A charge of fraud has also been registered with the SAPS against some of these officials and the service provider for misrepresentation when the loss was incurred by the department.

More preliminary findings are as follows:

- Three senior GDOH officials were suspended, and their disciplinary hearings have commenced.
- It was recommended that a recovery of approximately R11 million be made for duplicate payments.
- Furthermore, a recovery to the value of approximately R500 000 was made from two service providers for duplicate payments.

Department of Health: Eastern Cape

Proclamation R36 of 2008, published on 4 September 2008

Background

The SIU performed a review of the allegations contained in the 2008 proclamation to assess and prioritise the investigation of these allegations, and to ascertain the extent of the new allegations. The investigation into the allegations in the 2008 proclamation is underway. An application for a new proclamation has been made for an investigation into new allegations.

Focus areas

- Procurement irregularities
- Fruitless and wasteful expenditure

Investigations

The irregularities currently under investigation relate to the procurement environment. It is alleged that certain officials do not comply with the relevant legislation and prescripts in procurement processes. The SIU is investigating allegations of the alteration of the terms of existing contracts with service providers and dividing procurement lots into segments to ensure less stringent compliance processes.

The investigation also includes allegations of the procurement of goods from entities in which relatives and friends of employees held an interest at one hospital. It is also alleged that some bidders manipulated the procurement processes to promote the acceptance of certain bidders' quotations.

Furthermore, losses were suffered by the Eastern Cape Department of Health as a result of the following:

- Payment of amounts in excess of what was due in terms of contracts with suppliers and service providers
- Payment of service providers for work not completed or not done according to the required standard
- Settlement of invoices by the department that were not addressed to the department and of amounts incorrectly calculated on invoices
- Unnecessary and extravagant expenditure on goods, services, accommodation and travel

The investigation phase of the project has just commenced, and no findings have been made yet.

Department of Public Works: KwaZulu-Natal Proclamation R43 of 2010, published on 27 August 2010

Background

The SIU was mandated to assist with a forensic investigation into allegations of fraud, corruption, financial mismanagement and other irregularities in the awarding of contracts to consultants and contractors of the DPW during the period 1 January 2005 to 27 August 2010.

The SIU has submitted an application for an extension to the period and scope of the existing Presidential proclamation.

Focus areas

- Fraud and corruption
- Mismanagement of funds
- Negligence and misconduct on the part of government officials
- Irregular and unlawful conduct
- Recovery of losses
- Recommendations on system improvements

Investigations and findings

A contractor was arrested and charged with 148 counts of fraud and corruption to the value of R123 million. An additional R5.5 million was identified as payment made for services not delivered in 24 projects by the contractor. Assets to the value of R80 million were seized from the contractor.

As a result of the above investigations, four KwaZulu-Natal DPW officials were arrested for fraud and corruption amounting to R67 500.

The SIU has registered a further five criminal cases relating to fraud and corruption to a value of approximately R211 million.

Two additional matters have been referred to the ACTT for further investigation. These matters involve offences relating to fraud involving cover quoting and fronting. The value of the projects awarded to these two contractors is R195.5 million.

Former Department of Roads and Transport: Eastern Cape Proclamation R34 of 2011, published on 20 May 2011

Background

The SIU was mandated to investigate the following:

- Loss of state funds as a result of the irregular awarding of procurement contracts.
- Conduct of officials, employees and service providers or their appointed agents responsible for or involved in the administration of funds within the department.

Focus areas

- Allegations of irregularities at the Kei Rail project.
- Allegations that irregular tenders were awarded to three entities that were providing IT-related services. It is alleged that these contracts were continuously extended with no competitive bidding process being followed. It is further alleged that department officials used these entities to circumvent the official recruitment process by employing friends and relatives.
- Alleged irregular payments, totalling R60 million, to service providers at the Port St Johns Municipality.
- The alleged irregular awarding of three tenders for ICT services.
- The irregular awarding of a tender to a training entity with questionable accreditation to train traffic officials.
- Allegations of corruption, fraud and maladministration against a senior official employed at the Alfred Nzo District Office of the department in relation to community-based transport.
- The alleged irregular awarding of tenders to three entities to construct/repair seven emergency and eight non-emergency roads for approximately R30 million between 2005 and 2009. It is alleged that some of these roads were never constructed or repaired.

Investigations and findings

The Kei Rail project

During the period under review, the SIU conducted an investigation into alleged irregularities in the procurement of a locomotives lease contract to the value of R99 million. It was alleged that an official had negotiated with a service provider before the tender was advertised and it was also alleged that the official inflated rates in respect of the payment of services and had received an undue gratification in the form of a motor vehicle. No impropriety was found and the awarding of this tender was found to be fair and reasonable. All tender procedures were followed.

It is alleged that an irregular contract was awarded to a company with links to the former MEC of the department. There are no records from the department in respect of any contract being awarded to the company, that was under investigation during the period under review.

The investigation has made a recovery to the value of R31 050 from a service provider for an overpayment.

Department of Local Government and Traditional Affairs: North West

Proclamation R72 of 2009, published on 11 November 2009

Background

In November 2009, the President issued a proclamation mandating the SIU to investigate allegations of irregularities at the 24 municipalities in the North West. The investigation began in January 2010 and is conducted over a period of three years.

The SIU is investigating allegations of irregularities in various functions of the department, including tender processes, procurement and human resources. It was alleged that some officials failed to comply with relevant legislation, made payments without authorisation and have conflicts of interest. Finally, it was claimed that there was a lack of good governance and accountability, as well as of service delivery.

Focus areas

- Irregularities in tender processes
- Irregular, unauthorised and/or wasteful expenditure
- Non-compliance with legislation
- Irregularities in human resource matters
- Conflict of interest

Investigations and findings

Madibeng Local Municipality

The SIU found that 12 companies conducting business with the municipality were owned by or belonged to municipal officials. An analysis of the Madibeng payment database revealed that between January 2005 and November 2009 payments of approximately R4.9 million were made to these companies. The SIU recommended disciplinary action against officials who are still employed at the municipality.

Grass cutting

Investigations into sundry payments of R16 000 made to a company contracted to cut grass have been finalised. This entity allegedly belongs to the former Mayor's brother.

The following recommendations were made:

- The municipality should open a criminal case of fraud against the service provider.
- A criminal case should be opened against the former Head of Supply Chain Management and former Municipal Manager for contravention of the MFMA.

High-mast lights project

The SIU established that the former Municipal Manager contravened supply chain management rules by appointing consulting engineers for the Brits electricity substation without following any procurement processes. This contract was valued at approximately R1.3 million.

The municipality also contravened its supply chain management policy by allowing the consulting engineering firm to appoint the high-mast light suppliers as subcontractors without following any supply chain management processes. This has a significant impact in terms of the BEE status of the project.

The initial scope of the project was for the installation of 134 high-mast lights. This was amended to include the installation of 126 high-mast lights and six street light intersections. The SIU established that only 119 high-mast lights were installed.

The SIU recommended that the municipality take the following action:

- Recover losses from the supplier.
- Open criminal charges against the former Municipal Manager for the contravention of the MFMA.
- Consider the cancellation of the contract in respect of the substation.

The SIU referred four cases of misconduct to the municipality for disciplinary action.

Greater Taung Local Municipality

The SIU has reviewed four contracts to a total value of R18.2 million. An allegation of the irregular appointment of municipal officials could not be properly investigated due to missing employee files. Attempts to obtain such documents have not been successful.

An investigation was conducted into the payment of a service provider for services not rendered. The SIU has facilitated the recovery of a R21 250 payment through the signing of an AOD by the official who authorised the payment. The disciplinary proceedings were instituted against the affected employee and the said employee resigned before the disciplinary process was finalised. The SIU will refer the evidence for criminal investigation and possible prosecution.

The SIU discovered the irregular increase of a salary from R133 000 to R250 000 per annum, which was done without a Council Resolution and therefore exposing the municipality to unauthorised expenditure in terms of the MFMA. The amount is being quantified and it will be recommended that the municipality recover the difference from the former Acting Municipal Manager.

The investigation found that a total of 135 employees of the municipality had undeclared financial interests in businesses outside the municipality. There were four instances, to the value of R162 750, where companies belonging to municipal officials were awarded contracts by the municipality.

Ramotshere Moiloa Local Municipality

The SIU is investigating allegations of cheque fraud to the value of R428 246. The municipality issued a cheque in favour of SARS, but it was deposited in a different account. The evidence collected has been referred to the SAPS for further investigation.

Ventersdorp Local Municipality

The SIU is investigating the irregular appointment of two service providers contrary to supply chain management procedures. The evidence will be referred to the Hawks for possible criminal charges.

An investigation into the appointment of a service provider for waste management without following supply chain management processes revealed that the service provider was appointed during a community meeting and the municipality did not adhere to supply chain management policies. The service provider had indeed provided the service. A recommendation to cancel the contract will be made. It will also be recommended that disciplinary steps be taken against the accounting officer for failure to adhere to the supply chain management policies of the municipality.

The SIU finalised an investigation into the irregular reinstatement of two officials after they were found guilty in court and dismissed by the municipality. They appealed their dismissal and were reinstated before the appeal was finalised. Disciplinary action has been recommended against Human Resources officials for the irregular reinstatement of dismissed employees.

Moses Kotane Local Municipality

The SIU investigated allegations of the irregular payment of R2.3 million for the supply of roof sheeting that was not delivered. As the storeroom was not kept in an acceptable condition, the SIU was unable to establish whether or not the material was actually delivered.

The municipality instituted disciplinary processes against the former Municipal Manager for the irregular appointment of staff, nepotism, fruitless and wasteful expenditure and insubordination. The disciplinary hearing was finalised and the former Municipal Manager was dismissed on 21 charges.

It was established that 115 municipal employees had undeclared interests in various businesses outside the municipality. The SIU will assist with the disciplinary action against these officials. It was also established that 17 of the 115 are registered directors with companies currently doing business with the municipality. The SIU will refer the evidence to the SAPS for criminal investigation.

The SIU has 15 signed AODs to the combined value of over R200 000 for losses incurred by the Moses Kotane Local Municipality. Fourteen disciplinary matters were referred to the municipality, ten of which have been finalised and four of which are in the process of being finalised.

Rustenburg Local Municipality

The SIU conducted a land audit for the municipality and found that some properties were not registered on the municipal asset register and that the municipality was losing revenue in rates and taxes to the value of R24.3 million. A total of 19 144 properties registered in the name of the Rustenburg Local Municipality were not included on the municipality's fixed asset register. Furthermore, a total of 14 273 properties listed on the valuation roll as owned by the Rustenburg Local Municipality could not be traced to the fixed asset register. By scrutinising the valuation roll, it was determined that 3 114 consumer accounts were registered to 'The Owner' or 'The Occupier'. Although this procedure could not be completed, it was established that the total outstanding value of these debtors as at 31 March 2011 was R24.3 million, with the largest concentration in Lethabong, where the total outstanding amount was R19.6 million. The implementation of a proper asset register was recommended in the final report that is currently being finalised.

