SITA

ANNUAL REPORT 2008
STATE INFORMATION TECHNOLOGY AGENCY

SITA

Annual Report 2008
State Information Technology Agency

Our vision

To be a high performance information and communications technology (ICT) service provider of choice for the public sector.

Our mission

To leverage ICT as a strategic resource to enable government to improve service delivery and to meet the challenges faced by a developmental state. This we will do by building a high performance and innovative organisation with the requisite capability, competency and capacity to meet the information technology requirements of government, create shareholder value and deliver high levels of customer, employee and community satisfaction.

Our values

Service excellence • Transparency • Integrity • Fairness • Prudence • Innovation

Contents

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.

Minister's foreword

"Globally the use of ICT by governments has resulted in remarkable success in transforming governance capacities"

Delivering service effectively and efficiently to all the citizens of South Africa forms the core of our mandate and obligation as government.

To this end, the Ministry for Public Service and Administration continues with the daunting challenge of constantly looking for innovative ways of improving the machinery of government. This is very crucial in the context of a developmental state where institutions face the challenge of successfully delivering services in an environment that is economically, geographically and socially diverse.

In setting the tone for the 2007/8 financial year, the Governance and Administration Cluster developed a programme of action for the implementation of its mandate. The cluster identified four priorities namely:

- Promoting good governance;
- Strengthening the capacity of the state;
- Achieving and maintaining the optimal organisation of the state; and
- Developing and enhancing the state's transversal systems.

The Ministry for Public Service and Administration has been reviewing the macro-organisation of the state to align various government institutions to achieve synergy and collaboration in service delivery. This results from our commitment towards integrated planning and implementation of service delivery programmes throughout the spheres of government.

Globally the use of information and communication technologies (ICT) by governments has resulted in remarkable success in transforming governance capacities, improving service delivery systems and fostering social cohesion.

Since its formation in 1999, SITA has played a pivotal role in the procurement of leading-edge ICT solutions for government institutions to capacitate them to provide services to citizens more efficiently and cost-effectively.

In line with the business *unusual* imperative which was central to President Thabo Mbeki's 2008 State of the Nation Address, SITA, which is a critical link in our service delivery chain has continued to make strides towards the achievement of speedy, efficient and effective service delivery.

The state's e-government programme, as well as other projects of national importance, such as the Integrated Finance Management System (IFMS) and Open Source Standards (OSS), among others, which SITA has diligently worked on, is critical to government's drive to enhance interoperability of systems, reduce duplication and costs and improve administrative efficacy.

We acknowledge the role that SITA continues to play in ensuring that the working ethos and culture of *Batho pele* guides our use of ICTs to promote citizen access to critical government information. We greatly acknowledge and commend the role that SITA, together with other government departments, plays in ensuring that Thusong Centres continue to make an impact in the lives of South Africans.

Most importantly, SITA stands out as a key role player in providing valuable expertise and thought leadership in the deployment of ICTs to give impetus to government's drive to consolidate services to become 'a single public service'.

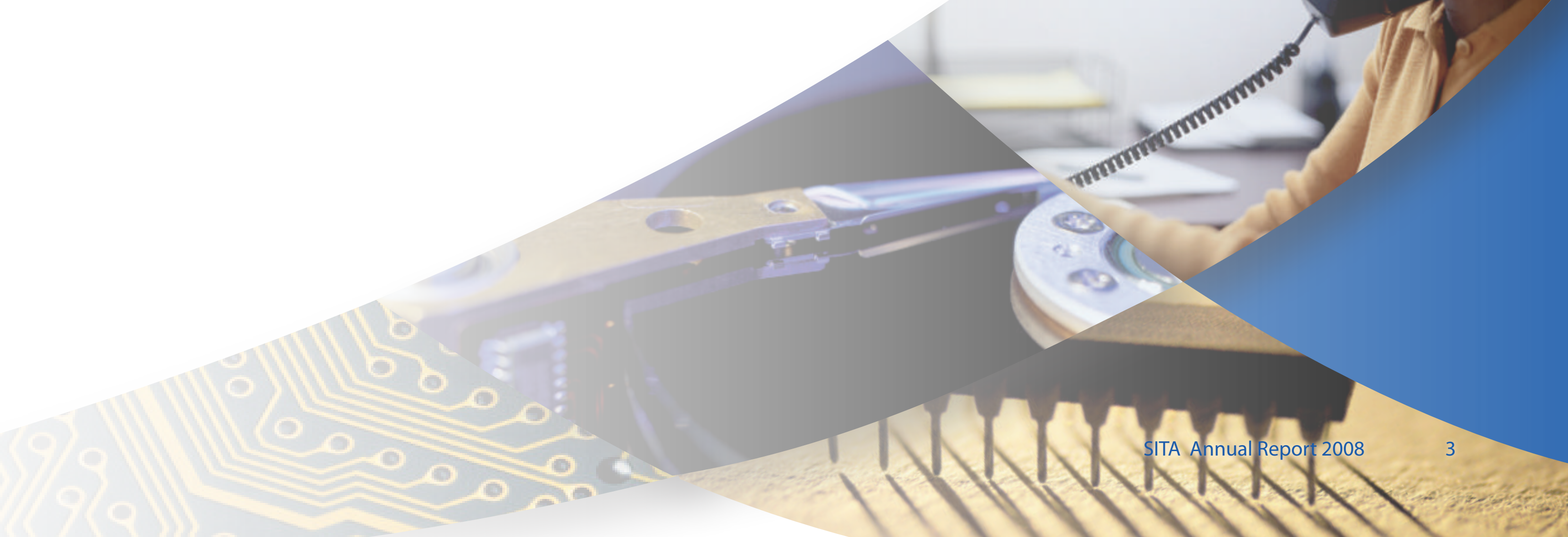
The single public service is a massive undertaking by government designed to improve service delivery to the public by integrating the front office and the back office in the institutions delivering service directly to the people. This integration or alignment will allow citizens to receive 'government services' as a whole in a convenient location without having to travel far and wide.

The success in presenting what has come to be known as a single window of government' calls for a concerted effort from all government institutions across the three spheres to work together to break down barriers that have traditionally prevented collaborative service delivery to citizens.

One of the highlights of this year was the switch-over from the old Government Common Core Network (GCCN) to the state-of-the-art Next Generation Network (NGN). With the advances in technology on end user devices (cellphones, PDAs and laptops), instant communications via voice, video or data has become a necessity. The NGN provides the mechanism for these devices, amongst others, to access departmental data securely via any communications medium. Most importantly, unlike the old GCCN, non-business traffic posted on the NGN will not have an impact on the efficiency of the client's communications network.

As the Ministry for Public Service and Administration, we commend SITA for demonstrating that they are geared for business *unusual*. Their achievements throughout the 2007/8 financial year clearly demonstrate this. We look forward to even greater successes in the year ahead and hope that they will continue to dispatch their mandate with such enthusiasm.

Geraldine Fraser-Moleketi
Minister for Public Service and Administration
22 August 2008



Chairperson's statement

"The importance of a well-run SITA is critical to radically improve government's efficacy"

SITA's significance to the South African information technology (IT) sector cannot be over-emphasised.

The size of the local industry is estimated at some R50 billion per annum, of which approximately a fifth of this spend is attributable to the state. This makes government the single biggest IT consumer in the country. Current expectations and predictions are that this expenditure will continue to rise in future and will be impacted by the convergence of new and existing technologies.

With R3,608 billion in revenue for 2007/8, SITA is the largest public sector IT player in the country and therefore government's most important IT intermediary.

SITA influences the IT spend across the spheres of government and therefore a well run SITA is critical to improve goverment's efficacy.

This imperative becomes even more profound with government increasingly acknowledging the positive role that technology plays in improving service delivery to citizens.

As the board of directors, we have a deep appreciation for the environment SITA operates in and the responsibility it shoulders. Hence in our endeavours to counsel, guide, support and oversee the activities of management and the broader organisation we remain acutely attuned to what SITA must deliver on in term of its mandate.

To this end, strategic objectives for the reporting period were consistent with those of the previous financial year, namely:

- SITA is recognised by customers and vendors as a thought leader in information and communications technology (ICT) for the public sector, influencing 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 (local) 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 2007/8 financial year, SITA delivered a mixed performance. In some instances the organisation far exceeded the board's expectations. However in other instances certain targets were not met, requiring a vigorous revisit of those areas.

As with the previous year, an important highlight for the period was SITA's second GovTech conference which, owing to its 50% growth in attendance figures, has proven to be a veritable platform for public/private sector engagement on ICT issues of national importance.

The conference has done exceptionally well to promote thought leadership. However, much still needs to be done to translate thought leadership into a tangible influence over government's ICT spend. While some research has been undertaken to establish benchmarks around government spend, we expect management to make substantive progress in mapping and aligning SITA's initiatives to influence the state's ICT expenditures in the new reporting period.

Of some concern is that SITA's customer satisfaction index (CSI) remains below 70%. Notwithstanding that the current rating of 61% is well above the 43% rating achieved two years ago, it does reiterate the ongoing need for constant vigilance in serving customers.

The appointment of the new Government Chief Information Officer (GCIO) in the Department of Public Service and Administration (DPSA) has provided fresh insight and impetus to the state's e-government ambitions. We are pleased at progress recorded in this area and appreciate what SITA is doing to align its strategy and activities to government policy in this regard.

SITA's Municipal ICT Blueprint continues to remain at the forefront of the organisation's engagement at local government level. SITA's present mandate only stipulates compulsory participation and engagement at national and provincial government level, yet the number of municipalities interacting with SITA around the blueprint is very promising and indicative of the voluntary partnerships we envisage.

We expect management to ramp up its engagement at this level in the new year, to bed down the blueprint's architecture and enter into formal contracts with municipalities in this regard.

