

SPECIAL INVESTIGATING UNIT



ANNUAL REPORT 2002/2003



**The Honourable Speaker
Dr F Ginwala
Parliament of the
Republic of South Africa
P O Box 15
CAPE TOWN
8000**

28 May 2003

Dear Madam

**ANNUAL REPORT IN TERMS OF SECTION
4(1)(H) OF ACT 74 OF 1996**

On behalf of the Special Investigating Unit, appointed in terms of Section 2 of Act 74 of 1996, we hereby submit to you the Annual Report for the period 2002/2003 as envisaged by the provision of Section 4 (1)(h) of Act 74 of 1996.

The report includes the most important features of the SIU for the year under review.

Yours faithfully

.....
**W A Hofmeyr
HEAD OF THE UNIT**

CONTENTS

List of Abbreviations	2
Introduction:	
• Vision	3
• Role of the SIU	3
• Advantages of the SIU	3
• Matters which the SIU can investigate	3
Message from Head	4-5
Report by the Accounting Authority	6-7
Year under review: 2002/2003	
• Investigations	8-21
• Regional Reports	22
• Legal	23-24
• Administration	25
• Information Technology	26
Report of the Audit Committee	27
Annual Financial Statements	30-44

LIST OF ABBREVIATIONS

AG: Auditor-General

AFU: Asset Forfeiture Unit

Agri-Eco: Free State Agriculture and Development (Pty) Ltd

CEO: Chief Executive Officer

DACST: Department of Arts, Culture, Science and Technology

DCS: Department of Correctional Services

DLTC: Driving Licence Testing Centre

DSO: Directorate of Special Operations

DVLA: Duncan Village Licensing Authority

FSTMB: Free State Tourism and Marketing Board

IT: Information Technology

JACTT: Joint Anti-Corruption Task Team

KZN: Kwa-Zulu Natal

LAN: Local Area Network

MEC: Member of the Executive Council

NPA: National Prosecuting Authority

PACOFs: Performing Arts Council of the Free State

RDP: Reconstruction and Development Programme

SA: South Africa

SAPS: South African Police Service

SIU: Special Investigating Unit

SOK: Sentraal Oos Ko-Operatief

TLC: Transitional Local Council

TRTC: Transkei Road Transport Corporation

UK: United Kingdom

WAN: Wide Area Network

WPP: Witness Protection Programme

WPU: Witness Protection Unit

INTRODUCTION



The SIU has pleasure in presenting the Annual Report on its activities for the year ended 31 March 2003. This report is submitted to the Speaker of the National Parliament and particulars presented include those required by law.

The purpose of this Annual Report is to give an overview of the SIU performance, financial status and achievements during the past year.

MISSION

The SIU is an anti-corruption agency that performs high quality investigations of corruption and takes legal action to prevent and recover losses of state assets in the public interest

ROLE OF THE SIU

The SIU deals with cases of corruption, fraud and maladministration that have been referred to it by the President.

When an investigation reveals sufficient evidence, the SIU can institute civil action in the Special Tribunal to recover, protect or save state assets or state monies that have been or could be misappropriated or misused.

Where any evidence of criminal offences is uncovered, the SIU works closely with other law enforcement agencies to ensure that perpetrators are prosecuted in the appropriate forum.

ADVANTAGES OF THE SIU

The SIU plays a role not fulfilled by any other institution. It is the only institution that has the application of civil law as its focus area in order to deal with the effects of corruption or maladministration. The SIU has the capacity to take a matter from the stage

where it is a mere allegation, through a full investigation and ultimately engage in litigation to bring the matter to finality.

Due to the application of civil law, the SIU has the added advantage that it only has to prove its cases on a balance of probabilities. This is significantly easier than criminal prosecution where the guilt of an accused person has to be proved beyond reasonable doubt. In criminal prosecutions subjective intent also has to be proved.

The SIU, due to the application of civil law, normally does not have to prove this element. A classic example of this can be found if one compares the criminal offence of fraud (where the state has to prove subjective intent) to the position in civil law where a negligent misrepresentation would constitute a cause of action.

MATTERS WHICH THE SIU CAN INVESTIGATE

The President may refer a matter to the SIU for investigation on the grounds of any alleged -

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

MESSAGE FROM HEAD



In the first year after my appointment as Head of the SIU, the focus was on rebuilding the capacity of the unit to ensure that it can again play a meaningful role in fighting the scourge of corruption in our country.

In the 2002/03 financial year the SIU has demonstrated that it can play an important role in the fight against corruption.

Department of Correctional Services (DCS)

The highlight of the year was the recovery of R14 million in the investigation into corruption in the DCS. SIU investigators found that doctors and DCS officials colluded to defraud the medical aid scheme by submitting false claims on a massive scale.

To date the SIU has recovered R14 million in the form of acknowledgements of debt from six doctors. In one case, a doctor had defrauded the medical aid schemes of R7.6 million.

The SIU has worked with the DSO (Scorpions) and the police to ensure that those involved are criminally charged.

Recoveries and Savings to the State

The SIU managed to meet or exceed its targets for the year:

- Cash recoveries were R34.3 million against a target of R40 million;
- savings (including prevention of loss) were R88.8 million against a target of R60 million.

Thus in total the SIU recovered or saved the state R123 million against a target of R100 million. These figures have been verified by the Auditor-General.

The most important cash recoveries were:

- R14 million in the DCS investigation mentioned above; and
- R14 million recovered during the ghost worker investigation in the Limpopo Province.

The most significant savings were:

- R75.4 million by securing the assets belonging to Agri-Eco, a state controlled s21 company in the Free State Province; and
- R12 million in the Namaqualand Housing Project. Contractors were forced to honour a contract to build houses after they had ceased all work when they received payment in advance.

Other Action Taken

The Limpopo Province license investigation resulted in the revoking of 1400 licenses. Another 1600 licenses are due for cancellation soon, while a further 7000 licenses have been identified as potentially irregularly issued.

In the Nontenja matter, a member of the SIU was actively involved in preparing the criminal case docket against Mr S Nontenja. Mr Nontenja had defrauded the Department of Justice of R19 million. As a result of the SIU's efforts, he was sentenced to 25 years in prison and his assets were forfeited.

The SIU has also worked closely with the SAPS, the DSO (Scorpions) and the Asset Forfeiture Unit (AFU).

Working Together to Fight Corruption

During the past year the SIU developed particularly close working relationships with several state institutions to fight corruption, including:

- DCS agreed to help fund a special team of 25 investigators and lawyers to focus exclusively on investigating corruption in prisons;
- The Limpopo Department of Transport is helping to fund the costs of the investigation into all licenses issued in the province between 1994 and 1999;
- The KwaZulu Natal Department of Housing is helping to fund the costs of the investigation into abuse of housing subsidies in the province; and
- The Joint Anti-Corruption Task Team (JACT) established by law enforcement agencies to tackle corruption in the Eastern Cape. The SIU played a key role in providing the infrastructure for JACT, including office space and administrative support. Eight SIU members have been seconded to work full-time on JACT.

Capacity Building

During the past year the SIU was able to build its capacity to investigate corruption significantly, partly as a result of the filling of vacancies and partly from the funding received from other state institutions.

The number of permanent staff grew by 40% from 74 to 103 while the total staff complement (including contract workers) grew even more rapidly by 58% from 84 to 133.

Delivering a Cost Effective Service

The SIU demonstrated that it is able to deliver a cost effective service to the state. During the year the SIU was able to spend an extra-ordinary 95% of its additional expenditure on actual investigations. Its operational expenses (salaries and disbursements) increased by R9.8 million to R24.5 million while its


overhead expenses increased by a mere R0.5 million to R3.9 million, barely more than the inflation rate.

Establishing a National Presence

During the past year the SIU has established regional offices in Pretoria and Durban to ensure that it delivers a better service to state institutions in those areas. It is anticipated that further offices will be established in Cape Town and Mpumalanga within the next year.

I would again like to extend a special word of thanks to the Minister of Justice and Constitutional Development for his support and the excellent cooperation the SIU enjoyed from him and the Department. Although the procedure for obtaining proclamations is still a cumbersome one, he has supported all requests from the SIU, and he has made it clear that rooting out corruption is at the top of his agenda.

Finally, I would like to thank the members of the SIU for their unstinting support and loyalty. I believe that together we have indeed managed to put the SIU "back in business" as one of the prime institutions fighting corruption in South Africa.



 Willie Hofmeyr
 Head of Unit

MANAGEMENT REPORT

Report by the Accounting Authority to the Executive Authority and Parliament of the Republic of South Africa

General Review of the State of Financial Affairs

The expenditure of the SIU is mainly governed by its staff expenditure. During the previous financial year the SIU rolled over an amount of R3.7 million due to the fact that it had a large number of vacancies that were filled only towards the end of that financial year.

During the current financial year, the SIU was able to spend its entire budget, as well as the funds rolled over from the previous year by expanding its operations significantly. Thus there were significant increases in salaries and other expenses relating to operations.

At the same time the SIU managed to contain the growth of its overhead expenditure items to roughly the inflation rate.

There was again a significant amount of spending on IT resources to enable the newly recruited investigative and legal staff to perform their duties to a greater extent.

Services Rendered by the SIU

2.1 As stated in our mission statement the SIU assists state institutions at national, provincial and local levels with the investigation of corruption or mal-administration, and with any litigation that may be required to recover losses to the state, or to prevent such losses.

2.2 Tariff policy

Currently the SIU provides its services at no cost to government departments. However, due to its limited resources and the increased demand for its services, the SIU has entered into agreements with certain departments that they will make a financial contribution to the cost of investigations.

2.3 Free Services

The SIU renders all its services at no charge other than as stated above. The total cost of free services was the amount of about R27 million spent by the SIU.

In addition, the SIU generated an amount of about R3 million from services for which it was compensated.

Achievements

The targets set by the SIU as well as the achievements for the year under review are contained in the table below:

OUTPUTS	PERFORMANCE MEASURES	2002/2003 TARGET	2002/2003 ACTUAL
Investigation of corruption and prevention of losses to the State	• Savings (incl. preventions)	R60m	R88,8m
	• Cash recoveries	R40m	R34,3m
	TOTAL	R100m	R123,1m

From the table above, it is evident that the SIU exceeded its overall target for savings by R23.1 million, although it narrowly missed the target for actual cash recovered. This is a remarkable achievement and a sound investment for the state when one considers that its entire budget for the year was only R23 million.

Under/(over) Spending

As mentioned earlier, the SIU was able to utilise its full budget as well as the amount of R3.7 million rolled over from the previous year. Including the funds that were rolled over, under-spending was a mere R0.19 million or about 0.7% of total expenditure for the year. The increased spending on operations enabled the SIU to improve its service delivery significantly compared to the previous year.

Capacity Constraints

There has been a significant increase in the demand for the services of the SIU and this has resulted in severe capacity constraints to deal with all the new matters. The most important measure taken to improve the situation has been to negotiate agreements with departments requiring the services of the SIU that they make some contribution to the cost of the investigation. This has enabled the SIU to increase its capacity to deliver services significantly.