Tswaing Local Municipality

Investigations have uncovered 135 irregular appointments of employees to various positions authorised by the former Municipal Manager. The SIU has recommended that action be instituted against the former Municipal Manager and two municipal directors.

The SIU investigated an allegation that a fire-fighting vehicle and uniforms for fire-fighters had been irregularly purchased. However, this matter cannot be thoroughly investigated because of missing documents. The SIU recommended that disciplinary action be instituted against the officials who had failed to preserve the documents in terms of the Archives Act.

Department of Education: Eastern Cape

Proclamation R37 of 2010, published 30 July 2010

Background

The SIU was requested to investigate allegations of fraud, corruption and maladministration in the Department of Education in the Eastern Cape.

Focus areas

- The awarding of tenders involving the Scholar Transport System (STS).
- The awarding of tenders involving the School Nutrition System (SNS) in the period from 2005/06 to July 2010.
- The Department's general procurement management system at both head office and district levels in the period 2006/07 to 2007/08.
- The department's payment systems, including the transfer payment and salary payment systems.
- The payments of arrear salaries in the Department of Education (DOE) Head Office, Lusikisiki and other district offices.
- The awarding of tenders in the DOE's HIV/AIDS section over the 2007/08 and 2008/09 years to determine the regularity of the procurement processes.
- The utilisation of funds allocated for Early Childhood Development (ECD) and the appointment of ECD practitioners.
- The awarding of a construction tender and the purchase of a R2 million bed & breakfast in the Queenstown district by the management of the Ikhala FET College, including the conduct of committee members and others charged with governance.
- The awarding of tenders by the Learner and Teacher Support Materials Unit in the awarding of tenders and the administration of the Unit.

Investigations and findings

The SIU has completed an investigation into the irregular appointment of Grade R ECD practitioners. The matter relating to an ECD coordinator at a district office identified in the irregular appointment of ECD practitioners has been referred to the NPA for further action. The coordinator resigned from the department when disciplinary processes against her were underway. A disciplinary matter, which involves a Deputy Director-General charged with gross negligence and gross dereliction of duty and contravention of the PFMA was postponed. The matter was postponed due to a High Court action brought by officials who challenged the validity of their suspension.

The investigation has resulted in the dismissal of nine officials on various disciplinary charges, which include financial misconduct, fraud and corruption. The officials dismissed include the former CEO and a Director at the Department who was also the Chairman of the Financial Committee at the Ikhala FET College and a principal of the special school. Two officials were dismissed for failing to declare that they had been found guilty of a criminal offence in applying for promotion.

Three officials who were found to have provided the department with fraudulent qualifications to gain employment faced disciplinary action. These officials all resigned prior to the disciplinary process commencing against them. Their cases have been referred to the SAPS for criminal action.

An official at a district office has been found guilty of fraud to the value of R1.4 million and sentenced to seven years imprisonment, of which two years were suspended for five years. The Asset Forfeiture Unit has restrained assets of the convicted official worth R1.4 million. The official captured and authorised payments worth R1.4 million for no service rendered to a company owned by a close relative. The relative has also been arrested and further charges of money laundering are being investigated.

During the period under review, the SIU has facilitated the recovery of approximately R 1.9 million through AODs. Seven AODs have been signed by service providers and officials. The Unit has also facilitated the recovery of a double payment of R20 976 erroneously made to a supplier by the department. Learner Teacher Support Material to the value of R696 776 was recovered and handed to a district office for distribution to schools.

The SIU successfully assisted the Department in preventing irregular payments. The payments stopped included double payments to various schools worth R3.6 million and a payment of R7.2 million, which was not due to a service provider. Various other amounts worth R2.8 million, R7 million and R8.4 million, which were to be paid to various institutions of higher learning, were also prevented. This has saved the department a total of R29 million.

Tshwane Metropolitan Municipality

Proclamation R62 of 2010, published on 8 November 2010

Background

Proclamation R62 mandated the SIU to investigate claims of irregularities at the Tshwane Metropolitan Municipality. These included the appointment of staff to positions they were not qualified or best suited for, the mismanagement of the affairs of municipal entities and mismanagement of the municipality's finances and assets. Further issues were the irregular procurement of goods and services, as well as interference by the City Manager in pending disciplinary proceedings against employees of the municipality.

Focus areas

- Supply chain management
- Asset management
- Service delivery
- Good governance
- Recruitment
- Financial mismanagement
- Technical support
- Waste management

Investigations and findings

The investigation found that 66 officials had conflicts of interest and failed to disclose these to the municipality. The matters involving these officials were referred to the municipality for disciplinary action. Recommendations on the improvement of systems and controls were also made.

Eight procurement investigations were finalised. R104 million in irregular, fruitless and wasteful expenditure was identified in seven of the investigations. The SIU has finalised investigations in respect of 83 deviations where work was allocated to service providers without the supply chain management procedures being followed. In most of these matters, it was established that lack of planning resulted in the need to deviate from formal procedures. A total of the 43 matters to the value of R430 million are under investigation.

An investigation against a senior procurement official in the Metro Police was referred to the ACTT as a result of payments being made in excess of R90 million to seven companies with which the official has links. Joint investigations are underway.

Preliminary findings revealed a possible R140 million in unauthorised expenditure in a contract awarded for the installation of CCTV cameras. Site inspections are currently being conducted to verify whether the actual number of cameras, as invoiced for, have in fact been delivered and installed.

Investigations to date have revealed that the municipality has made payments in excess of R1.9 billion on 22 746 transactions on its one-time vendor account. This account was established to pay service providers who provided a once-off service to the municipality and who were not registered on the preferred supplier database. A report detailing systemic recommendations on how to manage the account is currently in draft, as no checks and balances exist.

The invoices and action reports of 300 3G users were reviewed. Of these, 189 accounts were identified as being used excessively and recommendations were subsequently made for them to be deactivated, pending the finalisation of the investigation. From those deactivated, only nine users requested activation. Due to the deactivation of the cards six months ago, the Tshwane Metropolitan Municipality has reported total savings of R502 778 to date.

An investigation is currently being conducted to verify the qualifications held by all officials occupying positions in management level 1 to 3. It has been proven that five senior officials submitted fraudulent qualifications. Two of these officials have already been found guilty and have been dismissed. Criminal cases are being registered. The disciplinary matters in respect of the other three are currently underway.

In the investigation into fraudulent identity numbers, the Department of Home Affairs (DHA) confirmed that eight officials have more than one identity number linked to them. In 11 instances, the identity numbers used by officials on the municipal payroll database do not exist on the DHA database. The investigation of irregularities with regard to officials using identity numbers belonging to persons classified as deceased on the DHA database was finalised and systemic recommendations were made to the municipality.

A total of 212 employees have been identified with fraudulent driving licences. Investigations on 60 of them have been finalised and the SIU is in the process of recommending the cancellation of their licences and instituting disciplinary action. With regard to social grants, North West and Gauteng matters were prioritised, and AODs to the value of R723 024 were signed with 93 officials.

Investigations of the 164 Metro Police officials with convictions were finalised. Thirteen officials with convictions and who are awaiting trial for other offences have been redeployed, pending the finalisation of their cases. The SIU is currently preparing disciplinary case files.

Ekurhuleni Metropolitan Municipality

Proclamation R63 of 2010, published on 8 November 2010

Background

The SIU investigation into the affairs at Ekurhuleni Metropolitan Municipality relate to the following:

- The irregular procurement of goods, works or services by or on behalf of the municipality or its municipal entities
- The procurement of goods, works or services by or on behalf of the municipality based on material misrepresentations made by contractors, suppliers, service providers or bidders
- The mismanagement, misspending or misappropriation of the finances, funds or assets of the municipality

Focus areas

- Supply chain management
- Asset management
- Service delivery
- Financial mismanagement
- Waste management

Investigations and findings

Waste management

The SIU has finalised nine of the ten contracts under investigation. Five senior officials face disciplinary action on charges, which include conflict of interest, collusion with service providers and non-compliance with supply chain management processes. One official found to have authorised false invoices worth R10 million has already been found guilty and dismissed on charges of fraud and maladministration. A criminal case has been registered against this official and the service provider. A further three criminal cases are to be registered against four service providers and two officials.

Information and communication technology contract

Two service providers, as well as a senior official, were implicated in irregularities in the awarding of information and communication technology (ICT) contracts. One case is currently before the Gauteng High Court, and a forfeiture application was approved for the seizure of assets to the value of R21 million. A disciplinary process has commenced against a senior official, who has admitted to authorising payments to the value of R12 million on fraudulently submitted invoices. A criminal case has also been referred to the SAPS.

Security contract

Investigations are in the final phase. The budget was exceeded by R15 million. The service provider admitted to not having completed the bid document on which the contract was awarded.

2010 contracts

A total of R55 million was paid to service providers who have not provided the services they committed to.

Licensing fees

A money-rolling investigation has been completed. R68 371 was identified as having been underpaid by six officials. Criminal cases were registered. Furthermore, 77 fraudulent cheques belonging to seven companies were identified. Criminal cases will be registered against three owners.

Investigations on 21 stolen face-value vehicle registration certificates have been finalised.

Joint investigations

Ekurhuleni Metropolitan Police Department

The SIU identified eight officials with fraudulent matric certificates. These officials have been dismissed and criminal cases have been referred to the SAPS. Furthermore, 219 out of 1 993 employees had possible criminal convictions. The investigation has revealed a financial loss of R35.5 million where fuel was either stolen or it was identified that excessive volumes were used in 136 vehicles, which were not justifiable.

Water meter contract

Investigations thus far have revealed fraudulent invoices submitted by a number of service providers before meters were installed and tokens provided. A criminal case will be registered.

Valuation roll investigation

The financial investigation into R3 million worth of irregular expenditure is nearing completion. Payment was made in full to a service provider, but services were not rendered.

Midvaal Local Municipality

Proclamation R33 of 2011, published on 20 May 2011

Background

The SIU was mandated by Proclamation R33 of 2010 to conduct an investigation into maladministration and irregular procurement processes at the Midvaal Local Municipality.

Focus areas

- Supply chain management
- Asset management
- Service delivery
- Good governance
- Recruitment
- Financial mismanagement

Investigations and findings

The investigations are well underway and the following findings were made during the period under review:

Human resources

The SIU has reviewed personnel files of municipal employees focusing on undisclosed business interests. The investigations have been finalised and a report was drafted and will be delivered to the municipality with recommendations. Further investigations were conducted to determine whether the correct salary levels were applied to officials when they were promoted. A report has been drafted setting out findings and recommendations for implementation.

A total of 54 employees with criminal convictions were identified. Of these, 24 were convicted for Schedule 1 offences, 12 for violent offences, and 18 for traffic crimes. A report with recommendations setting out preliminary findings will be drafted and presented to the Municipal Manager for further action.