Chairperson's statement

"SITA's Municipal ICT Blueprint continues to remain at the forefront of the organisation's engagement at local government level"

Development of the local indigenous industry, however, still remains a challenge. We are pleased at the significant expenditures directed towards local players albeit at a low base, specifically black empowerment enterprises, although more needs to be done to develop the industry.

From a financial perspective, SITA achieved an increase in revenue of 7,48% (R251 million) and 109,80% (R224 million) on its pre-tax profit. This again reaffirms the financial robustness and sustainability of the organisation.

We are also pleased that SITA received its fourth consecutive unqualified audit report for the 2007/8 financial year.

The board acknowledges the leadership challenges experienced during the past year and the corresponding 2% drop in employee satisfaction levels. We applaud management for swiftly reconstituting the executive team and mitigating the impact of the departures and trust that the new leadership will result in stability and improved employee morale in future.

We thank Mr Llewellyn Jones who served as CEO from 01 November 2007 to 31 July 2008.

We would like to thank Mr Peter Pedlar for the caretaker role he undertook as acting CEO, following the departure of the former CEO, Mr Mavuso Msimang in May last year. Mr Pedlar did well under difficult circumstances and we are pleased that his services at SITA have been retained, albeit in a different capacity.

We also welcome on board the new SITA executive management team. We trust they will support the board in meeting the organisation's objectives and further strengthen the capacity of the organisation to deliver on its mandate.

Furthermore, the board extends a warm welcome to Ms Michelle Williams, the GCIO, and Ms Rosey Seseke, who joined the SITA board on 15 October 2007. Their respective contributions are greatly appreciated and have already had an impact in ensuring that we discharge our responsibilities effectively.

Finally, I take this opportunity to thank the shareholder representative, 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, formerly led by the now late Honourable Mr John Gomomo (MP) and current chairman Honourable Mr Masenyani Baloyi (MP), for their support and counsel.

Thenjiwe Chikane
Chairperson and Non-executive director

Board of directors

1 2 3 4 5

1. Ms TPC Chikane
Non-executive chairperson
Qualifications: CA(SA)
Appointed: 04 August 2005

2. Mr LC Jones
Chief Executive Officer
Qualifications: BSc Electrical Engineering, MSc Computer Science
Appointed: 04 August 2005 as non-executive
Appointed as CEO with effect from 01 November 2007
Resigned: 31 July 2008

3. Ms N Dhevcharran
Non-executive
Qualifications: BSc Computer Science, Statistics, Hons BSc Computer Science N4 Electronics, MSc Computer Science, Advanced Business Programme, MCSE
Appointed: 04 August 2005

4. Mr CCW Kruger
Non-executive
Qualifications: BCom Hons (Economics)
Appointed: 04 August 2005

5. Ms ZP Manase
Non-executive
Qualifications: BCom, BCompt (Hons) CA(SA), HDip Tax
Appointed: 04 August 2005

Ms NC Isaacs-Mpulo
Executive
Appointed: 04 August 2005
Resigned from Board: 02 October 2007

Ms N Moerane
Non-executive
Appointed: 04 August 2005
Resigned: 25 April 2007

Mr M Msimang
Chief Executive Officer
Appointed: 01 April 2005
Resigned from Board: 14 May 2007

6 7 8 9

6. Prof T Marwala

Non-executive
Qualifications: Post Doctorate in IT, PhD Computational Intelligence in Engineering Sys, MSc Mechanical Engineering, BSc Mechanical Engineering, Technical Analysis and Fund Management, SAIM Programme in Bus Management
Appointed: 04 August 2005

7. Ms R Sekese

Non-executive
Qualifications: Dip Advanced Project Management, MBA, B Electrical Engineering (Telecommunications)
Appointed: 15 October 2007

8. Ms M Williams

Non-executive
Qualifications: BA Hons, MA Development, MBA
Appointed: 15 October 2007

9. Ms E Strydom

Company Secretary
Qualifications: BProc, Management Development Programme
Appointed: Acting Company Secretary with effect from 01 October 2007
Company Secretary with effect from 01 February 2008

Ms TV Geldenhuys

Company Secretary
Appointed: 01 April 2004
Resigned: 30 September 2007

Mr AP Pedlar

Non-executive and Chief Executive Officer (Acting)
Appointed: 04 August 2005
Acting CEO from 15 May 2007 to 31 October 2007
Resigned: 31 October 2007 as non-executive

Chief Executive Officer's report

"The cumulative outcome of our financial performance translated into a profit after tax of R299 million"

The 2007/8 financial year was characterised by significant challenges and the promise of new beginnings for SITA.

In May 2007, Chief Executive Officer (CEO), Mr Mavuso Msimang, left the organisation to join the Department of Home Affairs as its Director General.

In the successive months leading up to December 2007, all SITA's remaining executives also resigned.

Notwithstanding this unfortunate and unforeseen situation, we moved rapidly to ensure that all executive vacancies in the organisation were filled to ensure minimal disruption to the continuity of our operations. By 01 January 2008 SITA's executive team was reconstituted with all positions occupied largely by internal candidates. We are confident that the appointment of our own staff augurs well for stability and the retention of key competencies and specialised expertise in the organisation.

The new executive team (see page 20 and 21 for details) has, however, been expanded where necessary to ensure all critical business functions are allocated the requisite resources and attention to function effectively and optimally. As a result, SITA's operating model, which previously comprised four divisions, namely Business Operations, Strategic Services, Finance and Shared Services, was refocused and extended to now include divisions for Information Management Services (IMS) and Regulatory Affairs and Procurement respectively.

Given the relatively brief period the new executives have operated as a team, I believe we have performed admirably under very trying circumstances. The new executive team comprises experienced, highly motivated individuals committed to ensuring the success of SITA.

Business highlights

Financial performance

While our revenue growth was below our budgeted target of 12%, the reported 7,48% increase resulted in our revenue increasing to R3,608 billion from R3,357 billion in 2006/7. However, our gross surplus exceeded expectations having increased to R917 million, up 28,79% from R712 million in the previous financial year.

The cumulative outcome of our financial performance translated into a profit after tax of R299 million, an improvement of 109,09% over the R143 million achieved over the corresponding period last year.

SITA is estimated to influence approximately 30% of information technology (IT) spend across the spheres of government. During the reporting period we concluded research in this regard, but we did not manage to establish the baseline for government expenditure and the extent of SITA's involvement. This is required to map how SITA can move towards influencing 80% of government's ICT expenditure.

Customer satisfaction index

During the year, we performed our annual customer survey to measure satisfaction among our client base. The survey conducted in October and November 2007 comprised 700 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 63% customer satisfaction rating. The current ranking of 61%, while lower than last year, is still a substantial improvement on the 43% rating in 2005/6.

We have taken cognisance of the areas where our customers expect us to perform better and have implemented improvement measures to further enhance our customer service levels. Client satisfaction remains a high priority area, and will receive additional attention during the new financial year.

Procurement services

As mentioned earlier, our procurement function was reorganised under a new division, Regulatory Affairs and Procurement. This has raised the profile of the function and ensures it receives the necessary focus and priority at executive management level.

During the financial year we maintained our tender turnaround times below 80 days on average. Furthermore, we purchased 60,3% of goods and services valued at approximately R1,6 billion from black economic empowered (BEE) vendors or vendors that have BEE credentials. At provincial level, 60,87% of our purchases were acquired from BEE vendors.

We are also seeking to develop a framework aimed at modifying the points allocated for tenders to include higher points where a vendor will undertake local indigenous development. The strategy to implement this was not finalised in the reporting period, but will be addressed in the new financial year.

GovTech

During the year we continued to bolster our thought leadership initiatives on Information and Communications Technologies (ICT) for the public sector through our government technology conference, known as GovTech.

We hosted our second GovTech conference in August 2007 in Cape Town under the theme "transformation through technology together." The event attracted some 1 400 delegates, exceeding attendance at the inaugural conference by more than 50%.

Since its inception, GovTech has consistently set high standards by focusing on relevant ICT subject areas that are pertinent to

Chief Executive Officer's report

addressing service delivery constraints within government. These topics are presented by ICT experts from South Africa and abroad, which has contributed immensely to GovTech's reputation as a thought leadership and business networking platform.

Operational highlights

Next Generation Network

In line with our telecommunications and convergence strategy, SITA together with its partners, Neotel (Proprietary) Limited and Business Connexion Group Limited, successfully deployed a Next Generation Network (NGN) for the South African government. The NGN, a state-of-the-art network, replaced the Government Common Core Network (GCCN), which was first deployed in 2003.

The NGN project, which commenced in May 2007, was implemented by October 2007, as per the agreed project timelines. The migration of government departments was concluded during January 2008. The migration was virtually seamless, ensuring that government departments continued to function without disruption or loss of services during the transition.

The NGN project's total investment is worth R454 million over a five year period and represents the largest deployment of NGN services in sub-Saharan Africa in the public sector. The project was funded through internally generated funds.

"GovTech has consistently set high standards by focusing on relevant ICT subject areas that are pertinent to addressing service delivery constraints"

With the NGN fully implemented and functioning, SITA can now provide government departments with better response times and a higher quality network that has the ability to carry voice, video and data services. The NGN enables SITA to deliver customer services quicker. It allows us the capacity to plan and through network trafficking allocate bandwidth efficiently. The structure of the NGN has also translated into lower operational and equipment costs.

Infrastructure efficiency

To improve the efficiency and effectiveness of our infrastructure, we documented our processes and established the associated costs during the reporting period.

This constitutes the groundwork for developing models and indices to improve our infrastructure, which will be finalised in the new financial year.

120 Plein Street

The ministerial offices at 120 Plein Street in Cape Town will serve as a leading example of converged communications services utilising the state-of-the-art NGN.

During the reporting period, SITA commenced leading the migration of the current operational infrastructure at the 21 storey building to one that is optimised to meet the requirements of new and future applications such as voice/data convergence, video conferencing and wireless technology.