Corporate Governance Arrangements

The SIU is fully compliant with the requirements of the Public Finance Management Act. During the year ended 31 March 2003, the SIU has accomplished the following:

- Risk assessment: The risk assessment conducted during 2001/2002 resulted in risks being identified, categorised and prioritised. These risks were mitigated during the year under review and plans are underway to identify new risks and develop new strategies during the next financial year.
- Internal audit: The SIU has continued with compliance audits by our internal auditors to ensure that policies and procedures are being adhered to. The external auditors are able to tailor their audit approach based on the findings from our internal auditors' report.

- Audit committee: The audit committee has continued to hold regular meetings to review the affairs of the SIU.
- The SIU has submitted its financial statements for auditing within the time frames stipulated by the PFMA.

The above measures were very effective and resulted in the SIU receiving an unqualified audit report.

The SIU intends to comply with the additional requirements set out in the King II Report relating to corporate governance, and is currently studying the financial and other implications of implementing these.

New/Proposed Activities

The most notable new activity is an agreement to assist the Department of Justice with an investigation into the magistrates' courts and possibly the masters' courts. The Department will contribute to the cost of the investigation.

Events After the Accounting Date

Nothing of significance.

Progress with Financial Management

Improvements

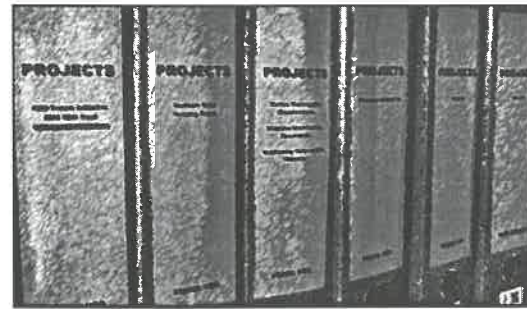
The SIU has continued to comply fully with the PFMA.

Approval

The annual financial statements set out on pages 30 to 44 have been approved by the Accounting Authority.


Willie Hofmeyr
Head of Unit

INVESTIGATIONS



Department of Transport: Limpopo Province

Background

Prior to the involvement of the SIU, members of the public made allegations that learners and drivers licences were being sold at Driving Licence Testing Centres (DLTC's) and Transitional Local Council Traffic Centres in the Limpopo Province.

According to the information obtained from the Inspectorate at the National Department of Transport, the Duncan Village Licencing Authority (DVLA) in the United Kingdom expressed their concern regarding fraud and corruption within the South African driving licence industry and the lack of action taken against perpetrators. Concern was also raised about the fact that an estimated 800 000 South Africans are living in the UK, many with South African driving licences. It was feared that the alleged fraud and corruption within the SA system could compromise safety on British roads.

Similar concern was raised by the Botswana Government. South African driving schools advertise in Botswana and guarantee a licence within two weeks. Applicants then return to Botswana and convert their licences.

Allegations Under Investigation

As a result of these allegations, the SIU was authorized by proclamation R61 of 1999 to investigate the following:

- The unlawful selling and/or issuing of driving licences by employees of the Department; and
- The unlawful, unauthorized and/or irregular issuing of Motor Vehicle Registration and/or Roadworthy Certificates by employees of the Department.

Action During 2002/03

During the year members of the SIU together with contract employees completed perusing documents from 16 DLTC's (The largest DLTC has a minimum of 10 000 files). These centers included:

- Tzaneen
- Duiwelskloof
- Nkowa-nkowa
- Thohoyandou
- Malamulele
- Giyani
- Mhala
- Lebogakgomo
- Praktiseer
- Mankweng
- Sekgosese
- Sekhukhune
- Nebo
- Potgietersrus
- Warmbad
- Bochum

Due to the seriousness of the allegations, the SIU found it necessary to peruse and investigate every file from each of the above-mentioned DLTC's. This information was then recorded on a spreadsheet and, where it was found that licenses were issued or obtained in an irregular manner, a decision was taken to keep the files for further investigation and questioning.

Findings

The SIU has found that approximately 10 000 learners' and drivers' licences have been issued contrary to legislation and stipulations in the Road Traffic Act. Irregularities include:

- Eye tests not done;
- Eye test completed incorrectly;
- Time allocated for yard test not recorded;
- Time allocated for yard test exceeds the maximum requirement of 20 minutes;
- Time allocated for road test is less than the minimum requirement of 20 minutes;
- Yard test failed penalty points accumulated exceed the maximum penalty points allowed;
- Road test failed penalty points accumulated exceed the maximum penalty points allowed;
- Yard test failed - mark indicated in a space where no value is allocated;
- Signaling errors;
- Tested for wrong code;
- Test sheet not signed by the applicant;
- Declaration not signed by the applicant;
- Incorrect calculation of penalty points for yard test;
- Incorrect calculation of penalty points for yard and road test;
- Time allocated for road test exceeds the maximum allowed of 45 minutes;
- Incorrect test sheet used;
- Incorrect calculation of penalty points for road test;

- Penalty points allowed not recorded;
- Penalty points accumulated not recorded;
- No indication whether applicant passed or failed;
- Applicant failed learner's licence but issued with driving licence; and
- Date of test is before the date of appointment for drivers' test.

Action

During October 2002, the MEC for the Department of Transport in the Northern Province approved the cancellation of licences found to be issued contrary to legislation.

At a media conference held in October it was announced that 1 500 licences would be cancelled and mechanisms were put in place to facilitate this. The SIU and the Provincial Department are working closely together to ensure that the cancellation of licences is done in the prescribed manner and that the process continues until all irregular licences have either been cancelled or approved.

Metrorail: National

Background

The SIU received a letter of complaint in September 2002, setting out various allegations against Metrorail officials.

A meeting was held with the complainant in November and documentation was provided to the SIU.

Allegations

The allegations contained in the documentation included:

- Nepotism in appointments within Metrorail;
- Appointments contrary to criteria stipulations;
- Irregular appointments;
- Disciplinary action instituted and concluded against senior officials where the sanction did not correspond with the transgression;
- Irregular awarding of contracts;
- Awarding of contracts to avoid tax;
- Conflict of interests and dual employment;
- Lack of accountability;
- Misuse of motor vehicles;
- Irregular payments; and
- Theft and fraud.

Action

Following consultation with Metrorail, the SIU has found that the internal auditors of Transnet, dedicated to Metrorail, are dealing with various allegations. Some allegations have been investigated and finalized.

Despite numerous requests for information from Transnet, the SIU has experienced delays. Repeated requests have been made since November 2002 for copies of the reports of the investigations conducted by the internal audit department of Transnet.

Indications are that Transnet are not prepared to release the internal audit reports given that they are concerned it may jeopardise the outcome of possible disciplinary and/or criminal action that may arise from the investigation. However, Metrorail management has stated that they would be prepared to meet with members of the SIU to discuss a formal manner in which to share information.

The SIU decided not to pursue a proclamation as the allegations have been appropriately dealt with by the internal auditors of Metrorail.

Swellendam Municipality: Western Cape Province

Background

The SIU received a letter of complaint in August 2002, setting out various allegations relating to the Railton Housing Project against the Swellendam Municipality and one of its officials.

Documentation was provided to the SIU in December in support of the allegations.

Following this the SIU contacted several of the parties involved and officials in the Swellendam Municipality. Documentation and information was requested and received.

Allegations

The allegations set out by the complainant include:

- Bias in the awarding of a tender relating to the Railton Housing Project tender;
- Lack of documentation relating to the delivery of materials;
- Lack of engineers plans; and
- Poor quality of houses being built.

Action

During December 2002, meetings were held with the complainant. During the meeting the complainant was unable to provide substantiation for the allegations.

Meetings with municipal officials provided no evidence to support the allegations of the complainant.

Findings

Following a preliminary investigation, the following was found:

- The tender for the hire of machinery and the provision of bedding sand to the Railton Housing Project was awarded to the cheapest local supplier. The tender was not advertised due to time constraints and this was ratified by the Municipal Council as reflected in the minutes of 11 February 1999;
- Given that the contractor for this project reported directly to the consulting engineers from Cape Town, there was no need for municipal officials to

sign for receipt of deliveries made by the contractor;

- The complainant had never requested the engineer's plans from the municipality; and
- The municipality had received a complaint regarding the quality of the houses being built at the Railton Housing Project. Upon investigation, officials from the municipality found the quality to be acceptable.

Conclusion

After conducting the preliminary investigation, the SIU found no substantiation to the allegations made. As a result of the fact that there appears to be no loss of funds by the municipality, the SIU has closed this matter.

Mabopane TLC: North West Province

Background

Allegations involving the sale of a site to a private company where the money was never paid to the TLC.

Findings

Following the investigation the SIU found that the TLC had received no financial settlement for the sale of the site.

During 2001 the SIU entered into negotiations with the private company to ensure that the amount owed was paid to the TLC. The SIU facilitated negotiations between the TLC and the company for a settlement of R40 000.

Action

During 2002 a settlement was to be signed. However, since August 2002, the SIU has been waiting for confirmation from the TLC regarding the outcome of the negotiations. The company involved had agreed to pay R40 000 and taxed legal costs up to R15 000. However the City of Tshwane Metropolitan Municipality requested that the settlement be amended to include that no transfer of the erf would take place until tangible proof of the payments in question were furnished. The matter is still outstanding.

TLC's: Western Cape

Background

Since March 2000, the SIU has been consulting with the Western Cape Provincial Administration and the Office of the Auditor-General in the Western Cape to investigate allegations relating to the following Municipalities/District Councils:

- Saron Local Council
- Weskus District Council
- Calitzdorp Municipality
- Worcester Municipality
- Robertson Municipality

The investigation was proclaimed in June 2002 and the SIU is in the process of conducting a comprehensive forensic investigation into all the allegations as set out in the proclamation.

Allegations

The allegations, as covered in various Auditor General reports, include:

- Unauthorized and/or fruitless Expenditure;
- Poor/irregular asset management and control;
- Failure to recover outstanding debt;
- Financial mismanagement;
- Failure to keep proper financial records;
- Maladministration;
- Failure to render VAT returns;
- Irregular awarding of tenders; and
- Irregular sale of state assets.

Findings

Between June and September 2002, the SIU held various meetings with the Auditor General's office in Cape Town and all municipal managers from the municipalities/district councils.

In addition to this, 42 lever-arch files of supporting documentation were obtained and analysed.

The SIU has found that most of the matters have prescribed due to the fact that the state has been aware of the claim for more than three years and has not taken action due to delays in various departments. The major problem seemed to be the delay by the Department of Local Government and Housing and the Auditor-General's Office in referring the matter to the SIU and the further delay by the Department of Justice in processing the motivation for a proclamation.

A matter involving the use of state land without a formal lease is still being investigated in Saron. It is expected that this matter will be resolved shortly.

The matters relating to Weskus District Council, Calitzdorp, Worcester and Robertson Municipalities have been investigated and legal opinion is that all these matters have prescribed. As a result the SIU is unable to institute legal action to recover losses.

Crawfords Cabins: Eastern Cape

Background

This investigation has been ongoing since 1997 and involves encroachment of buildings/structures onto state land by an individual/trust.

Action

Following the legal constraints and problems experienced with the establishment of the "new" SIU under proclamation R118, legal opinion is that the SIU has lost the mandate to investigate this matter.

However, the SIU has approached the Department of Public Works to accept the case and refer it to the State Attorney to have the illegal structures removed and the land rehabilitated. Negotiations are ongoing.