Irregular debt-collecting processes

A total of 129 officials were identified with rates and taxes in arrears for more than three months – to the value of approximately R350 000. Through SIU intervention, the municipality is deducting approximately R35 000 per month from their salaries. The top 100 debtors were identified, and to date approximately R31 million has been recovered through arrangements made with the municipality.

Indigents

Investigations are currently underway to establish whether members of the public registered on the municipality's indigent database meet the prerequisites as set out in the Indigent Policy. A total of 2 020 applications were identified where members of the public submitted applications to either be exempted from or to receive a discount on municipal services that they receive based on their financial circumstances. The SIU has received 53 such applications and is currently investigating whether these applicants were entitled to receive such exemptions or discounts.

Stellenbosch Local Municipality

Proclamation R3 of 2011, published on 14 January 2011

Background

Proclamation R3 of 2011 mandated the SIU to investigate a number of claims of irregular and unlawful procurement processes relating to a Cultural Day in 2009, the demolition of a building in Kayamandi and the appointment of a coordinator for the Stellenbosch 2010 Soccer World Cup Project. Furthermore, allegations regarding irregularities on seven tenders to the value of R106 million, as well as the tender for the building of the Kayamandi Stadium, were referred for investigation by the SIU. The period for the investigation is from 1 September 2005 to 14 January 2011.

Focus areas

- Procurement irregularities
- Tender irregularities

Investigations and findings

The investigation into the procurement of services for the Kayamandi Cultural Day revealed evidence of fraud and Municipal Finance Management Act (MFMA) contraventions. A number of senior officials and councillors were implicated in these irregularities. The matter has been reported to the SAPS. Apart from the potential recovery of a payment to the amount of R20 000, it appears unlikely at this stage that any losses – amounting to R777 550 – will be recovered.

The investigation into the demolition of a building at a cost of R180 000 has revealed evidence of fraud and other statutory contraventions involving a senior official, possibly other municipal officials, a councillor and a supplier. The matter has been reported to the SAPS.

The investigation into the Stellenbosch 2010 Soccer World Cup Project revealed evidence of fraud and other statutory contraventions involving several senior officials, councillors and suppliers. The matter was reported to the SAPS. It appears unlikely that any losses will be recovered. This is due to the fact that the municipality entered into severance packages and/or settlement agreements with those involved.

The investigation into seven tenders revealed evidence of irregularities, such as conflict of interest. The municipality has already intervened by means of civil action, and reported the matters to the SAPS.

The evidence obtained in the investigation into allegations around the tender amounting to R13.5 million for the building of the Kayamandi Stadium has thus far not been able to substantiate the allegations under investigation.

Oudtshoorn Local Municipality

Proclamation R6 of 2011, published on 4 February 2011

Background

Proclamation R6 of 2011 mandated the SIU to investigate allegations of irregular procurement processes and the mismanagement of the municipality's finances. The alleged irregularities are related to payments made to a construction company, the involvement of a law firm, the appointment of a consulting firm and the procurement of the services of an IT firm, as well as an entity that managed traffic offence processes.

Focus areas

- Fruitless, irregular and wasteful expenditure
- Procurement irregularities
- Financial mismanagement

Investigations and findings

Payments were found to have been made to a construction company in respect of a multimillion rand housing project

The former Municipal Manager and Acting Municipal Manager deliberately and/or in a grossly negligent manner failed to take all reasonable steps to prevent irregular expenditure amounting to approximately R7 million. This has exposed the municipality to a R2.7 million civil claim.

The evidence that was obtained points to the contravention of section 173 of the MFMA, as well as an offence (provided for in section 4 of the Prevention and Combating of Corrupt Activities Act) by the former Municipal Manager and a director of a construction company.

Irregularities involving a law firm

The evidence that was obtained points to the following:

- The procurement of a legal opinion from the law firm at a cost of R95 000 constitutes irregular expenditure, fruitless and wasteful expenditure, a contravention of the provisions of section 173 of the MFMA, and fraud. The opinion was obtained by the former Municipal Manager, who was related to the director of the law firm.
- The law firm committed theft of municipal trust funds to the value of R845 564.
- The conduct of the former Municipal Manager and his successor amounted to a grossly negligent failure to take all reasonable steps to prevent this fruitless and wasteful expenditure.

- The former Municipal Manager's failure to act against the law firm over the extended periods with knowledge of the associated risks involved constitute contraventions of section 173 of the MFMA.
- The law firm contravened the provisions of section 20(4) of the VAT Act by claiming for VAT, while not being registered for with SARS. The matter has been referred to SARS for further action.

The appointment of and payments made to a service provider to perform a survey

The former Municipal Manager and another official deliberately and/or in a grossly negligent manner failed to prevent irregular expenditure amounting to R559 648. This amount also constitutes unauthorised expenditure, as defined in the MFMA. The service provider over-invoiced the municipality to the value of at least R49 000.

The conduct of the municipal officials and the service provider points to fraud and a contravention of section 173 of the MFMA.

The appointment of and payments made to a firm to perform consulting services

Services to an amount of approximately R2 million were procured contrary to the supply chain management policy. The manner in which the agreement with the service provider was structured exposed the municipality to considerable risk in terms of over-invoicing and abuse. In addition, the service provider over-invoiced the municipality on a number of occasions.

The procurement of IT services

The services of an IT company were procured at an inflated cost (between R6.5 and R8.4 million over a five-year period). The IT company's misrepresentations pertaining to prior services rendered to the municipality and pertaining to the employment history of its key officials constitute prima facie evidence of fraud.

Oudtshoorn Local Municipality's traffic offence processes and systems

The services concerned were procured contrary to the supply chain management policy provisions and resulted in losses to the municipality. The former Municipal Manager's conduct in this regard constituted a contravention of various provisions of the MFMA – inter alia section 173, which, in turn, constitutes a criminal offence.

Settlement agreements with two former municipal managers

The investigation has revealed numerous serious irregularities involving two former municipal managers. The Mayor and Acting Municipal Manager at the time entered into severance agreements that contained clauses in terms of which both senior officials were indemnified against losses caused by them (to the municipality). The conduct of the Mayor and Acting Municipal Manager points to

contravention of sections 173(1) and 173(5) of the MFMA respectively. The municipality appears to have ignored the SIU's advice pertaining to the potential risks of this action.

There seems to be little purpose in pursuing this matter as the prospects of a successful civil recovery are minimal due to settlement agreements entered into with the two managers.

George Local Municipality

Proclamation R76 of 2010, published on 9 December 2010

Background

The SIU was mandated to investigate losses suffered by the municipality as a result of unlawful conduct or irregular procurement practices by councillors, officials or employees, and wasteful expenditure. These claims were related to the establishment of the George Housing Association (GHA), the approval of a multi-million rand housing development, the George Municipal Fire Station, the sale of George municipal land and the irregular appointment of several companies.

Focus areas

- Non-compliance
- Unlawful conduct
- Wasteful expenditure
- Procurement irregularities

Investigations and findings

- In the establishment of the George Housing Association and related irregularities, the SIU found two senior officials to be grossly negligent by taking an incorrect legal position during the establishment of the GHA. They were found to be negligent in authorising three payments to the total value of R5.1 million to the GHA. This was unlawful and/or contrary to the provisions of the Systems Act.
- In all other allegations in the focus areas, the SIU has not yet found any evidence of irregular and/or criminal acts.

Kopanong Local Municipality

Proclamation R58 of 2011, published on 12 October 2011

Background

The Executive Mayor and the Acting Municipal Manager at Kopanong Local Municipality (KLM) requested the SIU to investigate the allegations of irregularities in the appointment of consultants at the municipality. The investigation covers the period 1 July 2006 to 31 March 2009 and involves an estimated R7.8 million in transactions.

Focus areas

- Civil recovery
- Criminal prosecutions
- Disciplinary actions
- Identification of systemic shortcomings
- Recommendations for systemic improvement

- An excess of R2 million was paid by KLM to a consultant who provided incomplete and substandard work. This is corroborated by assessments made by the Auditor-General and KPMG. The SIU has recommended civil action for the recovery of the payments made. The SIU will assist KLM's lawyers in this regard.
- The SIU has discovered that not less than seven consultants that were engaged by KLM had claimed and were paid VAT amounting to an estimated R724 094, while they were not registered with SARS as VAT vendors, and were therefore not entitled to claim for VAT. The SIU is liaising with SARS in this regard.

Investigations and findings

It is premature to announce any findings, but the investigation has thus far revealed the following:

- The prescribed statutory provisions, including National Treasury instructions and guidelines for the procurement of consultancy services, were not followed by the former Municipal Manager, and there are indications that this has resulted in irregular, unauthorised, fruitless and wasteful expenditure.

South African Broadcasting Corporation Limited

Proclamation R58 of 2010, published on 29 October 2010

Background

The SABC Board requested the SIU to conduct an investigation into alleged irregularities, including irregularities in the commissioning of goods and services, human resource-related issues (including the non-disclosure of business interests), financial mismanagement and misconduct at the SABC.

Focus areas

- Procurement irregularities
- Human resources-related irregularities
- Financial mismanagement and misconduct
- Potential Conflict of interests

Investigations and findings

In the period under review the SIU found that nine of the 20 identified officials with interests in entities that conducted business with the SABC failed to disclose their interests. A total of eleven disciplinary matters were referred to the SABC in this regard. The investigation also found that controls in the identification and management of potential conflict of interests were inadequate.

Of the 1 282 business interests (of 645 SABC officials) identified, 1 016 were not declared. A total of 430 disciplinary matters were referred to the SABC in this regard. Furthermore, failure by SABC board members to disclose their directorships in other companies constituted a criminal offence in terms of section 216 of the Companies Act. These matters were referred to the SAPS.

The SIU identified various anomalies in petrol card expenditure data, but a detailed investigation could not be done due to a lack of records at the SABC.

Twenty revenue matters were referred by the SABC for investigation. Non-compliance – valued at R798 million – was identified on all 20 matters.

The SABC referred 17 procurement matters to SIU for further investigation in the period under review. The investigation revealed that SABC procurement policies were not followed in ten matters resulting in irregular expenditure of R302 million. The investigation also identified fruitless and wasteful expenditure in three matters valued at R35.6 million. One criminal matter was registered.

The SIU investigated 16 cases where payments to consultants exceeded R2 million. It was found that none of the appointments complied with SABC's procurement policy, resulting in irregular expenditure amounting to R153 million.

Over the two-year investigation, a total number of 29 criminal cases were registered with regard to the investigation at the SABC. Irregular expenditure amounted to a total of R428 million and fruitless and wasteful expenditure to R36 million. Possible recoveries to the value of R207 000 had been identified. A total of 464 disciplinary matters were referred to the SABC. The SIU also referred R35 million in potentially untaxed employee benefits to SARS.