The new 120 Plein Street infrastructure will offer a cost-effective and long-term IT solution that will enhance the performance and capacity of the network, that is scalable to allow for future growth and reduces telephony, capital expenditure and maintenance costs.

Quality management

SITA has established a fully functional Quality Management Department to lead and guide the organisation to realising a fully fledged Quality Management System in future.

To this end, during the reporting period auditors from the South African Bureau of Standards conducted an ISO 9001 certification investigation at several offices and locations, as a first step to embedding quality management in SITA.

The outcome was immensely positive, with SITA receiving a recommendation for ISO 9001:2000 certification from the ISO certification board in Europe.

We received this international certification for our Gauteng and KwaZulu-Natal regions, the Department of Defence (DoD) project office in Cape Town, as well as SITA's headquarters, which combines its Erasmuskloof, Perseus Park, Centurion, Numerus and Beta offices. These regions and offices join our Department of Defence client business unit which is already ISO certified.

IT Consulting methodology

During the 2007/08 financial year, we commissioned IBM to review and improve our capability method within our IT Consulting environment. The main objectives for this included improving the quality and accuracy in planning and implementing consulting projects, creating a common language, techniques and approach to delivering projects, and increasing efficiencies through an automated methodology.

By year end, we completed the high level SITA value chain and the as-is methodology. The value chain will be used to establish the activities involved in developing SITA's product and service offerings and to guide governance and implementation.

Defence Enterprise Information Systems Master Plan

During the reporting period, Department of Defence (DoD) approved a master plan for its Defence Enterprise Information Systems. This 10-year integrated plan encompasses all information technology and communication projects of the department.

As key enablers of this information capability, SITA and Armscor were involved in contracting for the projects. This followed intense collaboration between many role players within DoD, led by the Directorate for Information and Communication Technology.

Project management

One of our priorities remains the enhancement of our project management capability.

In the previous financial year we created a Bureau Support Service to capture project information and update it on the project management module of our Enterprise Resource Programme (ERP). This has significantly enhanced our capability in this area.

During the reporting period, we commenced the integration of the project management module to the ERP but we did not achieve full integration. This will, however, materialise when phase two of our ERP system becomes fully functional in the new financial year.

We are also planning to assess our project managers through the establishment of an assessment centre. A tender for this requirement was issued during the reporting period, however the assessment of proposals and selection of a service provider will also only be concluded in the new year.

Corporate Performance Management

During the reporting period we piloted a performance management tool on our ERP system and concluded training in this regard. We could not, however, roll out the system due to certain aspects of the ERP system not being ready for this.

We anticipate that with the conclusion of phase two of our ERP system, the performance management tool will become fully functional and utilised throughout the organisation.

Strategic projects

e-government

Government's efforts to be more citizen-centred received further impetus during 2007/08 with the conclusion of the supply-side research to support the state's e-government strategy.

Furthermore, the appointment of the new Government Chief Information Officer (GCIO), Ms Michelle Williams, in DPSA in November 2007 has also provided fresh insight and impetus to the state's e-government strategic roadmap.

To this end, SITA is continuing to work closely with the Office of the GCIO to deliver on the outcomes identified by the Department of Public Service and Administration (DPSA). We have therefore already begun realigning our strategy and activities to support government in this regard.

During the year, a successful pilot was undertaken in Limpopo Province in the e-health realm of e-government. Known as telemedicine, the pilot demonstrated the power of ICT in healthcare delivery.

Essentially, the pilot demonstrated how rural patients, who often have to travel long distances to receive primary healthcare from academic hospitals, can receive specialist services from a remote location through telecommunications infrastructure.

The telemedicine pilot utilised a hospital in Polokwane to act as the support centre for three rural clinic sites, namely George Masebe Hospital, Rebone Clinic and Ga-Mokopane Hospital.

Owing to the immense success of the project, SITA is investigating rolling out the project nationally under the auspices of the Department of Health and the Medical Research Council.

Chief Executive Officer's report

Integrated Financial Management System

The Integrated Financial Management System (IFMS) project is a multi-stakeholder programme of National Treasury, DPSA 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. Funding for the IFMS project is provided by National Treasury.

The IFMS project will in time replace the current legacy transversal applications that include the Basic Accounting System (BAS), the Personnel and Salary System (PERSAL) and the Logistics Management System (LOGIS). 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.

SITA recorded commendable progress on the IFMS project during 2007/8. Negotiations were concluded between IBM and National Treasury on the open architecture for IFMS modules, while tenders were conditionally awarded to ICT Works and SAP South Africa for the Procurement and HR modules respectively.

"SITA's overall staff turnover of around 11,3% was well below the current ICT industry average of 21%"

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) in the 2006/7 financial year, in response to the myriad of challenges faced at local government level.

Giving effect to SITA's Municipal ICT blueprint progressed well in the reporting period, with engagements performed in the cities of Tshwane and Johannesburg, Thabu Chweu, Ehlanzeni, Central Karoo and Cape Winelands.

In our endeavours to support municipalities, end-user training and Disaster Recovery Planning opportunities were contracted with Matlosana Local Municipality, Potchefstroom Local Municipality, Bijanal Platinum District Municipality, Rustenberg Local Municipality, Ngakak Modiri Molema District Municipality and Capricorn Municipality.

We did not, however, meet our target of completing the architecture for the blueprint and implementing the solution at two municipalities. This will be a key focus in the new financial year.

Open source standards

During 2007/8 open source standards (OSS) continued to gain momentum in government with SITA piloting an OSS enterprise content management system at the Department of Science and Technology.

SITA's FOSS Programme Office also initiated work on several migration projects at the Department of Home Affairs, DPSA and Department of Sport and Recreation. In addition, SITA has concluded its own OSS migration strategy which will be implemented in the 2008/9 financial year. It is anticipated that the roll-out of FOSS in SITA will be completed before the end of the new financial year.

Human capital

A key highlight for the year was that SITA's overall staff turnover of around 11,3% was well below the current ICT industry average of 21%. This can, in part, be attributed to SITA's efforts to attract and retain critical skills and motivate its best performing staff.

The leadership instability that was experienced during the year, among others, did however lead to increased dissatisfaction among our employees. In 2006/7 our employee satisfaction levels improved by 10,17%; however this fell to 8% during the period under review. This highlights the collective responsibility of SITA's leadership team to improve the organisation's culture and raise morale among employees if it is to be successful in retaining its best workers.

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

ICT skills development

A major challenge, shared by the public and private sectors alike, is the skills shortage afflicting the ICT industry. At the very first GovTech conference held in 2006, the issue was raised as a key initiative that would require a concerted effort to address. To this end, SITA was tasked to champion the establishment of a virtual ICT Skills Academy that would help in developing the critical skills needed.

In its discussions with various industry players during the reporting period, we saw the need to join together and engage in a collective, collaborative effort to create a well-designed virtual ICT Skills Academy, of sorts, to address the skills supply shortage.

SITA envisages the virtual academy delivering and coordinating the required training services for the sector. The academy can develop training courses in collaboration with established tertiary institutions, based on the required need and deliver the programme as part of a specified degree.

In the 2007/8 financial year the academy started creating capacity on an OSS skills development programme for 40 ICT graduates. The graduates have completed their classroom training and have commenced with the practical training under the SITA Free Open Source Standards (FOSS) Programme Office to support the organisation's migration to an OSS platform.

Corporate social investment

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

Since 1999, over 1 300 young ICT graduates have completed the YIP in SITA, which seeks to raise the skills levels of ICT graduates and make them marketable for long-term career positions both in business and in government – where these skills are readily sought after.

Providing young ICT graduates with the one year internship of intensive theoretical and on-the-job training enables these graduates to become much more suited to the current demands of the job market and become more easily absorbed into both the government and private sectors. In doing so, we are not only contributing to a the development of our youth, but positively and actively contributing to assisting the government in addressing unemployment and job creation.

YIP places special emphasis on targeting youth from historically disadvantaged backgrounds, and especially young women. The YIP ensures that trainees have a national spread, including remote locations. In this financial year approximately 66 youth were trained under the programme.

Acknowledgments

Much of what the organisation achieved is attributable to the past and current leadership.

I wish to thank Messrs Msimang and Pedlar for their contributions. Mr Pedlar now holds the position of Chief: Regulatory Affairs and Procurement.

I also acknowledge Mr Llewellyn Jones, who served as CEO for the last five months of this financial year.

I wish to extend my gratitude and thanks to the SITA Executives and all SITA employees for their commitment and perseverance in what has been a particularly challenging year from a leadership perspective.

I also wholeheartedly acknowledge the input of Ms Geraldine Fraser-Moleketi, Minister of Public Service and Administration, for her constant support, guidance and advice.

I furthermore convey my appreciation to the Portfolio Committee on Public Service and Administration, especially its now late chairman, Honourable Mr John Gomomo (MP) and current chairman Honourable Mr Masenyani Baloyi (MP), for their support and counsel.

Finally my gratitude extends to Ms Thenjiwe Chikane, Chairperson of the SITA Board of directors, and the Board as a whole for guiding and supporting the organisation during a very trying and demanding year.

Femke Pienaar
Acting Chief Executive Officer

Human Resources report

During the 2007/8 financial year, Human Resources (HR) sought to gear itself towards stronger alignment between HR strategy and the organisation's corporate strategy.

To this end, the key focus areas were to ensure employees are capable of effectively serving our clients, while concurrently focusing on endeavours to identify, train, develop and retain talent to enhance SITA's delivery capabilities.

Talent management programme

The performance of an organisation is closely linked to the motivation of its employees, which in turn is influenced by their degree of empowerment, opportunities for development and their level of work satisfaction.

The talent management programme aims to offer current and prospective employees an attractive employment value proposition, personal and career growth opportunities supported by best-of-breed human capital practices in a diverse, performance-driven culture.