Motheo District Municipality: Free State Province

Background

The SIU was requested in September 2002 to investigate irregularities pertaining to allowances paid to councilors, loans to personnel and goods that were bought and paid for with official credit cards. These cards were issued to high ranking officials for official purposes and not private use.

Action

Meetings between the investigator, SIU legal representatives, members of the Auditor-General's office, and the Mayor, Municipal Manager, Speaker and Chief Financial Officer of the municipality took place on various occasions. During these meetings the SIU requested documentation and compiled a questionnaire to be completed by the municipality to enable the SIU to compile a motivation for a Proclamation.

The SIU is of the opinion that the municipality is delaying in supplying the documentation or is unable to supply it. This has resulted in the SIU being unable to apply of a proclamation.

As a direct result no further investigation was possible.

Moqhaka Municipality Free State Province

Background

The Unit was requested in September 2002, to investigate certain irregularities relating to the following:

- Tenders submitted and allocated;
- Allegations of fraud and corruption dating back to 1996/1997;
- Allegations pertaining to low cost housing projects, bridging finance relating to the low cost housing project as well as the fraudulent allocation of houses;
- Corruption within the local traffic department including the appointment of senior staff and the removal/theft of warrants of arrest and summonses issued.

Action

Meetings with the Mayor, the Municipal Manager and other role players have taken place on various occasions and the SIU has made written requests, faxes and telephone calls for additional documentation to enable the SIU to compile a motivation for a proclamation.

The SIU is of the opinion that the municipality is delaying in supplying the documentation or is unable to trace it from the various departments. This has resulted in the SIU being unable to apply of a proclamation.

Matjhabeng Municipality: Free State Province

Background

This complaint was reported to the SIU in September 2002. The allegations made by the complainant include:

- That the municipality does not comply with the Local Government Transition Act (Act 209 of 1993);
- That the municipality is not structured in terms of the Local Government Municipal Structures Act (Act 117 of 1998 as amended); and
- That the municipality does not comply with the Employment Equity Act.

Further allegations include:

- Tender procedures not being adhered to;
- Appointment of personnel in terms of applicable legislation are not complied with;
- Unauthorised expenditure by failing to comply with legislation; and
- The misuse of council resources.

Action

The SIU is still awaiting documentation from the complainant to enable it to compile a motivation for a Proclamation.

Kwa-Zulu Natal Discretionary Fund: Kwa-Zulu Natal

Background

The Reconstruction and Development Programme was implemented to assist in the upliftment of underdeveloped areas of South Africa. The Provincial Government, at the time when the RDP was implemented, lacked the necessary skill and capacity to oversee and implement the various programs and, as a result, made use of consultants.

In this case a consultant was appointed by the Provincial Government to manage a number of projects on behalf of the Department of Local Government and Traditional Affairs. The initial contract period was for one year after which it was renewed yearly for a further period of three years.

The role of the consultant was to provide program and project management services in execution of the Consolidated Municipal Infrastructure Program (CMIP) relating to municipal infrastructure, bulk connector grants and urban renewal management programmes.

This contract was limited to an amount of R3 million and was valid for one year renewably annually. The contract provided for the payment of all reasonable costs incurred by the contractor in accordance with rates as stipulated in the agreement.

Following reports of irregularities in the billing of overtime and other claims, auditors were appointed to do a preliminary investigation.

The SIU became involved in September 1998 following allegations of irregularities within the KZN Discretionary Fund. Following proclamation R69 of 2000, the SIU was able to initiate a full investigation.

Action

During the past year the SIU concluded its investigation into this matter. This investigation consisted of various meetings, correspondence, documentation and questionings.

Findings

Irregularities, overpayments pertaining to the overtime and some overpayments relating to travel claims were found. In addition to this, the contract between the Department of Local Government and the contractor had no variation clause the only stipulation was that payments must be approved before payment is made.

Due to legal problems relating the institution of litigation by the SIU and the issue of prescription, it was decided to hand the case to the Department with a recommendation to take action through the State Attorney.

Uthungulu District Municipality Kwa-Zulu Natal Province

Background

Proclamation R76 of 2002 authorised the SIU to investigate allegations relating to irregularities within the Uthungulu District Municipality.

The schedule to the proclamation empowered the SIU to investigate the following:

- Irregularities relating to the awarding of service contracts by the municipality;
- Irregular conduct by the Chief Financial Officer of the Municipality relating to the purchase of a computer system;
- Irregularities relating to the awarding of a contract by the Municipality to SDR Inspeksie Dienste to perform a debt collection service within the area of the Municipality;
- Irregularities relating to the conclusion of a contract by the Municipality for direct Internet access and the maintenance of e-mail addresses;
- Losses suffered by the Municipality as a result of attempts to purchase a server for the Municipality;
- The continued use of VGC Engineers as exclusive consultants of the Municipality at exorbitant costs whilst the latter were under performing or not performing at all; and
- Irregularities relating to tender procedures.

Action

Members of the SIU have held meetings with the following persons:

- The complainant;
- The Deputy Director of Local Government in KZN; and
- The Uthungulu Municipal Manager.

To date a number of documents have been received from the municipality and various banking institutions. These have been analysed and a report has been compiled and handed to the SIU Legal Team for consideration and decision on whether or not to pursue civil litigation.

Agri-Eco: Free State Province

Background

The SIU received a letter of complaint from the Free State Premier's Office in May 1999, highlighting various allegations concerning Free State Agriculture and Eco-Tourism Development (Pty) Ltd (Agri-Eco). It set out various allegations relating to the following:

- Directors remuneration;
- Sentraal Oos Ko-operatief (SOK); and
- Diyatalawa Apple Project.

1. Director's Remuneration

Background

This matter was uncovered by KPMG who acted as internal auditors of Agri-Eco. The main allegation was that the directors did not comply with policies and procedures.

Investigation

During the investigation, the SIU had to determine if the amounts paid (fees and disbursements) were in accordance with the following:

- The terms of the engagement contract between the company and the directors;
- The rate, hours and distances approved by the directors; and
- Statutory requirements as set out in the company's Memorandum and Articles of Association.

Lastly, the SIU had to determine a quantum so as to recover monies that were irregularly claimed.

Findings

The SIU found failure by the directors to adhere to the policies and procedures. This caused a loss of R416 830.

Action

During the past year the SIU instituted legal action with the intention of recovering the losses incurred by the company. However, the case has been closed due to prescription.

2. Sentraal Oos Ko-Operatief (SOK)

Background

In this matter the SIU was asked to investigate the contract signed between Agri-Eco and Sentraal Oos Ko-Operatief (SOK). The agreement essentially had three elements consisting of:

- The secondment of three members of staff from Agri-Eco to SOK. These employees were to act as Agricultural Information Officers. Their duties include ensuring that debts granted to farmers were liquidated regularly;
- An investment by Agri-Eco of R5 million. This investment was ceded to SOK and was to serve as security for debts incurred by emergent farmers; and
- SOK was also to act as a debt collection agent for Agri-Eco.

Investigation

The SIU investigation revealed that the contract signed by the Board of Directors was impoverishing the company and that the Board of Directors was trading recklessly.

Action

Legal action was instituted against the Board of Directors with the intention of making civil recoveries. Given that the matter had prescribed and that some of the issues in the contract were not proclaimed, the SIU, following legal opinion, decided to close the case with no legal action being taken.

3. Diyatalawa Apple Project

Background

In this matter, the SIU was asked to investigate the role of three companies in the project. In addition to this, allegations were made that the micro-sprinkler irrigation system for the project had not worked from the day it was installed. However payment for this system was made. A further allegation related to kickbacks received by people from the Western Cape who supplied AgriEco with apple tree saplings at inflated prices.

Findings

The SIU found that the three companies tasked to work on the Diyatalawa Apple Project were "shell" companies and had not been used as vehicles for money laundering. As a result, no further investigation was done into this allegation.

With regard to the micro-sprinklers, the SIU, with the assistance of qualified engineers, discovered certain irregularities relating to the installation of the system.

However, due to prescription the SIU was unable to institute litigation to recover possible losses.

The Department of Social Development: Free State Province

Background

The SIU received an allegation through the Office of the Auditor-General during 2002 relating to irregular claims for travel by the ex-MEC for the Department of Social Development in the Free State. In addition to this allegations were also made regarding the misuse of a government credit card.

Investigation

The SIU analysed all documentation relating to official trips and purchases, standing government policies, regulations, bank statements and order books.

Findings

During the investigation a number of discrepancies were found. The misuse of the credit card amounted to R44 000 and irregular motor vehicle claims amounted to R186 000. The SIU is busy negotiating a settlement in this matter.

While investigating the allegations relating to irregular claims and credit card misuse, the SIU also found an irregular sale of a bakkie by the MEC to a project under

the jurisdiction of the Department. As a direct result of the investigation and intervention by the SIU a settlement was reached and R26 000 was recovered.

Free State Marketing and Tourism Board: Free State Province

Background

The SIU received allegations from the MEC for Tourism in the Free State relating to the now defunct Free State Tourism and Marketing Board (FSTMB). The MEC requested that the SIU investigate the following:

- Irregular/fraudulent claims made by the company or board officials;
- Unlawful/irregular expenditure of the FSTMB funds through advances/loans made in favour of company officials/board members;
- Irregular/unlawful payments and/or advances/loans made by the company to third parties/consultants, its managers and/or board members;
- The unlawful/irregular contracts between FSTMB with third parties/employees or consultants;
- The conclusion of contracts between FSTMB with parties/consultants/employees which resulted in a loss to the company; and
- Irregular and/or fraudulent use of credit cards belonging to the company.

Investigation

The SIU has yet to commence with its investigation given that this matter is not yet proclaimed. However, the necessary motivation for a proclamation has been forwarded to the relevant authorities for signature and approval.

Government Asset Register: Limpopo Province

Background

The Unit was requested to investigate this matter in 1999. This was a direct result of audit reports for the period 1996/97 that found the following:

- No documentation, for audit purposes, could be found for 46 vehicles purchased for the Department of Health;
- Vehicles which appeared in the Head Office register of Public Transport as allocated to the various departments could not be found and were unknown to the department. According to the Head Office register, 3000 vehicles were unaccounted for; and
- Vehicles indicated as being allocated to National Departments in the Head Office Register, could not be verified as indeed being with such departments.

An audit conducted in 1999 found the following:

- Some vehicles appearing on the Department of Transport Head Office vehicle register, do not appear on regional vehicles registers;
- Some vehicles bear the same registration number; and
- Make and models of vehicles appearing on the Department of Transport Head Office register differ with those appearing on the regional vehicle register. There appeared to be no effort to reconcile the registers kept by the regions with the Head Office registers.

Action

During the 2001/2 financial year all government workshops were visited and comparisons made with lists from the workshops and the reports from the Auditor-General.

Findings

During the past year the SIU has concluded that the vehicle asset register of the Limpopo Province is inaccurate and does not reflect the final utilization point of vehicles.

Information provided to the SIU regarding the whereabouts of government-owned vehicles was, in most cases, inaccurate.

No list exists to indicate which vehicles were from the former homelands of Lebowa, Gazankulu and Venda or which vehicles came from South Africa.

Given that motor vehicle registration numbers were changed after 1994 it was difficult for the SIU to trace certain vehicles as no engine or chassis number were recorded. In this regard, there is no record or listing which indicates the old registration number and the new registration number of vehicles.