South African Social Security Agency

Proclamation R27 of 2010, published on 8 June 2010

Background

The Internal Audit section of the South African Social Security Agency (SASSA) approached the SIU to conduct a forensic investigation into procurement concerns found during an internal audit review. The SIU did not have a proclamation at the time of the outset of the investigation, but Proclamation R27 of 2010 was published, on 8 June 2010, in terms of which the investigation was authorised.

The investigation requested by the SASSA related to alleged procurement irregularities in the cases of 21 information and communication technology (ICT) suppliers to the value of R610 million. The SIU was requested to evaluate whether contracts were awarded and managed in accordance with the principles of value for money, open and effective competition, ethics and fair dealing, accountability and report criteria. The Unit also had to determine whether there was a link between any SASSA officials and the suppliers or service providers who were awarded contracts, and whether any SASSA official received unlawful benefits from any successful bidder. The SIU also had to determine whether the non-compliance identified during the internal audit review was deliberate and intentional, and whether any criminal and/or disciplinary transgressions were committed and what action should be taken as a result of such findings.

The SIU will make systemic recommendations relating to the improvement of internal processes where necessary.

Focus areas

- Non-compliance with the relevant policies and procedures
- Tender irregularities
- Conflict of interest
- Unlawful/irregular conduct by employees
- Value for money

Investigations and findings

Two of the investigations were completed and reports were handed to SASSA.

The SIU recommended in one of the reports that Phase 1 of the specific contract be cancelled, which will result in a saving of approximately R47 million for SASSA. Legal processes are

now in process for the recommended cancellation. In the event that the Phase 1 contract is successfully cancelled, it would amount to an additional potential saving of R221 million for SASSA.

The SIU recommended in the other finalised report that an amount of R453 679 should be recovered as cash from a service provider. In addition to this, the SIU identified nine staff members of SASSA who should be disciplined in terms of the PFMA for non-compliance with regulatory prescripts. These recommendations are being attended to by SASSA.

All other investigations are in different stages of finalisation and irregularities identified thus far include the following:

- General deviation from and non-compliance with supply chain management policies and procedures.
- Non-compliance with the PFMA and other applicable legislation.
- Bid evaluation and adjudication committees established and members removed and changed contrary to policies and prescripts.
- In some of the cases, the bid adjudication committee awarded contracts to service providers contrary to and without considering bid evaluation committee recommendations.
- SASSA officials signed contracts beyond their delegated authority.
- Possible double payments on contracts.
- Change requests made without proper authorisation.
- Payments made to service providers prior to contracts being signed.
- The overlap of different contracts for the same service, resulting in wasteful and fruitless expenditure.
- The commencement of work on projects prior to service level agreements being signed by both parties.
- Overbilling in respect of "value for money".
- Non-compliance occurred in respect of contractual obligations.
- The same official chairing both the bid evaluation and the bid adjudication committee meetings in some instances.

National Heritage Council

Proclamation R2 of 2011, published on 14 January 2011

Background

The former Minister of the Department of Arts and Culture requested the SIU to conduct an investigation into irregularities identified in the Auditor-General's audit report of 2010.

Focus areas

- Irregular expenditure and contracts
- Conflict of interest
- Confirmation of compliance in relation to the utilisation of National Lottery funding

Investigations and findings

A number of problems were identified during the period under review:

- Irregular and fruitless expenditure to the value of approximately R5 million.

- The improper and unauthorised changes to the scores on a procurement bid.
- The awarding of two tenders, valued at over R10.5 million without a competitive bidding process.
- The identification of failure to adhere to procurement prescripts and processes on three procurement contracts amounting to approximately R53.4 million, including lottery funding of approximately R35 million.
- Possible tender fraud, amounting to approximately R51.9 million, in respect of two matters. The matter was referred to the National Director of Public Prosecutions.
- The identification of two criminal cases in relation to procurement irregularities, to the value of R7.2 million and R45 million respectively. These were registered with the SAPS in October 2011. The matters are being investigated by the ACTT.

Multi-agency Working Group: Department of Health: Eastern Cape

The Multi-agency Working Group (MAWG) on Supply Chain Management (SCM) was established by the Minister of Finance in October 2009. The MAWG is mandated to review and provide a set of recommendations to improve and strengthen the state's supply chain management system.

The Eastern Cape Department of Health (ECDOH) was identified as the ideal site to implement a MAWG SCM Reform Pilot Project, focused on supply chain management system improvements and anti-corruption.

The lessons learnt from the pilot project will be translated into protocols for supply chain management improvements and integrated functioning between the agencies participating in the MAWG. This will form the basis for a replicable approach to be used across government.

The MAWG SCM Reform Pilot Project focuses on the Eastern Cape Department of Health's supply chain management system.

Focus areas

- Securing the integrity of the system
- Optimising the supply chain management system design and practice
- Improving compliance and the effectiveness of the entire supply chain management system
- Establishing a multi-agency cooperation model for government initiatives in the area of supply chain management

Investigations and findings

A set of recommendations emerged from a diagnosis of the functioning of the Eastern Cape Department of Health's procurement function, which was conducted during Phase 1 of the pilot project. The recommendations were aimed at the following:

- Ensuring that the entire supply chain management process is visible and can be controlled by the management of the Eastern Cape Department of Health.
- Ensuring that operational capability is developed to improve the structural integrity of the Eastern Cape Department of Health's procurement function.
- Strengthening control mechanisms across the Supply chain management process.

Implementation of the above recommendations is currently underway. To date the following progress has been made in the Eastern Cape Department of Health:

- The procurement architecture for the Eastern Cape Department of Health has been developed.
- Nine critical functions that must be established to effectively control procurement at the department have been identified.
- The roles (approximately 25) required to effectively run the above functions have been identified.
- Job descriptions for these roles have been drafted and will be finalised by 31 August 2012.
- A procurement manual has been drafted for the department and will be finalised by 15 August 2012.
- The development of standard operating procedures to regulate interaction among the different functions has commenced and will be finalised by 30 September 2012.
- Fourteen supply chain management hubs, from where all procurement activities will be managed and where all procurement information will be captured, have been identified, as well as the institutions linked to each hub.
- Implementation of LOGIS at three of the nine supply chain management hubs (where LOGIS is currently not in operation) has commenced.
- The number of roles to be present at each institution in the department (centrally, at supply chain management hub level and at institutions). The resources required per location will be finalised by 31 August 2012.
- The estimated completion date for the implementation of the pilot hub (Amathole District Office) is 31 October 2012. Implementation will include role allocation, the training of all role players on procedures and templates, the implementation of procedures, recordkeeping systems and reporting mechanisms.
- Procedures and templates for the operation of the Procurement Governance Committee (PGC), which will be tasked with governance of the procurement function, have been drafted.
- A number of items that are either operationally critical to the department or big-spend items were identified and analyses were conducted to determine whether such items are procured in a consistent and cost-effective manner throughout the province. In order to stabilise the current environment, the pilot team is assisting the department to establish three-year provincial transversal contracts for such items/and services. In this regard, the pilot team is assisting the department to do the following:

- Obtain a central view of the current contracts in place, the aggregated demand for such items at a provincial level and current and planned tenders in relation to such items.
- Determine standardised specifications for such items through the establishment of bid specification committees.
- Determine the tender approach and strategy.
- Develop the bid documentation.
- Determine budget availability.

The pilot project team is currently focusing on the following items:

- Security
- Travel and accommodation
- Patient food
- Medical equipment (including maintenance of medical equipment)
- N95 masks
- National Health Laboratory Services (NHLS)

The pilot project team is also assisting the department to set up capabilities to manage the supply of the above items in a consistent manner throughout the province. This includes the identification of role players, setting up reporting structures, and templates and record-keeping and filing systems.

In relation to the NHLS, the pilot project team has reviewed the current operating system and has drafted a proposal for the departments management approval, aimed at fine-tuning the current operating system.

The proposal recommends, inter alia, the following:

- The establishment of the role of a full-time account manager to monitor test requests and results, and the systems governing these, to monitor corrective actions directed at reducing unnecessary tests and duplicate tests, and to maintain the required records for management and auditing purposes.
- The establishment of a project team to arrive at the business requirement specifications for an order entry management system.

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2012

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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 a portion of 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 No. 71 of 1996) (SIU Act).

The President established the SIU by Proclamation 118 of 2001, and Adv Nomvula Mokhatla was recently appointed as the Acting 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.

Business address

1st Floor
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 SPECIAL INVESTIGATING UNIT REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Special Investigating Unit (SIU) set out on pages 44 to 86, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Investigating Unit as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 31 March 2011 have been restated as a result of an error discovered during the year ended 31 March 2012 in the financial statements of the SIU at, and for the year ended, 31 March 2011.

Funding of operations

9. As disclosed in note 35 to the financial statements, the funding model of the SIU has been compromised due to its inability to invoice state institutions for services rendered. The Special Investigating Unit and Tribunals Act of South Africa, 1996 (Act No. 74 of 1996), does not make any provision for invoicing; neither does it explicitly prohibit it. The SIU is currently in the process of amending the SIU Act of 1996 to provide for invoicing state institutions for services rendered. The revised version of Bill No. 11 of 2012 is currently being considered by the National Council of Provinces.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

PREDETERMINED OBJECTIVES

11. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report, as set out on pages 8 to 9 of the annual report.
12. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time-bound) and relevant, as required by the National Treasury Framework for Managing Programme Performance Information.
13. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
14. The material findings are as follows:

Usefulness of information

15. A total of 100% of the major variances between planned and actual achievements were not explained in the annual performance report for the year under review, as per National Treasury's Annual Report Preparation Guide. This was due to a lack of documented and approved internal policies and procedures to address reporting processes and events pertaining to performance management and reporting.
16. Treasury Regulation 30.1.3(g) requires that the strategic plan should form the basis for the annual report; therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 87,5% of the planned objectives as per the approved strategic plan were not consistent with the reported objectives. There were no sufficient documented policies and procedures to monitor compliance with the relevant legislation and requirements relating to performance information management.

Reliability of information

17. The National Treasury Framework for Managing Programme Performance Information requires that processes and systems that produce the indicator should be verifiable. A total of 44% of the actual reported performance relevant to the selected objective was not valid and accurate when compared to the source information and/or evidence provided. This was due to a lack of review of the reported actual achievements by senior management. There was also a lack of established policies and procedures for the initiation, recording and reporting of performance information.

Additional matter

18. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Material adjustments to the annual performance report

19. Material audit adjustments in the annual performance report were identified during the audit, of which some material adjustments were corrected by management.

COMPLIANCE WITH LAWS AND REGULATIONS

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Strategic planning and performance

21. The accounting authority did not submit the proposed strategic plan to the executive authority for approval at least six months before the start of the financial year of the designated department, or another time period as agreed to between the executive authority and the public entity, as required by Treasury Regulation 30.1.1.
22. The accounting authority did not ensure that the public entity had and maintained an effective, efficient and transparent system of internal control regarding performance management that described and represented how the entity's processes of performance planning, monitoring, measurement, review and reporting were conducted, organised and managed, as required by section 51(1)(a)(i) of the PFMA.