During the reporting period, inroads were made towards achieving these objectives through the identification of critical workforce segments, vital to SITA's long-term success and sustainability.

Furthermore, the use of an innovative talent tracking tool assists us in mapping individual and organisational priorities to ensure that we appropriately deploy the HR infrastructure and programmes to effectively manage SITA's talent now, and for the future.

Performance management

Integral to our human capital philosophy is the creation of a high performance culture.

To this end, we conducted a comprehensive efficacy audit to gauge our progress to date, which allowed us to identify the gaps and implement suitable corrective measures for continuous improvement.

Training and development

SITA invests substantially in the training and development of our employees. During the reporting period, a total of 2 077 employees attended various training initiatives linked to both staff personal development plans and corporate interventions.

Our Training and Development Department has met all the requirements in terms of the Information Security, Electronic and Telecommunications Technology Education and Training (ISETT) Quality Assurance standards. Hence we are a fully accredited training provider under ISETT/SETA. This secures our eligibility of entering into a beneficial learnership agreement with the training authority.

South African government regulation compels businesses to contribute towards socio-economic upliftment. We are committed to run Level 5 and higher learnerships to address the needs of the ICT environment.

Consequently, SITA hosts learnerships for Systems Support, Systems Development, as well as a Business Analysis. In addition, we have almost completed registering the Business Analysis qualification with the South African Qualifications Authority (SAQA) within the ISETT/SETA.

The Youth Internship Programme

Through the Youth Internship Programme (YIP) SITA continues to play a key role in empowering the youth of South Africa with relevant ICT skills to ensure their active participation in the economy.

While we had targeted to train a total of 1 000 learners by the end of the 2007/8 financial year, we managed to train a total of 1 303 learners, thereby proving the effectiveness of our programme.

The following two tables show a breakdown of the total number of youth interns trained thus far by area of skill and racial distribution:

YIP 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%	233	103
Network controller	NC	20%	200	21%	348	146
Business analysis	BA	20%	200	20%	207	07
Information system security	ISS	15%	150	14%	194	44
Functional administration and support	FAS	11%	110	12%	92	(18)
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%	1 209	300

YIP 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
2007/12/31	195	1	6	0	202
2008/03/31	30	0	2	4	36
Total	**1 150**	**13**	**32**	**14**	**1 209**
Achieved by year-end		**98,84%**		**1,16%**	**100%**

Human Resources report

Human resources services

The Oracle Human Resources Management System (HRMS)

During the 2007/8 financial year, a number of functionalities were added to the HRMS in order to improve its efficacy. These include:

- Employee Vetting Services
- Labour Relations
- Safety, Health and Environment

Additional functionalities were also implemented on the system to assist with the improvement of data management and integrity. These include:

- Line Manager Data Verification
- Automated Level Update
- Automated Cost Centre Update
- Oracle Alert

The system was also adapted to support the new SITA conditions of service.

Employee wellbeing

The wellbeing of employees is of primary importance to the business. During the 2007/8 financial year, our Employee Wellbeing Programme grew in scope with a number of programmes and initiatives being launched.

Among the key initiatives were the following:

- Peer educator governance structures were initiated in line with the business strategy on workplace HIV/Aids management;
- HIV/Aids actuarial modelling was initiated during the year;
- A pilot project on voluntary confidential counselling and testing was introduced in our Gauteng-based offices. This will be rolled out in all regions in the new financial year;
- A Financial Life Skills programme was introduced for all employees and;
- SITA staff participated in World Aids Day by spending time with non-governmental organisations which are child HIV/Aids-services oriented.

Employment equity

During the reporting period an employment equity audit was

The table below shows a breakdown of SITA's total staff complement by job level, race, gender and disability:

	Female				Female total	Male				Male total	Grand total
JOB GRADE	**African**	**Coloured**	**Indian**	**White**		**African**	**Coloured**	**Indian**	**White**		
A1A3	26				26	22				22	48
B1B2	27	1	1		29	27			2	29	58
B3	5	3	2	2	12						12
B3B5	153	25	2	55	235	156	16	10	17	199	434
B4B5	15	7	1	11	34						34
C1	1			2	3						3
C1C2	100	13	5	64	182	122	18	14	60	214	396
C2	1	1		1	3						3
C3C5	95	15	14	166	290	130	29	32	207	398	688
D1D3	66	7	8	105	186	82	16	19	177	294	480
D4D5	18	3	1	14	36	32	4	15	41	92	128
E1E3	5	1		3	9	12	2	5	6	25	34
F1F2	1			1	2	1	1	1		3	5
F3									1	1	1
Grand total	513	76	34	424	1 047	584	86	96	511	1 277	2 324

undertaken in all SITA's offices. The results showed that the company has not yet achieved a 60% set target with respect to race representation.

Our inability to meet our set targets is largely attributable to the unavailability of certain skills. However, measures have been put in place to ensure that the skills dearth is thoroughly addressed.

In addition, an action plan with clear time lines has been developed to address issues arising from the audit.

Organisational development

Culture survey

Two organisational surveys were undertaken during the reporting period, measuring the four factors associated with our organisational alignment, namely culture, leadership, line of sight and teamwork.

The surveys give us an appreciation of our cultural standing across these four elements based on employee perceptions.

Since commencing the surveys in October 2006, we have experienced a culture improvement of 7,5%.

However, analysis of the four dimensions highlights that line of sight (strategy and one's alignment to overall direction and purpose of the organisation) needs attention, coupled with teamwork (how employees interact within natural teams and cross functionally).

Disappointingly, from March 2007 to March 2008 the organisation regressed from a culture perspective. This is attributable largely to the leadership vacuum that resulted from the departure of the previous CEO and subsequent executive resignations.

This disharmony was largely seen in the November 2007 survey results, however the March 2008 results revealed a positive response to the appointments of the new leadership team.

We experienced marginal improvements with regard to team work, which can be attributed to the deployment of a psycho-analytical tool and methodology to address origins of team conflict and measures to resolve these.

Leadership has in the last year received substantial attention and this is showcased by it being one of the stronger dimensions. Further work on the location of a leadership mantra for SITA with its associated competencies will follow in the new financial year.

The tables below provide a comparative analysis of how we have fared with regard to the four dimensions of culture, individually and collectively:

Period	Percentage improvement			
	Culture	Leader-ship	Line of sight	Team-work
October 2006 to March 2008	8,7%	8,5%	5,9%	6,5%
March 2007 to March 2008	-2,8%	-2,4%	-2,2%	-1,2%
October 2007 to March 2008	1,2%	0,5%	0,4%	1,5%

Period	Overall percentage
October 2006 to March 2008	7,4%
March 2007 to March 2008	-2,15%
October 2007 to March 2008	0.9%

The Gender Forum

SITA continues to actively encourage the involvement of women in the mainstream of ICT. Since its establishment, the Gender Forum has developed plans that address among others, the following challenges in the workplace:

- Promotion and advancement of women in relation to gender equality
  - The forum continues to participate actively in the representation of women at all organisational levels. So far SITA has two females at executive level and the plan is that this be extended to other levels.
  - The forum plays a key role in influencing company policies that impact directly on women development and their participation in the business, including family-friendly practices.
- Work life balance
  - All employees strive to improve their careers through work experience. As a result balancing home/family responsibilities and work poses a challenge. To this end, the Gender Forum has engaged in workplace surveys that are intended to benefit all employees. These include the aftercare facilities and a holiday programme.

Executive management committee

1 2 3 4

1. Mr LC Jones
Chief Executive Officer
BSc Electrical Engineering
MSc Computer Science
Appointed: 01 November 2007
Resigned: 31 July 2008

2. Mr E Fortuin
General Manager:
Corporate Communications
BA (Hons) Communication Studies, MBA
Appointed: 22 January 2007

3. Mr E Khan
Chief Information Officer
BCom (Informatics), MCP, SCO ACE
Novell CNE, Unisa programme in
Electronic Commerce, C-programming
Basic Programming, Data Processing
Concepts, Advanced Unix usage
Appointed: 01 January 2008

4. Ms R Magoma-Nthite
Chief: Shared Services
Management Development Programme,
Masters Education Technology,
Executive Development Programme,
Educational Technology Diploma
(Mechanical Engineering)
Appointed: 01 January 2008

Mr M Msimang
Chief Executive Officer
Appointed: 01 October 2003
Resigned from Board: 14 May 2007

Mr JP Bogoshi
Chief: Strategic Services
Appointed: 01 August 2004
Resigned: 15 June 2007

Ms FM Habib
Chief: Shared Services
Appointed: 1 May 2006
Resigned: 31 December 2007

5 6 7 8

5 Mr M Mtimunye

Chief: Strategic Services
Telecomms Electrician,
BA degree, Post graduate diploma Project Management, Post graduate diploma Business Management, Management Development Programme, Senior Management Development Programme, MBA
Appointed: 01 November 2007

6 Mr P Pedlar

Chief: Regulatory Affairs and Procurement
BCom, B & A (Hons), Certificate in Treasury Management, Banking Supervision, Diploma in Law & Tax, Senior Executive Programme
Appointed: 01 November 2007
Acting CEO from 15 May 2007 to 31 October 2007

7 Ms F Pienaar

Chief: Business Operations
BSc, HED, BA (Hons): HRD
Executive Development Programme
Appointed: 01 January 2008

8. Mr A Pretorius

Acting Chief Financial Officer
CA(SA)
Appointed: 01 January 2008

Ms N Isaacs-Mpulo

Chief: Business Operations
Appointed: 01 January 2004
Resigned from Board 02 October 2007
Resigned from SITA 31 October 2007

Mr GM Salanje

Chief Financial Officer
Appointed: 01 May 2006
Resigned: 31 December 2007

Corporate Governance

Introduction

The directors of SITA (Proprietary) Limited regard corporate governance as fundamental to the success of the business. The Board is 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 regularly reviewed to ensure compliance with legal provisions, the use of funds in an economic, efficient and effective manner, and adherence to good corporate governance practices. Processes and practices are underpinned by the principles of transparency, integrity and accountability and an inclusive approach that recognises the importance of all stakeholders.

