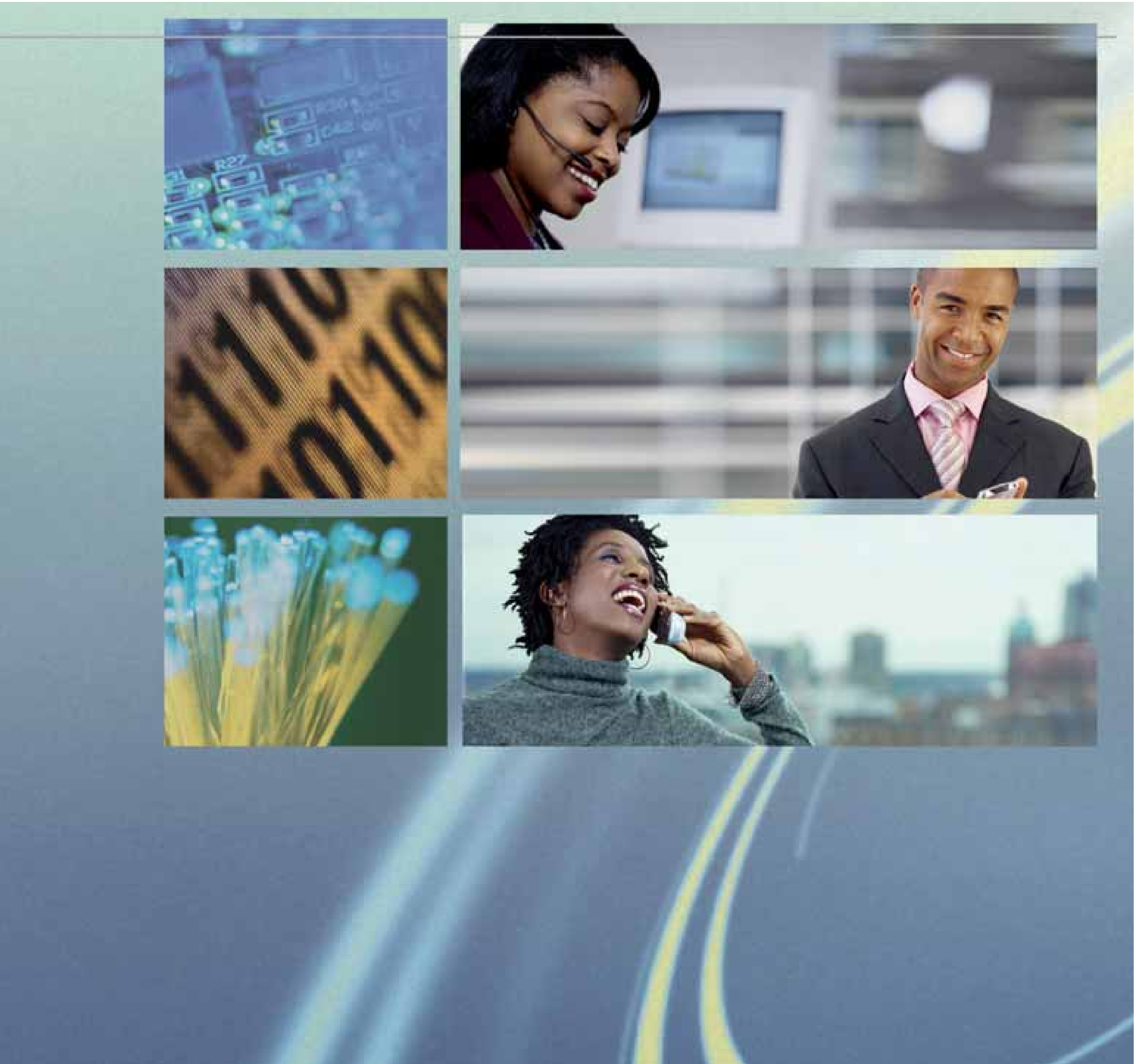
SITA

State Information Technology Agency

Annual Report 2007



SITA

Contents

State Information Technology Agency
Annual Report 2007

Our mandate

The State Information Technology Agency (Proprietary) Limited (SITA) was established in 1999 to consolidate and coordinate the South African government's information technology (IT) resources in order to achieve cost savings through economies of scale, increased delivery capabilities and enhanced interoperability of systems. SITA is committed to leveraging IT as a strategic resource for government, managing the IT procurement and delivery process to ensure that government receives value for money, and using IT to support the delivery of e-government services to all citizens.

SITA is governed by the SITA Act no. 88 of 1998, as amended by the SITA Act no. 38 of 2002. Section 6 of this Act states the objectives of the agency as follows:

- To improve service delivery to the public through the provision of information technology, information systems and related services, in a maintained information systems security environment, to government departments and public entities; and
- To promote the efficiency of government departments and public entities through the use of information technology.

Furthermore, the Act separates SITA's services into mandatory services (services that SITA must provide) and non-mandatory services (services that SITA may provide).

SITA remains committed in all its activities to adhere to government's 'IT House of Values', which seeks to leverage economies of scale, enhance interoperability of government systems, ensure systems security, eliminate duplication and advance black economic empowerment.

Our vision

To be a global leader in public sector information and communications technology.

Our mission

To cost-effectively enhance public service delivery through information and communications technology.

Our values

- Service excellence
- Transparency
- Integrity
- Fairness
- Prudence
- Innovation

Minister's foreword

Worldwide the information and communications technology (ICT) revolution has had a profound impact on the economies of countries that have embraced it and planned for it. Effective ICT deployment has not only proven to have a positive economic impact, but it enhances standards of living as well, in both developed and developing countries.

Across the globe, governments have turned to ICT to transform public service. They have used ICT to develop the efficacy of public service, improve service delivery to citizens and foster social inclusion.

The State Information Technology Agency (SITA) plays a pivotal role in this regard. Its *raison d'être* is the deployment of ICT to enable the South African government to provide services to citizens more efficiently and cost-effectively.

Given the dynamism of the ICT landscape and the implications for government information systems, as well as the growing expectations that the country's citizens will benefit from enhanced public service delivery, the ministry considers it essential that the SITA Act be reviewed to give the organisation the necessary mandate to meet the ICT needs of the state.

One consideration, among many to review the SITA Act, relates to the drive towards a single public service. SITA's mandatory services currently extend only to national and provincial government departments, hence there is merit in debating whether this should not be extended to incorporate municipalities.

The ministry has initiated a process to review the SITA Act and envisages that the matter will be finalised towards the end of 2008.

I am pleased to note that during the financial year 2006/7, SITA has continued to discharge its mandate, guided by the South African government's 'IT House of Values' proposition, which seeks to leverage economies of scale, enhance interoperability of government systems, ensure systems security, eliminate duplication and advance black economic empowerment.

The South African government is renowned as the biggest consumer and user of ICT products in the country. But ultimately, it is our citizens who must be the beneficiaries of enhanced service delivery through ICT.

e-Government – premised on the *batho pele* philosophy – commits us to ensure citizen access to government from anywhere and at any time and is the cornerstone of our approach to service delivery. SITA is leading the way for government in this regard, paying particular attention to learning from international experts so that we can reinvigorate our e-government efforts.

Government often stresses the need for strong strategic partnerships between the public sector and the ICT industry to drive the state's transformation and public service delivery objectives.

Again, I am pleased that SITA has actively pursued such partnerships, recognising that ultimately service delivery is underpinned by two critical pillars, namely collaboration and integration. Collaboration with ICT role players is key to improving government's administrative efficiency and service delivery, while integration of the state's information systems is important to deliver seamless information across the various spheres of government.

The Integrated Financial Management System project is one such instance where SITA is leading the state's efforts to consolidate and renew government's back office applications, underpinned by a focus on collaboration and integration.

Recent developments by SITA to deploy a Next Generation Network to replace the Government Common Core Network demonstrate the importance of converging data, voice and video solutions to reduce government's telecommunications costs. More importantly an enhanced network gives government the capability to provide

The ministry is proud of the progress and accomplishments SITA has recorded during the financial year 2006/7 and we look forward to even greater successes in the year ahead

more advanced services, like e-education and e-health, in support of our e-government strategy.

As an agency of the state, it is incumbent on SITA to play a role in transforming the ICT sector. For the financial period 2006/7, SITA has achieved 57,65% equity among its permanent workforce. Of its permanent staff complement of 2 125, equity candidates total 1 225, of which 44% are women. This is particularly pleasing since the ICT sector is still a largely male dominated industry.

Through its Youth Internship Programme, SITA is also actively promoting the number of people from historically disadvantaged backgrounds into the sector, as well as female entrants in line with the national agenda.

I am also delighted that SITA is beginning to make headway in addressing the skills deficit in the ICT industry, which is another area that requires strong partnerships between all role players. SITA, in conjunction with government, industry and academia, has commenced a process to establish an ICT skills academy to address the dearth of ICT skills in the country, from which we expect to see significant progress during the 2007/8 financial year.

On behalf of the Department of Public Service and Administration, and the South African government as a whole, I would like to convey my gratitude to Mr Mavuso Msimang, who has concluded his tenure as Chief Executive Officer of SITA. Much of the success SITA enjoys today is attributable to Mr Msimang's leadership of the organisation and his relentless drive to restore the organisation's credibility and improve its capacity to service government effectively. We salute him.

Ms Geraldine Fraser-Moleketi
Minister for Public Service and Administration
17 August 2007

Chairperson's statement

South Africa has the largest information and communications technology (ICT) sector in Africa based on technological capacity, investment and turnover.

Given its relative infancy, it is pleasing to also note that the sector is ranked among the top five industries in terms of gross domestic product contribution to the South African economy. A significant part of this is attributable to government activity in this arena.

As the board, we recognise that SITA occupies a unique, strategic cross-government market position that affords us collective insight into the business of government ICT.

It is for this very reason, that our customers legitimately expect us to play a thought leadership role on ICT solutions to capacitate government for effective service delivery.

Recognising this, the SITA board of directors has set a long-term vision for the organisation, in which:

- SITA is recognised by customers and vendors as a thought leader in ICT for the public sector and influences more than 80% of government ICT expenditure;
- Departments and vendors voluntarily partner with SITA, and stakeholder satisfaction levels are above 70%;
- SITA drives e-government in South Africa and fosters the efficiency of government departments through a government-wide enterprise resource plan and service delivery to the citizens through online services;
- SITA is actively developing the indigenous ICT industry with its policies, initiatives and partnering models;
- SITA has sustainable revenue growth and is financially sound; and
- SITA employees are motivated, loyal and recognised as knowledge workers.

For the financial year 2006/7, SITA made good inroads in achieving our stated strategic objectives.

An important highlight for the period under review was SITA's inaugural GovTech conference, which presented a unique opportunity to leverage the worldwide expertise and experience of ICT leaders across the public and private sector. GovTech identified a number of key outcomes, which SITA has made commendable progress in addressing. Chief among these outcomes were initiating open source standards projects, reviewing the state's e-government strategy and developing an ICT skills strategy in collaboration with industry and academia.

Furthermore, a number of our clients have voluntarily approached us to assist with providing solutions to their ICT challenges. This positive development is indicative that we are beginning to attain recognition as a significant player in the ICT industry.

e-Government received further impetus during 2006/7 financial year with the assistance of internationally renowned experts. The board is pleased with the strategy that is currently being reviewed and that projects, such as Identity Document Track and Trace SMS System for the Department of Home Affairs, have been successfully launched in support of e-government. We look forward to the finalisation of the e-government strategy and the earnest implementation of new projects to support this key imperative.

We are also excited by the prospects of servicing local government through SITA's Municipal ICT blueprint, which was finalised during the period under review. The opportunity for capacitating local government with effective ICT solutions is one that we relish, since it is at this level of government that citizens truly engage with the state. Municipalities have welcomed the initiative and now the challenge lies in meeting their expectations.

Given that our three year customer satisfaction target is 70%, we are delighted that within a year SITA has achieved a 63% rating, *We recognise that SITA occupies a unique, strategic cross-government market position that affords us collective insight into the business of government ICT*

which is a double-digit improvement on the 43% ranking achieved during the 2005/6 financial year. Superior customer service is non-negotiable and we expect management to continue striving to improve service levels.

It is also pleasing to note that locally empowered ICT players continue to benefit from contracts awarded by SITA on behalf of government. A total of 65 contracts worth R1 527 billion were awarded during the financial year 2006/7. Of these, 86% were awarded to black economic empowered service providers. Notwithstanding, it is SITA's contribution in developing the indigenous ICT industry where we would expect to see progress in the future.

From a financial sustainability perspective, SITA has exceeded our expectations. Management has delivered strong growth of 15,6% on revenue and 76,4% on surplus for the year, which bears testimony to the underlying robustness of the organisation.

The board takes pride in the fact that employee satisfaction levels have risen by 10,17% for the period under review. This is indicative of improved motivation and retention levels within the organisation, but there is, of course, always a need to pay consistent attention to our people and we would expect that management will endeavour to improve satisfaction levels even further during the current financial year.

While attracting and retaining scarce ICT skills remains a challenge for the sector in general, we are pleased that SITA's staff turnover remains below the average for the industry.

Overall, the board is satisfied that for the financial period 2006/7 considerable progress was made in meeting SITA's strategic imperatives, but of course much more needs to be done to truly effect our vision for the organisation.

The board wishes to extend its gratitude to the leadership of SITA and all employees for their contributions, collectively and individually, to the successes achieved during the 2006/7 financial year.

We also bid farewell to Mr Mavuso Msimang as he takes on a new role as Director General of the Department of Home Affairs. Mr Msimang served his full term with SITA as the Chief Executive Officer and the board is indebted to him for implementing SITA's turnaround programme, which he initiated in 2004.

We are confident that SITA now has the right focus, competence and expertise in place to build on the robust foundation established under Mr Msimang's tenure and we look forward to another successful year for the organisation.

The board also wishes to thank and acknowledge the contributions of former SITA board members, Mr Barjaktarevic and Ms Moerane. Their contributions have been vital in ensuring the board discharges its responsibilities effectively.

Finally, I take this opportunity to thank our shareholder, Minister for Public Service and Administration, Ms Geraldine Fraser-Moleketi, for her capable leadership and for entrusting us with the responsibility to preside over SITA as its board of directors. We also extend our gratitude to the members of the Portfolio Committee on Public Service and Administration, led by Mr John Gomomo (MP), for their support and advice.

Ms Thenjiwe Chikane
Chairperson and Non-executive Director
26 July 2007

Board of directors

Ms TPC Chikane

Chairperson and Non-executive

Qualifications: CA(SA)

Appointed: 04 August 2005

Ms N Dhevcharran

Non-executive

Qualifications: MSc Computer Science

Appointed: 04 August 2005

Ms NC Isaacs-Mpulo

Executive

Qualifications: BSc (Hons) Computer Information Systems

Appointed: 04 August 2005

Mr LC Jones

Non-executive

Qualifications: BSc Electrical Engineering; MSc Computer Science

Appointed: 04 August 2005

Mr CCW Kruger

Non-executive

Qualifications: BCom (Hons) Economics

Appointed: 04 August 2005

Ms ZP Manase

Non-executive

Qualifications: BCom; BCompt (Hons); CA(SA); HDip Tax

Appointed: 04 August 2005

Prof T Marwala

Non-executive

Qualifications: BSc Mechanical Engineering; MSc Mechanical Engineering; Technical Analysis & Fund Management, SAIM Programme in Business Management; PhD Computational Intelligence in Engineering Systems; Post Doctorate in Information Technology

Appointed: 04 August 2005

Mr M Msimang

Managing Director

Qualifications: BSc (Entomology/Biology); MBA (Project Management)

Appointed: 04 August 2005

Resigned: 14 May 2007

Mr AP Pedlar

Non-executive and Managing Director (Acting)

Qualifications: BCom; B & A (Hons); Diploma in Law & Tax

Appointed: 04 August 2005;

Acting Managing Director since 15 May 2007

Mr RJ Barjaktarevic

Non-executive

Appointed: 01 October 2005

Resigned: 30 November 2006

Ms N Moerane

Non-executive

Qualifications: BCom; LLB; Certificate in Labour Relations

Appointed: 01 October 2005

Resigned: 25 April 2007

Ms TV Geldenhuys

Company Secretary

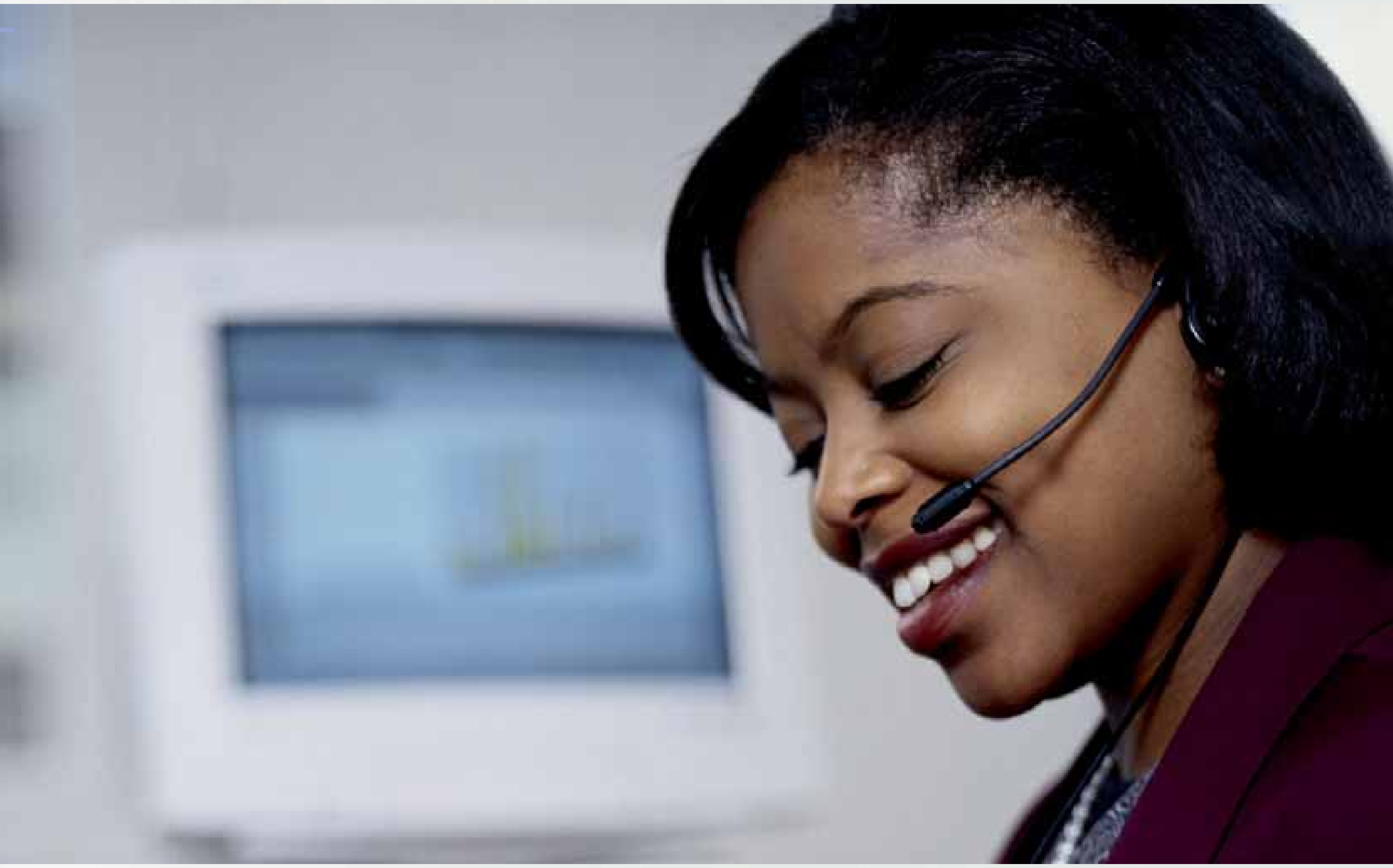
Qualifications: BCompt; HDip Tax; AGA(SA); SAIPA; FIAC; FICB; MDP

Appointed: 01 April 2004

In the information age, intellectual capital is recognised as the central source of innovation and organisational advantage. It is therefore widely accepted that knowledge, rather than labour, is becoming the new source of added value for companies.