A further finding indicates that auction lists are not up to date and in some cases the registration number of the vehicles sold could not be read given the illegible handwriting on the forms.

Although certain vehicles couldn't be traced, the list of missing vehicles within the Department of Transport in the Limpopo Province has been cut from 3000 to 110.

A report to this effect was drafted by the SIU, handed over and discussed with the Auditor-General for the Limpopo Province.

Kwa-Zulu Natal Peace Initiative: Kwa-Zulu Natal Province

Background

The Department of State Expenditure allocated R100 million to the Kwa-Zulu Natal Peace Initiative Fund for the 1996/1997 financial year. This was for the implementation of community projects through the building of physical structures.

During a second phase, a further R100 million was allocated for the establishment of human capital investment projects through the cultivation of suitable skills to restore peace and stability to Kwa-Zulu Natal.

The allocation of funds for Phase 1 was based on a business plan signed by the Director General of Kwa-Zulu Natal, the Premier and the leader of the largest minority party.

The SIU received a mandate by way of proclamation to investigate various allegations of maladministration, corruption and fraud.

Allegations

The Auditor-General's report on the KZN Peace Initiative concluded that there was a lack of capacity in the office of the Director General to administer RDP funds.

It found that tender procedures had been contravened as the contact between Kwa-Zulu Natal and the Project Manager was concluded on 30 May 1997, but payments were made in November and December 1996.

Allegations further came to light that the CEO of the appointed management consultant body and the KZN Director General were close friends.

A further audit by Ernst and Young of project review for 1996 to 1998 and statements of an ex-employee of the appointed management consultant body highlighted allegations of nepotism, fraud, misappropriation of state funds, mal-administration and unauthorized expenditure.

Investigation

According to investigations conducted there has been a loss of state funds amounting to R1 790 092. The management consultant appointed for this project has already conceded to an amount of R296 871.

Action

In 2002 it was realized that this matter would prescribe on 31 May 2002.

Various meetings were held with the interested parties including the Department of State Expenditure and auditors from PriceWaterhouseCoopers where a course of action was determined.

The SIU decided that documents and charges would be prepared by the Unit's legal team and handed to the Provincial Government for the institution of action via the Office of the State Attorney.

During May 2002 the matter was handed over to the Provincial Government and the State Attorney for further action. The SIU has now closed its investigation into this matter.

Performing Arts Council of the Free State (PACOFs): Free State Province

Background

Following an audit by Gobodo Incorporated of PACOFs in August 2000, the Department of Arts, Culture, Science and Technology asked the SIU to investigate the findings. These findings included the establishment of three trusts between 1994 and 1995.

- The OFS Performing Arts Institute Trust was established on 7 March 1994. It subsequently changed its name to the International Performing Arts Institute Trust with six trustees. According to the findings, the main objective of this trust is to "promote and develop euro-centric performing arts". This trust is also the beneficiary of a further two trusts established by PACOFs.
- The PACOFs Early Retirement Trust was established on 12 May 1995 by PACOFs with a donation of R2 million in cash and a claim of R680 000 against the Lily Lakewood Trust. The objective of this trust was to compensate PACOFs employees on early retirement (or retrenchment). All income from this trust was paid into the International Performing Arts Institute Trust. The capital was utilized to pay the retrenchment packages at the rate of twelve months salary per person. This fund has now been dissolved.
- The Lily Lakewood Trust was established on 25 March 1994. It acquired fixed property from PACOFs to the value of R680 000. This loan account was subsequently donated to the Early Retirement Trust. The current beneficiary of the Trust is the International Performing Arts Institute Trust. Its current trustees are the same as those of the International Performing Arts Institute Trust.

Findings

Following investigations by the SIU it has been found that PACOFs is currently indebted to the Lily Lakewood Trust for the sum of R373 350 in respect of rentals payable for its former properties and to the International Performing Arts Institute Trust for approximately R398 000.

The lease of the property from Lily Lakewood Trust seems to have been one-sided and resulted in annual losses of approximately R250 000 to R350 000 for PACOFs.

Investigations have also revealed that there are certain irregularities in the establishment of these trusts. These irregularities include:

- The role played by PACOFS in establishing the International Performing Arts Institute Trust with assets from a state owned company known as "Die Vrystaat Teater Vennootskap";
- The role played by the old Board of Directors in establishing the Lily Lakewood Trust, resulting in the alienation of PACOFS fixed property to a trust controlled by them and for which they are not accountable;
- The role played by the old Board of Directors in establishing the PACOFS Early Retirement Trust, investing R2 million of public funds for a purpose for which it was not intended;
- The reason why the new Board did not bring this matter to the attention of the DACST; and
- Whether these actions were within the mandates of the persons involved.

Action

A recommendation from the SIU legal section will determine what action will be taken in this matter during the next year.

Transkei Road Transport Corporation (TRTC)/Umanyano Transport: Eastern Cape Province

Background

The TRTC operated in the former Transkei as a parastatal. On the 19th January 1996 it was officially liquidated and Ernst & Young Trust Natal (Pty) Ltd were appointed as liquidators. Several of the former employees of TRTC formed a new company called Umanyano Transport Services and occupied the premises and used the assets of the TRTC without permission for own personal gain.

In 2003, by way of Proclamation R2 of 2003, the President referred the matter to the SIU for investigation.

Findings

The investigation has found that former employees of TRTC continued occupying several residential properties belonging to TRTC without any agreement with the liquidator. Some of these employees then rented out the property while occupying other residences. The rent received was never recorded and was used for personal gain.

A further finding relates to a group known as Masibambane Trust who took occupation of the TRTC Head Office and turned it into a school. They also occupied Transkei Engineering. To date they have not paid any rental to the liquidator.

Action

The Unit is currently securing lease agreements with the occupants of these properties.

One occupant has paid rent to the Unit to the amount of R1 500 per month.

Nontenja Matter: Eastern Cape

Background

The SIU has been involved in this matter since 1998 and has worked very closely with the Department of Justice.

Allegations

The allegations revolve around Mr S C Nontenja receiving irregular payments by the Registrar of the High Court in Umtata on behalf of the State Attorney for work done relating to applications brought against the South African Defence Force by ex-members. A Total of R30 million was paid out of which Mr Nontenja received R15 million.

Action

The SIU completed its investigation in 2000 and the money was paid back to the Registrar in Umtata.

However, during 2002, the SIU assisted the Asset Forfeiture Unit in their application to have Mr Nontenja's assets seized. This application was successful.

Between April and September, two members of the SIU were seconded to the Office of the Director of Public Prosecutions in Umtata to assist in the criminal investigation.

In terms of taxation in this matter, the SIU identified R67 000 that was overclaimed. The attorney is in the process of repaying this amount.

Further to this, a letter of demand in respect of double claims has been served on three advocates and three attorneys for a total amount of R69 000.

As a result of this, for the period under review, one attorney signed an acknowledgement of debt for R750 000 while an amount of R69 000 was taxed off the bill of a second attorney. This attorney is currently paying back the money.

By working closely with the South African Revenue Services, a claim of R2,7 million for non-payment of VAT has been instituted. SARS are also investigating several attorneys and advocates.

Criminal Prosecution

In the criminal matter of S C Nontenja, during the course of the year the SIU assisted the Director of Public Prosecutions and the SAPS. The State has closed its case and it is anticipated that judgement will be delivered on 29 April 2003.

Sterkstroom Municipality: Eastern Cape

Background

The Unit investigated the above TLC in respect of maladministration, overpayment of allowances, etc.

Findings

During the investigations it was found that the Mayor had obtained a low-cost house in a fraudulent manner.

Action

The investigation revealed criminal intent and was handed to the SAPS.

Criminal Prosecution

As a direct result of the SIU investigation, the Mayor was prosecuted in the Sterkstroom Regional Court during February 2003 and found guilty of fraud. He was sentenced to R3 000 or 2 years imprisonment, and a further 3 years suspended for 5 years on certain conditions.

Gauteng Housing: Gauteng Province

Background

This investigation was initiated in 1998 by the Premier of Gauteng after receiving reports from the Auditor General which highlighted allegations of irregularities in the Gauteng Housing Subsidy Scheme.

Proclamation R53 of 1999 mandated the SIU to investigate the allegations relating to:

- project linked subsidies;
- individual subsidies;
- conveyancers; and
- general complaints received by the Unit.

Action

During the year under review the SIU investigated 36 projects, of which 27 have been completed. The investigation included the inspection of 42 866 sites. The information obtained during the site inspection assists in verifying the following information:

- Amount of top structures completed by the developer;
- Amount of top structures not completed by the developer;
- Amount of erven surveyed and serviced; and
- Amount of erven not surveyed and serviced.

This information is compared with the housing database to verify all payments and to check if the residents are qualified beneficiaries.

The SIU is continuing the investigation.

Findings

During 2002/03, the SIU reached a settlement with a developer to return 120 erven to the Department of

SIU ANNUAL REPORT 2002/2003

Housing. This was compensation for non-performance on the part of the contractor. In this case the developer was contracted to develop low cost housing in the Klip/Kruisfontein Project. As the director of the company is deceased, the properties were the only assets registered in the name of the company.

The total value of these erven, according to the Gauteng Department of Housing, is R899 612.

During the investigation into the Protea North Project, the SIU found the following:

- It has been established that 421 stands were serviced and 292 top structures were erected;
- Of the 292 top structures, 166 are occupied by non-qualified beneficiaries;
- It was found that the Department wrongfully made 164 payments of R9 500 for progress payments that were not due to a contractor. The result was an overpayment to the developer of R1 567 507;
- The investigation further revealed that 72 qualified beneficiaries, for which the developer received payment of R9 500 per beneficiary, only qualified for R5 000. The net result was a total overpayment by the Department of R324 000;
- Following consultation with all the relevant role-players and after conducting an asset verification, the SIU reached a settlement agreement with the contractor for R1 million.

Witness Protection Programme: National

Background

The SIU was approached by the national representative of the Witness Protection Unit (WPU) to aid with investigating allegations which had been reported, through an audit, initiated by the WPU. In this report several serious financial irregularities in the KwaZulu-Natal (KZN) office of the Witness Protection Programme (WPP) were identified.

Irregularities highlighted by the office of the Auditor-General included:

- Safe house rentals costing more than double the market related value;
- A number of rented properties in a bad state;
- Tender procedures not being followed in obtaining goods and services; and
- Only certain businesses being utilized for rentals, goods and services.

This indicated a possible conflict of interest.

Other allegations included:

- The failure of the employees of the KZN WPU to comply with prescripts and directives;
- Mismanagement and irregular application of resources; and
- Irregularities pertaining to the protection of witnesses.

17

Proclamation R1 of 2002 mandated the SIU to investigate the affairs of the KwaZulu-Natal WPU office.

Action

An initial search and seizure operation took place during February 2002 to obtain all available documentation, including identification of any additional information which could assist the investigation.

Although the SIU investigation into the allegations was still at a very early stage, a report, with limited circulation, was issued during April 2002.

This report dealt with matters verified from analysis of documentation obtained at the offices of the KZN WPU as well as initial enquiries into accounting records and the outcome of interviews held.

The findings during this period indicated areas which required additional investigation.

A forensic audit of all documentation obtained at the KZN WPU, with additional documents made available by the national offices of the WPU, was also completed.