Compliance 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). Furthermore, the statutory duties, responsibilities and provisions imposed on the directors of SITA by the Companies Act no. 61 of 1973, are augmented by those contained in the SITA Act no. 88 of 1998, and the Public Finance Management Act no. 1 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

SITA, in the spirit of good governance in consultation with its executive authority (the Minister for Public Service and Administration), annually concludes a shareholder compact which documents the mandated key performance measures and indicators to be attained by SITA as agreed between the board of directors (board) and the executive authority. This compact is not intended to interfere in any way with normal company law principles.

In terms of the compact, 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

The details of the directors appear on pages 8 to 9.

The SITA Act no. 88 of 1998, provides that SITA will be governed and controlled by a Board of directors appointed by the Minister after consultation with Cabinet.

SITA has a Board currently comprising seven non-executive directors and one executive director as at 31 March 2008.

Non-executive directors are appointed for a term of three years, and retire by rotation but are eligible for reappointment. Executive directors have standard employee service contracts.

Board meetings are scheduled annually in advance, and additional meetings are convened as and when material issues arise requiring decisions by the Board.

Seven Board meetings were held in the financial year under review and the attendance by members is reflected below:

Board of directors	
Members	**Attendance (Meetings held: 7)**
TPC Chikane (Chairperson)	7
N Dhevcharran	7
NC Isaacs-Mpulo[1]	4
LC Jones[2]	6
CCW Kruger	7
ZP Manase	6
T Marwala	7
N Moerane[3]	0
M Msimang[4]	1
AP Pedlar[5]	4
R Sekese[6]	3
MO Williams[7]	3

1 – Resigned from Board 02 October 2007.
2 – Appointed as CEO 01 November 2007.
3 – Resigned from Board 25 April 2007.
4 – Resigned from Board 14 May 2007.
5 – Resigned from Board 31 October 2007.
6 – Appointed 15 October 2007.
7 – Appointed 15 October 2007.

Role and function

In terms of the provisions of the PFMA, the Board is the SITA accounting authority.

The Board charter defines 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 annual 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, interim statements and notices to the shareholder;

Corporate Governance

- Ensuring good corporate governance and ethics;
- Monitoring and reviewing company performance and effectiveness of controls;
- Ensuring effective communication with relevant stakeholders;
- Liaising with and reporting to the shareholder;
- Providing key guiding 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 company 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

Non-executive directors who are not employed by government receive fees for their contribution to the board and the committees on which they serve. Fees are determined by the Minister, from time to time, with the concurrence of the Minister of Finance. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on the company's behalf.

Further information on directors' remuneration appears on pages 80 to 83.

Company Secretariat

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.

In addition to the Company Secretary's normal duties and functions as prescribed in the Companies Act and further outlined in the King II Report, the Company Secretary assists with other assurance functions in the monitoring of SITA's compliance in terms of the provisions of the PFMA, Companies Act and other relevant legislation.

Board sub-committees

A number of board sub-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 sub-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. All board members may attend the sub-committee meetings by invitation.

Audit and Risk Committee

The SITA Audit and Risk Committee is established in terms of section 51(1)(a)(ii) of the PFMA and section 27.1.1 of the Treasury Regulations (PFMA 76(4)(d) whereby the board (Accounting Authority) must establish an audit committee as a sub-committee of the board Accounting Authority. This requirement is supported by the King II report on corporate governance in South Africa. In terms of the King II Code, the board may appoint a Risk Committee to review the risk management process and the significant risks facing the company and to report on it to the board. The Audit and Risk Committee operates in terms of a written terms of reference which is reviewed by the Board on an annual basis.

The membership of this committee comprises the chairman, who is a non-executive director and other non-executive directors.

The committee monitors compliance with relevant legislation and ensures that appropriate systems of internal control are maintained to protect SITA's interests and assets. It reviews the activities of the Internal Audit Division and its effectiveness.
It is also responsible for the evaluation of the independence, objectivity and effectiveness of the external auditors and 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, together with the external auditors' report, for approval by the board.

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

Five committee meetings were held during the financial year. These were attended by the external auditors, the Chief Executive Officer, the Chief Financial Officer, the Chief Audit Executive and other relevant corporate officials. The Chief Audit Executive and the external auditors have unrestricted access to the Chairperson of the committee and to the Chairperson of SITA. The attendance by members is reflected below:

Audit and Risk Committee	
Members	**Attendance (Meetings held: 5)**
ZP Manase (Chairperson)	4
N Dhevcharran	3
CCW Kruger	4
Ms N Moerane[1]	0
M Msimang[2]	0
AP Pedlar[3]	2

[1] – Resigned from Board 25 April 2007.
[2] – Resigned from Board 14 May 2007.
[3] – Resigned from Board 31 October 2007.

Finance and Capex Committee

The Finance and Capex Committee is a sub-committee of the SITA board and comprises external non-executive members and the Chief Executive Officer. SITA management attend the meeting by invitation.

The committee reviews the business plans and company budget and monitors compliance thereto. 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 from time to time.

Five committee meetings were held during the financial year, which were attended by the Chief Executive Officer, the Chief Financial Officer, the Chief Audit Executive and other relevant corporate officials. The attendance by members of the committee is reflected below:

Finance and Capex Committee	
Members	**Attendance (Meetings held: 5)**
CCW Kruger (Chairperson)	5
TPC Chikane[1]	2
LC Jones	5
ZP Manase	3
M Msimang[2]	1
AP Pedlar[3]	3
MO Williams[4]	1

[1] – Appointed to Committee 22 January 2008.
[2] – Resigned from Board 14 May 2007.
[3] – Resigned from Board 31 October 2007.
[4] – Appointed to Committee 31 January 2008.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprises non-executive directors and executive directors.

The committee:

- Makes recommendations to the board on the appointment of 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.

Corporate Governance

Four committee meetings were held during the financial year, and an additional workshop. The attendance by members of the committee is reflected below:

Human Resources and Remuneration Committee	
Members	Attendance (Meetings held: 4)
TPC Chikane (Chairperson)	4
N Dhevcharran	4
NC Isaacs-Mpulo[1]	3
LC Jones	2
T Marwala	4
N Moerane (Chairperson)[2]	0
M Msimang[3]	0
AP Pedlar[4]	3

[1] – Resigned from Board 02 October 2007.
[2] – Resigned from Board 25 April 2007.
[3] – Resigned from Board 14 May 2007.
[4] – Resigned from Board 31 October 2007.

Strategic Committee

The Strategic Committee comprises the Chairman of the board, Chief Executive Officer and non-executive directors. Executive management attend the meetings by invitation.

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

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

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

Strategic Committee	
Members	Attendance (Meetings held: 6)
TPC Chikane (Chairperson)	6
N Dhevcharran	6
LC Jones	6
CCW Kruger	6
T Marwala	6
M Msimang[1]	1
AP Pedlar[2]	4
R Sekese[3]	1
MO Williams[4]	2

[1] – Resigned from Board 14 May 2007.
[2] – Resigned from Board 31 October 2007.
[3] – Appointed to Committee 31 January 2008.
[4] – Appointed to Committee 25 October 2007.

Executive Management Committee (EXCO)

EXCO is chaired by the Chief Executive Officer and comprises the executives of SITA's various departments, and is attended by other relevant corporate officials by invitation. Details of the EXCO members appear on pages 20 to 21.

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.

Sixteen committee meetings were held during the financial year. The attendance by members of the committee is reflected below:

Executive Committee	
Members	**Attendance (Meetings held: 16)**
J Bogoshi[1]	3
E Fortuin	10
TV Geldenhuys[2]	6
F Habib[3]	12
N Isaacs-Mpulo[4]	11
LC Jones[5]	4
E Khan[6]	3
E Magoma- Nthite[7]	3
M Msimang[8]	3
M Mtimunye[9]	10
S Ngubane[10]	3
AP Pedlar[11]	13
F Pienaar[12]	3
A Pretorius[13]	2
M Salanje[14]	11

[1] – *Resigned from SITA 15 June 2007.*

[2] – *Resigned from SITA 30 September 2007.*

[3] – *Resigned from SITA 31 December 2007.*

[4] – *Resigned from Board 02 October 2007. Resigned from SITA 31 October 2007.*

[5] – *Appointed as CEO 01 November 2007.*

[6] – *Appointed 01 January 2008.*

[7] – *Appointed 01 January 2008.*

[8] – *Resigned from SITA 14 May 2007.*

[9] – *Appointed Acting Chief: Strategic Services from 18 June 2007, and appointed as Chief: Strategic Services from 01 November 2007.*

[10] – *Resigned from SITA 30 June 2007.*

[11] – *Appointed as Acting CEO from 15 May to 31 October 2007, and as Chief Regulatory Affairs and Procurement from 01 November 2007.*

[12] – *Appointed 01 January 2008.*

[13] – *Appointed Acting CFO 01 January 2008.*

[14] – *Resigned from SITA 31 December 2007.*

Public Finance Management Act (PFMA)

The PFMA regulates financial management inclusive of all revenue, expenditure, assets and liabilities in state owned enterprises in order to ensure that they are managed efficiently and effectively and to provide for the responsibilities of persons entrusted with financial management. The directors, as the accounting authority, comply with these fiduciary duties as set out in the PFMA. In terms of the PFMA, the responsibilities of the board include *inter alia* taking appropriate action to ensure that:

- Economic, efficient, effective and transparent systems of financial and risk management and controls are in place;
- All major capital projects are evaluated prior to a final decision on each project;
- The implementation of appropriate and effective measures to prevent unauthorised, irregular, fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal or fraudulent conduct;
- All revenues due to SITA are accounted for;
- 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.