To this end, SITA strives to nurture and grow the intellectual capital of our people to ensure we are recognised as knowledge workers by the customers we serve, our stakeholders and industry partners.

Nurturing
knowledge workers



Chief Executive Officer's report

During the financial year 2006/7 we made significant progress in creating a platform for thought leadership on information and communications technology (ICT) for the public sector.

Notwithstanding continuous engagement with our customer base through strategic planning sessions and other forums to exchange knowledge and impart expertise, our immensely successful inaugural GovTech conference served as an important catalyst in this regard.

The conference, held at Sun City (North West Province) during November 2006, swiftly set the benchmark for what has become the pre-eminent South African ICT conference focused on public service delivery. Some 1 000 delegates across all spheres of government and the private sector congregated for three days collaborating on ICT solutions that can align public service delivery with policy outcomes.

We believe that we are already reaping the benefits of our renewed emphasis on customer-centricity as evidenced by a dramatic 20 percentage point improvement in our customer satisfaction index, from 43% in 2005/6 to 63% during the financial year under review.

During the financial year we also commenced a culture change programme, aptly named *Destination to Success,* to capture the hearts and minds of our employees to live SITA's shared vision and values. We are pleased that our efforts have seen employee satisfaction levels improve by 10,17% for the year.

The period under review was also the first year that our new operating model was in effect. SITA's operating model comprises four divisions, namely Business Operations, Strategic Services, Finance and Shared Services.

Business highlights

Financial performance

We once again performed admirably in respect of our financial objectives.

For the year under review, we exceeded our revenue growth target by achieving R3 357 billion in revenue, up 15,6% from R2 904 billion the previous financial calendar.

We also improved gross profit by 33,9% from R532 million in 2005/6 to R712 million for the period under review, while our surplus for the year increased by 76,4% from R81,3 million last year to R143,5 million.

Strategic partnership and funding model

We continued to vigorously pursue optimal ways of partnering with the ICT industry to ensure improved efficacy in our service offerings to government. To this end, we consulted extensively to identify potential areas for industry partnerships.

Areas identified for partnership opportunities include network infrastructure, the Integrated Financial Management System project, local government and e-government. A strategy document specifying partnering models has been developed and will be implemented during the 2007/8 financial year.

To this end, the following sourcing models will be contemplated in achieving the key objectives of the strategy:

- Full outsourcing;
- Selective outsourcing;

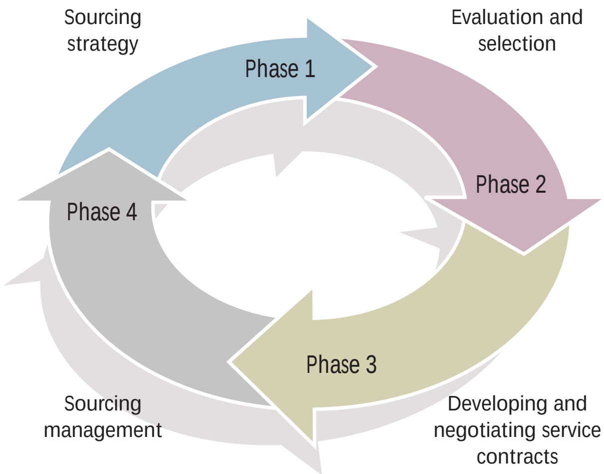
We believe that we are already reaping the benefits of our renewed emphasis on customer-centricity as evidenced by a dramatic 20 percentage point improvement in our customer satisfaction index

- Best-of-breed consortium;
- Shared service or captive centre;
- Joint venture;
- Brand service company;
- Prime contractor; and
- Internal delivery.

To successfully introduce and implement disciplined multi-sourcing within SITA, the processes below will be followed:

- Sourcing strategy: a set of plans, scenarios and decisions integrating internal and external resources and services required to continuously fulfil the organisation's business objectives. The high-level strategy has been developed and detailed processes on the next three phases have to be finalised;
- Evaluation and selection: selecting the best source for the scope of work under consideration, using a formal evaluation process;
- Developing and negotiating service contracts: contracts that drive toward mutually agreeable terms and conditions that mitigate risks, enable outcomes and anticipate change; and
- Sourcing management: a collection of decisions and actions designed and executed to drive resources and services to achieve business objectives, following a formal governance process.

Figure 1: Sourcing Life Cycle Framework



Source: Gartner (September 2006)

The funding options available to SITA will depend on the partnering model that is adopted for each of the new opportunities identified above. In general, the options available are:

- Vendor financing for infrastructure requirements;
- Public Private Partnerships;
- Formation of a subsidiary (to enable joint venture funding) as per the SITA amendment Act of 2002;
- Reclassification of SITA to a schedule 2 entity in terms of the Public Finance Management Act (PFMA) to enable SITA to raise finance via financial institutions; and

Chief Executive Officer's report

(continued)

- Government budget allocation from National Treasury and surplus funds generated from clients in respect of services rendered.

Customer satisfaction index

During the year under review, we initiated a comprehensive customer survey to provide a baseline study for measuring customer satisfaction and tracking this over time. The survey conducted over November 2006 to December 2006 comprised 1 000 telephonic interviews including open-ended and structured questionnaires divided between management and users across the three spheres of government.

During the previous financial year, SITA scored a 43% customer satisfaction rating. The current ranking of 63% bears testimony to the success of numerous interventions we have implemented and continue to roll out in order to improve service levels to our customers.

Procurement services

We continue to strive to maintain optimal tender processes in our procurement services.

To this end, we implemented an e-procurement system comprising an electronic supplier management system, and an electronic tender and contract management system. This facility allows our clients to access SITA contracts in an easy to understand, user-friendly manner.

The e-procurement system aims to reduce turnaround times on tenders and to make management of contracts easier. The audit trails and reporting facilities on the system will also improve governance in our procurement processes.

During the financial year 2006/7 we maintained our tender turnaround times below 80 days on average, although we did not achieve our target of 78 days.

We are also proud to disclose that 86% of the total number of tenders awarded went to black economic empowered (BEE) vendors or vendors that have BEE credentials.

Operational highlights

Next Generation Network

Shortly after the close of our financial year, we awarded tenders for the deployment of a Next Generation Network (NGN) to replace the current Government Common Core Network (GCCN) in line with our Telecommunications and Convergence Strategy approved by the SITA board in the 2005/6 financial year.

The project's total capital expenditure is worth R454 million over a five year period and it represents the largest deployment of NGN services for the public sector in sub-Saharan Africa. The project will be financed through internally generated funds.

Neotel (Proprietary) Limited, the country's second national telecommunications operator, will provide national backbone transmission services to support the new NGN, while Business Connexion Group Limited, an ICT service provider, will upgrade the GCCN backbone from Nortel to Cisco technology.

The NGN will create the platform for more advanced services that will lead to improved stability, accessibility and capacity that can provide government departments with a faster and more efficient network service and fourth generation services with advanced data, voice and video solutions, among others.

It will also enable government to improve public service delivery through initiatives such as e-education, e-health and connectivity to Thusong Service Centres.

Virtual Tape Systems

The installation of the Virtual Tape Systems (VTS) at Centurion, Numerus and Beta was one of the highlights of the reporting period. To date, approximately 90% of all data previously backed up on the old Robotic System has been transferred to the VTS.

Our customers have praised us for the improvement in performance, reliability and the ease with which data can now be accessed from the VTS. Off-site backups are now also stored in the VTS at the disaster recovery site, significantly reducing the requirement for an outsourced remote storage facility.

Disaster Recovery Plan

During the financial year 2006/7 we made significant strides in implementing a viable Disaster Recovery Plan (DRP) for the transversal systems we host on behalf of government.

The DRP entailed the installation of new disk subsystems and the disaster recovery site, and the installation of a managed fibre Telkom link between the production and disaster recovery sites. In the process, nine tera-bytes of data were migrated onto the new disks, while full disk mirroring enabled between the two sites ensured the availability of data at both locations.

We are proud to disclose that 86% of the total number of tenders awarded went to black economic empowered vendors

Internet content filtering

During the period under review, we obtained a mandate from government to filter inappropriate material to block abusive traffic on the GCCN and associated Virtual Private Networks (VPN). While this is possible in the GCCN environment, we will be approaching VPN clients individually to implement the necessary filters.

At the beginning of March 2007 we implemented URL (uniform resource locator) filtering on the GCCN proxy servers for pornography, adult and audio/video-related content. The resulting bandwidth savings are estimated at 20%, which translates directly into better performance of the network.

In the 2007/8 financial year, we will implement additional filters with a security focus on phishing, spyware, virus-infections, anonymiser and warez, with the latter two focusing on measures to prevent bypassing of filters and downloading of pirated software, respectively.

Strategic projects

e-Government

During 2006/7 financial year we engaged Cisco Systems experts from Brazil, Canada and the United States of America, who have been involved with rollouts of e-government programmes in their respective countries, to assist us in reviewing South Africa's e-government programme.

This team has been to South Africa on numerous occasions to review documentation on our e-government programme to meet and engage with key government departments and members of the Government IT Officers Council, the Presidential National Commission, municipalities and management members of the Department of Public Service and Administration.

A draft document, which covers the current status of e-government, which includes a revised vision, strategy, communication plan and projects, has been completed. Discussions are currently underway with the Department of Public Service and Administration in respect of the new strategy.

We also implemented a number of key e-government pilot projects during the year under review. These include:

- Identity Document Track and Trace SMS System for the Department of Home Affairs. The system was launched on 29 March 2007 and both the notification (informing applicants of the status of their applications as it changes) and the querying (applicants using SMS to automatically query the status of their applications) are now operational; and
- Interactive Voice Response system, which enables citizens to access and navigate the Internet using a telephone instead of a computer, has been completed. Currently the base system can only handle two concurrent calls but upgrades planned for the current financial year include multiple call handling, integrated with fax and SMS technology.

Integrated Financial Management System

The Integrated Financial Management System (IFMS) project is a multi-stakeholder programme of National Treasury, Department of Public Service and Administration and SITA, to consolidate and renew government's back office applications. The scope of the project covers Financial Management, Human Resources Management, Supply Chain Management, Asset Management and Business Intelligence across both national and provincial departments and as such constitutes the biggest integrated business solution undertaking in the country. Funding for the IFMS project was directed from existing funds.

In September 2005, Cabinet approved a phased approach to the project, the appointment of SITA as the Primary Systems Integrator (PSI) and the proposed split of 20%-30% for custom developed applications and 70%-80% commercial off the shelf (COTS) applications. This endorsement is in support of one of the key objectives of the project which is to facilitate skills development that will make South Africa a net supplier of ICT services.

The IFMS project will in time replace a host of legacy systems such as the Basic Accounting System (BAS), the Personnel and Salary System (PERSAL), the Logistics Management System (LOGIS) and many others that are found in government departments. The multi-billion rand project is expected to take at least seven years to complete and could eventually affect more than 200 000 users in about 185 national and provincial government departments.

During the financial year 2006/7, two tenders were issued for the IFMS, namely the Integrated Development Environment tender, which is for the open standards platform on which the system will operate, as well as the Procurement Module tender, which is intended to support government's reformed procurement processes.

Chief Executive Officer's report

(continued)

A key spin-off for the IFMS programme will be its contribution toward creating capacity and sustaining South Africa's technology skills base, while supporting our transformation as a PSI that will own, manage, contract and run these transversal systems on a commercial basis.

Municipal ICT blueprint

In line with our objective to conduct a local government support programme we developed a municipality go-to-market strategy (Municipal ICT blueprint) during the period under review and we are in the process of implementing three proof-of-concept (POC) projects in this regard. The POC projects are funded by the service providers.

Our blueprint is in response to the myriad of challenges faced at local government level, among them financial sustainability, shortages of functionally competent resources, adherence to fiscal reforms and reporting requirements, demands for service delivery and the under-utilisation of ICT to effect local economic development.

Within this context, we took a strategic decision to engage local government to capacitate municipalities to better service citizens through the deployment of ICT solutions. Our unique cross-government market position, procurement muscle, and vendor and product knowledge make SITA eminently suited to provide this service.

During the year under review, the tender for the Municipality ICT blueprint was awarded and three pilot sites were identified.

Human capital

A key highlight for the financial year was that our overall staff turnover of 9,11% was well below the current average of 12% for the ICT sector. This, in part, can be attributed to our efforts to attract and retain critical skills and motivate our best performing staff.

We also trained 96% of our staff as per the training requirements to fill core competency gaps in our existing skills base. Furthermore, we concluded a study to identify the critical workforce segments in our organisation that need to be acquired, or retained and developed.

Further details on our human capital initiatives are provided in the Human Resources report on page 16.

Project management

Our efforts to embed a stronger project management orientation and discipline in the organisation have seen a number of initiatives launched during the financial year 2006/7.

To this end, we created a Bureau Support Service that will capture project information and update it on the Project Management Enterprise Resource Programme (PM ERP) system. We have also finalised the Project Management Selection, Assessment and Training/Development frameworks and identified a service provider to implement the Enterprise Project Management Tool and train relevant stakeholders.

The integration of the EPM Tool with the PM ERP commenced at the beginning of the 2007/8 financial year. This product will extend the capabilities of the existing project management application currently used by our project managers.

Corporate social investment

The Youth Internship Programme (YIP) continues to be our flagship corporate social responsibility programme.

Since 1999, over 1 000 young ICT graduates have completed YIP, which seeks to raise the skills levels of ICT graduates and make them eminently more marketable for long-term career positions both in business and in government – where these advanced skills are sought after.

In providing young ICT graduates with this one year internship of intensive theoretical and on-the-job training, these graduates become much more suited to the job market and therefore more easily absorbed into both the government and private sectors. In doing so, we are not only contributing to a young person's speedy career advancement, but we are making a direct impact on the country's job creation objectives.

YIP places special emphasis on targeting youth from historically disadvantaged backgrounds, and especially young women, and ensuring that trainees have a nationwide spread, including remote locations. During the 2006/7 financial year approximately 358 youth were trained under the programme at a total cost of R29,830 million.

Acknowledgments

While I have reported on SITA's performance over the financial period of 2006/7, the successes enjoyed by the organisation were attained during the leadership of Mr Mavuso Msimang. As mentioned elsewhere in this report, Mr Msimang stepped down as Chief Executive Officer of SITA during May 2007 to join the Department of Home Affairs as its Director General.

Our Youth Internship Programme continues to be our flagship corporate social responsibility programme

I congratulate Mr Msimang on a sterling tenure with SITA and thank him for driving the organisation's turnaround programme. We wish him success in his new role at Home Affairs.

Many of the accomplishments attained during the past few years are collective achievements attributable to all stakeholders who have displayed a vested interest in SITA's success. First and foremost our employees and management staff, who work tirelessly to ensure we meet our mandate, the board of directors, the Department of Public Service and Administration, our customers and the broader ICT industry.

Much of the focus in the recent past was aimed at ensuring that we restore the confidence of all our stakeholders in SITA by being an efficient and effective ICT partner to government. I believe that we have made considerable progress in this regard, evidenced by the strong partnerships and relationships formed with our customer base and the ICT sector.

I wish to thank Ms Geraldine Fraser-Moleketi, Minister for Public Service and Administration, for her support and tireless campaigning on our behalf. She is a true ambassador for SITA and without doubt one of our most vociferous and loyal proponents. Much of the headway and success we have enjoyed in the past few years is attributable to her leadership and visionary foresight.

I also wish to convey my appreciation to the Portfolio Committee on Public Service and Administration, especially its Chairperson, Mr John Gomomo (MP), for their support.

My gratitude also extends to Ms Thenjiwe Chikane, Chairperson of the SITA board of directors, and the board as a whole for supporting the organisation in our endeavours to meet our strategic objectives.

Mr Peter Pedlar
Chief Executive Officer (Acting)

Human Resources report

Introduction

One of the highlights for the financial year 2006/7 is that overall staff turnover at SITA was 9,11%, below the current average of 12% for the South African information and communications technology (ICT) sector as assessed in June 2006. SITA's Talent Management department has a well-defined strategy that will enable our organisation to attract, motivate and retain the skills we require.

We have also bedded down the Performance Management process and policy, thereby ensuring that all staff members have signed performance contracts. SITA subscribes to the principle of developing and up-skilling staff in areas where improvement is required through the use of Personal Development Plans. This is critical as it fosters a culture of performance within the organisation.

Considerable work and effort was invested in changing employee satisfaction. The results from a survey conducted after the October 2006 culture change programme showed a positive shift in excess of 10% on the parameters of leadership, culture, team work and line of sight, which were the key indices for our intervention. These results certainly indicate that further work will have to be done to sustain our gains and to ensure an improvement in the 2007/8 survey results.