Annual financial statements, performance and annual report

23. The annual report did not contain all the details of the entity's actual performance against the strategic objectives, outcomes, measures and indicators as agreed on by the executive authority, in contravention of the requirements of section 55(2)(a) of the PFMA, read with Treasury Regulation 28.2.2.
24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. Material misstatements of liabilities, revenue, expenditure and disclosure items were identified by the auditors and were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Asset management and liability management

25. Bank reconciliations were not performed on a weekly basis, as required by Treasury Regulation 31.1.2(j).

Expenditure management

26. The accounting authority did not take effective steps to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.

Procurement and contract management

27. Goods and services with a transaction value above R500 000 were procured without inviting competitive bids, as required by Treasury Regulation 16A.6.4.

Compliance with the Special Investigating Unit and Special Tribunals Act of 1996 (SIU Act of 1996)

28. In some instances, the SIU performed work that was not investigative in nature and was therefore in contravention of section 4(1) of the SIU Act of 1996.
29. The SIU conducted scoping without any proclamations from the President, which was in contravention of section 2(1) of the SIU Act of 1996. The scoping exercise is performed prior to obtaining a proclamation in order to assess if there is legitimacy to motivate for a proclamation. The act does not make provision for scoping.

INTERNAL CONTROL

30. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted from the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

31. Leadership did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
32. Leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives.

Financial and performance management

33. Management did not adequately review and monitor compliance with laws and regulations.
34. Management did not adequately implement controls over daily and monthly processing and reconciliation of transactions.
35. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Auditor - General

Pretoria
31 July 2012



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

REPORT OF THE AUDIT COMMITTEE SPECIAL INVESTIGATING UNIT (SIU)

We are pleased to present our report for the financial year ended 31 March 2012.

Audit Committee members and attendance

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

Name of member	No. of meetings attended
Prof H de Jager Chairperson (External member)	4
Mr M Maliehe (External member)	4
Members representing the SIU	
Mr G Visagie	4

The Auditor-General South Africa (AGSA) and representatives of the firm (PricewaterhouseCoopers) to whom the internal audit function was outsourced were invited and attended all the meetings. The Head of the SIU and other senior staff members were also invited to the meetings.

Audit Committee responsibility

The Audit Committee reports that it has complied with the responsibilities arising from section 77 of the PFMA and 27.1.1-13 of the Treasury Regulations. The Audit Committee also reports that it has adopted appropriate formal terms of reference, which are contained in its Audit Committee Charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein. During the year, the Audit Committee Charter was revised to ensure relevance.

The effectiveness of internal control

The Special Investigating Unit's systems of internal control are designed to provide assurances, inter alia that assets are safeguarded and that liabilities and working capital are managed effectively and efficiently. From the various reports submitted by the Internal Auditors and the AGSA, the committee concluded that there were weaknesses in several of the components of the SIU. Where shortcomings were identified, management is in the process of attending to it.

Internal Audit

The internal audit continued during the review period to provide the Audit Committee and management with independent information and assurances of the effectiveness of the internal controls for those areas examined in terms of the internal audit plan based on the risk assessment.

Financial statements

The Audit Committee has:

- reviewed and discussed annual financial statements with management and the AGSA;
- taken note of the changes to the annual financial statements after having been submitted to the AGSA; and
- reviewed and discussed the AGSA management report and responses of management thereto.

Management reports

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

Risk management

The SIU has a risk management strategy in place and keeps a risk register.

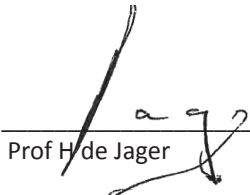
Report of the AGSA

The Audit Committee concurs and accepts the unqualified opinion of the AGSA on the annual financial statements of the SIU for the year ended 31 March 2012.

The Audit Committee urged management to give attention to the different matters raised by the AGSA in its audit report, to ensure that appropriate corrective actions are taken to prevent re-occurrence in the future.

Auditor-General South Africa

The Audit Committee has met with the AGSA to ensure that there are no unresolved issues.



Prof H de Jager

Chairperson of the Audit Committee

31 July 2012

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Approval of financial statements

The Acting 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 2011 to 31 March 2012 and I am of the opinion that the system of internal control was effective for the period under review.

The annual financial statements for the year ended 31 March 2012, which appear on pages 44 to 86 are approved and signed by me in my capacity as Acting Head of the Unit.



Acting Head of the Unit
31 July 2012

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Statement of financial position

	Note(s)	2012 R	2011 R
Assets			
Current assets			
Inventories	5	214 323	182 637
Trade and other receivables from exchange transactions	6	31 353 590	47 309 006
Other receivables from non-exchange transactions	7	426 025	392 760
Prepayments		2 758 267	1 590 564
Cash and cash equivalents	8	56 268 846	9 178 690
		<u>91 021 051</u>	<u>58 653 657</u>
Non-current assets			
Property, plant and equipment	2	33 113 911	39 125 475
Intangible assets	3	2 081 425	1 700 304
Bank balances – recoveries	4	22 380 921	20 402 899
		<u>57 576 257</u>	<u>61 228 678</u>
Total assets		<u>148 597 308</u>	<u>119 882 335</u>
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	9	78 584 764	47 979 806
Trade and other payables from non-exchange transactions	10	190 738	304 278
Income received in advance exchange transactions	11	24 002 372	15 312 107
Deferred income from exchange transactions	12	-	17 885 241
		<u>102 777 874</u>	<u>81 481 432</u>
Non-current liabilities			
Payables – recoveries	4	22 380 921	20 402 899
Total liabilities		<u>125 158 795</u>	<u>101 884 331</u>
Net assets		<u>23 438 513</u>	<u>17 998 004</u>
Net assets			
Accumulated surplus		<u>23 438 513</u>	<u>17 998 004</u>

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Statement of financial performance

	Note(s)	2012 R	2011 R
Revenue	13	495 672 323	312 240 159
Operating expenses		(491 893 571)	(338 029 286)
Employee costs	14	(203 609 200)	(182 142 252)
Travel and accommodation		(25 829 887)	(22 279 733)
Depreciation	2	(15 113 242)	(9 375 147)
Amortisation costs	3	(1 127 479)	(559 326)
Other expenses	19	(246 213 763)	(123 672 828)
Operating surplus / (deficit)		3 778 752	(25 789 127)
Other operating income	15	55 538	149 095
Operating surplus / (deficit) before interest		3 834 290	(25 640 032)
Interest received	16	1 609 514	1 286 527
Operating surplus / (deficit) after interest received		5 443 804	(24 353 505)
Finance costs	17	(3 295)	(50 493)
Surplus / (deficit) for the year		5 440 509	(24 403 998)

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Statement of changes in net assets

	Accumulated surplus	Total net assets
	R	R
Opening balance as previously reported	46 721 444	46 721 444
Adjustments:		
Prior year adjustment: pre-2010/11	(4 319 442)	(4 319 442)
Balance at 1 April 2010 as restated	<u>42 402 002</u>	<u>42 402 002</u>
Changes in net assets		
Deficit for the year as previously reported	(23 176 464)	(23 176 464)
Prior year adjustment: 2010/11	(1 227 534)	(1 227 534)
Total changes	<u>(24 403 998)</u>	<u>(24 403 998)</u>
Balance at 1 April 2011 as restated	<u>17 998 004</u>	<u>17 998 004</u>
Changes in net assets		
Surplus for the year	5 440 509	5 440 509
Total changes	<u>5 440 509</u>	<u>5 440 509</u>
Balance at 31 March 2012	<u><u>23 438 513</u></u>	<u><u>23 438 513</u></u>

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Cash flow statement

		2012	2011
	Note(s)	R	R
Cash flows from operating activities			
Cash receipts from departments		513 122 225	313 148 132
Cash paid to suppliers		(456 976 704)	284 373 415
Cash generated from operations	24	56 145 521	28 774 717
Interest income		1 609 514	1 286 527
Finance costs		(3 295)	(50 493)
		<u>57 751 740</u>	<u>30 010 751</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(9 152 984)	(32 770 850)
Proceeds from sale of property, plant and equipment	2	-	264 541
Purchase of other intangible assets	3	(1 508 600)	(1 654 341)
Net cash flows from investing activities		<u>(10 661 584)</u>	<u>(34 160 650)</u>
Finance lease payments		-	(179,471)
Net increase / (decrease) in cash and cash equivalents		47,090,156	(4 329 370)
Cash and cash equivalents at the beginning of the year		9 178 690	13 508 060
Cash and cash equivalents at the end of the year	8	<u><u>56 268 846</u></u>	<u><u>9 178 690</u></u>

Special Investigating Unit

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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. BASIS OF PREPARATION

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include the following:

Trade receivables / held to maturity investments and/or loans and receivables

The SIU assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the SIU for similar financial instruments.

1.2 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the SIU receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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.

Special Investigating Unit

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Accounting policies

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

Revenue comprises the annual grant from the Department of Justice and Constitutional Development as well as income from other government 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.

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 it is incurred.

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act and the Public Office-bearers Act or is in contravention of the SIU's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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 employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans

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

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

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Accounting policies

1.6 Moveable property and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets that are held for use in the supply of services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the entity. Trade discounts and rebates are deducted in arriving at the cost. Where an asset is acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an item of property, plant and equipment is acquired in exchange for non-monetary or monetary assets, or a combination of both, the asset acquired is initially recognised at fair value. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the assets given up.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated, as it is deemed to have an indefinite useful life. Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Item:

Computer hardware	33.3%
Furniture	10%
Leasehold improvements	Over the lifespan of the lease
Motor vehicles	25%
Plant, office equipment and machinery	20%

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the statement of financial performance. The entity tests for impairment where there is an indication that an asset may be impaired.

An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is recognised in the statement of financial performance.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

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Accounting policies

1.7 Intangible assets

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. An intangible asset is recognised in the statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the entity intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the entity has the resources to complete the project; and
- it is probable that the SIU will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired by the entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Where an intangible asset is acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised, but is subject to an annual impairment test.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight-line method. The annual amortisation rates are based on the following estimated average asset lives:

Item:

Computer software	50%
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the statement of financial performance. The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired.

An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the statement of financial performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

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Accounting policies

1.8 Inventories

Inventories are initially measured at cost, except where inventories are acquired at no cost, or for nominal consideration. Then their costs are their fair value as at the date of acquisition.

Subsequently, 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 operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

The cost of inventories is assigned using the first in, first out (FIFO) 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. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. 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 entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.10 Financial instruments

Classification

The SIU classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit held for trading
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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Accounting policies

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is reassessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments.