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:

Corporate Governance

Materiality and significance framework

Section	Requirement	Material/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 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; and (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 0,6% of the actual revenue for 2006/7. • Apart from the above materiality amount, the following qualitative criteria will be considered: – All transactions/ventures not included in the SITA strategic plan; – All transactions/ventures not included in the SITA mandate; and – Any ventures/transactions outside the borders of the Republic.
Section 55(2)	The annual report and financial statements referred to in subsection 55(2) 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;	Losses in excess of R50 000 arising from criminal conduct are considered to be material and will be reported in accordance with the provisions of section 55(2) of the PFMA. Individual transactions in excess of R3,3 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 actual revenue for 2006/7.

Internal control

In terms of the provisions of the PFMA and other relevant legislation. The Board has the ultimate responsibility for establishing a framework for internal control, including, *inter alia*, an appropriate procurement and provisioning system. The controls throughout SITA focus on matters prescribed by legislation, all critical risk areas identified by operational risk management, confirmed by executive management and audited by the internal auditors. Organisational policies, procedures, structure and approval frameworks provide direction, accountability and segregation of duties and responsibilities, and contain self monitoring mechanisms. Management closely monitor and control the various systems and procedures and take the necessary actions to correct deficiencies as they are identified on an ongoing basis.

Internal audit

The SITA Internal Audit division was established in terms of section 51(1)(a)(ii) of the Public Finance Management Act (PFMA) whereby the Accounting Authority (the Board) must ensure that SITA has and maintains a system of internal audit under the control and direction of an Audit Committee. The formally defined scope of Internal Audit is to evaluate and improve the overall effectiveness of risk management, control and governance processes. The scope is dictated by the Treasury Regulations (TR) and the Institute of Internal Auditors (IIA). The purpose, authority and responsibility of the internal audit function are formally defined in its charter which is approved by the Audit and Risk Committee and the SITA Board (TR 27.2.5). In line with the overriding requirement of independence and objectivity, the Chief Audit Executive reports to the Chairperson of the Audit and Risk Committee.

As required by TR 27.2.6, Internal Audit conducts its work according to International Standards for the Professional Practice of Internal Auditing as set by the IIA. All internal auditors are obliged to apply and uphold the principles of integrity, objectivity, confidentiality and competency under the IIA's formal Code of Ethics.

Operations

The division's risk based audit plan for the 2007/8 year (as required by TR 27.2.7) was based on the major risks emanating from SITA's internal risk management process and was approved by the Audit and Risk Committee at the beginning of the financial year. The audit plan is responsive to changes in SITA's risk profile. Internal Audit attends all Audit and Risk Committee meetings, during which it provides a report on significant audit findings, its performance against the approved audit plan as well as other operational activities. The Internal Audit report assists the Audit and Risk Committee in discharging its responsibilities in terms of TR 27.1.8. The report also allows for effective monitoring. Significant audit findings are reported to management on a regular basis for appropriate remedial action.

For the year under review, Internal Audit conducted a total of 63 planned and three ad-hoc audits. The division tracks the status of audit findings on a regular basis and reports progress to the Audit and Risk Committee and EXCO.

Internal Audit provides various Integrity Assurance Services. The division contributes to SITA's ongoing anti-fraud and anti-corruption campaigns, including fraud awareness and ethics training. The performance of fraud detection analyses on major SITA systems is an ongoing initiative. The division conducted a total of 40 integrity assurance projects during 2007/8. Internal Audit attends to all calls received via an independent Ethics Line, established to provide a vehicle for the reporting of alleged fraud, corruption and other contraventions of SITA's Code of Ethics. The division also conducts forensic audits where these are requested by management.

As directed by TR 27.2.9, Internal Audit has co-ordinated its efforts with that of the Auditor-General to ensure proper coverage and to minimise duplication of effort. In doing so, the Auditor-General has been able to place reliance on the work by Internal Audit where relevant.

Internal audit capability

During the prior financial year, the Internal Audit division was subjected to a full independent External Quality Assessment. The Quality Assessment was conducted as required by the Standards of the Institute of Internal Auditors (IIA) and directed by the Treasury Regulations. Internal Audit was evaluated and rated as Generally Conforms, which means that the internal audit activity has a charter and policies and procedures that are judged to be in accordance with the IIA Standards.

Internal Audit is committed to building its operational efficiencies through the ongoing training of its staff which takes place by way of formal training interventions as well as on the job training through supervision. The optimum use of its electronic working paper and planning tool, as well as adherence to the Quality Assurance and Improvement programme, is an ongoing focus. The division's commitment to capacity building is evidenced by its participation in the Internal Audit Technician Learnership Programme through the employment and mentoring of trainees.

Corporate Governance

Risk management

In terms of 51(1) of the PFMA, the board must maintain an effective, efficient and transparent system of, among other, risk management. Furthermore, the King Report on Corporate Governance for South Africa, 2002 (King II) states that risk management should be practised throughout the organisation by all staff in their day-to-day activities. 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.

Risk management is about identifying and assessing key risks, designing and implementing strategies and processes by which those risks can be managed, and finally, continual review of processes to ensure that risks identified have been mitigated to a level acceptable to the relevant stakeholders. Accordingly, SITA developed a methodology which incorporates the principles 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 the SITA objectives as contained in the Strategic Imperatives.

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

Forensic investigations

An integrated anti-crime and anti-fraud prevention plan has been implemented in order to minimise the risk and opportunity for crime, irregularities, and in particular, fraud.

In order to support the strategic intent and business objectives of SITA, the Board or its committees, may, at its discretion, commission forensic audits whenever it is felt that this is justified.

Responsibility for reporting

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

Communication with stakeholders

SITA recognises the legitimate interests of the government as shareholder, 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 initiatives with stakeholders are ongoing during the year and are addressed through various channels depending on the different needs and aspirations of the various stakeholders.

Business performance

Financial perspective

Objective	Target	Stretched target	Actual performance
1. Achieve gross profit margin	20%	23%	Above stretch target achieved: 25,4% = 5
2. Achieve operating profit margin	5%	6%	Above stretch target achieved: 9,8% = 5
3. Achieve revenue growth	12%	14%	Target not achieved: 7,48% = 2
4. Reduce debtors' collection period	<65 days	≤60 days	Target achieved: 63 days = 3
5. Maintain acceptable performance ratios	1.5 : 1 (current ratio)	2:1 (current ratio)	Target achieved: 1.77: 1 = 3

Customer perspective

1. Improve external stakeholder satisfaction	Baseline established for project satisfaction	5% improvement on baseline at end of financial year	Target achieved: baseline established in November 2007 = 3
2. Improve external customer satisfaction	5% improvement on customer satisfaction baseline to 66% satisfaction (based on independent survey)	10% improvement on customer satisfaction baseline to 69% satisfaction (based on independent culture survey)	Target not achieved: 61% Overall rating = 2
3. Implement municipal strategy	Complete Architecture and Implemented solution in two new municipalities	Complete Architecture and Implemented solution in four new municipalities	Target not achieved = 2
4. Implement e-government strategy	Develop and obtain approval of Vision, Strategy, Communication Plan and Implementation Plan and two catalytic projects implemented by March 2008	Implement four more catalytic projects implemented by March 2008	Target not achieved = 2
5. Implement IFMS	Achieve SLA targets for financial year 2007/8	Achieve SLA targets for financial year 2007/8 with a 5% saving on time and cost	Target achieved = 3
6. Implement FOSS internally as per Cabinet resolution	FOSS piloted in one environment within SITA	50% of FOSS strategy implemented in SITA	Target achieved = 3
7. Establish FOSS programme	Migrate one government department or organ of state into FOSS	Migrate two government departments or organs of state into FOSS	Target not achieved = 2
8. Meet BEE/SMME targets	60% BEE procurement vs total procurement	65% BEE procurement vs total procurement	Target achieved: 60,3% = 3
	50% provincial spend in the Regions on local BEE and SMME	60% provincial spend in the Regions is from local BEE and SMME	Stretched target achieved: 60,87% = 4

Business performance

Customer perspective

Objective	Target	Stretched target	Actual performance
9. Develop a strategy for developing indigenous skills in the software industry	Develop framework with Industry including the concept of modifying point allocation on tenders to include higher points for local indigenous development and action 10% of the strategy	Develop framework with Industry and action 30% of the strategy including the implementation of the modified point allocation on tenders where higher points allocated for local indigenous development	Target not achieved = 2
10. Influence 80% of government ICT expenditure (over four years)	Establish baseline of government expenditure and SITA's involvement (Influence, Manage, Execute)	Map and align SITA's initiatives with goal to influence 80% of government ICT expenditure	Target not achieved = 2
11. Develop, implement and maintain Government Wide Enterprise Architecture (GWEA)	Conceptual GWEA presented for discussion with stakeholders in line with the charter	Conceptual GWEA approved by stakeholders in line with the charter	Target achieved = 3

Business perspective

Objective	Target	Stretched target	Actual performance
1. Develop project management capability	Establish full integration of project management with the ERP system	Establish full integration and develop a Project Dashboard.	Target not achieved = 2
	Establish project manager assessment centre	80% project managers assessed by March 2008	Target not achieved = 2
2. Improve business process in accordance with Quality Frameworks	All processes with SITA HQ, KZN region and Gauteng region certifiable (internally evaluated)	All processes with SITA HQ, KZN region and Gauteng region certifiable (externally evaluated – SABS)	Stretched target achieved = 4
	The control and resolution processes compliant with ISO 20000	Service management, service reporting and relationship processes compliant with ISO 20000	Stretched target achieved = 4
	Standard CMMI Appraisal Method for Process Improvement (SCAMPI) competency established	Establish CMMI baseline for project management and procurement	Stretched target achieved = 4