Talent management

Our investment in training and development for staff has resulted in approximately 2 133 staff across SITA attending various training initiatives, courses and conferences during the 2006/7 financial year. The Training and Development department has met all requirements in terms of the ISETT SETA Education and Training Quality Assurance Standards. SITA received an endorsement to implement a learnership programme, with the ISETT SETA contributing an amount of R10,2 million for the 2006/7 financial year.

ISETT SETA proposed that SITA facilitate and manage Level 5 Learnerships. Accordingly, SITA will be reimbursed in the form of skills levies grants for the services rendered. Part of the learnership implementation includes the use of the Walk-in Training Centre in Rustenburg on a full time basis for 14 months.

In terms of our Youth Internship Programme, we are making remarkable progress and can report that we have exceeded our targets. See tables below:

Youth Internship Programme: racial distribution

Year intake	African	Indian	Coloured	White	Total
2003/12/31	360	3	3	0	366
2004/12/31	132	2	7	3	144
2005/12/31	155	3	8	3	169
2006/12/31	278	4	6	4	292
2007/03/31	59	3	4	0	66
Total	984	15	28	10	1 037
Achieved by 2007/03/31	99,04%			0,96%	100%

We have a well-defined strategy that will enable our organisation to attract, motivate and retain the skills required

Youth Internship Programme: skill area achievement and shortfall

Skill area description	Skill area	Target percentage	Target number	Achieved percentage	Achieved numbers	Exceeded in numbers
Software development – Internet	WEB	20%	200	20%	206	6
Network controller	NC	20%	200	21%	220	20
Business analysis	BA	20%	200	20%	205	5
Information system security	ISS	15%	150	14%	147	(3)
Functional administration and support	FAS	11%	110	12%	120	10
End user training	EUT	5%	50	5%	50	0
Software development – mainframe	SW	3%	30	3%	30	0
Database administration	DBA	3%	30	2%	25	(5)
Functional application training, administration and support	FATS	3%	30	3%	30	0
Total		100%	1 000	100%	1 033	33

Organisational design and change management

Restructuring

Our Human Resources (HR) teams have been extensively involved in restructuring Business Operations, Strategic Services, Finance, HR, Information Management Services and Communications. This involved the development and location of new organisational design principles, organisational structures and relevant job profiles.

Gender forum

SITA's gender forum has embraced the organisational gender strategy and committed to achieving specified tangible outcomes and making an impact on issues affecting women within SITA and the broader ICT industry.

Best Company to Work For

SITA has participated in the Best Company to Work For (BCTWF) survey, as conducted by Deloitte, for the second consecutive year. A final report stemming from conversations with the organisation on the 11 cultural dimensions located in the survey was collated. Despite the mixed responses from employees, there is an acknowledgement on their part of the active steps that the organisation has undertaken. However, on critical factors such as training, leadership and communication the general feeling was that these have not been sufficiently addressed.

Human resources planning

The approved model and methodology for SITA's Human Capital planning (manpower plan) initiative was introduced as a pilot in three locations, namely the Eastern Cape and Free State regional offices, as well the service management centre under Infrastructure in Gauteng. The final rollout of the model will take place in the new financial year.

We also began implementing the diversity programme in the regions and this has been well received thus far.

Human resources services

Oracle Employee and Manager Self Service was successfully implemented. As a result employees are able to view their pay slips, apply for leave, update their personal records, among others, online. In addition, a reporting functionality for HR, Oracle Daily Business Intelligence, has been implemented. The i-Recruitment Oracle module is also operating and is used by interested internal job applicants. This service will be open for public use as soon as the SITA server and security requirements have been addressed. HR initiated the integration of SITA's financial budgeting system with the HR budgeting system and the tool was successfully used during the recent budgeting cycle throughout SITA.

Human Resources report

(continued)

Numerous employee wellbeing programmes (EWP) and initiatives were launched/provided during the year, more noticeably:

- The Weigh Less programme which was launched in the Regional Offices in October 2006;
- Disseminating information on diabetes, osteoporosis, blindness, breast cancer, and rheumatoid arthritis during the Social Development and Health Month (October 2006);
- The HIV/AIDS and anti-retroviral presentations in conjunction with Discovery Health at regional level;
- The smoking cessation programme implemented in conjunction with Allan Carr;
- The continuation of the stress management programme (corporate massage) which is aimed at relieving muscle tension and improving blood circulation;
- The successful participation at the closing ceremony on 16 Days of Activism on violence against women and children in Upington, where furniture and household utensils to the value of R45 000 were donated to Gamagara crisis centre in Kathu;
- The participation of the employee wellbeing unit together with the regional peer educators in a community partnership initiative on World AIDS Day by visiting 10 non-governmental organisations (NGOs) which are child-HIV/AIDS services oriented. Each NGO received R5 000 as well as party packs, toys and clothes which were donated by staff members; and
- The launch of our EWP website in November 2006.

Employment equity

Generally, the company is performing well with regard to the achievement of the set employment equity targets. Regarding the disability target, it is important to note that SITA recently conducted a survey and a baseline has been established. Measures have been put in place to ensure that there is a marked improvement in the appointment of people with disabilities.

When analysing our progress with regards to set employment equity targets for the financial year 2006/7, there are still concerns that we are behind on race representation on job levels C3-C5 and D1-D3 and gender representation on levels D4–D5 and E1–E3. To this end, we will implement our integrated employment equity strategy that will address this.

Employment equity (permanent employees)

	African			Coloured			Indian			White			Total employees			Total EE			EE %		Gender %		Disabled		
Job level	F	M	T	F	M	T	F	M	T	F	M	T	F	M	T	F	M	T	Total	Target	Female	Target	No	%	Target %
A1A3	22	20	42	0	0	0	0	0	0	0	0	0	22	20	42	22	20	42	100,00	70,00	52,38	45,00	0	0	2,00
B1B2	27	25	52	0	0	0	1	0	1	1	2	3	29	27	56	28	25	53	94,64	70,00	51,79	45,00	0	0	2,00
B3B5	159	157	316	35	24	59	7	11	18	67	20	87	268	212	480	201	192	393	81,88	70,00	55,83	45,00	9	1,88	2,00
C1C2	82	98	180	15	22	37	5	10	15	75	63	138	177	193	370	102	130	232	62,70	70,00	47,84	45,00	2	0,54	2,00
C3C5	65	106	171	10	23	33	11	33	44	154	194	348	240	356	596	86	162	248	41,61	70,00	40,27	45,00	1	0,17	2,00
D1D3	53	73	126	7	9	16	6	18	24	93	173	266	159	273	432	66	100	166	38,43	70,00	36,81	45,00	2	0,46	2,00
D4D5	14	25	39	3	3	6	0	10	10	12	36	48	29	74	103	17	38	55	53,40	70,00	28,16	45,00	0	0	2,00
E1E3	3	20	23	2	1	3	0	5	5	3	7	10	8	33	41	5	26	31	75,61	70,00	19,51	45,00	0	0	2,00
F1F2	0	2	2	1	0	1	1	0	1	0	0	0	2	2	4	2	2	4	100,00	70,00	50,00	45,00	0	0	2,00
F3	0	1	1	0	0	0	0	0	0	0	0	0	0	1	1	0	1	1	100,00	70,00	0	45,00	0	0	2,00
Total	425	527	952	73	82	155	31	87	118	405	495	900	934	1 191	2 125	529	696	1 225	57,65	70,00	43,95	45,00	14	0,66	2,00

Executive management committee

Mr M Msimang
Chief Executive Officer

Qualifications: BSc (Entomology/Biology); MBA (Project Management)
Appointed: 01 October 2003
Resigned: 14 May 2007

Mr AP Pedlar
Chief Executive Officer (Acting)

Qualifications: BCom; B & A (Hons); Diploma in Law & Tax
Appointed: 15 May 2007

Mr JP Bogoshi
Chief: Strategic Services

Qualifications: BSc Computer Science; Certificates in Professional Management and Investment Management
Appointed: 01 August 2004
Resigned: 15 June 2007

Ms FM Habib
Chief: Shared Services

Qualifications: BSoc Sci (Hons); MSoc Sci (Economics, Industrial & Labour Studies)
Appointed: 01 May 2006

Ms NC Isaacs-Mpulo
Chief: Business Operations

Qualifications: BSc (Hons) Computer Information Systems
Appointed: 01 January 2004

Mr GM Salanje
Chief Financial Officer

Qualifications: CA(SA); MBA; ACMA (UK)
Appointed: 01 May 2006

SITA strives to be recognised as a thought leader on information and communications technology (ICT) for the public sector.

As the official ICT agency for the government of South Africa, it is imperative that our customers acknowledge the value of the strategic insight, expertise and advice we provide to enhance their technological capability.

Since we occupy a unique cross-government market position, we possess broad insight into the ICT objectives and strategies of the various government departments we serve. We are exploiting this strategic position we hold to develop our thought leadership credentials to the collective benefit of the state.

Pursuing
thought leadership

Corporate Governance

Introduction

The directors of the State Information Technology Agency (SITA) regard corporate governance as fundamental to the success of the business and are fully committed to ensuring that good governance is practised in order for the company to remain a sustainable and viable business of global stature. This commitment is embraced at all levels of the company.

SITA ensures that its processes and practices are reviewed on an ongoing basis to ensure compliance with legal obligations, the use of funds in an economic, efficient and effective manner, and adherence to good corporate governance practices that are continually benchmarked against best practices. Processes and practices are underpinned by the principles of openness, integrity and accountability and an inclusive approach that recognises the importance of all stakeholders with respect to the viability and sustainability of SITA.

Compliance, not only with the letter, but also the spirit of relevant governance codes remains a priority for the organisation. As a state owned enterprise, SITA is guided by the principles of the Code of Corporate Practices and Conduct contained in the King II Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. Furthermore, the statutory duties, responsibilities and liabilities imposed on the directors of SITA by the Companies Act 61 of 1973, as amended, are augmented by those contained in the Public Finance Management Act no. 1 of 1999, as amended by Act 29 of 1999 (PFMA).

Shareholding

The government of the Republic of South Africa is the sole shareholder of SITA. The shareholder representative is the Minister for Public Service and Administration.

Shareholder compact

In terms of the Treasury Regulations issued in accordance with the PFMA, SITA must, in consultation with its executive authority (the Minister for Public Service and Administration), annually conclude a shareholder compact documenting the mandated key performance measures and indicators to be attained by SITA as agreed between the board of directors (board) and the executive authority.

The compact is not intended to interfere in any way with normal company law principles. The relationship between the shareholder and the board is preserved, as the board is responsible for ensuring that proper internal controls are in place and that SITA is effectively managed.

Governing bodies

Board of directors

Composition of the board

The details of the directors appear on pages 6 and 7.

SITA has a unitary board structure currently comprising seven non-executive directors and two executive directors appointed by the Minister for Public Service and Administration after consultation with Cabinet.

The SITA Act no. 88 of 1998, as amended, provides that SITA will be governed and controlled, in accordance with this Act, by a board of directors appointed by the Minister after consultation with Cabinet.

The term of a non-executive director does not exceed a period of three years. Non-executive directors retire by rotation but are eligible for reappointment. Executive directors have standard employee service contracts.

Dates of meetings are scheduled annually in advance. Additional meetings are convened as and when material issues arise requiring decisions by the board. Ten board meetings were held during the financial year under review. The attendance at board meetings is reflected below:

Members	Attendance (Meetings held: 10) (6 scheduled and 4 special)
TPC Chikane (Chairman)	10
R Barjaktarevic[1]	7
N Dhevcharran	9
NC Isaacs-Mpulo	10
LC Jones	7
CCW Kruger	6
ZP Manase	6
T Marwala	7
N Moerane[2]	4
M Msimang[3]	10
AP Pedlar	9

[1] *Resigned 30 November 2006*

[2] *Resigned 25 April 2007*

[3] *Resigned 14 May 2007*

Role and function of the board

The board is the accounting authority of SITA in terms of the PFMA.

The board charter sets out the roles, duties and responsibilities of the board, as well as salient corporate governance principles.

The role of the board embraces the following activities:

- Providing strategic direction and leadership;
- Determining the goals and objectives of the company;
- Approving key policies including investment and risk management;
- Reviewing the company's goals and strategies for achieving its objectives;
- Approving and monitoring compliance with corporate plans, financial plans and budgets;
- Reviewing and approving the company's financial objectives, plans and expenditure;
- Considering and approving the annual financial statements and notices to the shareholder;
- Ensuring good corporate governance and ethics;
- Monitoring and reviewing performance and effectiveness of controls;
- Ensuring effective communication with relevant stakeholders;
- Liaising with and reporting to the shareholder;
- Guiding key initiatives; and
- Approving transactions beyond the authority of management.

Delegation of authority

The board retains full and effective control over the operations of the organisation. This responsibility is facilitated by a well developed governance structure comprising various board committees and a Delegation of Authority Framework. The delegation framework assists in the control of the decision-making process and does not dilute the duties and responsibilities of the directors.

Director induction and orientation

All new directors are taken through an induction programme that is designed to enhance their understanding of SITA's legislative framework, its governance processes and the nature and operations of its business.

Continuous training is also provided on request to meet the needs of directors. Directors are also made aware of new laws and regulations on an ongoing basis.

Directors' remuneration

Independent non-executive directors receive fees for their contribution to the board and the committees on which they serve. The shareholder determines the rate in consultation with National Treasury. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on the company's behalf.

Corporate Governance

(continued)

Further information on directors' remuneration appears on pages 81 and 82.

Company secretarial function

Directors have unrestricted access to the advice and services of the Company Secretary as well as the Secretariat Department. The directors are entitled to obtain independent professional advice at SITA's expense should they deem this necessary.

The Company Secretary, together with other assurance functions, monitors SITA's compliance with the requirements of the PFMA, Companies Act and other relevant legislation.

Board committees

A number of board committees exist in order to assist the board in discharging its responsibilities. This assistance is rendered in the form of recommendations and reports submitted to board meetings whereby transparency and full disclosure of committee activities are ensured. Each committee operates within the ambit of its defined terms of reference that set out the composition, role, and responsibilities, delegated authority and meeting requirements of the committee.

Audit and Risk Committee

The membership of the committee comprises five non-executive directors, one of whom is the Chairperson, and one executive director.

The committee monitors compliance with relevant legislation and ensures that an appropriate system of internal control is maintained to protect SITA's interests and assets. It reviews the activities of the Internal Audit Department and the effectiveness thereof. It is also responsible for the evaluation of the independence, objectivity and effectiveness of the external auditors and for the review of accounting and auditing concerns identified by internal and external audit. The committee reviews the accuracy, reliability and credibility of financial reporting and recommends the annual financial statements and the annual report, as presented by management, together with the external auditors' report, for approval by the board.

The committee also reviews the adequacy and overall effectiveness of the company's risk management strategy, policy and procedures, functions and the implementation by management of internal risk control and risk recommendations, and confirms that appropriate actions have been taken.

Four committee meetings were held during the financial year. These were attended by the Auditor-General, Chief Financial Officer, Chief Audit Executive and other relevant corporate officials. The Chief Audit Executive and the Auditor-General have unrestricted access to the Chairperson of the committee and to the Chairperson of SITA. The attendance of members at committee meetings was as follows:

Members	Attendance (Meetings held: 4)
ZP Manase (Chairperson)	4
N Dhevcharran	3
CCW Kruger	3
N Moerane[1]	2
M Msimang[2]	4
AP Pedlar	4

[1]*Resigned 25 April 2007*

[2]*Resigned 14 May 2007*

Finance and Capex Committee

The membership of the committee comprises four non-executive directors, one of whom is the Chairperson, and one executive director.

The committee reviews the business plans and budgets of the company and monitors compliance thereof. It evaluates and approves business cases for new projects, monitors and oversees the managing of capital expenditure. The committee considers other topics as determined by the board and reviews costing and pricing models and applicable accounting procedures and systems.

Three committee meetings were held during the financial year. These were attended by the Chief Financial Officer, Chief Audit Executive and other relevant corporate officials. The attendance of members at committee meetings was as follows:

Members	Attendance (Meetings held: 3)
CCW Kruger (Chairman)	3
LC Jones	2
ZP Manase	1
M Msimang[1]	2
AP Pedlar	2

[1]*Resigned 14 May 2007*

Human Resources and Remuneration Committee

The membership of the committee comprises four non-executive directors, one of whom is the Chairperson, and two executive directors.

The committee:

- Makes recommendations to the board on the appointment of new executive and non-executive directors;
- Is responsible for the oversight and monitoring of the human capital management strategies and implementation within the company;
- Determines, agrees and develops the company's general policy on executive and senior management remuneration; and
- Recommends to the board specific remuneration packages for executive management.

Seven committee meetings were held during the financial year. The attendance of members at these meetings is reflected below:

Members	Attendance (Meetings held: 7) (4 scheduled and 3 special)
N Moerane (Chairperson)[1]	7
RJ Barjaktarevic[2]	7
TPC Chikane[3]	3
N Dhevcharran	6
NC Isaacs-Mpulo	7
T Marwala	3
M Msimang[4]	7

[1]*Resigned 25 April 2007*

[2]*Resigned 30 November 2006*

[3]*Attended by invitation*

[4]*Resigned 14 May 2007*

Strategic Committee

The Strategic Committee comprises seven non-executive directors and one executive director and is chaired by the Chairperson of the board. All board members may attend the meetings by invitation. All executives and corporate officials attend the meetings.

The committee is responsible for guiding and leading the strategic direction of SITA and the implementation thereof. Its role is to:

- Define strategy in line with SITA's mandate;
- Guide and lead the implementation of that strategy;
- Develop and manage the strategy capability needs; and
- Manage business needs.

Five committee meetings were held during the financial year. The attendance of members at these meetings is reflected below:

Members	Attendance (Meetings held: 5)
TPC Chikane (Chairperson)	5
RJ Barjaktarevic[1]	3
N Dhevcharran	4
LC Jones	4
CCW Kruger	3
T Marwala	2
M Msimang[2]	4
AP Pedlar	3

[1]*Resigned 30 November 2006*

[2]*Resigned 14 May 2007*

Executive Management Committee (EXCO)

EXCO is chaired by the Chief Executive Officer and comprises the executives of SITA's various divisions and is attended by other relevant corporate officials. Details of the EXCO members appear on page 19.

The committee assists the Chief Executive Officer in guiding and controlling the overall direction of the business and in exercising executive oversight. It is responsible for ensuring the effective management of the day-to-day operations of the business.