The entity 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 instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Dividend income is recognised in surplus or deficit as part of other income when the entity's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the entity's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period, the entity assesses all financial assets, other than those at fair value, through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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Accounting policies

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been, had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit, except for equity investments classified as available for sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as available for sale

Available-for-sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and receivables;
- Held-to-maturity investments; or
- Financial assets at fair value through the statement of financial performance.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

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Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

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 surplus or deficit is recognised in surplus or deficit.
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit.
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

The SIU assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The SIU first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

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Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon. A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follows:

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal, and the entity applies the appropriate discount rate to those future cash flows.

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Basis for estimates of future cash flows

In measuring value in use, the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts cover a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Foreign currency future cash flows

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss.

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The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation), had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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Accounting policies

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the entity; or
- the number of production or similar units expected to be obtained from the asset by the entity.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a non-cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

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Accounting policies

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that it is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation), had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

Special Investigating Unit

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Accounting Policies

1.13 Related parties

The SIU operates in South Africa together with other entities directly or indirectly owned by the South African government. As a result of the broad scope of the SIU's activities, any of the aforementioned entities are considered to be potential related parties. Senior (key) management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the group. All individuals from the level of executive management up to the Head of the Unit are regarded as key management per the definition of the relevant GRAP Standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management members in their dealings with the SIU.

Other related party transactions are also disclosed in terms of the requirements of the standard.

1.14 Leases as lessee

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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 of the minimum lease payments.

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

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

1.16 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 is disclosed in a separate note to the financial statements, where applicable.

1.17 Comparative figures

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

1.18 Finance cost

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

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

2. PROPERTY, PLANT AND EQUIPMENT

	2012			2011		
	Cost / valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / valuation	Accumulated depreciation and accumulated impairment	Carrying value
Books and law reports	227 837	(168 723)	59 114	227 837	(168 567)	59 270
IT equipment	27 317 076	(14 147 651)	13 169 425	22 064 807	(8 263 615)	13 801 192
Furniture and fixtures	9 244 165	(5 658 505)	3 585 660	8 650 375	(4 889 904)	3 760 471
Office equipment	7 727 981	(5 028 028)	2 699 953	7 265 527	(3 943 317)	3 322 210
Motor vehicles	8 958 075	(6 704 743)	2 253 332	9 184 664	(7 179 386)	2 005 278
Leasehold improvements	25 593 221	(14 246 794)	11 346 427	23 396 648	(7 219 594)	16 177 054
Total	79 068 355	(45 954 444)	33 113 911	70 789 858	(31 664 383)	39 125 475

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

Reconciliation of property, plant and equipment – 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Books and law reports	59 270	-	-	(156)	59 114
IT equipment	13 801 192	5 589 767	(41 194)	(6 180 340)	13 169 425
Furniture and fixtures	3 760 471	618 392	(8 899)	(784 304)	3 585 660
Office equipment	3 322 210	462 454	-	(1 084 711)	2 699 953
Motor vehicles	2 005 278	1 098	-	246 956	2 253 332
Leasehold improvements	16 177 054	2 481 273	(1 213)	(7 310 687)	11 346 427
	39 125 475	9 152 984	(51 306)	(15 113 242)	33 113 911

Reconciliation of property, plant and equipment – 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Books and law reports	87 238	3 992	-	(31 960)	59 270
IT equipment	3 963 667	12 991 594	(33 265)	(3 120 804)	13 801 192
Furniture and fixtures	3 804 725	719 385	(183 876)	(579 763)	3 760 471
Office equipment	1 652 605	1 855 722	(1 287)	(184 830)	3 322 210
Motor vehicles	3 075 539	-	-	(1 070 261)	2 005 278
Leasehold property	151 796	-	(2 113)	(149 683)	-
Leasehold improvements	3 214 745	17 200 157	-	(4 237 848)	16 177 054
	15 950 315	32 770 850	(220 541)	(9 375 149)	39 125 475

The useful lives of certain property, plant and equipment have been reassessed. This resulted in an increase in the carrying amount of property, plant and equipment of R5 316 747 (2011: R1 710 729) – (refer to note 19).

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

3. INTANGIBLE ASSETS

	2012			2011		
	Cost / valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 989 630	(1 908 205)	2 081 425	2 481 031	(780 727)	1 700 304

Reconciliation of intangible assets – 2012

	Opening balance	Additions	Amortisation	Total
Computer software	1 700 304	1 508 600	(1 127 479)	2 081 425

Reconciliation of intangible assets – 2011

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	605 304	1 654 341	(15)	(559 326)	1 700 304

The useful lives of certain intangible assets have been reassessed. This resulted in an increase in the carrying amount of intangible assets of R218 173 (2011: R158 460) – (refer to note 19).

Special Investigating Unit

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Notes to the annual financial statements

	2012	2011
	R	R
4. BANK BALANCES – RECOVERIES		
Bank balances	22 380 921	20 402 899
Payables – recoveries	22 353 946	20 401 498
Accrued interest payable to National Treasury	26 975	1 401
Total payable	22 380 921	20 402 899

The amount reflected is owed to third parties and was obtained through either signed acknowledgements of debt 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. INVENTORIES

IT consumables	26 322	37 085
Stationery	188 001	145 552
	214 323	182 637

Stationery comprises stock on hand at the various regions. IT consumables are items with a cost of less than R1 000.

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
6. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Trade debtors	31 353 590	47 309 006
Doubtful receivables allowance		
The unit's trade receivables are stated after allowances for doubtful receivables based on management's assessment of its recoverability. An analysis of the allowance is as follows:		
Balance at the beginning of the year	2 327 522	1 493 754
Charged to statement of financial performance	59 205	833 768
Reversed from statement of financial performance	-	-
Balance at the end of the year	2 386 727	2 327 522
7. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Employee loans	327 838	274 156
Leave provision	59 760	75 255
Deposits	26 034	17 630
Other receivables	12 393	25 719
	<u>426 025</u>	<u>392 760</u>

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

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R

8. CASH AND CASH EQUIVALENTS

Current account	56 268 846	9 178 690
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Cash and cash equivalents comprise bank deposits that are available on demand. Included in the cash balances of R56 268 846 at 31 March 2012 are amounts ringfenced for the funding of expenditure for the Anti-corruption Task Team and the Department of Rural Development and Land Reform. The total value of such ringfenced funds is R35.8 million.

9. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	60 392 874	29 858 514
Accrual for leave pay	7 942 471	7 973 140
Lease smoothing provision	5 374 818	5 889 791
Employee costs – deductions	4 874 601	4 258 361
	<u>78 584 764</u>	<u>47 979 806</u>

Special Investigating Unit

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Notes to the annual financial statements

	2012	2011
	R	R

10. TRADE AND OTHER PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Other	190 738	304 278
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- 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 comprise the aggregate of all operating leases amortised on a straight-line basis over the periods of the individual leases.

11. INCOME RECEIVED IN ADVANCE EXCHANGE TRANSACTIONS

National Department of Transport	15 000	4 985 019
National Department of Rural Development and Land Affairs	3 441 048	-
Criminal Assets Recovery Account funds	20 000 000	-
National Department of Housing contracts	-	9 463 431
South African Broadcasting Corporation	546 324	863 657
	<u>24 002 372</u>	<u>15 312 107</u>

12. DEFERRED INCOME FROM EXCHANGE TRANSACTIONS

Provincial Department of Education, Eastern Cape	-	3 253 280
Public Sector Education and Training Authority	-	640 000
Eskom	-	3 468 579
National Department of Arts and Culture	-	517 169
Provincial Department of Public Works, KwaZulu-Natal	-	385 569
National Department of Human Settlements	-	7 620 644
National Department of Cooperative Governance Municipal Infrastructure	-	2 000 000
	<u>-</u>	<u>17 885 241</u>

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
13. REVENUE		
The amount included in revenue arising from non-exchange transactions is as follows:		
Grant received from Department of Justice and Constitutional Development	323 191 000	171 089 000
The amount included in revenue arising from exchanges of goods or services are as follows:		
National Department of Transport	-	20 534 583
National Department of Human Settlements	47 172 554	24 633 908
National Department of Social Development	33 000 000	36 000 000
National Government Employees' Medical Scheme	1 267 403	4 465 901
South African Broadcasting Corporation	11 243 823	7 772 920
Provincial Department of Human Settlements, KwaZulu-Natal	-	843 453
Provincial Department of Health and Social Development, Gauteng	2 976 762	7 067 870
National Department of Rural Development and Land Reform	37 058 374	746 462
National Department of Arts and Culture	517 169	4 654 522
Provincial Treasury, Free State	-	2 923 093
Provincial Department of Transport, Eastern Cape	11 182 542	1 242 505
Eskom	3 468 578	2 677 025
Provincial Department of Public Works, KwaZulu-Natal	4 734 821	1 739 701
Public Sector Education and Training Authority	640 000	160 000
Tshwane Metropolitan Municipality, Gauteng	4 163 045	2 392 734
State Information Technology Agency	-	3 000 000
Ekurhuleni Metropolitan Municipality, Gauteng	2 806 550	1 169 396
Provincial Department of Local Government and Traditional Affairs, North West	-	3 837 178
Provincial Department of Education, Eastern Cape	3 253 280	4 235 529
Provincial Department of Economic Affairs, Eastern Cape	-	6 000 000
Western Cape Provincial Local Government	5 683 836	4 272 277
Asset Forfeiture Unit – rental and secondment of staff	1 312 586	782 102
National Department of Cooperative Governance	2 000 000	-
	<u>172 481 323</u>	<u>141 151 159</u>

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Notes to the annual financial statements

	2012	2011
	R	R
14. EMPLOYEE-RELATED COSTS		
Salaries and wages	181 857 735	163 336 110
Provident and funeral fund contributions	15 948 924	14 493 157
Medical aid contributions	1 270 275	1 110 257
Training	2 313 480	1 008 671
Relocation cost	1 061 588	906 054
UIF COID and RSC levies	1 456 382	767 184
Accrual for leave pay	(299 184)	520 819
	<u>203 609 200</u>	<u>182 142 252</u>
15. OTHER OPERATING INCOME FROM EXCHANGE TRANSACTIONS		
Computer expenses recovered from staff members	(20 950)	42 012
TFI contract recoveries	-	82 666
Sundry income	74 740	22 240
Department of Labour: COID refunds	1 748	2 177
	<u>55 538</u>	<u>149 095</u>
16. INTEREST RECEIVED		
Call accounts	1 609 514	812 855
Interest income on impaired financial assets amortised at the effective interest rate as per IAS 39	-	473 672
	<u>1 609 514</u>	<u>1 286 527</u>

Interest rate risk management is detailed in note 26.

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
17. FINANCE COSTS		
Finance charge on impairment of financial liabilities amortised at the effective interest rate as per IAS 39	3 295	33 406
Interest paid on finance leases	-	17 087
	<u>3 295</u>	<u>50 493</u>

Interest rate risk management is detailed in note 26.