As a result of this audit a further report, with limited circulation, was issued on 30 September 2002 setting out the status of the investigation. The report encompassed numerous aspects as well as recommendations to proceed with disciplinary action against the suspended members of the KZN WPU.

Findings

During the past year the SIU has made the following findings:

- The lack of administration and financial control measures has shown that documentation amounting to R1 411 019 was not attached to any vouchers;
- Advances shown as allocated to witnesses to the value of R29 306 have not been recovered;
- It was established that loans of R35 640 had been made to witnesses to purchase property. The housing company does not exist and the witnesses did not receive any property;
- Certain lease agreements were found to be defective in that they were not properly signed either by the lessee or by the lessor;
- Certain of the agreements did not contain the address of the property or indicate whether the property being let was furnished or not; and
- Procedures in obtaining quotes from suppliers and service providers were not adhered to.

Other findings show that, from the review of correspondence to hospitals, hotels and doctors, it became apparent that disclosure of witness information was a common practice. It was also found that a witness was moved from one safe house to another without the authority or knowledge of the KZN WPU office.

Current investigations have revealed that the identity of certain of the properties from documentation or lease agreements of the KZN WPU cannot be relied upon.

As a result of these findings, the SIU, in consultation with the WPU, have decided to deal firstly with specific charges arising from breach of security and two fraud charges where the WPU, the Specialised Commercial Crimes Unit and the SIU will work together in bringing the investigation to court.

Further investigations are ongoing and should be concluded within this financial year.

The SIU appreciates and thanks the South African Police Service Commercial Crimes Unit, Task Team and Intelligence Services for their support and assistance given during February and March 2002 as well as the Department of Justice and WPU officials for their guidance, assistance and continual support with this investigation.

Fraudulent Reduction of Tare Weight Department of Transport: Kwa-Zulu Natal

Background

During 1999 the SIU received a complaint from the MEC of Transport, KwaZulu Natal, regarding fraudulent reductions of tare weights of motor vehicles.

An audit carried out by the Department of Transport revealed that numerous companies and individuals were involved with alleged fraudulent reduction of tare weights.

A final audit report identified a total of 84 companies/individuals, involving 369 vehicles, as having had tare weights reduced, resulting in a loss of licensing fees of R1 844 863. A further 72 companies/individuals, involving 122 vehicles, were identified as having purchased vehicles, unaware of its irregular decreased tare weight, and who were liable for outstanding license fees of R682 752.

The SIU was mandated by proclamation R56 of 2001 to investigate this matter.

A total of 156 companies/individuals are under investigation.

Action

During the investigation employees of the Umbilo Licensing Bureau, whose user codes were used in the alleged fraudulent reduction of tare weights, were questioned. Fraud charges could not be formulated due to lack of evidence.

Notices issued in terms of Section 5(2)(b) & (c) of the Special Investigating Unit and Special Tribunals Act, 1996 (Act 74 of 1996) were served on the identified

companies/individuals, regarding the fraudulent reduction of tare weights of their vehicles.

To date AOD's and settlement agreements, totaling R1 106 347 have been signed by various companies/individuals who owe the Department of Transport licence fees in this regard.

In one case the State Attorney in Durban has issued a Letter of Demand to Crossmoor Carriers CC for a total outstanding fee of R372 194. The SIU has referred two further cases to the State Attorney for civil recovery totaling R185 000.

The SIU is continuing with its investigation and recoveries.

Labour Contracts: Kwa-Zulu Natal

Background

During 1998 the KZN Department of Local Government and Housing approached the SIU with the request that it assist the department with investigations, with the object of making recoveries, into alleged fraudulent Labour Only Contracts emanating from its Merrivale depot in Howick. The SAPS had already commenced a criminal investigation into these allegations at the request of the department.

The Unit was mandated by way of proclamations R21 of 1998 and R74 of 1998 to investigate the allegations.

Allegations

The allegations in these matters are as follows:

- The Senior Artisan Superintendent of Merrivale Depot and a building contractor wrongfully, unlawfully and intentionally misrepresented to the department that labour supplied had performed in terms of the written agreements and that the contractor was entitled to the payment. These representations were false in that no work was done or the work was incomplete.
- In addition to this, both parties falsely represented to the department that three contractors had concluded agreements with the department to supply labour in various projects and that they were entitled to receive payments. These representations were false in that no labour was supplied by the contractors.

Action

During the period under review, a total of 21 Labour Only Contracts were investigated and found to be invalid in terms of the allegations made.

Fraudulent Progress Payment Certificates, false Attendance Registers and fraudulent agreements were submitted on the strength of which the Department made payment. As a result of this, the Department suffered a loss of R950 000.

Investigations have been completed but the SIU is not in a position to institute litigation because of legislative problems. As a result, the office of the Director of Public Prosecutions in Pietermaritzburg was approached to assist with the criminal investigation and prosecution.

The case files have been handed to the Director of Public Prosecutions and a charge sheet has been drawn up. Both the contractor and the departmental official have been charged with 21 counts of fraud.

Idube Raceway: Kwa-Zulu Natal

Background

During 1998 the KZN Department of Local Government and Housing approached the SIU with the request that it assist with investigations into alleged fraudulent activities within Engineering Services of the department. The SAPS had already commenced a criminal investigation into these allegations at the request of the department.

The Unit was mandated by way of proclamation R21 of 1998 to investigate the allegations.

Allegations

The allegations in this matter include the following:

- During 1997 construction, earthmoving and plant equipment, hired on behalf of the department by a senior engineer was being utilized irregularly at Idube Raceway, a private concern.
- Building and construction material, purchased at government expense was delivered to Idube Raceway where it was used for the erection of various buildings.
- Labour and artisans, from legitimate government approved projects, were channeled to Idube Raceway on instructions of the senior engineer and used in the erecting of the various buildings. It was found that this engineer had personal interests in the raceway.

As a result of these fraudulent activities the department suffered a loss of R1 130 960.

Action

The allegations have been confirmed during the investigation. However, the SIU is not in a position to institute litigation because of legislative problems. As a result the office of the Director of Public Prosecutions in Pietermaritzburg was approached to assist with the criminal investigation and prosecution.

During the past year the senior engineer was arrested and formally charged with fraud. On 7 March 2003 he successfully applied for a stay of prosecution in the Pietermaritzburg Regional Court. He based his application on the fact that his constitutional rights had been affected due to the lengthy delay in his prosecution and that he was on the verge of immigrating to Australia when he was arrested. The matter will continue.

Housing Subsidies: Kwa-Zulu Natal

Background

This investigation was initiated by the Department of Housing in Kwa-Zulu Natal in 1998. An initial audit by the Department's consulting auditors found irregularities in the monthly reconciliation's submitted by conveyancing attorneys entrusted with Housing subsidy funds.

Proclamation R74 of 1998 mandated the SIU to investigate these matters.

During 1999, the consulting auditors from the Department and the SIU concentrated on drawing up a data base of all financial transactions between the Department and the firms of conveyancing attorneys. This was done in order to check the reconciliation's.

Certain firms of attorneys were targeted due to the various nature of irregularities initially uncovered and due to information received by the SAPS Commercial Branches. The following firms of attorneys are being investigated:

- T.R. Mfeka and partners
- T. Mvelase and company
- Mlaba Makhaya Incorporated
- Makhaya Tsautse and Mvambo

The investigation has been split into four phases to accommodate each firm as a separate entity.

1. TR Mfeka

Due to the initial irregularities uncovered by the consulting auditors, certain sample investigations were carried out amongst "beneficiaries" and "sellers". As a result of sworn affidavits obtained during the sampling exercise, it was decided to carry out a forensic audit between May 2001 and February 2002 into the financial transactions between T R Mfeka and the Housing Department.

While each financial transaction was investigated, each beneficiary and seller was traced. This was in light of the fact that it had been alleged that T R Mfeka had been engaged in fraudulent transactions involving the government housing subsidy scheme.

As a direct result of the SIU's involvement, a claim of R333 000 was formulated against this attorney. However, due to his financial position, the Department instituted a claim against the Attorney's Fidelity Fund to recover this money with the SIU acting in an advisory and supportive capacity.

The Attorneys Fidelity Fund settled the amount of R333 000 in May 2002.

A further 42 transactions are still being investigated. This is on the basis that subsidies were awarded but the full subsidy amount was not received by the claimant.

As the SIU is not empowered to act on behalf of private persons, an agreement has been entered into with the

Law Clinic of the University of Natal to recover monies on behalf of the claimants. The SIU has provided logistical and investigative assistance to the Law Clinic to institute a claim against the Attorney's Fidelity Fund in this regard.

Criminal Prosecution

The case was handed over to the Director of Public Prosecutions in Durban for consideration of criminal charges and a criminal case of theft, alternatively fraud, was opened.

The case was remanded until 22 April 2003 in the Durban Regional Court when a trial date will be set.

2. TMvelase

Similar to the T R Mfeka case, this investigation involved 89 transactions between attorneys T Mvelase, the Housing Dept, beneficiaries, sellers and payees named on cheques payable by the Department.

Information in the form of Affidavits obtained from "beneficiaries", "sellers" and "payees" has indicated that in 88 instances, the transactions and transfer of the "properties" were fabricated.

In order to do this, title deeds, application forms, deeds of sale and deeds of grant were forged by a syndicate operating closely with the attorney. It is suspected that the Housing Department subsidy funds were then split amongst the attorney and syndicate members.

A forensic audit into all these transactions was initiated in March 2002 and has been completed. The location of the attorney's books of account was unknown, and the SIU had to reconstruct all the books of account based on available source documents in order to complete the audit. The audit has indicated that fraud has been committed and that an amount of R1 322 000 has been misappropriated.

Criminal Prosecution

A criminal case has been opened with the Director of Public Prosecution in Durban and attorney Mrs T Mvelase and two syndicate members D Ndlovu and L Mthembu were arrested. A case of theft, alternatively fraud, is on the roll at the Durban Regional Court. A trial date has yet to be set.

Initial investigations into the financial backgrounds of the three accused have revealed that they are heavily in debt and own very little by way of assets. The Attorneys Fidelity Fund has been approached with a claim on behalf of the Department of Housing, but has indicated that before a claim will be considered, they expect Mrs Mvelase to be liquidated.

The matter has been referred to the State Attorney in this regard. The SIU is confident that the Housing Department's claim of R1, 3 million will ultimately be settled once this exercise has been completed.

3. Mlaba Makhaya

This matter involves allegations of fraud by the attorney, Housing Department officials, and beneficiaries of housing subsidies, sellers and payees named on department cheques.

As in the Mvelase case, the SIU is in the process of reconstructing the financial records of this attorney due to the lack of proper books of account. In total, 1 500 financial transactions need to be scrutinized.

Although R3, 4 million was returned to the Department of Housing from the Attorney's Trust account in the 2000/2001 financial year, this money remains in a trust account pending finalization of the SIU investigation.

Initial investigation has revealed that many of the transactions in this case have also been fabricated, with title deeds, application forms, deeds of sale and deeds of grant being forged and transfers of properties being simulated. It is believed that the same syndicate that was operating with attorney T Mvelase, was operating with Mlaba Makhaya Incorporated.

Investigations together with a forensic audit is continuing into subsidy funds amounting to R19 million.