Eleven committee meetings were held during the financial year. The attendance of members at these meetings is reflected below:

Members	Attendance (Meetings held: 11)
M Msimang (Chairman)[1]	9
JP Bogoshi[2]	10
FM Habib[3]	9
NC Isaacs-Mpulo	10
A Meyer[4]	3
GM Salanje[3]	10

[1]*Resigned 14 May 2007*

[2]*Resigned 15 June 200.*

[3]*Appointed 1 May 2006*

[4]*Contract expired 31 July 2006*

Corporate Governance

(continued)

Public Finance Management Act (PFMA)

The PFMA focuses on financial management with related outputs and responsibilities. The directors, as the accounting authority, comply with their fiduciary duties as set out in the PFMA. In terms of the PFMA, the responsibilities of the board include taking appropriate action to ensure:

- That economic, efficient, effective and transparent systems of financial and risk management and internal controls are in place;
- That a system is maintained for properly evaluating all major capital projects prior to a final decision on each project;
- The implementation of appropriate and effective measures to prevent unauthorised, irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct;
- That all revenues due to SITA are collected;
- The economic and efficient management of available working capital; and
- The definition of objectives and the allocation of resources in an economic, efficient, effective and transparent manner.

In terms of the Treasury Regulations (TR 28.3.1), SITA's accounting authority must, for purposes of "material" and "significance" in terms of sections 54(2) and 55(2) of the PFMA, develop and agree on a framework of acceptable levels of materiality and significance with the relevant executive authority.

In terms of section 52 of the PFMA the accounting authority for a public entity must submit to the accounting officer for a department designated by the executive authority for that public entity, and to the relevant treasury, at least one month, or another period agreed with the National Treasury, before the start of its financial year, a corporate plan in the prescribed format covering the affairs of the public entity for the following three financial years. In terms of TR 29.1.1 (f) such a corporate plan must include a materiality and significance framework. In terms of TR 30.1.1 the accounting authority for a public entity must annually submit a proposed strategic plan for approval by the relevant executive authority. TR 30.1.3 (e) requires that such a plan must include the materiality and significance framework.

The King II Report requires that disclosure be made on matters of significance, interest and relevance to shareholders and a wide range of stakeholders.

The accounting authority should establish guidelines of materiality for disclosure by the organisation. This framework will be reviewed and updated annually.

The materiality and significance framework for the financial year under review, which is determined and annually reviewed by management, is as follows:

Section	Requirement	Material and Significance
Section 50(1)	The accounting authority for a public entity must – (c) on request, disclose to the executive authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the executive authority.	SITA submits quarterly reports to the executive authority which include all relevant information which may influence the decisions or actions of the executive authority. These reports cover all information that is considered relevant to the executive authority.

Section	Requirement	Material and Significance
Section 54(2)	Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction: (a) establishment or participation in the establishment of a company; (b) participation in a significant partnership, trust, unincorporated joint venture or similar arrangement; (c) acquisition or disposal of a significant shareholding in a company; (d) acquisition or disposal of a significant asset; (e) commencement or cessation of a significant business activity; (f) a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.	SITA will inform the National Treasury of individual transactions covered by this section which are in excess of R20 million. This figure is based on the Auditor-General calculated materiality for the 2005/6 financial year audit.
Section 55(2)	The annual report and financial statements referred to in subsection 55(1)(d) must: (b) include particulars of: (i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year	All losses arising from criminal conduct are considered, by their nature, to be material and will be reported in accordance with the provisions of section 55(2) of the PFMA. Individual transactions in excess of R2,9 million arising from irregular expenditure and fruitless and wasteful expenditure will be considered to be material and will be dealt with in accordance with the provisions of section 55(2) of the PFMA. This figure is based on 0,1% of the 2006/7 financial year revenue.

Corporate Governance

(continued)

Internal control

The board has the ultimate responsibility for establishing a framework for internal control, including an appropriate procurement and provisioning system. The controls throughout SITA focus on those critical risk areas identified by operational risk management, confirmed by executive management and endorsed by the internal auditors. The controls are designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Organisational policies, procedures, structure and approval frameworks provide direction, accountability and segregation of responsibilities and contain self monitoring mechanisms. Both management and the Internal Audit Department closely monitor the controls and actions that are taken to correct deficiencies as they are identified.

Audit

In line with the PFMA and the King II Report requirements, the Internal Audit Department provides the Audit and Risk Committee and management with the assurance that the internal controls are appropriate and effective. This is achieved by means of an independent objective appraisal and evaluation of the risk management processes, internal controls and governance processes as well as by identifying corrective actions and suggested enhancements to the controls and processes. The risk based audit plan is based on the major risks emanating from SITA's internal risk management process. The audit plan is responsive to changes in SITA's profile.

The Internal Audit Department is fully supported by the board and the Audit and Risk Committee and has full unrestricted access to all organisational activities, records, property and personnel.

The Auditor-General is responsible for independently auditing and reporting on the financial statements in conformity with International Standards on Auditing.

Forensic investigations

The board is responsible for ensuring that an integrated crime prevention plan is implemented in order to minimise the risk and opportunity for crime and irregularities, in particular, fraud.

In order to support the strategic intent and business objectives of SITA, the board or its committees may, at its discretion, request a forensic audit where there is *prima facie* evidence that this is justified.

Reporting to stakeholders

In order to present a balanced and understandable assessment of its position, SITA is continuously striving to ensure that reporting and disclosure to stakeholders are relevant, clear and effective. It places great emphasis on addressing both positive and negative aspects in order to demonstrate the long-term sustainability of the organisation.

Stakeholder relations

In addition to the interests of the government as shareholder, SITA recognises the legitimate interest of specific government departments, employees, consumers, suppliers, the media, policy and regulatory bodies, trade unions, non-governmental groups and local communities in its affairs. Communication and interaction with stakeholders are ongoing during the year and are addressed through various channels depending on the different needs of the various stakeholders.

Risk management

In a continuing effort to attain world class status, among other initiatives, SITA has implemented a risk management methodology that is based on best business practice and in line with the risk management framework issued by National Treasury.

The PFMA was enacted in 1999 with the primary purpose of securing sound and sustainable management of the financial affairs of government bodies. Responsibilities of SITA's Chief Executive Officer, as the accounting officer, specifies that he is responsible for managing the financial administration of SITA. Included in this duty is the maintenance of an effective, efficient and transparent system of risk management.

Furthermore, the King II Report states that risk management should be practised throughout the organisation by all staff in their day-to-day activities.

Risk management focuses on identifying and assessing key risks, designing and implementing strategies and processes by which those risks can be managed, and continually reviewing processes to ensure that risks identified have been mitigated to a level acceptable to the relevant stakeholders.

In accordance with the above, SITA employs a methodology comprising eight phases, which incorporate the activities as mentioned above.

By establishing and working from a set model, SITA has ensured a consistent and logical approach to risk management. Risks have been assessed in context with the achievement of SITA's objectives.

Strategic risks and their mitigation strategies are evaluated and monitored at both board and executive levels. Where applicable, strategic risks have been assigned to an operational level, and collectively each business unit throughout SITA has a role to play in managing and mitigating these risks.

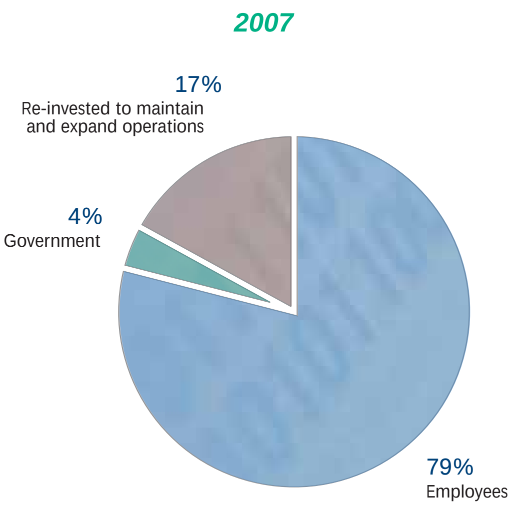
Salient features

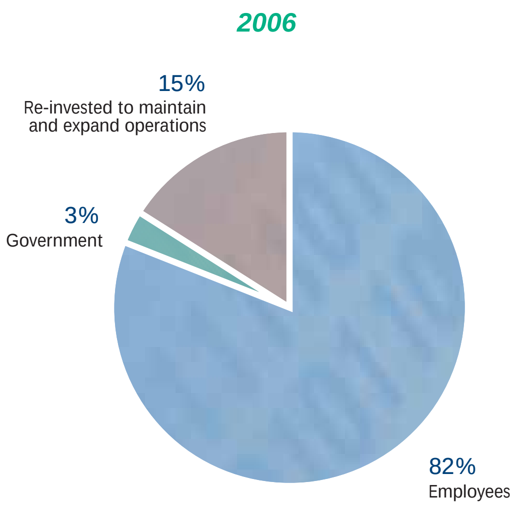
for the years ending

(in Rand million)	31 March 2007	31 March 2006	% change
Revenue	3 357	2 904	15,6
Gross profit	712	532	33,9
Surplus before taxation	204	115	77,9
Net surplus for the year	143	81	76,4
Total assets	2 345	2 196	6,8
Total net assets	1 067	923	15,6
Cash generated from operating activities	166	507	(67,3)
Capital expenditure	149	81	82,8
Gross profit margin (%)	21,21	18,32	
Operating surplus (%)	6,08	3,96	
Net surplus for the year (%)	4,26	2,79	

Value added statement

(in Rand million)	March 2007	%	March 2006	%
Revenue	3 357		2 904	
Suppliers for materials and services	1 945		1 656	
Value added by operations	1 412	93	1 248	94
Other income	8	1	7	1
Interest income	89	6	65	5
Total wealth created	1 509	100	1 320	100
Distributed as follows:				
Employees:	1 189	79	1 080	82
Salaries, wages and other benefits	1 136		1 026	
Retirement benefit costs	53		54	
Government:				
Income tax	61	4	34	3
Re-invested to maintain and expand operations:	259	17	206	15
Depreciation/amortisation	116		125	
Accumulated surplus	143		81	
Total wealth distributed	1 509	100	1 320	100





Five-year review

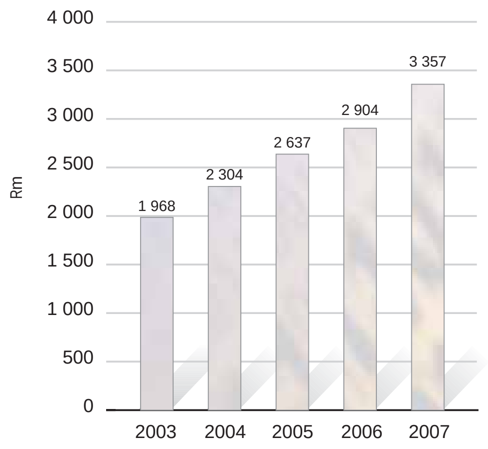
Statement of financial performance and cash flow

(in Rand million)	March 2007	March 2006	March 2005	March 2004	March 2003
Revenue	3 357	2 904	2 637	2 304	1 968
Gross profit	712	532	496	448	393
Other income	8	7	2	9	19
Finance income	89	65	23	27	38
Finance costs	25	13	9	4	10
Operating expenses	580	476	411	428	320
Surplus before taxation	204	115	101	52	120
Income tax expense	61	34	32	17	37
Net surplus for the year	143	81	69	35	83
Cash generated from operating activities	166	507	342	61	244

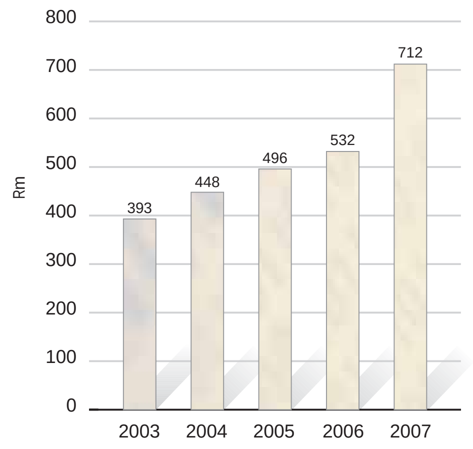
Statement of financial position

	March 2007	March 2006	March 2005	March 2004	March 2003
Current assets	1 828	1 732	1 387	958	978
Non-current assets	517	464	537	467	439
Total assets	2 345	2 196	1 924	1 425	1 417
Net assets	1 067	923	842	692	657
Current liabilities	1 172	1 169	981	626	658
Non-current liabilities	106	104	101	107	102
Total net assets and total liabilities	2 345	2 196	1 924	1 425	1 417
Capital expenditure	149	81	124	151	148

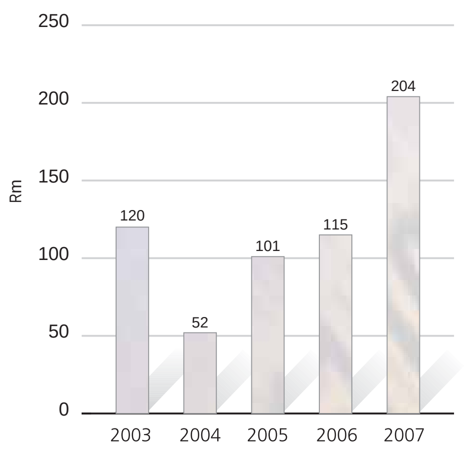
Revenue



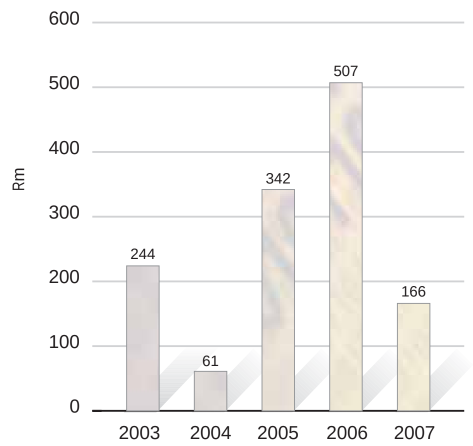
Gross profit



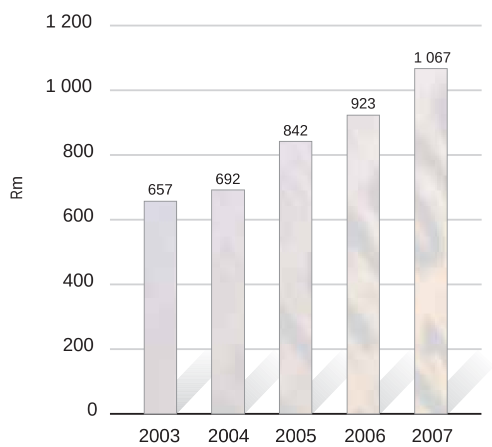
Surplus before taxation



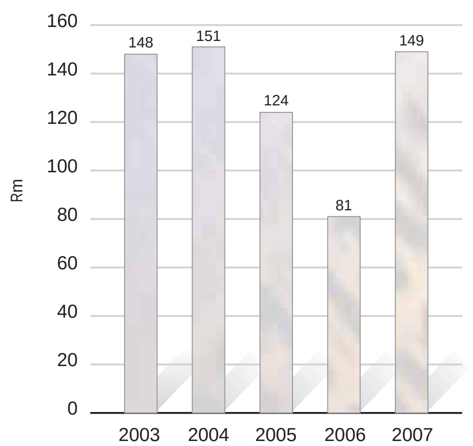
Cash generated from operating activities



Net assets



Capital expenditure



Business performance

Financial perspective

Objective	Target	Stretched target	Actual performance
1. Maintain long-term financial viability of the organisation			
1.1 Develop an appropriate partnership industry and funding model	Complete strategy document, road shows	Award one contract in terms of the partnership model	Stretched target achieved: Funding model, sourcing and funding model, minutes of board meeting approving funding model, presentation of road shows and dates of road shows and contract with MTN in respect of services in line with the partnership model
1.2 Achieve revenue growth	10,6%	12%	Above stretched target achieved: Revenue growth = 15,6%
1.3 Achieve gross profit margin	20%	22,5%	Target achieved: Gross profit = 21%
1.4 Achieve net profit margin	3%	5%	Target achieved: Net profit = 4%
1.5 Achieve liquidity ratio target	1,5:1	2:1	Target achieved: Liquidity ratio = 1,6:1
1.6 Debtors collections period	< 55 days Reduce debtors percentage relative to the previous financial year's debtors	50 days	Target not achieved: Debtors days = 58 days
1.7 Managed Audit Report	Clean material risks/issues, disclaimers, qualification or emphasis of matter from the Audit Management Report		Stretched target achieved: No new material matters raised and significant items cleared with the Internal Control environment
	No new matters of material risks/issues resulting in a disclaimer, qualification or emphasis of matter in the external audit report (minus 5% overall perspective achievement for non-achievement)	100% Internal Audit Report risks/issues mitigated rated 'significant' (minus 2,5% overall perspective achievement for non-achievement)	

Customer perspective

Objective	Target	Stretched target	Actual performance
1. Improved internal and external client satisfaction with value for money, speed of service and quality of service			
1.1 Improve external client satisfaction	Implement a project satisfaction instrument by end September 2006 Baseline established for project satisfaction Establish a comprehensive Customer Satisfaction Index (CSI) baseline across all client environments		Above stretched target achieved: Customer satisfaction survey summary, score increase from 43% to 63%, which equals a 20% improvement; Detailed baseline study and service improvement programme
	10% improvement of top 10 issues on CSI baseline stemming from previous dipstick CSI	15% improvement of top 10 issues on CSI baseline stemming from previous dipstick CSI	
1.2. Improve employee satisfaction (based on SITA Culture Survey questionnaire administered independently)	5% improvement on employee satisfaction baseline (based on independent culture survey)	10% improvement on employee satisfaction baseline (based on independent culture survey)	Above stretched target achieved: SITA Culture Survey – high level overview of the results and achieved 10,17% improvement on baseline established in October 2006
2. Implement municipal strategy			
2.1 Conduct Local Government ICT support programme	Develop Municipality blueprint Develop two pilot sites	Initiate long-term project with signed agreements by end of the financial year	Target achieved: Municipal ICT blueprint and agreement with four municipalities for pilot sites
3. Implement e-government project	Complete one e-government pilot	Complete two e-government pilots	Above stretched target achieved: ID track and trace, Customer relations portal, IVR-Fax and SMA-Fax
4. Implement Integrated Financial Management System (IFMS) phase 2	Procurement of the IFMS IDE completed and lead application development commenced		Target achieved: Minutes of service level agreement (SLA) meetings, copy of project management plan and IFMS report showing progress
	Compiled and reviewed request for proposal (RFP) for the IFMS Human Resources (HR) application	RFP for the IFMS HR application is published and evaluated	
	Compiled and reviewed RFP for the IFMS Procurement application	RFP for the IFMS Procurement application is published and evaluated	
5. Meet BEE/SMME targets	Implement BEE/SMME development strategy as per project plan milestones		Above stretched target achieved: e-mail report listing BEE status, 86% of number of tenders awarded have a BEE component and value of tenders with BEE component
	60% of tenders awarded with BEE/SMME in terms of value and number of tenders	65% of tenders awarded with BEE/SMME in terms of value and number of tenders	
6. Implement infrastructure upgrade plans	As per approved project plan subject to financial resource availability	Project completion in advance of key milestones	Target achieved: Impact on infrastructure on customer service delivery, summary of capital commitments made, converged communications performance feedback and nine projects were completed in line with commitments made