Business perspective

Objective	Target	Stretched target	Actual performance
3. Implement corporate performance management system	CPM tool procured	CPM tool fully functional and utilised by all specified users by March 2008	Target not achieved = 2
4. Improve infrastructure efficiency and effectiveness	Develop service efficiency and effectiveness model and indices	Implement service efficiency and effectiveness model and indices by March 2008	Target not achieved = 2
5. Properly managed internal controls	Clean material risks/issues, disclaimers, qualification or emphasis of matter from the Audit Management Report; no new matters of material risks/issues resulting in a disclaimer, qualification or emphasis of matter in the external audit report	100% Audit Report risks/issues mitigated rated 'significant	Target not achieved = 2*

Learning and growth

Objective	Target	Stretched target	Actual performance
1. Attract, retain and motivate critical skills and best performers	< 8% turnover of critical skills and best performers	< 6% turnover critical skills and best performers	Above stretched target achieved: 2,7% = 5
2. Training and development according to identified core competency gaps	90% staff trained as per PDP	95% staff trained as per PDP	Target achieved: 90,75% = 3
3. Improve employee satisfaction (including culture Issues)	10% improvement on SITA Culture Survey baseline	15% improvement on SITA Culture Survey baseline	Target not achieved: 8% = 2
4. Drive employment equity	60% EE candidates actual vs target	65% EE candidates actual vs target	Target not achieved: 59,77% = 2
	48% female candidates actual vs target	50% female candidates actual vs target	Target not achieved: 45,05% = 2
	1% disabled candidates actual vs target	2% disabled candidates actual vs target	Target not achieved: 0,82% = 2

Highlights

- ***Revenue up by 7,48%***
- ***Gross surplus up by 28,79%***
- ***Net surplus up by 109,09%***

Salient features

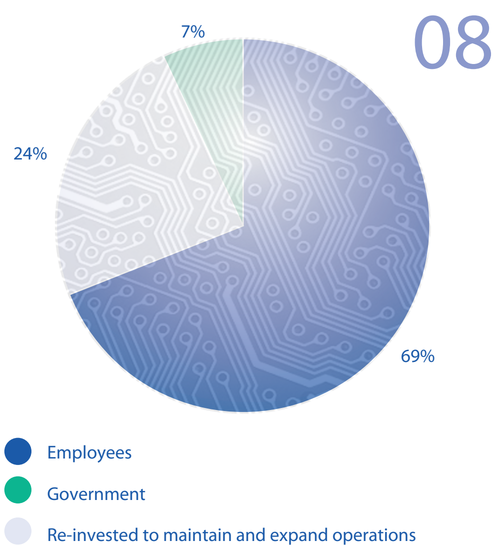
for the years ending

	31 Mar 08 R million	31 Mar 07 R million	% change
Revenue	**3 608**	3 357	7,48
Gross surplus	**917**	712	28,79
Operating surplus	**428**	204	109,80
Net surplus for the year	**299**	143	109,09
Total assets	**2 561**	2 345	9,21
Total net assets	**1 366**	1 067	28,02
Cash flow from operating activities	**271**	166	63,25
Capital expenditure	**262**	149	75,84
Gross profit margin (%)	**25,42**	21,21	
Operating surplus (%)	**11,86**	6,08	
Net surplus for the year (%)	**8,29**	4,26	

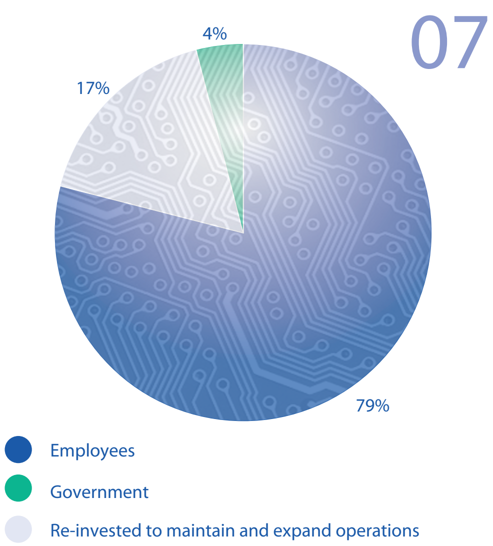
Value added statement

	Mar 08 R million	%	Mar 07 R million	%
Revenue	**3 608**		3 357	
Paid to suppliers for materials and services	**1 954**		1 957	
Value added by operations	**1 654**	**91**	1 400	93
Other income	**42**	**2**	20	1
Interest income	**124**	**7**	89	6
Total wealth created	**1 820**	**100**	1 509	100
Distributed as follows:				
Employees	**1 241**	**69**	1 189	79
Salaries, wages and other benefits	**1 182**		1 136	
Retirement benefit costs	**59**		53	
Government				
Income tax	**129**	**7**	61	4
Re-invested to maintain and expand operations	**427**	**24**	259	17
Depreciation/amortisation	**128**		116	
Accumulated surplus	**299**		143	
Total wealth distributed	**1 797**	**100**	1 509	100

Total wealth distributed



Total wealth distributed



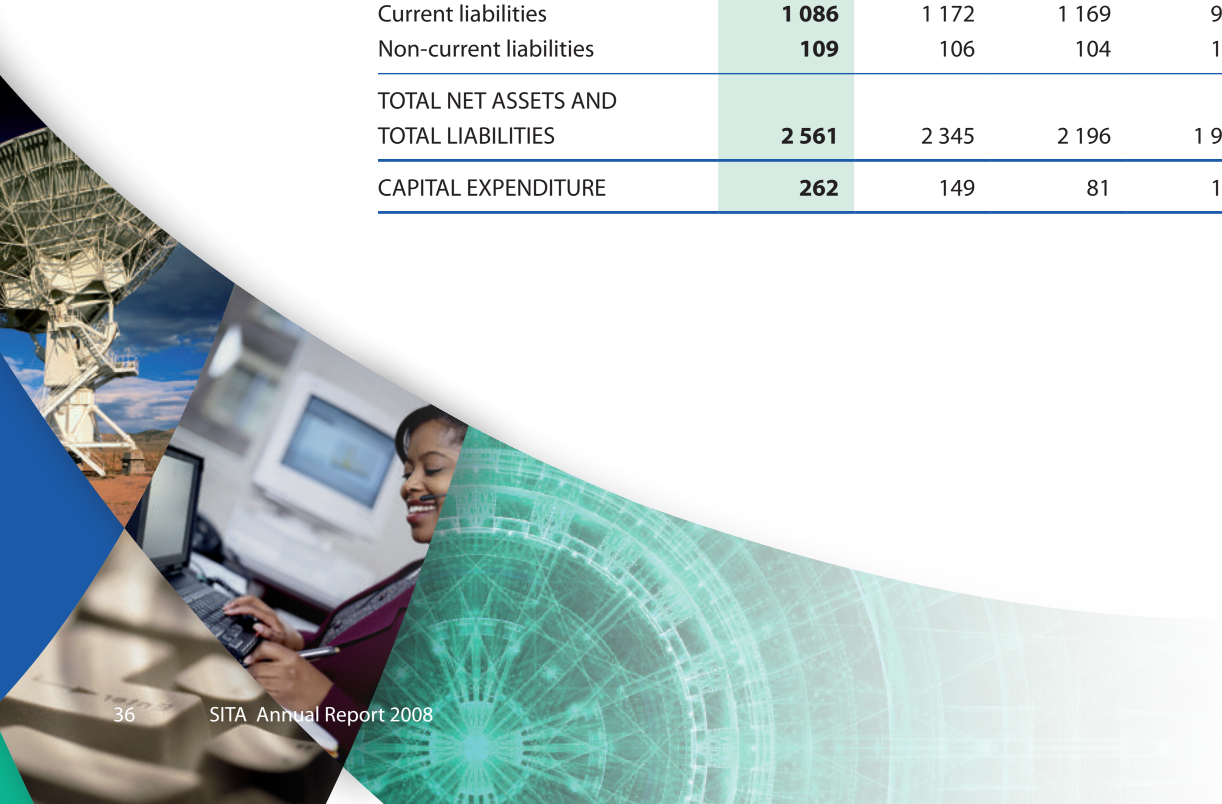
Five year review

Statement of financial performance and cash flow

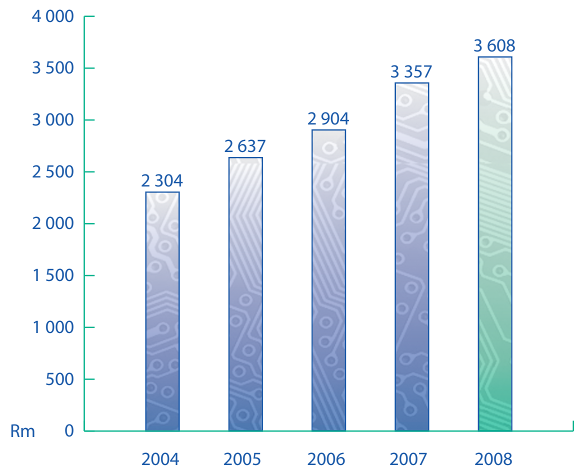
	31 Mar 08 R million	31 Mar 07 R million	31 Mar 06 R million	31 Mar 05 R million	31 Mar 04 R million
Revenue	**3 608**	3 357	2 904	2 637	2 304
Gross surplus	**917**	712	532	496	448
Other income	**42**	20	7	2	9
Finance income	**124**	89	65	23	27
Finance costs	**48**	25	12	9	4
Operating expenses	**607**	592	476	411	428
Surplus/(loss) before tax	**428**	204	115	101	52
Income tax expense	**129**	61	33	32	17
Surplus/(loss) for the year	**299**	143	81	69	35
Cash generated from operations	**271**	166	507	342	61