18. CHANGE IN ESTIMATE

Property, plant and equipment

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

	Initial estimate	Revised estimate	Decrease in depr. charge
Books and law reports	190 770	150 613	40 157
Computer equipment	5 763 224	4 194 378	1 568 846
Office furniture	1 429 812	1 389 979	39 643
Office equipment	3 075 050	2 462 367	612 683
Motor vehicles	8 958 011	6 704 743	2 253 268
Leasehold improvements	15 332 431	14 530 281	802 150
Change in depreciation 2012	<u>34 749 298</u>	<u>29 432 361</u>	<u>5 316 747</u>
Change in depreciation 2011	<u>18 863 178</u>	<u>17 152 449</u>	<u>1 710 729</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 R 5 316 747 (2011: R 1 710 729) and decrease the depreciation expense by R 5 316 747 (2011: R 1 710 729). The effect on future years will be an increase in the depreciation charge of R 5 316 747 (2011: R 1 710 729), reversing the credit of R 5 316 747 (2011: R 1 710 729) created in the current year.

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Notes to the annual financial statements

2012	2011
R	R

18. CHANGE IN ESTIMATE (CONTINUED)

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	Revised estimate	Decrease in depr. charge
Change in depreciation 2012	822 271	604 098	218 173
Change in depreciation 2011	519 030	360 571	158 460

The effect of the change in the estimated useful life of certain computer software in the current year is to increase the carrying amount of intangible assets by R218 173 (2011: R158 459) and decrease the amortisation charge by R218 173 (2011: R158 459). The effect on future years will be an increase in the amortisation charge of R218 173 (2011: R158 459), reversing the credit of R218 173 (2011: R158 459) created in the current year.

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
19. OTHER EXPENSES		
Auditor's remuneration	1 412 900	1 698 444
Consulting and professional fees	30 246 867	19 911 618
Consumables, computer	20 971	192 888
Inourced investigative consultants *	149 231 812	56 586 392
Audit, internal	1 664 076	624 263
Loss on disposal of property and equipment	51 307	(43 985)
Rent paid	19 314 323	17 527 502
Printing, fax and posting expenses	6 389 887	5 559 323
Debt impairment	59 205	833 768
Bank charges	301 174	337 388
Magazines, books and periodicals	90 102	118 855
Conferences and seminars	569 592	109 324
Consumables	60 675	43 333
Courier services	399 271	264 215
Data scanning, traces and deed searches	10 926 258	217 728
Entertainment	13 435	201 727
Insurance	732 331	643 343
Internal integrity expenses	1 716 596	1 076 959
Legal fees	1 609 137	407 379
Media and promotions	363 288	636 069
Motor vehicle expenses	1 718 728	2 214 399
Office expenses	5 939 131	5 925 516
Subscriptions and membership fees	498 430	9 144
Relocation and recruitment costs	858 039	(14 300)
Repairs and maintenance	121 345	125 989
Security	197 854	92 485
Software licences	6 952 310	5 240 958
Stationery	2 415 023	1 727 539
Training	107 479	60 078
Transcription fees	26 028	4 317

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Notes to the annual financial statements

	2012	2011
	R	R
Other expenses	7 456	-
Equipment – consignment amounts	2 198 733	1 340 170

* Due to the significant increase in forensic assignments accepted by the SIU in the 2011/12 financial year. The additional workload required an increase in human resource capacity, which was sourced from external forensic accounting firms. Over time the SIU intends to grow its internal staff complement.

20. IRREGULAR EXPENDITURE

The Unit has not incurred any losses as a result of criminal conduct in the year under review. Details of irregular expenditure are set out below.

Irregular expenditure

Opening balance	14 083 436	-
Irregular Expenditure	19 509 108	14 083 436
Irregular Expenditure awaiting condonation	33 592 544	14 083 436

Analysis of expenditure awaiting condonation per age classification

Current year	19 509 108	14 083 436
Prior years	14 083 436	-
Total	33 592 544	14 083 436

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

		2012	2011
		R	R
Details of irregular expenditure – current year			
	Disciplinary steps taken/ Criminal proceedings		
Incident 1 – Expenditure on certain forensic consultants incurred between April and August 2011	Investigation underway and will be presented to the Bid Adjudication Committee for condonement	1 864 059	166 862
Incident 2 – Expenses incurred in rendering services which are not currently explicitly authorised by the SIU Act	Investigation underway and will be presented to the Bid Adjudication Committee for condonement.	1 267 402	243 803
Incident 3 – Expenditure on temporary employees procured through recruitment agencies	Investigation underway and will be presented to the Bid Adjudication Committee for condonement	15 554 825	13 672 771
Incident 4 – Procurement of forensic data analysis software	Investigation underway and will be presented to the Bid Adjudication Committee for condonement	822 822	-
		19 509 108	14 083 436

Incident 1 – the annual financial statements for the prior year reflected irregular expenditure of R166 862 being the cost of services provided by certain forensic consulting firms for services rendered in February and March 2011. The cost of these services is irregular expenditure, as a deviation certificate authorising the SIU to establish a panel of approved forensic consultant service providers and to enter into contracts with such approved service providers expired in January 2011.

A second deviation certificate recording the approval by the Head of the SIU for the SIU to maintain the appointment of the panel of forensic consultant service providers and authorising the SIU to continue contracting with such approved service providers was signed in August 2011. Although the second certificate records the Head's ongoing approval of the appointment and use of the forensic consultants for an uninterrupted period from 1 February 2010 to the date of signature in August and beyond, the expenditure incurred between April 2011 and date of signature is irregular, since the second certificate was not signed prior to this expenditure being incurred.

Incident 2 – During the current and prior financial years the SIU provided training services to the Government Employees' Medical Scheme and was remunerated for these services. The provision of such training services is not explicitly authorised by the SIU Act and is therefore regarded as irregular expenditure.

Incident 3 – The SIU has utilised the services of temporary employees procured through recruitment agencies for a number of years. Although expenditure on such temporary employees reached significant levels in 2010/11 and 2011/12 management procured the services of these temporary employees by means of the "natural" process of requesting CVs from agencies followed by interviews and the appointment of the leading candidate to the vacancy concerned. Although the annual cost to company of the individual temporary employees has not and does not exceed R500 000 in any instance and despite the short-term nature of the appointments the aggregate annual expenditure on all temporary employees is the proper (and only) financial criterion on which a decision on whether to embark on a competitive bidding process (tender process) should be based.

Since management did not follow a competitive bidding process for the procurement of the services of temporary employees (as management regarded the procurement in question as being the procurement of an individual temporary employee the cost of which was not expected to exceed R500 000 per annum) the entire amount of expenditure on temporary employees for the 2010/11 and 2011/12 is irregular expenditure.

Special Investigating Unit

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Furthermore certain of the recruitment agencies utilised by the SIU were not registered on the Unit's database of approved suppliers and certain agencies did not provide valid tax certificates for the entire duration of the financial year.

Incident 4 – In the 2011/12 financial year, the SIU procured certain forensic data analysis software. No project charter was developed to manage and implement the acquisition of this software and the SIU did not enter into a contract with the supplier of the software. A deviation certificate authorising the SIU to depart from normal supply chain procedures and requirements was signed by the Head of the Unit on the basis that the software was urgently required for certain investigations. However at 31 July 2012 the software has not yet been operationalised and the investigations are proceeding without the use of the software.

2012	2011
R	R

21. RELATED-PARTY TRANSACTIONS

The following related party transactions are included in trade receivables:

Asset Forfeiture Unit	706 540	662 122
National Department of Correctional Services	1 160 702	1 160 702
National Department of Transport	6 212 523	-
Directorate of Special Operations	104 098	104 098
National Department of Housing	4 756 996	4 217 307
National Department of Co operative Governance	-	2 000 000
National Department of Rural Development and Land Reform	-	746 462
South African National Social Security Agency	4 000 000	6 000 000
Eskom	-	6 145 603
Provincial Treasury, Free State	-	2 923 093
Provincial Department of Public Works, KwaZulu-Natal	-	2 125 270
National Department of Health and Social Development	9 922 541	7 067 870
Public Sector Education and Training Authority	-	800 000
Tshwane Metropolitan Municipality, Gauteng	2 979 569	2 392 734
Department of Local Government, Western Cape	-	424 864
Provincial Department of Economic Development and Environmental Affairs, Eastern Cape	278 748	278 748
National Government Employees' Medical Scheme	38 895	243 803
Provincial Department of Education, Eastern Cape	-	6 506 560
Ekurhuleni Metropolitan Municipality, Gauteng	701 638	467 758
National Department of Arts and Culture	1 864 285	5 285 231
National Department of Human Settlements	1 013 783	84 303

Note: The related party transactions with members of management are set out in Note 23.

Special Investigating Unit

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Notes to the annual financial statements

	2012	2011
	R	R
The following related party transactions are included in payables – recoveries:		
National Department of Social Development	8 739 504	8 190 406
Provincial Department of Correctional Services	3 533 743	3 172 704
National Department of Human Settlements	3 212 255	1 876 794
National Department of Justice	308 809	447 650
Provincial Department of Transport	231 829	148 389
Local Government, Eastern Cape	1 854 021	1 918 084
Madibeng Municipality	1 010	-
National Department of Finance	1 000	1 000
Mpumalanga Local Government	7 000	7 000
Provincial Department of Traditional and Corporate Affairs	1 400	1 400
National Department of Education	459 970	1 454 752
Provincial Department of Agriculture	59 600	57 600
Alfred Nzo Municipality, Eastern Cape	42 000	38 500
Taung Local Municipality, North West	202 437	200 389
Moses State Local Municipality, North West	123 123	56 197
Provincial Department of Health	85 900	77 850
Department of Tourism, Environment and Economical Affairs	57 500	-
South African Police Service	133 707	-
South African Broadcasting Corporation	23 031	-
Provincial Department of Land Affairs	128 878	-

Special Investigating Unit

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	2012	2011
	R	R
The following related party transactions are included in revenue:		
Grant received from Department of Justice and Constitutional Development	323 191 000	171 089 000
Asset Forfeiture Unit	1 312 586	782 102
Department of Local Government and Traditional Affairs, Eastern Cape	-	6 000 000
National Department of Social Development	33 000 000	36 000 000
Department of Local Government, Western Cape	5 683 836	4 272 277
National Department of Human Settlements	47 172 554	24 633 908
National Department of Transport	-	20 534 583
National Government Employees' Medical Scheme	1 267 403	4 465 901
Ekurhuleni Metropolitan Municipality, Gauteng	2 806 550	1 169 396
Department of Local Government and Traditional Affairs, North West	-	3 837 178
Provincial Department of Education, Eastern Cape	3 253 280	4 235 529
State Information Technology Agency	-	3 000 000
South African Broadcasting Corporation	11 243 823	7 772 920
Provincial Department of Human Settlements, KwaZulu-Natal	-	843 453
Provincial Department of Health and Social Development, Gauteng	2 976 762	7 067 870
National Department of Rural Development and Land Reform	37 058 374	746 462
National Department of Arts and Culture	517 169	4 654 522
Provincial Treasury, Free State	-	2 923 093
Provincial Department of Transport, Eastern Cape	11 182 542	1 242 505
Eskom	3 468 578	2 677 025
Provincial Department of Public Works, KwaZulu-Natal	4 734 821	1 739 701
Public Sector Education and Training Authority	640 000	160 000
National Department of Cooperative Governance	2 000 000	-
Other related party transactions		
Rental paid by Department of Public Works – not included in expenditure	3 079 262	2 822 162

Salaries (to the amount of R3 121 418) for NPA staff seconded to the Unit for the period 1 April 2010 to 31 March 2011 were paid by the NPA and were therefore not included in the 2010/11 financial year. These staff members have subsequently been taken on as employees in this financial year.