Business performance

(continued)

Business process

Objective	Target	Stretched target	Actual performance
1. Radically improved service delivery			
1. Implement effective project management procedures and processes	Implement project management and reporting tool; train 50% of project managers	Implement project management and reporting tool; train 80% of project managers	Target achieved: SITA project management policy, Microsoft Enterprise project management in a box, project charter and plan, project management guide and Microsoft project training schedule with status
2. Drive down unit costs	Establish methodology and implement to determine baseline		Target achieved: Contract with supplier to establish methodology, labour costing exercise and services costing exercise
3. Develop and implement quality frameworks	Implement 60% of Information Technology Infrastructure Library (ITIL)	Implement 70% of ITIL	Target achieved: SITA service management strategy delivery summary, SITA service management strategy – Phase 2 and service management ITIL implementation delivery targets
4. Maintain optimal tender processes and turnaround times	78 days	70 days	Target not achieved: Turnaround time of 79,55 days
5. Integrity of procurement processes	Decrease the number of procurement litigation by 10%	Decrease the number of procurement litigation by 20%	Above stretched target achieved: No procurement litigation
	Implement the Action Request System (ARS) to lodge and monitor the number of procurement complaints	Establish the top 10 complaints and improve procurement processes to resolve	Above stretched target achieved: Currently monitoring all complaints

Learning and growth

Objective	Target	Stretched target	Actual performance
1. Build proven best-practice in people management and leadership			
1. Attract, retain and motivate critical skills and best performers	< 8% turnover of critical skills and best performers	< 6% turnover of critical skills and best performers	Target achieved: Feedback to SITA recognition and defined incentive programme project implemented, SITA has defined best performers as all employees rated above 4 for the year ended March 2006. Using these employees as a base 7,61% left voluntarily and employees leaving involuntarily accounted for 1,14%
2. Training and development according to identified core competency gaps	90% staff trained as per PDP	95% staff trained as per PDP	Above stretched target achieved: Relationship between skills audit, departmental needs analysis, workplace skills plan and the annual training report and 96% of staff trained
	Identify skills gap against future requirements	Deploy in accordance with operational deployment plans	Target achieved: The critical workforce segments final project was completed, with the report issued in April, presentation made to EXCO and talent management strategy

Report of the Audit and Risk Committee

In terms of regulations 27 (1)(10)(b) and (c) of the Public Finance Management Act no. 1 of 1999 (as amended)

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter; and has regulated its affairs in compliance with this charter; and has discharged all of its responsibilities contained therein.

In conducting its duties, the Audit and Risk Committee has, *inter alia*, reviewed the following:

- The effectiveness of the internal control systems;
- The activities and effectiveness of SITA's Internal Audit Services (S-GAS) including its activities, its annual internal audit coverage plan, coordination with the Auditor-General, the reports of significant audits and investigations performed and the responses of management to specific recommendations;
- The risk areas of the entity's operations covered in the scope of internal and external audits;
- The independence and objectivity of the Auditor-General;
- The adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- Accounting and auditing concerns identified as a result of internal and the Auditor-General reports; and
- The entity's compliance with legal and regulatory provisions.

The Audit and Risk Committee is of the opinion, based on the information and explanations given by management and S-GAS and discussions with the Auditor-General on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and that accountability for assets and liabilities is maintained.

Where important matters relating to weaknesses in the control environment have been identified by S-GAS during the year under review, these matters have been reported to management for appropriate remedial action.

In the opinion of the Audit and Risk Committee, the following areas, which have been highlighted by the Auditor-General in his report, require urgent attention:

- Internal control relating to accounts receivable and project management module;
- Material non-compliance with applicable legislation;
- Material corrections made to the financial statements submitted for audit;
- Information Systems Management;
- Business Agreement Management; and
- Service Level Agreements Management.

There has been significant improvement in Enterprise Resource Planning (ERP) internal control deficiencies identified during the previous financial year. However, there are areas on issues raised by the Auditor-General in his report that require urgent attention.

The Audit and Risk Committee has evaluated the annual financial statements of the company for the year ended 31 March 2007 and, based on the information provided to the Audit and Risk Committee, considers that it complies, in all material respects, with the requirements of the Companies Act no. 61 of 1973, as amended, the Public Finance Management Act no. 1 of 1999, as amended, the SITA Act no. 88 of 1998, as amended and the South African Statements of Generally Accepted Accounting Practice including the statements of Generally Recognised Accounting Practice issued by the Accounting Standards Board.

The Audit and Risk Committee concurs that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. At its meeting held on 20 July 2007, the Audit and Risk Committee recommended the adoption of the annual financial statements by the board of directors.

Ms ZP Manase
Chairperson

Audit Committee members

Ms ZP Manase
Ms N Dhevcharran
Mr CCW Kruger
Ms N Moerane
Mr M Msimang
Mr AP Pedlar

Certificate by the Company Secretary

I, Theresa Victoria Geldenhuys, in my capacity as Company Secretary of State Information Technology Agency (Proprietary) Limited, hereby certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required of it in terms of the Companies Act 1973, and all such returns are true, correct and up to date.

Ms TV Geldenhuys
Company Secretary

Statement of responsibility by the board of directors

The directors of the company are responsible for the preparation of the annual financial statements of the company, to maintain a sound system of internal control and to safeguard the shareholder's investment and the company's assets. The accompanying financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice including the prescribed standards of Generally Recognised Accounting Practice issued by the Accounting Standards Board. In presenting these financial statements prudent judgements and estimates have been made. In order for the directors to discharge their responsibilities, management has developed and continues to maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss.

The directors meet periodically, primarily through the Audit Committee, with the Auditor-General, internal auditors and executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The company's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the Auditor-General. The Auditor-General is responsible for reporting on the financial statements. Both the Auditor-General and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management and internal auditors, and on comment by the Auditor-General on the results of his audit conducted for the purpose of expressing his opinion, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. As the directors have reviewed the company's financial budgets for the financial period ending 31 March 2008, and in the light of the current financial position, they consider it appropriate that the annual financial statements be prepared on the going concern basis. The Auditor-General has audited the annual financial statements of the company and his report appears on page 44. Against this background, the directors of the company accept responsibility for the annual financial statements, which were approved by the board of directors on 26 July 2007 and are signed on its behalf by:

Ms TPC Chikane
Chairperson
SITA board of directors

Mr AP Pedlar
Acting Chief Executive Officer
SITA Acting Managing Director

Annual
financial statements

Contents

Report of the Auditor-General

TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE STATE INFORMATION TECHNOLOGY AGENCY (PROPRIETARY) LIMITED FOR THE YEAR ENDED 31 MARCH 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the State Information Technology Agency (Proprietary) Limited which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 82.

Responsibility of the accounting authority for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and Standards of Generally Recognised Accounting Practice and in the manner required by Public Finance Management Act 1999 (Act no. 1 of 1999) (PFMA) and the Companies Act of South Africa. This responsibility includes:
   - Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
   - Selecting and applying appropriate accounting policies; and
   - Making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act no. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 647 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*. Those standards required that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparations and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
   - Appropriateness of accounting policies used;
   - Reasonableness of accounting estimates made by management; and
   - Overall presentation of the financial statements.

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

Basis of accounting

8. The public entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements.

Opinion

9. In my opinion the financial statements presented fairly, in all material respects, the financial position of the State Information Technology Agency (Proprietary) Limited as at 31 March 2007 and its financial performance and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and Generally Recognised Accounting Practice and have been prepared, in all material respects, in accordance with the basis of accounting as described in note 1.1 to the financial statements and in the manner required by the PFMA and Companies Act of South Africa.

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

10. **Internal control**

    10.1 The entity did not retain documentation to serve as proof that goods or services have been rendered to its clients. Documentation to support the balances in accounts receivable had to be obtained by the entity from external parties.

    10.2 Where some of the revenues of the entity were accounted for through the project management module the basis used to account for the earned revenue on projects could not be substantiated. This was subsequently revised without the necessary supporting documents to substantiate the stage of completion on projects.

11. **Material non-compliance with applicable legislation**

    The audit revealed instances of non-compliance with sections 51(1)(a)(iii) and (b)(ii) of the PFMA on procurement, policies and procedures. As indicated on pages 48 and 49 of the Directors' report, an irregular procurement transaction was discovered by management during the year that is reported as an irregular expense.

12. **Material corrections made to the financial statements submitted for audit**

    The financial statements, approved by the accounting authority as submitted for audit on 31 May 2007, have been significantly revised in respect of the following misstatements identified during the audit:

    - Accounts payable was understated by an amount of R72 million; and
    - Revenue was not complete to the amount of R32 million.

13. **Information systems audit performed during the year**

    13.1 An information systems audit was completed at the State Information Technology Agency in March 2007, namely an audit of the general controls surrounding the key financial applications, i.e. Oracle, Star, Network 97, Remedy and GBS.

    The most significant weaknesses identified during the general controls audit were the following:

    - The logical access controls relating to passwords and user administration were inadequate and no change control procedures or logs were in place to manage and monitor changes made to the Star, Network 97, Remedy and GBS application systems.

    13.2 An information systems audit of the governance of services between the State Information Technology Agency and national departments was completed in June 2007. The audit focused on the business agreements (BAs) and service level agreements (SLAs) and on the turnaround times in the delivery of services to the departments.

    The following material shortcomings were identified during the audit:

    - Notwithstanding the requirements of section 20(1)(a) of the State Information Technology Act, 1998 (Act no. 88 of 1998), the BAs for 2006/07, which were required to regulate the relationship between the State Information Technology Agency and the departments, had, in the case of 31 per cent of the departments, either not been signed or not been concluded by March 2007.

    - Despite the statutory requirements of section 20(1)(a)(2) of the State Information Technology Act 1998 (Act no. 88 of 1998), 25 per cent of the SLAs for 2006/7, governing services to the amount of R1 136,4 million, had not yet been signed by March 2007.

Report of the Auditor-General

(continued)

13.3 The entity implemented an Enterprise Resources Planning system, namely Oracle, during the 2005/6 financial year. This system is not being used to its full capacity as evidenced by the following:

- The majority of costs and revenues relating to projects are not accounted for through the project management module resulting in project management inefficiencies; and
- The majority of receipts for goods and services rendered to the entity are not captured in a timely manner, resulting in material manual adjustments that result in inefficiencies.

This resulted in material adjustments to the financial statements as explained in paragraph 12.

14. **Special investigations in progress**
With regard to paragraph 5.5 of my previous report there are two investigations in progress.

Having regard to the alleged irregularities on the Gateway project, inspectors have been appointed by the Minister for the Department of Trade and Industry and their report is in progress. Legal opinion has been obtained and the company is in the process of determining its course of action. With regard to project CabEnet, the matter is under investigation by the Commercial Crime Unit of the South African Police Service. These matters have been disclosed on pages 48 and 49 of the Directors' report.

15. **Significant difficulties experienced during the audit**
With reference to paragraphs 10, 12 and 13.3 of this report, delays were experienced in obtaining documentation relating to accruals, projects and accounts receivable. Document management and filing systems should be enhanced.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

16. I have audited the performance information as set out on pages 34 to 37.

Responsibilities of the accounting authority

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

Responsibility of the Auditor-General

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

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

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

Audit findings

21. No significant findings came to the fore.

APPRECIATION

22. The assistance rendered by the staff of the State Information Technology Agency (Proprietary) Limited during the audit is sincerely appreciated.

Lourens

GJ Lourens
For Auditor-General

AUDITOR-GENERAL

Directors' report

The directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the State Information Technology Agency (Proprietary) Limited for the year ended 31 March 2007. This report and the annual financial statements comply with the requirements of the Public Finance Management Act no. 1 of 1999 (as amended), the SITA Act no. 88 of 1998 (as amended by Act 38 of 2002) and the Companies Act no. 61 of 1973. The board of directors is the accounting authority in terms of section 49(2)(a) of the PFMA.

Nature of business

The nature of the company's business is the provision of information technology, information systems and related services in a maintained information systems security environment to, or on behalf of, participating national government departments, provincial government departments and local government. In this regard the company is an agent of the South African government, in accordance with SITA Act no. 88 of 1998 (as amended by Act no. 38 of 2002). The company derives all its revenue from the sale of ICT services and goods.

Registration details

The company's registration number is 1999/001899/07. The registered office is 459 Tsitsa Street, Erasmuskloof, Pretoria 0001.

Ownership

The company is wholly owned by the government of the Republic of South Africa as represented by the Minister for Public Service and Administration, Ms Geraldine Fraser-Moleketi.

Equity contributed

There were no changes to either the authorised or issued share capital of the company during the year ended 31 March 2007. Details of the authorised and issued share capital can be found in note 14 to the annual financial statements.

Financial highlights

	31 March 2007 R	31 March 2006 % change
Revenue	3 356 615 384	15,6
Gross profit	711 871 937	33,9
Surplus before taxation	204 139 213	77,9
Total assets	2 345 455 608	6,8
Total net assets	1 066 761 877	15,6
Cash generated from operating activities	165 587 741	(67,3)

Dividends

There were no dividends declared during the current financial year (2006: RNil).

Internal controls

The board has the ultimate responsibility for establishing a framework of internal controls. The controls are designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. The internal control environments were effectively managed by management and monitored by the internal audit department. During the current financial year internal controls operated effectively.

Directors' report

(continued)

Public Finance Management Act (PFMA)

PFMA compliance

Various sections of the PFMA place responsibility on the board to ensure that the company complies with all applicable legislations. Any non-compliance with legislation is reported on a quarterly basis to both executive management committee and the board of directors.

Materiality and Significance Framework

A Materiality and Significance Framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions per section 54(2) of the Act, that require ministerial approval. The framework was approved by the board of directors and the Minister for Public Services and Administration for the 2006/7 financial year.

Material losses through criminal conduct, irregular expenditure, and fruitless and wasteful expenditure

Section 55(2)b of the PFMA requires that SITA include in the annual report particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.

There were no instances of losses through criminal conduct discovered during the year under review.

Irregular expenditure and fruitless and wasteful expenditure discovered during the financial year under review

Tender 475

SITA procured computer equipment during the financial year on behalf of one if its clients. The purpose of the tender was driven by the urgency of addressing the service delivery of the client which was compromised by the mainframe server at SITA Numerus reaching the limit of its capacity. Two suppliers responded to the tender who are both resellers of the computer equipment. The original equipment manufacturer interfered with the SITA processes prior to award of the tender and requested that an order be placed for the equipment prior to the evaluation process. SITA did not respond to this request but was eventually forced to place an order after the equipment was delivered at its premises. By the time the order was placed and the equipment was paid for the final award of the tender had not taken place. This process compromised Treasury Regulations resulting in an irregular transaction amounting to about R22 million.

SITA requested the assistance of forensic auditors to investigate the conduct of employees and suppliers and subsequently instituted the recommendation made in their report, which included:

- *Ex post facto* ratification by the Recommendation Committee and the EXCO of the decision to award the tender to the one reseller
- Letters were written to both the original equipment manufacturer and the other reseller expressing dissatisfaction at the conduct of the two companies during the tender process;
- SITA staff were verbally cautioned; and
- A review of the SITA process to handle original equipment manufacturer/sole supplier payments is in progress.

In addition SITA is in the process of reviewing the committees awarding tenders.

An update of irregular expenditure, and fruitless and wasteful expenditure discovered during the previous financial year as reported in the annual report for the year ended 31 March 2006 is as follows:

Irregular expenditure and fruitless and wasteful expenditure discovered during the previous financial years

Gateway

Regarding the alleged irregularities on the Gateway Project, approval was obtained from the Minister for the Department of Trade and Industry (DTI) to proceed with the matter in terms of sections 257 to 262 of the Companies Act, 1973. The appointment of the inspectors was finalised on 12 June 2006. In a progress meeting held in December 2006 between SITA and DTI it was agreed that SITA would initiate the laying of criminal charges against individuals and entities involved as it was considered that this action would mitigate the risk of prescription. This decision was supported by a legal opinion obtained from Gildenhuys Lessing Malatji Attorneys. The board of directors of SITA has resolved that this opinion be implemented.

CabEnet

This matter has been referred to the Directorate of Public Prosecutions for consideration of criminal and civil proceedings by SITA. The Directorate of Public Prosecutions has in turn referred this matter to the Commercial Crime Unit of the South African Police Services for investigation and a decision. SITA is liaising with the Commercial Crime Unit with regard to the finalisation of the charges.

Public Private Partnerships

The company did not enter into Public Private Partnerships during the current financial year.

Basis of presentation

The financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board.

Events subsequent to the reporting date

Subsequent to the reporting date, the Chief Executive Officer, Mr Mavuso Msimang, resigned on 14 May 2007 and Mr Peter Pedlar, a non-executive director, was appointed Acting Chief Executive Officer. This appointment was effective 15 May 2007. Other than these movements, directors are not aware of any matters or circumstances arising since the reporting date.

Donor funding

The balance of the donor funding of R1 884 536 included under current assets in the statement of assets and liabilities as at 31 March 2006 was refunded to the Department of Public Service and Administration during the current financial year. This was in respect of funding for various projects that were completed during the previous financial years. Total original funding received amounted to R8 603 595.

Going concern

The directors confirm that they are satisfied that the company has adequate resources to continue in business for the twelve months period from the date of this report. For this reason they continue to adopt the going concern basis for preparing the annual financial statements as confirmed in the Statement of responsibility by the board of directors on page 41.

Directors

The following directors' movements occurred up to the date of this report:

Resigned during the year under review:

Non-executive director

Mr R J Barjaktarevic	30 November 2006

Resigned subsequent to the reporting date but before the approval of these financial statements:

Executive director

Mr M Msimang	14 May 2007

Non-executive directors

Ms N Moerane	25 April 2007

Disclosure of directors' remuneration is detailed in Annexures A and B to the annual financial statements.