4. HVB Makhanya

The investigation into this matter is still in the initial stages with the reconciliation's, as submitted by the attorney, still being scrutinized. The case involves 300 transactions between the attorney, beneficiaries and sellers amounting to R3 million in subsidy funds.

Department of Correctional Services: National

Background

During the past year the SIU has become actively involved in the Department of Correctional Services Investigation. This investigation stems from the Jali Commission into corruption within the Department of Correctional Services. Following the initial findings of the Jali Commission, the President decided to refer allegations of fraud, corruption and maladministration to the SIU by way of proclamation R66 of 2002.

The SIU investigation is split into two areas, the East London Office covering the Eastern Cape, Free State, Kwa-Zulu Natal, Northern Cape and Western Cape and the Pretoria Regional Office covering Gauteng, Mpumalanga, Limpopo Province and the North West.

The East London component, led by the National Project Co-ordinator, comprises of ten investigators supported by a forensic analyst, two legal members and a project administration assistant. The Pretoria component, led by a project manager, comprises of ten investigators supported by three analysts, three legal members and two project administration assistants.

Allegations

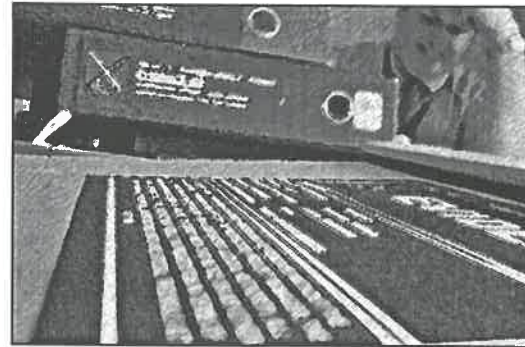
Investigations are being conducted into 16 prisons, one provincial commissioner's office and 24 DCS management areas throughout the country. Allegations range from general statement of fraud and corruption to drug trafficking, assault and mismanagement.

In addition to the investigations in the various prisons and management areas, the SIU is also investigating allegations relating to national procurement within the DCS and fraudulent medical aid claims.

Action

Since August 2002, as a direct result of the SIU investigation, R17 million has been recovered by way of AOD's in the fraudulent medical aid claims part of the DCS investigation.

REGIONAL REPORTS



Kwa-Zulu Natal Regional Office

During 1999 a small satellite office was created in Kwa-Zulu Natal (KZN) to facilitate the investigation of cases in that province. At that stage members were traveling from the SIU Head Office in East London to the region on a regular basis. This office served as a base of operations for the SIU's work in KZN.

Due to the volume of work in this region and the close working relationship between the SIU and the provincial administration, it was decided to establish a permanent office in this province.

In November 2002 a regional office was opened in Hillcrest. Dave Walker was appointed as Regional Manager with a staff complement of 19 members consisting of two Chief Forensic Investigators, two Forensic Analysts, one Forensic Investigator, ten contract Forensic Investigators, one Office Administrator, two Administrative Officers and one contract cleaner.

The following projects are currently being investigated in KZN:

- KZN Department of Transport Weighbridge Case (reduction of Tare Weights);
- KZN Department of Housing Low Cost Housing Subsidy Scheme;
- Department of Correctional Services in KZN; and
- Witness Protection Programme in KZN.

It is expected that the SIU will receive further cases in this province during the next financial year given that motivations for proclamations have been forwarded to the necessary authorities for processing.

LEGAL



Role of Legal Section

The primary role of the SIU Legal Section is to institute litigation to recover losses suffered by State Institutions as a result of maladministration, fraud or corruption following an investigation.

Report for 2002/03

The SIU ("the old SIU") and the Special Tribunal ("the old Tribunal") established by proclamation R24 of 1997 was abolished when that proclamation was repealed by proclamation R118 of 2001. This proclamation also established a new SIU and a new Special Tribunal in terms of Section 2 of the Special Investigating Units and Special Tribunals Act No. 74 of 1996.

Matters which had been referred to the old SIU for investigation were referred by proclamation R118 to the new SIU for continued investigation. However, no provision was made in the Act or in proclamation R118 for the continuation of the considerable amount of litigation, instituted by the old SIU and still pending before the old Tribunal.

The SIU obtained an opinion from two Senior Counsel that stated that the pending litigation instituted by the old SIU lapsed when it and the old Tribunal were abolished. Opinion from the State Law Advisors opposes this view and is being considered. However, it is unlikely that the views of Senior Counsel are incorrect given the circumstances.

Given these legal issues, the SIU is considering whether to abandon all litigation constituted before the old Tribunal. However, the Head of the SIU will make a final decision on this matter in the near future.

Further legal challenges being faced by the SIU relate to decisions handed down in 2000 by the Special Tribunal and the Full Court of the Eastern Cape Division of the High Court respectively. These relate to the SIU being a "Super Plaintiff" and the issue of the SIU not being able to institute civil proceedings in the

old Tribunal in its own name on a cause of action belonging to a state institution.

The result was a moratorium on new litigation in the old Tribunal and the referral of possible claims to the State Attorney's office for recovery by way of ordinary court procedure. The impact of the High Court decision is the same for new SIU, meaning that it is unable to litigate on behalf of state institutions.

In order to address the problems relating to litigation, the SIU Legal Section has:

- Formulated amendments to the Act, which include provisions allowing for the SIU to litigate on behalf of a State Institution. The amendments are currently with the Department of Justice; and
- Devised a strategy which makes litigation in the new Tribunal possible, but will require inclusion of the state institution as a joint but separate Plaintiff, represented by the State Attorney, or its own approved attorney.

During the past year the only engagement of the new Tribunal was an application for an entry warrant. This was subsequently granted.

Matters involving the recovery of monies and assets have been referred to the State Attorney's office for litigation on the basis of investigations conducted by the SIU. These matters include:

- The KwaZulu-Natal RDP Peace Initiative;
- KwaZulu-Natal Housing (Conveyancers);
- Tare Weight Reduction (KZN); and
- Department of Correctional Services investigations.

The Legal Section has been actively involved in providing guidance to investigations in terms of the collating evidence and the handover of cases to the National Prosecuting Authority (NPA) for the institution of criminal proceedings. During the year under review, this has resulted in a number of arrests and pending prosecutions in matters including:

- The licensing investigation in Limpopo Province;
- The Housing investigation in KZN; and
- The investigation of the Engineering Services Department of the KZN Department of Local Government and Housing.

In addition to this the Legal Section have also been involved in training, provincial, national and international anti-corruption initiatives, assessments of allegations for the preparation of proclamations and advising management on internal legal issues.

Report on Proclamations for 2002/2003

In the previous financial year (2001/02) the SIU forwarded eight motivations for proclamations to the Department of Justice. These eight proclamations were for the following proposed investigations:

- Extension to North West Medical Bursaries
- Transkei TLC's (Pensions and Gratuities)
- KZN Motor Licensing Bureau
- Western Cape TLC's
- KZN Transport First Auto

- KZN Public Works Extension
- Witness Protection Programme
- Computer Procurement Finance, Mpumalanga

During the same time three of these proclamations were granted. They were:

- R57 of 2001 Department of Transport First Auto Matter: Kwa-Zulu Natal;
- R56 of 2001 Department of Transport Weighless Matter: Kwa-Zulu Natal; and
- R1 of 2002 Witness Protection: Kwa-Zulu Natal.

The 2002/03 financial year has seen a marked increase in the number of motivations submitted to the Department of Justice and the number of proclamations received for investigation. Between April 2002 and March 2003 eleven motivations were submitted and nine were received from the President's Office.

Proclamations requested during this period included:

- Amendments to Proclamation R118;
- Amendments to Proclamation R53 (Gauteng Housing);
- North West Housing;
- Umanyano Transport, Eastern Cape;
- Department of Social Development of the Free State Province;
- Appointment of Judge Yusuf Ebrahim as Tribunal President;
- Uthungulu District Municipality, KwaZulu Natal Province;
- Performing Arts Centre of the Free State "PACOFs";
- SANDF Recruitment and Pension payments;
- Department of Justice Magistrate's Offices; and
- Amendment to Department of Correctional Services (Jali Commission)

Proclamations received during this period included:

- R55 of 2002 - Saron Local Council, Weskus District Council, Calitzdorp, Worcester and Robertson Municipalities
- R66 of 2002 - Department of Correctional Services
- R70 of 2002 - Kgatelopele and Tsantsabane Municipalities, Northern Cape
- R74 of 2002 - Department of Finance, Mpumalanga Province
- R73 of 2002 - Department of Social Development of the Free State Province
- R76 of 2002 - Uthungulu District Municipality, KwaZulu Natal Province
- R77 of 2002 - Performing Arts Centre of the Free State
- R2 of 2003 - Department of Transport, Eastern Cape (TRTC) Umanyano Transport

ADMINISTRATION



HUMAN RESOURCES

Training and Development

During the past financial year, members of the SIU have been actively engaged in computer-based training (CBT). This facility was implemented with the specific aim of providing in-house training in a number of fields ranging from management to computer skills.

Towards the end of 2002, the IT Manager conducted internal computer training for all members of the SIU. The aim of this training was to provide basic computer skills and knowledge.

In addition to this, a number of SIU members attend various workshops in Pretoria and Cape Town and then presented the information internally. This ensured the transfer of knowledge and the upgrading of skills and expertise.

In November 2002 a team building session was held and attended by the majority of SIU members. This provided an opportunity to develop strategic plans and integrate the various regional offices.

At the beginning of 2003 management decided to implement a study loan scheme to allow members to further their education in their respective fields. A large number of staff members are utilizing this scheme and the loan policy has been amended to make provision for skills development training.

Salary Structure

During the period under review, consultants were tasked with the reviewing the SIU salary structure. The process has been completed and recommendations have been submitted to the relevant national departments. The new structure will be implemented as soon as approval has been obtained.

Appointments and Resignations

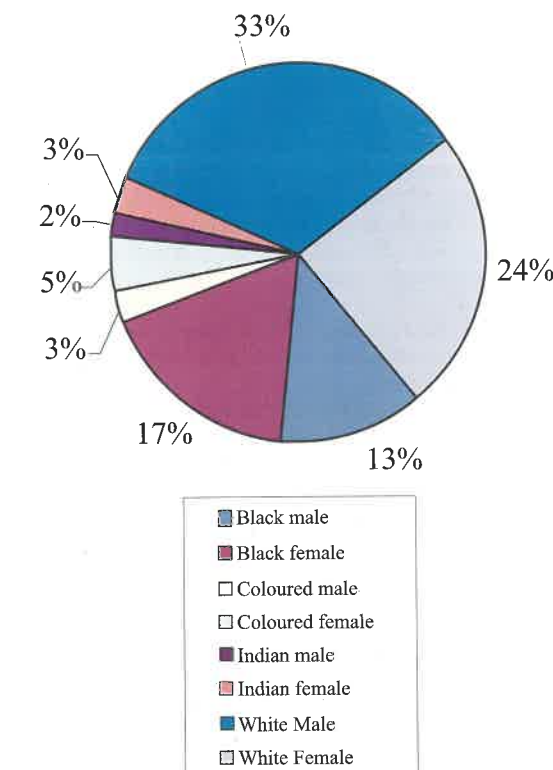
The Department of Correctional Services (DCS) project has compelled the Unit to embark on an aggressive recruitment drive. This resulted in six promotions and 13 new appointments. A further six contract workers were employed to reinforce the team of investigators working on this project.