Special Investigating Unit

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Notes to the annual financial statements

	2012	2011
	R	R
22. OPERATING LEASE		
Rental commitments in respect of properties and copiers		
Payable within 1 year	18 155 721	18 473 654
Payable within 2–5 years	24 944 451	37 257 530
Payable thereafter	776 525	3 055 377
Rental commitments in respect of properties and copiers	<u>43 876 697</u>	<u>58 786 561</u>

The commitments are in respect of 15 rental agreements for premises for periods ranging from one year to six years. The average monthly rental is R1 491 260 (2011: R1 565 293). The balance of the lease smoothing provision is R5 374 818 (2011: R5 889 790). There are also 50 copier rental agreements ranging from one year to three years. The average monthly rental is R135 610. Refer to note 34 for details of a prior period error relating to the lease smoothing provision.

23. MEMBERS' EMOLUMENTS

The following table records the emoluments paid to members of the Executive Committee reporting directly to the Head of Unit during the year:

	Salary	Medical/ pension	Other benefits	Total 2012	Total 2011
Executive management					
W Hofmeyr: Head of the Unit	-	-	-	-	-
N Mokhatla: Acting Head of Unit	-	-	-	-	-
M Nyathi: Head, Business Support	1 066 600	115 292	23	1 181 915	1 047 146
S Sokupa: Portfolio Manager	246 912	-	17	246 929	325 319
P Bishop: Projects Director	1 013 026	60 230	68	1 073 324	882 045
MD Mngqaba: Acting Head, Business Support	785 488	139 226	68	924 782	-
F Davids: Deputy Head	-	-	-	-	769 941
G Visagie: Head, Governance and Risk	914 985	222 827	68	1 137 880	1 085 033
Z Ntolosi: Head, Strategy	1 123 728	-	-	1 123 728	994 369
V Marsh Smit: CFO	371 789	-	-	371 789	988 346
GP Elliott: CFO	838 362	-	34	838 396	-
	<u>6 360 890</u>	<u>537 575</u>	<u>278</u>	<u>6 898 743</u>	<u>6 092 199</u>

Special Investigating Unit

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	2012	2011
	R	R

- * Mr W Hofmeyr was remunerated by the NPA as a Deputy National Director of Public Prosecutions on 30 November 2011.
- * Ms Mokhatla was appointed as Acting Head of the Unit in December 2011 and is remunerated by the NPA.
- * Mr S Sokupa resigned in June 2011.
- * Mrs EV Marshsmit resigned in July 2011.
- * Mr GP Elliott started in April 2011.
- * As part of the Unit's performance management system, red flag bonuses (where members exceed the top of their scales) have been paid to the following members:

Mr P Bishop		154 471
Mr G Visagie		174 634
Mr Z Ntolosi		140 225
Mr MD Mngqaba		131 866
		<u>601 196</u>

Remuneration (including disbursements) of Audit Committee members

S Whitfield	-	50 078
H de Jager (Chairman)	47 271	16 710
M Maliehe	42 138	-
	<u>89 409</u>	<u>66 788</u>

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
24. CASH GENERATED FROM OPERATIONS		
Surplus (deficit)	5 443 804	(24 353 505)
Adjustments for:		
Depreciation and amortisation	16 240 721	9 934 473
Gain (loss) on sale of assets and liabilities	51 307	(43 985)
Interest income	(1 609 514)	(1 286 527)
Changes in working capital:		
Inventories	(31 687)	31 810
Trade and other receivables from exchange transactions	15 955 416	668 803
Other receivables from non-exchange transactions	(33 265)	186 022
Prepayments	(1 167 703)	663 220
Trade and other payables from exchange transactions	30 604 958	21 433 019
Trade and other payables from non-exchange transactions	(113 540)	22 520
Income received in advance exchange transactions	8 690 265	3 633 626
Deferred income from exchange transactions	(17 885 241)	17 885 241
	<u>56 145 521</u>	<u>28 774 717</u>

25. RISK MANAGEMENT

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 regularly reported to the audit committee.

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

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.

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

	2012	2011
	R	R
Categories of financial instruments		
Loans and receivables		
Loans and trade receivables (including cash and cash equivalents)	90 806 728	58 471 021
Financial liabilities measured at amortised cost		
Trade and other payables	102 777 874	75 934 456
<p>All amounts as well as the finance leases are short term and the carrying values are considered to be a reasonable approximation of the fair value.</p>		
Credit risk		
<p>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.</p>		
<p>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.</p>		
<p>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.</p>		
Current	13 884 888	37 032 334
60 days	213 123	740 745
90 days	19 642 307	11 863 449
Total	33 740 318	49 636 528
Impairment of receivables	2 386 727	2 327 522
Closing balance	31 353 591	47 309 006

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

Notes to the annual financial statements

2012	2011
R	R

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).

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments' exposure to interest rates at the reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increase or decrease, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows a reasonable possible change in the interest rate – either an increase or decrease in the interest percentage. The equal but opposite percentage adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. This disclosure only indicates the effect of the change in interest rate on unaccumulated surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis for one year to the next.

The estimated rate increases:	2012	2011
Estimated increase in basis points	100	100
Effect on surplus	562 688	91 787

Liquidity risk

The SIU manages liquidity by monitoring forecast and accrual cash flows and matching the maturity profiles of financial assets and liabilities.

All financial asset and liabilities have a maturity profile of less than 12 months.

26. RECONCILIATION BETWEEN BUDGET AND CASH FLOW STATEMENT (R'000)

	Operating	Financing	Investing	Total
Actual amount as presented in the budget statement	19 395	-	(27 372)	(7 977)
Timing differences	38 333	-	16 734	55 067
Actual amount in the cash flow statement	57 728	-	(10 638)	47 090

Special Investigating Unit

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Notes to the annual financial statements

27. 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.

28. 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 or liability.

29. 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.

30. CAPITAL COMMITMENTS

Commitments for the acquisition of fixed assets contracted for but not provided in the annual financial statements exist at 31 March 2012 for R 3 832 953 (2011: R0).

31. CONTINGENCIES

A number of court applications and/or court actions involving the SIU are pending. These include the following:

1. A case against the SIU brought by a former member of the SIU who was acquitted of criminal charges for allegedly being in possession of a false driving licence following an SIU investigation at the Department of Transport. The former member is now seeking damages of R1.5 million.
2. An application against the Head of the Unit and others seeking an order declaring that the SIU is not entitled to investigate the affairs of the National Home Builders' Regulation Council and to compel the SIU to release the SIU's preliminary report to the applicants. The applicants are not seeking damages to be awarded.
3. An application against the SIU seeking an order declaring a proclamation authorising the SIU to investigate the affairs of the Department of Correctional Services with regard to the BOSASA procurement to be invalid and unenforceable and interdicting the SIU from proceeding with its investigation. The applicants are not seeking damages to be awarded.

No provision for costs or damages has been made in respect of the above cases, as the merits of the cases are in favour of the SIU and the possibility of any outflow of funds under a settlement is remote.

Furthermore, the SIU is also currently involved in a CCMA case involving Faiek Davids the previous Deputy Head of the Unit. At 31 March 2012 the parties were awaiting certain decisions from the CCMA. No provision for costs or damages has been made in respect of the above case, were as the merits of the case are in favour of the SIU and the possibility of any outflow of funds under a settlement is remote.

32. SUBSEQUENT EVENTS

The SIU's request for the rollover 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.

Special Investigating Unit

Annual financial statements for the year ended 31 March 2012

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2012	2011
R	R

33. STANDARDS OF GRAP APPROVED BUT NOT YET EFFECTIVE

Standards of GRAP that have been approved but are not yet effective have not been implemented by the Unit. These standards will be implemented during the financial year that they become effective. It is not expected that the initial application of these standards of GRAP will have a significant impact on the Unit's financial statements.

GRAP 18 Segment Reporting

GRAP 20 Related Party Disclosures

GRAP 25 Employee Benefits

GRAP 105 Transfer of Function between Entities under Common Control

GRAP 106 Transfer of Function between Entities not under Common Control

GRAP 107 Mergers

34. PRIOR PERIOD ERRORS

During the 2011/12 financial year, it was discovered that the accounting for the lease smoothing provision was incorrect.

There is no taxation effect of this error, as the Unit is a public entity and does not pay income tax.

	2011	Pre-2011
Statement of financial position		
Lease accrual	(1 227 534)	(4 319 442)
Statement of financial performance		
Lease expenses	1 227 534	-
Effect on opening accumulated surplus or deficit	-	4 319 442
	-	-

35. IMPACT OF CHANGES REQUIRED TO THE SIU ACT

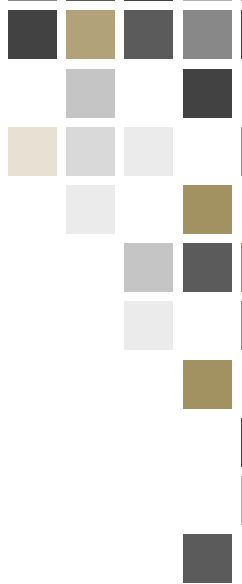
During the 2011/12 financial year a legal opinion was issued, which concluded that the SIU was not entitled under its current enabling act to charge other state institutions for the recovery of costs incurred in carrying out forensic investigations. With certain exceptions the effect of this legal opinion was to immediately preclude the SIU from charging for cost recoveries. This has had an adverse impact on the SIU's ability to fund certain existing as well as new investigations.

The response of the SIU was twofold – firstly to urgently seek amendments to the SIU Act and secondly to curtail its operations until the process of making legislative amendments was completed (and the ability to charge other state institutions restored). At 31 July 2012. Parliament has approved the proposed legislative amendments to the SIU Act and final enactment of the amendments is expected by the end of August 2012.

Management is satisfied that the SIU has sufficient resources to continue as a going concern into the foreseeable future.

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POISED TO STRIKE
against corruption

Special Investigating Unit

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