Statement of financial position

as at 31 March 2007

	Notes	2007 R	2006 R
Assets			
Current assets		1 827 951 446	1 732 017 675
Cash and cash equivalents	2	1 096 727 939	1 085 064 384
Trade and other receivables	3	664 971 584	556 251 255
Contract work in progress	4	52 648 138	58 298 953
Prepayments	5	13 603 785	27 789
Taxation owed		–	32 375 294
Non-current assets		517 504 162	464 192 575
Property, plant and equipment	6	430 655 983	402 432 172
Intangible assets	7	43 963 226	43 991 660
Deferred tax asset	8	42 884 953	17 768 743
Total assets		2 345 455 608	2 196 210 250
Liabilities			
Current liabilities		1 172 353 240	1 168 746 751
Trade and other payables	9	697 412 198	581 600 825
Current portion of interest-bearing borrowings	10	5 200 080	5 200 080
Provisions	11	60 000 000	54 000 000
Income received in advance	12	352 327 175	505 836 422
Taxation owing		57 413 787	22 109 424
Non-current liabilities		106 340 491	104 195 690
Interest-bearing borrowings	10	20 800 330	26 000 410
Post-retirement medical benefits	13	85 540 161	78 195 280
Total liabilities		1 278 693 731	1 272 942 441
Total net assets		1 066 761 877	923 267 809
Total liabilities and total net assets		2 345 455 608	2 196 210 250
Net assets analysed as follows:			
Equity contributed	14	1	1
Non-distributable reserves	15	625 333 736	625 333 736
Accumulated surpluses		441 428 140	297 934 072
Total net assets		1 066 761 877	923 267 809

Statement of financial performance

for the year ended 31 March 2007

	Notes	2007 R	2006 R
Revenue	16	3 356 615 384	2 903 710 638
Cost of sales	17	2 644 743 447	2 371 909 557
Gross profit		711 871 937	531 801 081
Other income	18	8 051 489	6 714 647
Finance income	19	88 523 193	64 941 402
Operating expenses		579 724 198	476 274 267
Finance costs	20	24 583 208	12 422 148
Surplus before taxation	21	204 139 213	114 760 715
Income tax expense	22	60 645 145	33 428 866
Surplus for the year attributable to shareholder		143 494 068	81 331 849

Statement of changes in net assets

for the year ended 31 March 2007

	Equity contributed R	Non-distributable reserve R	Accumulated surpluses R	Total net assets R
Balance as at 31 March 2005	1	625 333 736	216 602 223	841 935 960
Surplus for the year			81 331 849	81 331 849
Balance as at 31 March 2006	1	625 333 736	297 934 072	923 267 809
Surplus for the year			143 494 068	143 494 068
Balance as at 31 March 2007	1	625 333 736	441 428 140	1 066 761 877

Cash flow statement

for the year ended 31 March 2007

	Notes	2007 R	2006 R
Cash flows from operating activities			
Receipts			
– Sale of goods and services		3 261 246 675	3 737 786 793
– Finance income received		88 523 193	64 941 402
Payments			
– Payments to suppliers and employees		(3 141 509 040)	(3 245 468 062)
– Finance costs paid		(24 583 208)	(12 422 148)
– Taxation paid	30.1	(18 089 879)	(38 078 134)
Cash flows from operating activities	30.2	165 587 741	506 759 851
Cash flows from investing activities			
Additions to property, plant and equipment and intangibles		(149 450 764)	(81 747 863)
Proceeds from disposal of property, plant and equipment and intangibles		726 658	360 280
Cash flows from investing activities		(148 724 106)	(81 387 583)
Cash flows from financing activities			
Repayment of interest-bearing borrowings		(5 200 080)	(5 200 080)
Cash flows from financing activities		(5 200 080)	(5 200 080)
Increase in cash and cash equivalents		11 663 555	420 172 188
Cash and cash equivalents at beginning of the year		1 085 064 384	664 892 196
Cash and cash equivalents at end of the year	2	1 096 727 939	1 085 064 384

Notes to the annual financial statements

for the year ended 31 March 2007

1. Accounting policies

1.1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board. These financial statements have been prepared on a going concern basis.

The applicable GRAP statements that have been applied are as follows:

Standard of GRAP

GRAP1 – Presentation of financial statements

GRAP2 – Cash flow statements

GRAP3 – Accounting policies, changes in accounting estimates and errors

The recognition and measurement principles in the above GRAP and GAAP statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP1, 2 and 3 has resulted in the following significant changes in the presentation of the financial statements:

Standard of GRAP	**Replaced Statement of GAAP**
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Total net assets	Equity
Surplus/(deficit) for the period	Retained earnings/(accumulated loss)
Reporting date	Balance sheet date

The cash flow statement has been prepared in accordance with the direct method.

Specific information such as:

a) receivables from non-exchange transactions, including taxes and transfers;

b) taxes and transfers payable; and

c) trade and other payables from non-exchange transactions;

is presented separately on the statement of financial position.

The amount and nature of any restrictions on cash balances is disclosed.

Paragraph 11 – 15 of GRAP1 has not been implemented due to the fact that the budget reporting standard has not been developed by the local standard setter and the international standard is not effective for this financial year. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

The financial statements are presented in rand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with the basis of preparation requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1.2 Property, plant and equipment

Land is not depreciated. All other items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Costs include expenditures that are directly attributable to the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing items and restoring the site on which they are located. Purchased software that is integral to the related equipment is capitalised as part of the equipment.

Where an item of property, plant and equipment comprises major components (parts) with different useful lives, the components (parts) are accounted for as separate items of property, plant and equipment.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with effect of any changes in estimates accounted for on a prospective basis.

The revised estimated useful lives of property, plant and equipment are:

– Buildings	17 – 50 years
– Computer equipment	4 – 7 years
– Office furniture	7 – 10 years
– Vehicles	9 – 10 years

Subsequent costs

The cost of replacing parts of items of property, plant and equipment is recognised in the carrying amount of an item of property, plant and equipment, if it is probable that the future economic benefits embodied within the item will flow to the entity and the cost of the item can be measured reliably.

All other costs are recognised in the statement of financial performance as the expense is incurred.

Gains or losses arising on the disposal or retirement of items of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amounts of assets and are recognised in the statement of financial performance.

Depreciation methods, useful lives and current residual values are reassessed at each reporting date.

1.3 Intangible assets

Intangible assets consist of separately identifiable software that is utilised by the company. This software is initially measured at cost.

Intangible assets are subsequently measured at cost less any accumulated impairment and accumulated amortisation.

Intangible assets are amortised on a straight-line basis over three years which approximates the useful life of the asset.

Amortisation methods, useful lives and current residual values are reassessed at each reporting date.

1. Accounting policies *(continued)*

1.4 Impairment of non-financial assets

At each reporting date, the company reviews the carrying amounts of items of tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of its net selling price and its value in use in order to determine the extent of the impairment loss, if any.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of financial performance.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of financial performance.

1.5 Leases

All lease agreements entered into by the company are operating lease agreements. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.6 Research and development

Expenditure on research is charged to the statement of financial performance in the year in which it is incurred. There are no development costs.

1.7 Income taxes

Income tax expense

The tax currently payable is based on taxable surplus for the year. Taxable surplus differs from surplus as reported in the statement of financial performance because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for the current tax is calculated using tax rates that have been enacted or substantially enacted by the reporting date.

Deferred tax

Deferred tax liabilities are recognised for all taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable surplus will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than business combination) of other assets and liabilities in a transaction which does not affect either taxable surplus or accounting surplus.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or asset is realised, based on tax rates that have been enacted or substantially enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current assets and liabilities on a net basis.

1.8 Financial instruments

Recognition: A financial asset or financial liability is recognised as long as the company is party to the contractual provisions of the instrument.

Measurement: Financial instruments are initially measured at fair value, which includes transaction costs, except where the financial instrument is classified at fair value through surplus or deficit. Subsequent to initial recognition these instruments are measured as set out below:

Trade and receivables: Trade and receivables are held at amortised cost, using the effective interest rate method, after deducting accumulated impairment losses. Trade and receivables with no fixed maturity are held at fair value.

Held-to-maturity: Held-to-maturity investments are held at amortised cost using the effective interest method after deducting accumulated impairment losses.

Held for trading, available for sale and cash and cash equivalents: These are held at fair value.

Financial liabilities: Financial liabilities are measured at amortised cost, except held for trading financial liabilities and derivatives, which are held at fair value.

Gains or losses on subsequent measurement: Gains or losses on subsequent measurement of financial instruments that are carried at fair value, and are not part of a hedging relationship, are accounted for as follows:

Held-for-trading financial instruments are recognised in the statement of financial performance for the year.

Available for sale financial assets are taken to net assets until the financial asset is disposed of, or determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the statement of financial performance.

A financial asset is derecognised where the right to receive cash flows from the asset has expired. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or has expired.

1.9 Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of financial performance over the period of the borrowings on an effective interest basis.

1. Accounting policies *(continued)*

1.10 Employee benefits

Post-employment benefits

The company provides defined contribution and defined benefit plans for the benefit of employees. These plans are funded by the employees and the company, taking into account recommendations from independent actuaries.

Defined contribution plans

Funding of defined contribution plans is charged to the statement of financial performance in the same period in which the related service is provided.

Defined benefit plans

Defined benefit plans are provided for pension and medical aid costs. The company's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered in the current and prior periods. The company's liability is limited to current contributions.

Medical benefits

Medical benefits are provided for all permanent employees via three medical funds. All contributions paid are charged to the statement of financial performance in the year to which they relate. The company provides post-retirement health care benefits to a closed group of qualifying employees and retirees. The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age. The expected costs of these benefits are accrued for over the period of employment, using the projected unit credit method. Annual valuations of these obligations are carried out by independent qualified actuaries. Unrecognised actuarial gains or losses are accounted for over the remaining working life of the active employees.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed, formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Short-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, medical and other contributions, is recognised during the period in which the employee renders the related service. The cost is determined using an undiscounted basis.

1.11 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money and, where appropriate, the risk specific to the liability.

A provision is made for the estimated liability for performance bonuses up to the reporting date.

1.12 Revenue recognition

Revenue

Revenue, which excludes value added tax, is measured at the fair value of the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
a) the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) the company retains neither continuing managerial involvement to the degree usually associated with ownership of the goods nor effective control of the goods sold;
c) the amount of revenue can be measured reliably;
d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction will be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of the transaction can be estimated reliably when all the following conditions are satisfied:
a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the company;
c) the stage of completion of the transaction at the reporting date can be measured reliably; and
d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Labour income: Revenue is recognised based on usage by the customer.

Mainframe income: Revenue is recognised based on usage by the customer. Depending on the technology, revenue may be recognised based on fixed monthly tariffs.

Network and internet income: Revenue is recognised based on usage by the customer.

Labour, mainframe, network and internet tariffs are predetermined and approved by National Treasury.

Software licences and maintenance income: Revenue is recognised and billed in accordance with contracts which are entered into between SITA and the customer.

Printing income: Revenue is billed and recognised based on images which are produced.

Computer equipment and maintenance income: Revenue is billed and recognised in accordance with service level agreements which are entered into between SITA and the customer.

Sundry income: Revenue is billed and recognised in accordance with the specific ad-hoc agreements entered into between SITA and the customer.

Site preparation: Revenue is billed and recognised based on material and time spent.

Interest income: is recognised on a time proportion basis, taking account of the balance and the effective rate over the period to maturity, when it is determined that such income will accrue to the company.

Interest income reflects the interest that is earned on bank accounts that the company utilises.

Other income: comprises rental from buildings, cafeteria sales and discounts. Income from the cafeteria sales and discounts is recognised net of value added tax on the accrual basis in accordance with the substance of relevant agreements.

Lease income: Base income from operating leases is recognised in the statement of financial performance on a straight-line basis over the lease term.

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

1. Accounting policies *(continued)*

1.13 Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Transactions in foreign currencies are recognised initially at cost. In order to reduce exposure to fluctuations in foreign currency exchange rates, the company enters into forward exchange contracts for all foreign currency transactions. Realised and unrealised gains and losses on forward exchange contracts entered into as hedges are recognised as income and expenses on the same basis and over the same period as the hedged assets or liabilities. Any foreign exchange differences are dealt with in the statement of financial performance in the period in which the difference occurs.

1.14 Irregular, fruitless and wasteful expenditure

Irregular expenditure is defined as expenditure incurred in contravention of or not in accordance with a requirement of any applicable legislation.

Fruitless and wasteful expenditure represents expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All irregular, fruitless and wasteful expenditure is charged in the statement of financial performance in the period in which it is identified.

1.15 Related parties

The company operates in an economic environment currently denominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence that is guaranteed for the different spheres of government, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the company.

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

Other related party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1.16 Contract work in progress

Contract work in progress is stated at cost plus profit recognised to date, less provisions for foreseeable losses and less progress billings.

Revenue and costs on contracts in progress are brought to account using the stage of completion method, and once the outcome of the contract can be assessed with reasonable assurance. The stage of completion is determined with reference to surveys of work performed. As soon as losses on individual contracts become evident they are recognised in income.

		2007 R	2006 R
2.	***Cash and cash equivalents***		
	Cash at bank	808 097 490	703 479 849
	Ring-fenced cash (refer note 12)	288 630 449	379 700 000
	Cash received in respect of donor funding	–	1 884 535
		1 096 727 939	1 085 064 384
	Cash and cash equivalents include cash in banks and investments in money market instruments.		
	Ring-fenced monies represent monies that have been received from customers to be utilised for specific projects in future periods.		
3.	***Trade and other receivables***		
	Trade receivables	718 756 379	598 861 179
	Less: Impairment	(61 027 734)	(44 385 604)
		657 728 645	554 475 575
	Other receivables	7 242 939	1 775 680
		664 971 584	556 251 255
4.	***Contract work in progress***		
	Projects in progress	52 648 138	58 298 953
	The cost of work in progress comprises direct materials, labour and appropriate overhead costs plus profit recognised to date.		
5.	***Prepayments***		
	Deposits	22 914	27 789
	Deferred expenditure	11 994 444	–
	Other prepayments	1 586 427	–
		13 603 785	27 789

6. Property, plant and equipment

	Land R	Buildings R	Computer equipment R	Office furniture R	Vehicles R	Total R
At 31 March 2007						
Cost						
Balance at beginning of the year	22 742 785	183 154 931	620 014 904	29 610 242	2 169 725	857 692 587
Additions and improvements	–	23 283 391	83 999 518	21 696 093	–	128 979 002
Disposals	–	–	(997 372)	(3 583)	(605 353)	(1 606 308)
Transfers from Intangible assets	–	1 394 427	655 248	67 932	–	2 117 607
Balance at end of the year	22 742 785	207 832 749	703 672 298	51 370 684	1 564 372	987 182 888
Accumulated depreciation						
Balance at beginning of the year	–	25 104 129	409 825 468	18 161 093	2 169 725	455 260 415
Depreciation charge	–	4 981 614	88 724 557	4 331 579	–	98 037 750
Impairment	–	–	4 420 533	–	–	4 420 533
Disposals	–	–	(794 565)	(1 776)	(605 353)	(1 401 694)
Transfers from Intangible assets	–	–	212 879	(2 978)	–	209 901
Balance at end of the year	–	30 085 743	502 388 872	22 487 918	1 564 372	556 526 905
Net carrying value	22 742 785	177 747 006	201 283 426	28 882 766	–	430 655 983
At 31 March 2006						
Cost						
Balance at beginning of the year	22 742 785	182 840 219	567 217 951	28 600 577	2 543 478	803 945 010
Additions and improvements	–	781 573	59 176 646	1 279 209	–	61 237 428
Disposals	–	(466 861)	(6 379 693)	(269 544)	(373 753)	(7 489 851)
Balance at end of the year	22 742 785	183 154 931	620 014 904	29 610 242	2 169 725	857 692 587
Accumulated depreciation						
Balance at beginning of the year	–	21 094 004	307 441 261	13 789 994	1 846 581	344 171 840
Depreciation charge	–	4 205 108	103 563 903	4 624 016	696 897	113 089 924
Disposals	–	(194 983)	(1 179 696)	(252 917)	(373 753)	(2 001 349)
Balance at end of the year	–	25 104 129	409 825 468	18 161 093	2 169 725	455 260 415
Net carrying value	22 742 785	158 050 802	210 189 436	11 449 149	–	402 432 172

The Erasmuskloof property, with a book value of R40,8 million (2006: R41,8 million) is bonded to Denel (Proprietary) Limited as disclosed in note 10. All other assets are freehold and have not been pledged as security for liabilities.

Erf number 262, 263, 264, 677 and Portion 1 of Erf 492 Erasmuskloof extension 3 (23 730m^2) and CCS (Centurion) Portion 50 of the farm Brakfontein 390JR, Centurion, consisting of land and buildings, was acquired in April 1999 at a combined cost of R169,5 million.

CCS (Beta) Portion 3 of Erf 147, Pretoria and SAPS (Numerus) remainder of the farm Prinshof, 349JR land and buildings, are in the process of being transferred from the Department of Public Works to the company. The values, as agreed with National Treasury, of these buildings are included in the financial statements.

Beta: A memorandum of agreement, which regulates the responsibilities between the company and the National Department of Public Works, is still in force. In terms of this agreement, the National Department of Public Works remains liable for property taxes, municipal costs as well as essential services until full transfer is effected. Substantial progress has been made in transferring this property. All the necessary documents, including compliance certificates, are currently with the State Attorney's Office.

Numerus: The City of Tshwane Metropolitan Municipality requires that the municipal services to this building be separated from the adjacent property occupied by the Department of Agriculture, which shares the same service lines as Numerus Property. Approval by the City of Tshwane Metropolitan Municipality to transfer this property had not yet been given as the necessary work required to effect this transfer had not been completed by 31 March 2007. Work on the separation of water and electricity connection together with the replacement of the goods lift will commence towards the end of the year.