As a result of a motivation that has been submitted to the Department of Justice to engage in a further "mega" project, the SIU, towards the end of 2002, embarked on another recruitment drive. The process has been completed but the appointments have not yet been confirmed as the proclamation has yet to be passed.

Between April 2002 and March 2003 the SIU experienced a reduction in resignations as opposed to the 2001/2002 financial year. During this period there was one resignation in the Pretoria office. The death of two key members of the SIU, Mr Mike Jardine and Mr Eric Qoko, also affected the numbers at the SIU.

Personnel Statistics

Permanent Members as at March 2003



INFORMATION TECHNOLOGY

Due to financial constraints during the past year, the IT Section has been mainly concerned with user support, maintenance and the influx of new personnel at the Unit.

Many new permanent and contract members were appointed during this period which necessitated the planning, purchasing and installation of additional hardware and software. Further installation of network cabling was also required throughout the main office in East London.

The linking of the Durban and Umtata offices to the main East London office has been a major project for the year. A crucial element of this project has been the installation of Local Area Networks (LAN's) in each of these satellite offices. The IT Section is now in the process of consolidating these individual LAN's into a central Wide Area Network (WAN) environment. The linking of the Gauteng office to the WAN is currently being negotiated.

The recent upgrading of our current version of Novell Netware 5.1 to Netware 6 will also facilitate the linking of these offices as well as the strengthening network security.

The IT Section recently installed a video conferencing unit in the East London office in order to maintain effective communication between head office and satellite offices. Members in the Gauteng office have access to a similar unit and the IT Section is currently in the process of connecting the Durban office to this system. This has resulted in an immediate decline in traveling costs which are expected to drop even more substantially in the future.

The Joint Anti-Corruption Task Team (JACTT) has been accommodated at the Unit on a temporary basis since January 2003. As a result, the IT Section has been involved in ensuring that their computer and networking requirements are met. These requirements included the purchase and installation of desktop computers, notebooks and software. These have been linked via an internal LAN, which in turn has been linked to the SIU network.

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2003.

Audit Committee Members and Attendance:

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

Name of member	Number of meetings attended
SK Whitfield (Chairperson)	4
NCT Gwanya (resigned 7 April 2003)	3
MD Hughes	4

Audit Committee Responsibility

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

The Effectiveness of Internal Control

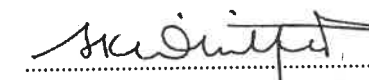
The system of internal control is effective as the various reports of the internal auditors, the audit report on the annual financial statements, the matter of emphasis and management letter of the Auditor-General have not reported any significant or material non-compliance with prescribed policies and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

Evaluation of Financial Statements

The audit committee has:

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

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



SK Whitfield
Chairperson of the Audit Committee

28 May 2003

SPECIAL INVESTIGATING UNIT

ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003



CONTENTS	PAGE
Report by the Auditor-General on the Financial Statements	29
Balance sheet	30
Income statement	31
Statement of changes in equity	32
Cash flow statement	33
Notes to the annual financial statements	34-43
Report of the Auditor-General on the Achievements	44
Schedule A: Value of completed investigations and recoveries	45
Schedule B: Analysis of Recoveries throughout Unit's Trust Accounts	46

The annual financial statements set out on page 30 to 44 were approved and signed by me in my capacity as head of the unit.


HEAD OF THE UNIT

East London
5 June 2003

REPORT OF THE AUDITOR- GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE SPECIAL INVESTIGATING UNIT FOR THE YEAR ENDED 31 MARCH 2003

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 30 to 43, for the year ended 31 March 2003, have been audited in terms of the provisions of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Head of the Unit as the accounting officer. It is my responsibility to express an opinion on these financial statements and the compliance with relevant laws and regulations, applicable to financial matters, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with generally accepted government auditing standards, which incorporate generally accepted auditing standards. These standards require the audit to be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

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

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

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

3. AUDIT OPINION

In my opinion, the financial statements fairly presents, in all material respects the results of the financial operations of the Special Investigating Unit at 31 March 2003 and the results of its operations and cash flow for the year then ended in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999, (Act No. 1 of 1999) (PFMA).

4. EMPHASIS OF MATTER

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

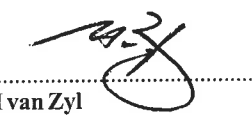
4.1 Matter affecting the financial statements

4.1.1 Contingent liability retention of accumulated surplus funds

Attention is drawn to note 17 of the financial statements which states that in terms of section 53(3) of the PFMA, prior written approval should be obtained from the National Treasury to retain accumulated surplus funds. Although approval was requested to retain the surplus funds, it is uncertain whether approval will be granted to retain the surplus funds or a portion thereof.

5. APPRECIATION

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


H van Zyl
Auditor General
Pretoria

31 July 2003

SPECIAL INVESTIGATING UNIT

BALANCE SHEET at 31 March 2003

	Notes	2003 R	2002 R
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	2	2 829 072	2 882 601
CURRENT ASSETS			
Inventory	3	4 448 905	6 218 238
Trade receivables	4	21 789	29 450
Prepayments	5	1 866 599	481 469
Cash and cash equivalents	6	61 079	195 364
Bank balances - recoveries	8	188 246	3 767 474
		2 311 192	1 744 481
TOTAL ASSETS		7 277 977	9 100 839
EQUITY AND LIABILITIES			
EQUITY AND RESERVES			
Capital reserve	1.6	2 470 802	6 181 171
Accumulated (deficit)/surplus		2 829 072	2 882 601
		(358 270)	3 298 570
CURRENT LIABILITIES			
Trade payables	7	4 807 175	2 919 668
Payables - recoveries	8	2 495 983	1 175 187
		2 311 192	1 744 481
TOTAL EQUITY AND LIABILITIES		7 277 977	9 100 839

SPECIAL INVESTIGATING UNIT

INCOME STATEMENT for the year ended 31 March 2003

	Notes	2003 R	2002 R
REVENUE	11	22 958 000	21 419 000
OPERATING EXPENSES		27 173 443	19 245 165
Staff expenses	12	17 335 503	12 022 535
Travel and accommodation		2 636 119	1 331 799
Depreciation		1 804 269	1 465 995
Other expenses	13	5 397 552	4 424 836
OPERATING (DEFICIT)/SURPLUS		(4 215 443)	2 173 835
OTHER OPERATING INCOME	14	46 612	243 284
OPERATING (DEFICIT)/SURPLUS before interest		(4 168 831)	2 417 119
INTEREST RECEIVED	15	458 462	428 457
(DEFICIT)/SURPLUS for the year		(3 710 369)	2 845 576

SPECIAL INVESTIGATING UNIT

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2003

	Capital Reserve and accumulated surplus/(shortfall)
	R
Balance at 31/03/2001	
- Previously reported	3 603 774
- Reversal of accrued interest on Trust Investments	(268 179)
Net surplus for the year	2 845 576
Balance at 31/03/2002	6 181 171
Net deficit for the year	(3 710 369)
Balance at 31/03/2003	2 470 802

SPECIAL INVESTIGATING UNIT

CASH FLOW STATEMENT
for the year ended 31 March 2003

	Notes	2003 R	2002 R
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(1 867 670)	4 115 499
Cash received from departments	16.1	21 572 870	21 283 962
Cash paid to suppliers and employees	16.2	(23 899 002)	(17 596 920)
Cash (utilised in)/generated by operating activities	16.3	(2 326 132)	3 687 042
Interest received		458 462	428 457
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(1 711 558)	(2 139 140)
Investment to maintain operations			
Proceeds on disposal of property, plant and equipment		141 290	99 996
Investment to expand operations			
Acquisition of property, plant and equipment		(1 852 848)	(2 239 136)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3 579 228)	1 976 359
CASH AND CASH EQUIVALENTS at the beginning of year		3 767 474	1 791 115
CASH AND CASH EQUIVALENTS at end of year	16.4	188 246	3 767 474

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2003

1. ACCOUNTING POLICIES

The following are the principal accounting policies of the Unit which are consistent in all material respects with those applied in the previous year, except as otherwise indicated. The financial statements have been prepared on the historical cost basis in accordance with general accepted accounting practise.

1.1 Property, plant and equipment

Property, plant and equipment are stated at historical cost and depreciated on the straight line method at rates considered appropriate to reduce book values to estimated residual values, over the expected useful lives of the assets.

Depreciation rates used are as follows:

Office furniture and equipment	20%
Computer equipment	33.3%
Books and law reports	20%
Motor vehicles	25%
Computer software	50%

1.2 Rented assets

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

1.3 Revenue

Revenue comprises grants received from government and incidental income received on the cash basis. Interest received is recognized on the accrual basis.

1.4 Inventory

Inventory is valued at the lower of cost or net realizable value based on the first-in-first-out basis.

1.5 Cash flow statement

The direct method is used for the compilation of the cash flow statement.

1.6 Capital reserve

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

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

1.7 Change in accounting policy

Interest accrued on Trust Investments was previously included in interest income of the Unit.

It has now been decided to reverse the transactions as interest will now be paid to National Treasury. Comparative figures have been adjusted to conform with the change.

	2003 R	2002 R
2. PROPERTY, PLANT AND EQUIPMENT		
2.1 Books and law reports		
Carrying value at beginning of year	5 289	14 538
- Gross carrying value	48 914	48 914
- Accumulated depreciation	(43 625)	(34 376)
Additions	41 089	-
Depreciation	(9 784)	(9 249)
Carrying value at end of the year	36 594	5 289
- Gross carrying value	90 003	48 914
- Accumulated depreciation	(53 409)	(43 625)
2.2 Computer software and equipment		
Carrying value at beginning of year	1 877 664	410 592
- Gross carrying value	4 729 033	2 632 919
- Accumulated depreciation	(2 851 369)	(2 222 327)
Additions	1 502 032	2 096 114
Disposals	(102 108)	-
Depreciation	(1 081 625)	(629 042)
Carrying value at end of the year	2 195 963	1 877 664
- Gross carrying value	5 972 665	4 729 033
- Accumulated depreciation	(3 776 702)	(2 851 369)

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 31 March 2003

	2003 R	2002 R
2. PROPERTY, PLANT AND EQUIPMENT (continued)		
2.3 Office furniture and equipment		
Carrying value at the beginning of the year	627 982	814 297
- Gross carrying value	1 729 190	1 603 539
- Accumulated depreciation	(1 101 208)	(789 242)
Additions	303 043	143 022
Disposals	-	(6 602)
Depreciation	(341 117)	(322 735)
Carrying value at the end of the year	589 908	627 982
- Gross carrying value	2 032 233	1 729 190
- Accumulated depreciation	(1 442 325)	(1 101 208)
2.4 Motor vehicles		
Carrying value at beginning of the year	371 666	904 706
- Gross carrying value	1 980 091	2 145 439
- Accumulated depreciation	(1 608 425)	(1 240 733)
Additions	6 684	-
Disposals	-	(28 071)
Depreciation	(371 743)	(504 969)
Carrying value at end of the year	6 607	371 666
- Gross carrying value	1 986 775	1 980 091
- Accumulated depreciation	(1 980 168)	(1 608 425)
TOTAL PROPERTY, PLANT AND EQUIPMENT	2 829 072	2 882 601
3. INVENTORY		
Stationery and toner	21 789	29 450