	2007 R	2006 R
7. *Intangible assets*		
Cost or revaluation		
Balance at beginning of the year	74 781 155	63 117 066
Additions and improvements	20 471 762	20 510 435
Disposals	(947 881)	(8 846 346)
Transfers to property, plant and equipment	(2 117 607)	–
Balance at end of the year	92 187 429	74 781 155
Accumulated depreciation		
Balance at beginning of the year	30 789 495	26 822 787
Amortisation charge	18 137 627	12 813 054
Impairment	332 841	–
Disposals	(825 860)	(8 846 346)
Transfers to property, plant and equipment	(209 900)	–
Balance at end of the year	48 224 203	30 789 495
Net carrying value	43 963 226	43 991 660

	*Charged/(credited) to the statement of financial performance R	2007 R	2006 R
8. *Deferred tax asset*			
Movement in impairment on trade receivables	3 619 663	13 273 532	9 653 869
Accrual for leave pay benefits	629 992	11 710 744	11 080 752
Post-retirement medical benefits	2 130 016	24 806 647	22 676 631
Income received in advance	(53 422 063)	102 174 881	155 596 944
Prepayments	1 414	(6 645)	(8 059)
Section 24C allowance	64 221 125	(81 095 268)	(145 316 393)
Depreciation	7 936 063	(27 978 938)	(35 915 001)
Amortisation adjustment	25 116 210	42 884 953	17 768 743
Reconciliation between opening and closing balance			
Deferred tax asset at beginning of the year		17 768 743	1 703 431
Statement of financial performance movement for the year		25 116 210	15 110 683
Depreciation adjustment		–	954 629
Deferred tax asset at end of the year		42 884 953	17 768 743

**Represents after tax amounts that were expensed (charged) or that benefited (credited) the statement of financial performance.*

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

	2007 R	2006 R
9. Trade and other payables		
Trade payables	566 224 259	511 315 400
Leave pay accrual	45 426 433	43 254 047
Bonus accrual	5 300 728	5 332 100
Unearned revenue	32 504 338	(1 804 496)
Other payables	47 956 440	23 503 774
	697 412 198	581 600 825

Leave pay accrual – This is in respect of accumulated vested leave benefits not taken by employees during the leave cycle. The obligation is renewed annually in terms of company policy.

Bonus accrual – This is in respect of the 13th cheque that employees are entitled to in terms of their salary structuring.

	2007 R	2006 R
10. Interest-bearing borrowings		
Long-term loan	26 000 410	31 200 490
Less: Current portion	(5 200 080)	(5 200 080)
	20 800 330	26 000 410

This amount represents the long-term loan from Denel (Proprietary) Limited in accordance with the business transfer agreement between Denel (Proprietary) Limited and SITA on incorporation.

This loan is secured by a first mortgage bond of R52 000 811 against land and buildings with a carrying amount of R40,8 million (2006: R41,8 million) (Refer to note 6).

The interest rate is fixed at 9% per annum until 31 March 2009, whereafter the rate will change to the Government R186 Bond coupon rate. The loan is repayable in annual instalments of R5 200 080 effective 1 April 2002. The last instalment is payable on 31 March 2012.

	2007 R	2006 R
Maturity of non-current borrowings:		
Up to two years	10 400 160	10 400 160
Between two and five years	15 600 250	15 600 250
Over five years	–	5 200 080
Total borrowings	26 000 410	31 200 490
Less: Current portion	(5 200 080)	(5 200 080)
	20 800 330	26 000 410

		2007 R	2006 R
11.	***Provisions***		
	Performance bonus		
	Balance at beginning of the year	54 000 000	58 644 921
	Additional provisions during the year	60 000 000	54 000 000
	Utilised during the year	(54 000 000)	(58 644 921)
	Balance at end of the year	60 000 000	54 000 000
	This represents the performance bonus which qualifying employees are entitled to in terms of their performance contracts. This provision is expected to be settled within the next financial year.		
12.	***Income received in advance***		
	Ring-fenced cash (refer note 2)	288 630 449	379 700 000
	Other income received in advance	63 696 726	126 136 422
	Balance at end of the year	352 327 175	505 836 422
	Ring-fenced cash represents monies that have been received from customers to be utilised for specific projects in future periods.		
13.	***Post-retirement medical benefits***		
	Present value of unfunded obligations	68 202 000	65 107 000
	Unrealised actuarial gains	17 338 161	13 088 280
		85 540 161	78 195 280
	Movement in the post-retirement medical benefits		
	Balance at beginning of the year	78 195 280	69 764 680
	Other expenses/(income) included in staff costs	7 344 881	8 430 600
	Current service costs	2 885 780	3 295 586
	Contributions paid	(398 234)	(720 431)
	Recognised actual gain	(582 087)	–
	Interest capitalised	5 439 422	5 855 445
	Balance at end of the year	85 540 161	78 195 280
	Principal actuarial assumptions		
	Long-term discount rate before tax	8,3%	8,0%
	Long-term medical aid inflation	6,7%	6,4%
	Normal retirement age	60 years	60 years

13. Post-retirement medical benefits *(continued)*

The company provides for post-retirement medical benefits to the following qualifying employees:

- Ex-Infoplan employees who transferred to SITA on 1 April 1999 and are still members of the U-Med Medical Aid Fund;
- Ex-SAPS employees who transferred to the company on 1 April 1999; and
- Other former public sector employees who transferred to the company on or after 1 April 1999 and remain members of their respective medical aids.

The number of qualifying employees is as follows:

- Ex-Infoplan employees – 202 (2006: 344)
- Ex-Public Service (including SAPS) – 627 (2006: 731)

These benefits are provided by three medical aid schemes. The company has anticipated expenditure in terms of continued contributions to medical aid subscriptions for those qualifying employees.

The amounts due as set out above have been determined by independent actuaries at 31 March 2007 utilising the projected unit credit method.

Sensitivity analysis

Below are the effects on the central basis results of both increasing and decreasing the discount rate by 1% throughout, whilst keeping all other assumptions constant:

	Liability R	Change in liability %
Increase of 1%	86 031 000	26,1
Base liability	68 202 000	–
Decrease of 1%	54 736 000	(19,7)

Employee benefits

All permanent employees are members of the following independent funds:

Denel Pension Fund

The Denel Pension Fund is a closed defined benefit fund, and is governed by a Board of Trustees in terms of the Pension Funds Act of 1956 (Act no. 24 of 1956). The remaining member of this fund left the employ of the company during the previous financial year. The company does not have any financial liability in respect of this fund.

Denel Retirement Fund

The Denel Retirement Fund is a defined contribution fund, managed by a Board of Trustees in terms of the Pension Funds Act of 1956 (Act no. 24 of 1956). The company has no financial liability in respect of this fund.

Government Employees Pension Fund

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund. The company's responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made on behalf of its employees. The government of South Africa as the employer is responsible for any shortfall in this Fund. This responsibility is governed by the General Pensions Act 29 of 1979 and Government Employees Pension Law, Proclamation 21 of 1996.

SITA Pension Fund

The SITA Pension Fund, which is administered by Alexander Forbes, is a defined contribution fund. The company has no financial liability in respect of this fund.

Current medical benefits

The company contributes to three medical aid schemes for the benefit of permanent employees and their dependants. Contributions charged against income amounted to R54,11 million (2006: R60,99 million). The company's financial obligation is limited to the current company contributions.

		2007 R	2006 R
14.	***Equity contributed***		
	Authorised and issued		
	One ordinary share of R1,00	1	1
15.	***Non-distributable reserves***		
	Non-distributable reserve (*)	625 333 736	625 333 736
	(*) The State Information Technology Agency Act, 1998 (Act no. 88 of 1998) (as amended by Act no. 38 of 2002) resulted in the reduction of the company's share capital from R625 333 737 to R1. Approval was granted by National Treasury to transfer the difference to a non-distributable reserve.		
16.	***Revenue***		
	Computer equipment and maintenance	294 156 173	285 637 972
	Labour	1 370 443 282	1 060 940 942
	Mainframe	603 230 887	520 127 141
	Network and internet	446 484 520	498 145 525
	Printing	45 330 273	45 145 636
	Site preparation	59 128 876	66 097 675
	Software licences and maintenance	399 585 622	383 276 234
	Sundry	138 255 751	44 339 513
		3 356 615 384	2 903 710 638
17.	***Cost of sales***		
	Direct depreciation	65 314 391	82 097 243
	Direct amortisation	6 914 962	4 770 625
	Direct labour	914 766 107	828 489 123
	Operating costs	1 033 495 472	739 965 325
	Service delivery overheads	624 252 515	716 587 241
		2 644 743 447	2 371 909 557
18.	***Other income***		
	Catering income	942 171	875 352
	Discount received	2 652	796 979
	GovTech loss	(639 047)	–
	Rental income	6 590 941	6 717 044
	Sundry income	754 749	3 453 492
	Surplus/(deficit) on disposal of property, plant and equipment	400 023	(5 128 220)
		8 051 489	6 714 647

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

		2007 R	2006 R
19.	***Finance income***		
	Fair value adjustment on trade receivable	35 245 553	31 795 445
	Foreign exchange gain	–	4 791 189
	Interest received on cash balances	48 411 208	28 354 768
	Other interest received	4 866 432	–
		88 523 193	64 941 402
20.	***Finance cost***		
	Fair value adjustment on trade payable	9 179 483	7 025 354
	Foreign exchange loss	12 803 255	–
	Interest paid – Denel loan	2 594 128	3 062 136
	Interest paid – other	6 342	2 334 658
		24 583 208	12 422 148
21.	***Surplus before taxation***		
	The following items have been taken into account in arriving at surplus before taxation:		
	Depreciation		
	– Buildings	4 981 614	4 205 108
	– Computer equipment	88 724 557	103 563 903
	– Office furniture	4 331 579	4 624 016
	– Vehicles	–	696 897
		98 037 750	113 089 924
	Recoverable depreciation included in cost of sales	(65 314 391)	(82 097 243)
	Non-recoverable depreciation	32 723 359	30 992 681
	Amortisation	18 137 627	12 813 054
	Recoverable amortisation included in cost of sales	(6 914 962)	(4 770 625)
	Non-recoverable amortisation	11 222 665	8 042 429
	Impairment	4 753 374	–
	Movement in impairment on trade receivables	16 642 130	19 103 664
	Bad debts written off	10 877 333	–

	2007 R	2006 R
## 21. *Surplus before taxation* *(continued)*		
Auditor's remuneration		
– Audit fees	3 917 144	3 978 384
– Other expenses	–	50 000
– Under provision prior year	22 412	491 039
– Transversal systems audit	1 455 904	1 372 684
	5 395 460	5 892 107
Research costs	14 690 039	16 338 513
Directors' remuneration – refer to Annexure A		
Staff costs		
– Contractors	456 131 675	383 978 266
– Pension contributions	46 152 690	46 001 894
– Post-retirement medical benefits	7 344 881	8 430 600
– Salaries and employee costs	679 435 828	640 895 606
	1 189 065 074	1 079 306 366
Staff costs included in cost of sales	(914 766 107)	(828 489 123)
Non-recoverable indirect staff costs	274 298 967	250 817 243
Staff costs for contractors can be broken down as follows:		
– Professionals	250 872 421	211 188 046
– Technicians	191 575 304	161 270 872
– Clerical	13 683 950	11 519 348
	456 131 675	383 978 266
## 22. *Income tax expense*		
South African normal taxation		
Current taxation	85 761 355	49 494 178
Current	85 761 355	50 448 807
Over provision in previous year	–	(954 629)
Deferred taxation credit	(25 116 210)	(16 065 312)
Current (refer note 8)	(25 116 210)	(15 110 683)
Adjustment due to prior year error	–	(954 629)
	60 645 145	33 428 866
Tax rate reconciliation		
Standard tax rate	29,0%	29,0%
Tax effect of non-deductible permanent differences	0,7%	0,1%
Effective tax rate	29,7%	29,1%

23. Financial instruments

Liquidity risk

Liquidity risk is managed to ensure that the company is able to meet its financial obligations as they fall due in a cost-effective manner. This risk is managed by maintaining adequate cash reserves by continuously monitoring cash flow forecasts, actual cash flows and the maturity profile of financial assets and liabilities.

Cash flow forecasts are done on a weekly and monthly basis. They are managed daily in order to accurately predict funding needs. Favourable interest rates on the current, call and investment accounts are negotiated with the banks.

Credit risk

Credit risk relates to potential counterparty exposures. The company's counterparties consist of financial institutions and trade and other receivables.

The company limits its counterparty exposure arising from money market instruments by dealing only with well-established financial institutions of high credit standing. Exposure relating to trade debtors and other receivables, which mainly consist of national, provincial and local government departments, is managed by entering into contractual agreements that indicate the payment terms of the services that are rendered. These clients fall within the ambit of the Public Finance Management Act and Municipal Finance Management Act respectively. These Acts prescribe that suppliers of products and services be paid within 30 days.

Foreign currency risk

Foreign currency risk arises from exposure to foreign currencies when the value of the rand changes in relation to these currencies. Hedging instruments are utilised to hedge foreign currency exposures against exchange rate fluctuations. Where such instruments are not utilised, suppliers are required to take cover on import transactions. The company primarily transacts in US dollar when dealing with foreign transactions. The uncovered foreign exchange balances as at the reporting date amounted to RNil (2006: R32 413 030). All foreign exchange balances have been covered at reporting date.

Fair value of financial instruments

At 31 March 2007 the carrying amounts of cash, trade receivables, trade payables and accrued expenses approximated their fair values due to the short-term maturities of these financial adjustments.

24. Related parties

The company is 100% owned by the government of South Africa represented by the Minister for the Department of Public Service and Administration.

The company is a schedule 3A national public entity in terms of the Public Finance Management Act. The related party disclosure is in terms of the requirements of AC126 (Related Party Disclosures) and the specific guidance given by the South African Institute of Chartered Accountants.

The related parties of the company consist of departments, state-owned enterprises and other public entities in the national sphere of government and key management personnel of the company or its shareholder and close family members of related parties. All transactions entered into with related parties are at arm's length.

24. *Related parties* *(continued)*

Revenue for the year

	2007 R	2006 R
Crime and Prevention cluster	1 442 213 300	1 246 886 138
Correctional Services	129 346 884	121 761 492
Department of Justice	112 983 378	60 617 424
Independent Complaints Commission	693 146	454 831
IJS Programme	309 216	5 797 656
National Intelligence Agency	3 324 714	3 813 356
National Presecuting Authority	17 524 698	11 691 322
Public Protector	1 896 879	2 382 501
South African Police Service	650 672 618	584 309 660
Department of Defence	525 461 767	456 057 896
Economic and Investment cluster	226 857 519	192 591 709
Companies and Intellectual Property Registration Office	5 855 512	2 202 184
Department of Communication	885 494	2 580 990
Cyberia (Proprietary) Limited	453 417	1 237 818
Independent Communications Authority of South Africa	673 514	647 017
National Treasury	31 605 533	23 306 358
Government Employees Pension Fund	217 846	1 126 975
Presidential National Commission	13 570	12 862
Department of Public Enterprise	590 448	568 514
South African Micro-Finance Apex Fund	79 352	–
SA Revenue Services	119 191	110 543
Statistics South Africa	9 540 123	8 870 777
Department of Trade and Industry	8 691 363	7 939 350
Department of Transport	2 814 893	1 771 785
Agricultural Research Council	5 221 281	2 130 784
Department of Agriculture	2 094 365	2 240 505
Compensation Fund	183 667	124 042
Gauteng Gambling Board	61 294	–
Department of Labour	35 907 242	30 599 419
Department of Land Affairs	67 090 188	41 406 079
Department of Mineral and Energy Affairs	5 725 110	4 487 308
Department of Public Works	47 676 923	56 469 085
National Nuclear Regulator	–	389 314
Unemployment Insurance Fund	–	4 370 000
SEDA	1 357 193	–

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

	2007 R	2006 R
24. Related parties *(continued)*		
Revenue for the year *(continued)*		
Government and Administration cluster	148 157 089	157 985 031
Department of Provincial and Local Government	3 341 081	8 640 493
Department of Public Service and Administration	43 096 422	41 901 222
Finance and Fiscal Commission Agency	–	688 840
Government Printing Works	1 462 235	637 330
Department of Home Affairs	96 058 600	99 985 742
Independent Electoral Commission	12 548	697 988
Office of the Public Service Commission	2 049 883	2 230 464
South African Local Government Association	415 112	394 346
SA Management Development Institute	1 298 068	883 428
Centre for Public Service Innovation	423 140	1 925 178
Social and International cluster	365 196 285	249 902 690
Department of Environmental Affairs	7 423 569	5 589 622
Department of Foreign Affairs	13 103 444	9 368 571
Government Communication	7 881 158	5 230 820
National Youth Commission	132 413	113 392
South African National Parks Board	1 576 357	904 800
Parliament	782 549	1 359 208
The Presidency	1 048 581	5 092 975
South African Weather Services	10 110	41 458
Department of National Arts and Culture	5 259 810	4 921 754
Department of Education	49 756 112	57 281 161
Freedom Park Trust	649 513	246 878
Department of Health	7 569 996	12 143 889
Department of Housing	32 203 794	23 043 850
Human Sciences Research Council	624 910	21 132
South African Council of Educators	67 305	–
Department of National Science and Technology	2 877 443	4 464 969
Department of Social Development	82 832 611	74 866 442
South African Social Security Agency	102 699 311	1 193 457
Department of Sports and Recreation	6 624 578	8 925 641
UMALUSI	1 554 404	1 648 406
Department of Water Affairs	40 518 317	33 444 265
Other related parties	6 822 459	5 609 976
Legal Aid Board	83 531	95 131
National Health Laboratory Services	196 155	149 032
Road Accident Fund	47 315	41 547
Marine and Coastal Management	6 495 458	5 324 266
Revenue from related parties	2 189 246 652	1 852 975 544
Revenue from other parties	1 167 368 732	1 050 735 094
Revenue per statement of financial performance	3 356 615 384	2 903 710 638

	2007 R	2006 R
24. *Related parties* *(continued)*		
Amounts owed at year end		
Crime and Prevention cluster	116 777 540	135 837 048
Department of Correctional Services	29 988 447	16 695 756
Department of Justice	13 307 620	6 446 771
IJS Programme	37 743	8
Independent Complaints	33 247	92 998
National Prosecuting Authority	991 121	2 829 617
National Intelligence Agency	673 015	826 614
Public Protector	11 996	648 660
Department of Defence	4 496 224	38 717 609
South African Police Service	67 238 127	69 579 015
Economic and Investment cluster	34 359 511	59 365 944
Companies and Intellectual Property Registration Office	1 433 956	1 272 455
Cyberia (Proprietary) Limited	1 446	–
Department of Communication	243 933	847 608
Department of Public Enterprise	61 516	58 976
Department of Trade and Industry	1 568 460	236 495
Department of Transport	252 616	758 165
Government Employees Pension Fund	120 815	7 905
Independent Communications Authority of South Africa	68 736	56 212
National Treasury	9 474 272	14 448 158
Presidential National Commission	7 322	14 663
SA Revenue Services	4 701	(2 010)
South African Micro-Finance Apex Fund	11 265	–
Statistics South Africa	1 286 514	2 635 582
Agricultural Research Council – HQ	1 822 592	–
Department of Agriculture	397 569	1 450 777
Department of Labour	1 768 854	821 949
Department of Land Affairs	13 322 658	32 203 931
Department of Mineral/Energy Affairs	1 813 226	3 309 172
Department of Public Works	699 060	1 104 499
Compensation Fund	–	141 407
Government and Administration cluster	31 894 557	55 586 252
Centre for Public Service Innovation	2 798 388	2 650 245
Department of Home Affairs	26 195 767	39 365 306
Department of Provincial and Local Government	725 742	3 510 904
Department of Public Service and Administration	1 795 658	9 055 269
Government Printing Works	132 952	112 878
Independent Electoral Commission	5 134	406 482
Office of the Public Service Commission	37 832	35 614
SA Management Development Institute	203 084	449 554

24. Related parties *(continued)*

Amounts owed at year end *(continued)*

	2007 R	2006 R
Social and International cluster	150 311 343	115 646 103
Department of Foreign Affairs	1 321 670	7 332 568
Department of Environmental Affairs	2 681 778	2 805 718
Government Communication	(188 734)	(94 280)
Goverment Commission and Information System (GCIS)	489 509	63 418
National Youth Commission	226 361	280 487
Parliament	1 116 211	224 105
South African National Parks Board	1	–
South African Weather Services	7 135	–
The Presidency	48 743	4 247 665
Department of Education	8 248 409	6 662 678
Department of Health	7 313 737	2 739 362
Department of National Arts and Culture	1 891 462	1 044 532
Department of National Science and Technology	1 312 539	2 665 224
Department of Social Development	84 372 968	67 820 658
Department of Sports and Recreation	6 137 179	8 994 761
Department of Water Affairs	12 272 661	9 932 990
Freedom Park Trust	740 445	–
Further Education Training College	1 575	–
Human Sciences Research Council	–	24 091
SA Social Security Agency	18 406 114	1 061 969
Department of Housing	3 711 115	(474 240)
UMALUSI	200 465	314 397
Other related parties	1 029 267	3 719 370
Legal Aid Board	87 934	95 337
National Health Laboratory Services	26 945	44 659
Road Accident Fund	4 512	12 917
Marine and Coastal Management	909 876	3 566 457
Total related parties	334 372 218	370 154 717
Balance of trade receivables	384 384 161	228 706 462
Trade receivables	718 756 379	598 861 179

An amount of R10 425 850 has been written off in the current financial year that relates to various related parties.

24. Related parties *(continued)*

Amounts received in advance at year end

	2007 R	2006 R
Crime and Prevention cluster	235 038 648	414 279 452
South African Police Service	214 607 564	343 561 977
Department of Defence	20 228 849	68 099 295
Department of Justice	202 235	2 618 180
Economic and Investment cluster	32 691 283	19 854 175
Companies and Intellectual Property Registration Office	1 522 835	–
Department of Labour	15 562 227	702 240
Department of Land Affairs	298 700	298 700
Department of Public Enterprise	199 386	–
Department of Public Works	546 448	–
Government Employees Pension Fund	1 212 091	–
National Treasury	12 455 745	18 853 235
Statistics SA	893 851	–
Government and Administration cluster	–	9 011 179
Department of Home Affairs	–	9 011 179
Social and International cluster	8 292 988	18 419 819
Department of Education	125 225	125 225
Department of Foreign Affairs	1 506 169	9 033 680
Department of Housing	6 653 264	9 252 584
Department of Sport and Recreation	8 330	8 330
Total Nationals	276 022 919	461 564 625
Balance of income received in advance	76 304 256	44 271 797
Income received in advance per statement of financial position	352 327 175	505 836 422

The key management personnel are the directors and executive members of the company for the year ended 31 March 2007. Transactions with key management personnel are disclosed in Annexures A and B.

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

	2007 R	2006 R
25. *Prior year error*		
Transfer of South African Police Service assets		
During the year under review it came to the attention of management that assets that were purchased on behalf of the South African Police Service were incorrectly capitalised in the accounting records of the company. These assets have consequently been transferred out of the accounting records of the company. The effect of the transfer on the statement of financial performance is as follows:		
Reduction in opening accumulated surpluses resulting from the transfer of the assets	–	–
Tax effect	–	–
	–	–
The statement of financial position effect is as follows:		
Adjustment made to property, plant and equipment net carrying value	–	(30 704 768)
Adjustment made to income received in advance	–	30 704 768
The statement of financial performance effect is as follows:		
Adjustment made to revenue	–	(10 679 143)
Adjustment made to cost of sales	–	10 679 143
	–	–

26. *Capital commitments*

At year end the company has a budgeted amount of R117 million that has been approved for capital acquisitions which has not yet been contracted for.

27. *Contingent liabilities*

A claim of approximately R149 million has been instituted against the company and two national government departments for the non-awarding of a tender. Based on legal advice the directors believe that there is a reasonable prospect of success of defending the claim. At the date of approval of these financial statements, the associated legal costs are approximately R100 000. However, these costs will be shared amongst the defendants.

A claim of approximately R2,5 million has been instituted against the company for injuries suffered by a gentleman who slipped and fell off a staircase at SITA premises. The estimated legal costs are approximately R200 000. Based on legal advice, the directors are of the opinion that the outcome of the claim cannot be reasonably determined.

A claim of approximately R3,7 million has been instituted against the company relating to a contract entered into for a pilot project. Based on legal advice, the directors are of the opinion that the outcome of the claim cannot be reasonably determined. The related legal costs are approximately R150 000.

There are five Labour Court claims against the company by dismissed employees which approximate R2,2 million. The related legal fees with regard to these claims approximate R270 000. The directors are of the opinion, based on legal advice, that the outcome of these claims cannot be reasonably determined.

	2007 R	2006 R
28. *Operating leases*		
Operating lease expense		
The company entered into non-cancellable operating lease agreements for the occupation of certain premises. At the reporting date, the future minimum lease payments under these lease agreements are as follows:		
Payable within one year	30 268 395	20 512 308
Payable between one and five years	61 629 850	23 368 546
	91 898 245	43 880 854
The company does not have any contingent rent that is payable.		
Operating lease income		
The company entered into non-cancellable operating lease agreements as lessor. At reporting date, the future minimum lease payments receivable under these lease agreements are as follows:		
Receivable within one year	6 761 007	6 502 291
Receivable between one and five years	11 534 764	16 416 371
Receivable over five years	252 311	–
	18 548 082	22 918 662

29. *Restatement of comparative information*

The following comparatives have been restated during 2006/7 financial year to ensure better disclosure:

	As previously stated R	Currently stated R
Property, plant and equipment	477 128 600	402 432 172
Intangible assets		43 991 660
Prior year error – refer to note 25		30 704 768
	477 128 600	477 128 600
Income received in advance	536 541 190	505 836 422
Prior year error – refer to note 25		30 704 768
	536 541 190	536 541 190
Revenue	2 946 185 226	2 903 710 638
Receivables fair value adjustment		31 795 445
Prior year error – refer to note 25		10 679 143
	2 946 185 226	2 946 185 226
Cost of sales	2 382 588 700	2 371 909 557
Prior year error – refer to note 25		10 679 143
	2 382 588 700	2 382 588 700

	As previously stated R	Currently stated R
29. Restatement of comparative information *(continued)*		
Other income	11 762 341	6 714 647
Sundry income adjustment		(80 526)
Operating expenses – loss on property, plant and equipment		5 128 220
	11 762 341	11 762 341
Finance income	33 145 957	64 941 402
Receivables fair value adjustment – refer to note 19		(31 795 445)
	33 145 957	33 145 957
Operating expenditure	488 347 315	476 274 267
Payables fair value adjustment – refer to note 20		7 025 354
Sundry income adjustment		(80 526)
Loss on property, plant and equipment		5 128 220
	488 347 315	488 347 315
Finance costs	5 396 794	12 422 148
Payables fair value adjustment		(7 025 354)
	5 396 794	5 396 794

	2007 R	2006 R
## *30. Notes to the cash flow statement*		
30.1 Normal tax paid		
Opening balance	22 109 424	10 693 380
Current year normal tax charge	85 761 355	49 494 178
SARS refund	(32 367 113)	–
Closing balance	(57 413 787)	(22 109 424)
	18 089 879	38 078 134
30.2 Reconciliation of net cash flows from operating activities		
Net cash inflow from operating activities		
Surplus before taxation	204 139 213	114 760 715
Adjustments for non-cash flow items:		
– Depreciation/amortisation	116 175 377	125 902 978
– Impairment	4 753 374	–
– Increase in provision for impairment	16 642 130	19 103 664
– (Surplus)/deficit on disposal or scrapping of property plant and equipment	(400 023)	5 128 220
– Increase/(decrease) in provision for post-retirement medical benefits	7 344 881	8 430 600
– Overprovision of tax refund	8 184	–
– Transfer of SAPS assets	–	39 211 834
– Finance costs paid	24 583 208	12 422 148
– Finance income received	(88 523 193)	(64 941 402)
– Increase/(decrease) in provisions	6 000 000	(4 644 920)
Operating profit before working capital changes	290 723 151	255 373 837
Working capital changes:		
Decrease/(increase) in trade and other receivables	(125 362 460)	89 429 404
(Increase)/decrease in prepayments made	(13 575 996)	4 720 304
Decrease/(increase) in work in progress	5 650 814	(37 954 477)
Increase in trade and other payables	115 811 373	21 434 071
(Decrease)/increase in income received in advance	(153 509 247)	159 315 592
Cash generated in operations	119 737 635	492 318 731
Normal taxation	(18 089 879)	(38 078 134)
Finance costs paid	(24 583 208)	(12 422 148)
Finance income received	88 523 193	64 941 402
	165 587 741	506 759 851

Notes to the annual financial statements

for the year ended 31 March 2007 (continued)

31. Standards issued but not yet effective

At the date of approval of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

	Standard/Interpretation	Applicable to SITA
GRAP6	Consolidated and separate financial statements	N/A
GRAP7	Investments in associates	N/A
GRAP8	Interests in joint ventures	N/A
GRAP9	Revenue from exchange transactions	N/A
GRAP11	Construction contracts	YES
GRAP12	Inventories	YES
GRAP13	Leases	YES
GRAP16	Investment property	N/A
GRAP17	Property, plant and equipment	YES
GRAP18	Segment reporting	N/A
GRAP100	Non-current assets held for sale and discontinued operations	N/A
GRAP101	Agriculture	N/A
GRAP102	Intangible assets	YES
IPSAS22	Disclosure of financial information	N/A
IPSAS23	Revenue from non-exchange transactions	N/A
IPSAS24	Presentation of budget information in the financial statements	YES
IFRS7 (AC144)	Financial instruments: Disclosures and the amendment to IAS1 Presentation of financial statements: Capital disclosures	N/A
IFRIC7 (AC439)	Applying the restatement approach under IAS29 Financial reporting in hyperinflationary economies	N/A
IFRIC8 (AC440)	Scope of IFRS2 Share based payment	N/A
IFRIC9 (AC441)	Reassessment of embedded derivatives	N/A
IFRIC10 (AC442)	Interim financial reporting and impairment	N/A
IFRIC11 (AC443)	IFRS2 Group and treasury share transactions	N/A
IFRIC12 (AC444)	Service concession agreements	N/A

The directors have not yet assessed the impact of the standards that are applicable but will apply them from their effective date.

Annexure A – Remuneration schedule 2007

Non-executive directors	Designation	Duration	Fees as director	Other services	Basic salary	Annual payment: bonus and leave	Expense allowances	Petrol card	Contributions to pension, medical or insurance funds	Commissions or profit sharing	Share options	Other: performance bonus	Total
Current board members													
Ms TPC Chikane	Chairperson	12 months ending 31 March 2007	98 106										98 106
Mr RJ Barjaktarevic	Board member	8 months ending 30 November 2006											
Ms N Dhevcharran	Board member	12 months ending 31 March 2007	78 724										78 724
Mr LC Jones	Board member	12 months ending 31 March 2007	60 676										60 676
Mr C Kruger	Board member	12 months ending 31 March 2007											
Ms ZP Manase	Board member	12 months ending 31 March 2007	43 117										43 117
Prof T Marwala	Board member	12 months ending 31 March 2007	47 138										47 138
Adv N Moerane	Board member	12 months ending 31 March 2007											
Mr AP Pedlar	Board member	12 months ending 31 March 2007	49 824										49 824
			377 585										377 585
Executive members													
Mr M Msimang	CEO	12 months ending 31 March 2007			1 009 906							1 320 000	2 329 906
Mr JP Bogoshi	Member	12 months ending 31 March 2007			839 834		138 082					447 684	1 425 600
Mr GM Salanje	CFO	11 months ending 31 March 2007			850 310		60 189						910 499
Ms N Isaacs-Mpulo	Member	12 months ending 31 March 2007			873 523							493 579	1 367 102
Mr BS Ngubane	Member	12 months ending 31 March 2007			860 887		164 304					409 885	1 435 076
Mr A Meyer (Deloitte)	Acting CFO	2 months ending 31 May 2006			738 907								738 907
Ms FM Habib	Member	11 months ending 31 March 2007			788 350		146 850						935 200
					5 961 717		509 425					2 671 148	9 142 290

-

Annexure B – Remuneration schedule 2006

Non-executive directors	Designation	Duration	Fees as director	Other services	Basic salary	Annual payment: bonus and leave	Expense allow-ances	Petrol card	Contribu-tions to pension, medical or insurance funds	Commis-sions or profit sharing	Share options	Other: per-formance bonus	Total
Current board members													
Ms TPC Chikane	Chairperson	8 months ending 31 March 2006	56 112	122									56 234
Mr RJ Barjaktarevic	Board member	12 months ending 31 March 2006											
Ms N Dhevcharran	Board member	8 months ending 31 March 2006	45 069	2 298									47 367
Mr LC Jones	Board member	8 months ending 31 March 2006	42 205										42 205
Mr CW Kruger	Board member	12 months ending 31 March 2006											
Ms ZP Manase	Board member	12 months ending 31 March 2006	55 696	1 102									56 798
Prof T Marwala	Board member	8 months ending 31 March 2006	43 445	1 377									44 822
Ms N Moerane	Board member	8 months ending 31 March 2006											
Mr AP Pedlar	Board member	8 months ending 31 March 2006											
Ms L Abrahams	Board member	4 months ending 31 July 2005	12 271	367									12 638
Adv L Gcabashe	Board member	4 months ending 31 July 2005	3 962	122									4 084
Mr M Roussos	Board member	4 months ending 31 July 2005	3 490	177									3 667
Dr S Sibisi	Board member	3 months ending 1 July 2005											
			262 250	5 565									267 815
Executive members													
Mr M Msimang	CEO	12 months ending 31 March 2006			960 883	59 555	34 000					1 309 744	2 364 182
Mr JP Bogoshi	Member	12 months ending 31 March 2006			748 746		138 082					402 687	1 289 515
Mr FK Buthelezi	Member	12 months ending 31 March 2006			531 183	21 361	234 847					419 217	1 206 608
Mr P Els	CFO	4 months ending 31 July 2005			199 983	94 608	76 000						370 591
Mr A Meyer (Deloitte)	Acting CFO	12 months ending 31 March 2006			1 161 750								1 161 750
Ms N Isaacs-Mpulo	Member	12 months ending 31 March 2006			669 239							443 969	1 113 208
Mr V Magagula	CIO	12 months ending 31 March 2006			447 763		195 378					282 157	925 298
Mr MJ Mazibuko	Member	10 months ending 31 January 2006			476 733		220 067						696 800
Mr F Mobu	Member	12 months ending 31 March 2006			554 943		180 000					358 819	1 093 762
Mr P Motsepe	Member	9 months ending 31 December 2005			436 084	227 200	208 761						872 045
Mr BS Ngubane	Member	12 months ending 31 March 2006			799 959		164 304					368 688	1 332 951
					6 987 266	402 724	1 451 439					3 585 281	12 426 710

Shareholder's diary

	Date
Seventh Annual General Meeting	17 August 2007
Submission to the Minister	31 August 2007
Submission to Parliament	15 September 2007
End of new financial year	31 March 2008
Annual budget: 2008/9	
Approval by the board of directors	February 2008
Submission to Department of Public Service and Administration	March 2008
Submission to National Treasury	March 2008
Strategic plan: 2008/9 to 2010/11	
Approval by the board of directors	September 2007 and February 2008
Submission to Department of Public Service and Administration	October 2007 and February 2008
Submission to National Treasury	February 2008
Quarterly reports	
Submission to Department of Public Service and Administration	30 days after end of each quarter
Tariff increases	
Submission to Department of Public Service and Administration	July 2007

Administration

Directorate 1 April 2006 to 31 March 2007

Ms TPC Chikane (Chairperson)
Mr RJ Barjaktarevic (Resigned 30 November 2006)
Ms N Dhevcharran
Ms NC Isaacs-Mpulo
Mr LC Jones
Mr CCW Kruger
Ms ZP Manase
Prof T Marwala
Ms N Moerane (Resigned 25 April 2007)
Mr M Msimang (Resigned 14 May 2007)
Mr AP Pedlar

Company Secretary

Ms TV Geldenhuys

Address

P O Box 26100, Monument Park, Pretoria 0105
459 Tsitsa Street, Erasmuskloof, Pretoria 0048

Auditors

Auditor-General
271 Veale Street (New Building)
New Muckleneuk, Pretoria

Bankers

Standard Bank of South Africa Limited

Contact details

Website: http://www.sita.co.za

Switchboard: +27 12 482-3000
Facsimile: +27 12 482-2096

Chief Executive Officer (acting)
Peter Pedlar +27 12 482-3322
peter.pedlar@sita.co.za

Chief: Shared Services
Fatima Habib +27 12 482-2145
fatima.habib@sita.co.za

Chief: Business Operations
Noedine Isaacs-Mpulo +27 12 482-3217
noedine.isaacs-mpulo@sita.co.za

Chief: Strategic Services (acting)
Moses Mtimunye +27 12 482-2300
moses.mtimunye@sita.co.za

Chief Financial Officer
Mfanyana Salanje +27 12 672-1348
mfanyana.salanje@sita.co.za

Company Secretary
Theresa Geldenhuys +27 12 482-2923
theresa.geldenhuys@sita.co.za

Designed by motiv
Printed by ince

SITA

www.sita.co.za

RP: 33/2007
ISBN: 0-621-37064-9