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENT (continued)
for the year ended 31 March 2003

	2003 R	2002 R
4. TRADE RECEIVABLES		
Sundry receivables	1 748 562	427 651
Deposits	12 119	12 119
Staff loans	17 800	1 500
Other receivables	88 118	40 199
	1 866 599	481 469
5. PREPAYMENTS		
Computer maintenance	26 815	26 815
Licenses	-	59 565
Rent	34 264	108 984
	61 079	195 364
6. CASH AND CASH EQUIVALENTS		
Call account	35 838	3 558 803
Current accounts	104 003	147 067
Cash on hand	48 405	61 604
	188 246	3 767 474
7. TRADE PAYABLES		
Provision for leave pay	656 696	366 394
Staff expenses - deductions	566 589	438 755
Provision for audit fees	184 442	167 407
Trade creditors	1 088 256	202 631
	2 495 983	1 175 187

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
8. PAYABLES - RECOVERIES/BANK BALANCES		
8.1 Payables - Recoveries	1 789 710	1 346 996
Accrued interest refundable to National Treasury	521 482	397 485
	<u>2 311 192</u>	<u>1 744 481</u>
Amount reflected is owed to third parties and was obtained through either admission of guilt signed by the individual(s) concerned or through Court Orders issued by Special Tribunal. These amounts are held and are paid over to the relevant third parties once the case(s) is (are) completed.		
8.2 Bank balances	<u>2 311 192</u>	<u>1 744 481</u>
9. COMMITMENTS		
Total rental commitment	<u>2 917 176</u>	<u>6 773 867</u>
Due within 1 year	1 295 814	1 603 053
Due thereafter	<u>1 621 362</u>	<u>5 170 814</u>
The above commitments are in respect of 21 rental agreements for a period ranging from 12 to 60 months. The estimated monthly rental is R107 985. Assets rented relate to properties and equipment.		
The decrease in rental commitments is due to the major lease agreement for office accommodation being taken over by the National Department of Public Works.		

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
10. 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.		
11. REVENUE		
Revenue comprises grants received from Department of Justice	<u>22 958 000</u>	<u>21 419 000</u>
12. STAFF EXPENSES		
12.1 Total expenses include:		
Salaries and wages	11 971 513	9 032 901
Provident fund and funeral contributions	1 661 432	1 054 209
Travel, subsistence and entertainment allowances	2 813 574	1 332 189
Computer and telephone allowances	251 500	273 300
Medical aid contributions	325 997	247 476
Leave provisions	311 487	82 460
	<u>17 335 503</u>	<u>12 022 535</u>
12.2 Remuneration to Senior Management included above	<u>2 176 689</u>	<u>1 956 310</u>

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
13. OTHER EXPENSES		
Annual report	29 623	28 922
Auditors remuneration	240 572	173 803
Bad debts	4 386	60 494
Bank charges	31 531	33 878
Books and publications	85 518	87 616
Car hire and taxi expenses	177 602	77 818
Conferences and seminars	110 883	41 853
Consultancy fees	496 960	221 456
Consumables	75 565	48 159
Courier services	69 382	38 269
Entertainment	7 348	1 345
Insurance	326 618	239 418
Internal audit fees	102 978	95 921
Legal fees	143 255	426 244
Media and promotions	76 206	26 145
Motor vehicle expenses	385 034	348 293
Professional membership fees	12 734	9 006
Revenue stamps	40	452
Relocation and recruitment costs	645 842	130 911
Rent paid	461 422	823 880
Rental - equipment and plants	797 850	482 888
Repairs and maintenance	28 180	137 897
Security	14 141	18 251
Software licences	128 952	97 508
Stationery and printing	353 052	164 634
Telephone, fax and posting expenses	558 976	507 003
Training and development	32 902	92 786
Transcription fees	-	9 986
	<u>5 397 552</u>	<u>4 424 836</u>

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
14. OTHER OPERATING INCOME		
Insurance income	-	3 447
Surplus on disposal of property, plant and equipment	39 182	65 323
(Loss)/surplus on foreign currencies held	(14 200)	17 208
Refund - Deeds office	-	150 000
Sundry income	21 630	7 306
	<u>46 612</u>	<u>243 284</u>
15. INTEREST RECEIVED		
Call account	325 653	330 923
Current accounts	132 809	97 534
	<u>458 462</u>	<u>428 457</u>
16. NOTES TO THE CASH FLOW STATEMENT		
16.1 Cash received from departments		
Revenue	22 958 000	21 419 000
Increase in trade receivables	(1 385 130)	(135 038)
	<u>21 572 870</u>	<u>21 283 962</u>

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
16. NOTES TO THE CASH FLOW STATEMENT (continued)		
16.2 Cash paid to suppliers and employees		
Revenue	22 958 000	21 419 000
Operating deficit/(surplus)	<u>3 710 369</u>	<u>(2 845 576)</u>
	26 668 369	18 573 424
Depreciation	(1 804 269)	(1 465 995)
(Decrease)/increase in prepayments	(134 285)	66 949
Interest received	458 462	428 457
Decrease in inventory	(7 661)	(612)
Increase in trade payables	(1 320 796)	(70 626)
Surplus on disposal of property, plant and equipment	<u>39 182</u>	<u>65 323</u>
	<u>23 899 002</u>	<u>17 596 920</u>
16.3 Cash (utilised in)/generated by operating activities		
Operating (deficit)/surplus	(3 710 369)	2 845 576
Adjustments for:		
Depreciation	1 804 269	1 465 995
Interest received	(458 462)	(428 457)
Surplus on disposal of property, plant and equipment	<u>(39 182)</u>	<u>(65 323)</u>
	<u>(2 403 744)</u>	<u>3 817 791</u>
Working capital changes:		
Decrease in inventory	7 661	612
Increase in trade receivables	(1 385 130)	(135 038)
Decrease/(increase) in prepayments	134 285	(66 949)
Increase in trade payables	<u>1 320 796</u>	<u>70 626</u>
	<u>77 612</u>	<u>(130 749)</u>
	<u>(2 326 132)</u>	<u>3 687 042</u>

SPECIAL INVESTIGATING UNIT

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2003

	2003 R	2002 R
16. NOTES TO THE CASH FLOW STATEMENT (continued)		
16.4 Cash and cash equivalents		
Bank balances	<u>188 246</u>	<u>3 767 474</u>
17. CONTINGENCIES - ACCUMULATED SURPLUSES		
In terms of section 53(3) of the Public Finance Management Act, 1999, prior written approval should be sought from National Treasury to retain accumulated surplus funds. The Unit has sought the relevant approval but no approval has been granted yet.		
If approval is not granted to retain all of the Units prior year surpluses, surplus funds or a portion thereof they will need to be surrendered to the National Revenue Fund as determined by National Treasury.		
18. CHANGE IN ACCOUNTING POLICIES		
Interest accrued in Trust accounts was previously included in interest income. It has been decided that the interest be paid to the National Revenue Fund.		
18.1 The increase/(decrease) in deficit/surplus in respect of decrease in interest received for the current year.	<u>123 997</u>	<u>128 726</u>
18.2 Restatement of opening accumulated surplus in respect of prior year adjustments	<u>397 485</u>	<u>268 759</u>
The comparatives have been appropriately restated.		

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE ACHIEVEMENTS BY THE SPECIAL INVESTIGATION UNIT FOR THE YEAR ENDED 31 MARCH 2003

1. AUDIT ASSIGNMENT

The schedules of achievement as set out on pages 45 for the year ended 31 March 2003 have been audited following the agreement with the Department of Justice and Constitutional Development and the Head of the Special Investigation Unit. These schedules are the responsibility of the Head of the Unit. It is my responsibility to express an opinion on these schedules of achievement based on my audit.

2. NATURE AND SCOPE

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

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

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

3. AUDIT OPINION

In my opinion, the schedules of achievement fairly presents, in all material respects, the performance of the Unit for the year ended 31 March 2003 in accordance with the agreed reporting framework.

4. APPRECIATION

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

H van Zyl
Auditor General
Pretoria

31 July 2003

SPECIAL INVESTIGATING UNIT - VALUE OF COMPLETED INVESTIGATIONS AND RECOVERIES for the year 1 April 2002 - 31 March 2003

Schedule "A"

Summary Report		Analysis of New Cases																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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		Balances carried forward	Per Tribunal Ruling	AOD's issued	Other savings and recoveries	Total New Cases	Prevention of Loss	Recovery of Asset/Cash	Transparency in Tender Process	State Land Reclaimed	Enforcement of Obligation	Paid to Unit's Trust Account's	Monies to be recovered by institution	Value of savings made by institution	Non-cash cases reported	Balance carried forward																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				
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Narrations

1. Prevention of Loss
 2. Recovery of assets
 3. Transparency of tender process
 4. State land reclaimed
 5. Enforcement of obligation
 6. Monies to be recovered by institution
 7. Value of savings made by institution
 8. Non-cash cases reported
- No Physical transfer
- Market related value of moveable assets
- Value of tender stopped/savings in new tender due to intervention
- Land Bank value for agricultural land. Independent valuation for commercial/residential properties.
- Value of contractual obligation
- Department/Institution to recover monies itself
- Savings made by institution as a result of an investigation
- Market value of assets saved/recovered

SPECIAL INVESTIGATING UNIT - ANALYSIS OF RECOVERIES THROUGHOUT UNIT'S TRUST ACCOUNTS
for the year 1 April 2002 - 31 March 2003

Schedule "B"

Summary Report		AMOUNTS TO BE COLLECTED				CASH RECOVERED			CASH POSITION			
Province	Balances carried forward	New Cases	Closed Cases	Total	Total Beg. of Year	Current Year	Total	Beginning of Year	Amounts Received	Amounts Paid Over	Balances Carried Forward	
North West	6,262,627			6,262,627	3,166,769	184,483	3,351,252	203,249	184,483	-166,132	221,600	
Mpumalanga	253,245			253,245	169,957	13,342	183,299	113,235	13,342	-	126,577	
Northern Cape	-	15,000		15,000	108,956	-	108,956	-	-	-	-	
Eastern Cape	34,228	818,890		853,118	1,025,383	105,000	1,130,383	157,887	105,000	-	262,887	
Free State	427,586			427,586	3,003,561	247,000	3,250,561	185,869	247,000	-198,647	234,222	
Gauteng	1,931,005	10,196,227		12,127,232	4,426,475	506,738	4,933,213	535,512	506,738	-530,365	511,885	
Western Cape	142,597			142,597	111,138	13,564	124,702	23,519	13,564	-250	36,833	
Limpopo	504,764			504,764	2,908,351	52,009	2,960,360	75,968	52,009	-97,128	30,849	
KwaZulu Natal	593,663	1,134,879		1,728,542	224,823	334,748	559,571	51,757	334,748	-21,648	364,857	
TOTAL TRUST CREDITORS	10,149,715	12,164,996	-	22,314,711	15,145,413	1,456,884	16,602,297	1,346,996	1,456,884	-1,014,170	1,789,710	
Interest Less Bank Charges								397,485	123,997	-	521,482	
								1,744,481	1,580,881	-1,014,170	2,311,192	