Statement of financial position

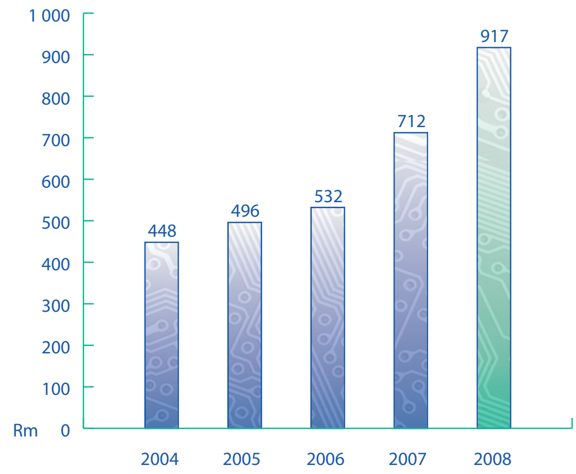
	31 Mar 08 R million	31 Mar 07 R million	31 Mar 06 R million	31 Mar 05 R million	31 Mar 04 R million
Current assets	**1 927**	1 828	1 732	1 387	958
Non-current assets	**634**	517	464	537	467
TOTAL ASSETS	**2 561**	2 345	2 196	1 924	1 425
Net assets	**1 366**	1 067	923	842	692
Current liabilities	**1 086**	1 172	1 169	981	626
Non-current liabilities	**109**	106	104	101	107
TOTAL NET ASSETS AND TOTAL LIABILITIES	**2 561**	2 345	2 196	1 924	1 425
CAPITAL EXPENDITURE	**262**	149	81	124	151



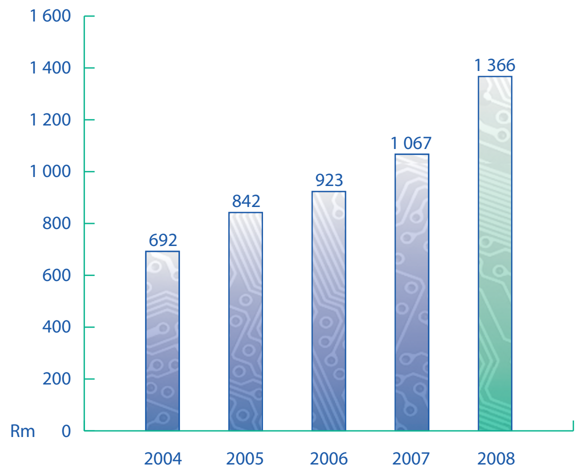
Revenue



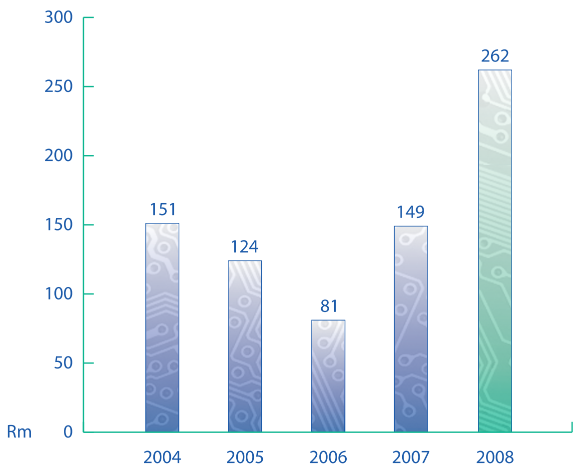
Gross surplus



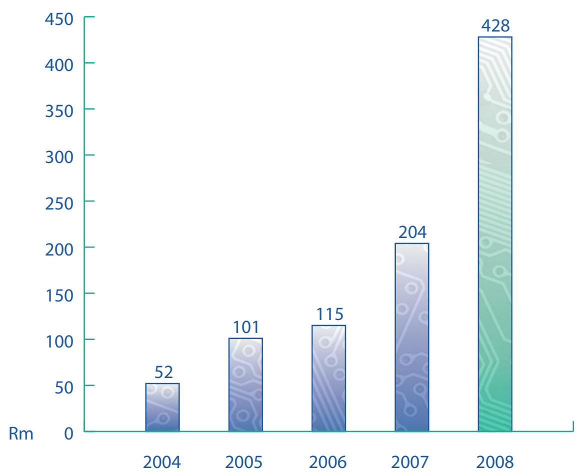
Net assets



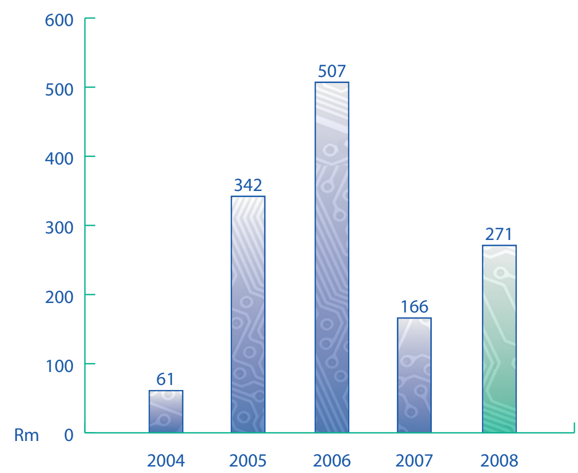
Capital expenditure



Surplus before taxation



Cash generated from operating activities



Report of the Audit and Risk Committee

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

The Audit and Risk Committee reports 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 division including its activities, its annual internal coverage plan, co-ordination with the Auditor-General, the reports of significant findings and investigations conducted 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 Internal Audit and discussions with the Auditor-General on the results 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 Internal Audit during the year under review, these matters have been reported to management for remedial action.

The Audit and Risk Committee has evaluated the annual financial statements of the company for the year ended 31 March 2008 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, the Public Finance Management Act no. 1 of 1999, the SITA Act no. 88 of 1998, and the South African Statements of Generally Accepted Accounting Practice including interpretation of such statements 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 16 July 2008, the Audit and Risk Committee recommended the adoption of the annual financial statements by the board of directors.

Ms ZP Manase

Signed by Chairperson of the Audit and Risk Committee

Certificate by Company Secretary

I, Estelle Strydom, in my capacity as Company Secretary of SITA (Pty) 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 Estelle Strydom
SITA Company Secretary

Statement of responsibility by the board of directors

The directors are responsible for the preparation and fair presentation of the annual financial statements of SITA (Pty) Limited, comprising the balance sheet at 31 March 2008, and the income statement, the statement of changes in equity and cash flow statement for the financial year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such statements issued by the Accounting Practices Board, with the Standards of Generally Recognised Accounting Practices issued by the Accounting Standards Board and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these 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.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the annual financial statements

The annual financial statements of SITA (Pty) Limited, as identified in the first paragraph, were approved by the board of directors on 24 July 2008 and are signed on its behalf by

Ms ZP Manase
Director

Mr CCW Kruger
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 2008

Report on the financial statements

Introduction

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 2008, 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, and the directors' report, as set out on pages 45 to 83.

Responsibility of the accounting authority for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 2 and in the manner required by the 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

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.

I conducted my audit in accordance with the International Standards on Auditing read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the:

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

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

Basis of accounting

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 2 to the financial statements.

Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of the State Information Technology Agency as at 31 March 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 2 and in the manner required by the PFMA and the Companies Act of South Africa.

Emphasis of matter

Without qualifying my audit opinion, I draw attention to the following matter:

Irregular expenditure

As disclosed in note 31 to the financial statements, irregular expenses to the amount of R11 749 063 were incurred due to the following reasons:

- a staff member entered into an operating lease contract amounting to R10 401 243 without being duly authorised to do so;
- all other aspects of the required tender process were followed;
- purchase orders amounting to R1 020 941 have been split to avoid the tender process; and
- three written quotations were not obtained in some instances. The expenses amounted to R326 879.

Other matters

Non-compliance with applicable legislation

Treasury Regulation 16A.3 and PFMA section 51(1)(a)(i) requires that an effective, efficient, fair, equitable, competitive and transparent supply chain (procurement) system should be in place. A contract management system that facilitates the above was not in place during the financial year to comply with Treasury Regulations and the PFMA.

As reported previously, Service Level Agreements with departments and public bodies were either not signed or not concluded as required by section 20 (2) of the State Information Technology Agency Act, 1998.

Matters of governance

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

No.	Matter of governance	Yes	No
	Audit committee		
1(a)	The entity had an audit committee in operation throughout the financial year.	Yes	
1(b)	The audit committee operates in accordance with approved written terms of reference.	Yes	
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	Yes	
	Internal audit		
2(a)	The entity had an internal audit function in operation throughout the financial year.	Yes	
2(b)	The internal audit function operates in terms of an approved internal audit plan.	Yes	
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	Yes	
	Other matters of governance		
3	The annual financial statements were submitted for audit as per the legislated deadlines – section 55 of the PFMA.	Yes	
4	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	Yes	

Report of the Auditor-General

No.	Matter of governance	Yes	No
5.1	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information.		No
5.2	No significant difficulties were experienced during the audit due to unavailability of senior management.	Yes	
6	The prior year's external audit recommendations have been substantially implemented.		No

Other reporting responsibilities

Reporting on performance information

I have audited the performance information as set out on pages 31 to 33.

Responsibilities of the accounting authority

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

I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.

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.

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

Other reports

Investigations

Having regard to the alleged irregularities on the Gateway project, inspectors have been appointed by the Minister of 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 implementing the legal advice.

With regards to project CabeNet, the matter is under investigation by the Commercial Crime Unit of the South African Police Services.

These matters have been disclosed in the Directors' Report.

Appreciation

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

Auditor - General.

Auditor-General

Pretoria
31 July 2008

AUDITOR-GENERAL

Directors' report

The directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the SITA (Pty) Limited for the year ended 31 March 2008. This report and the annual financial statements comply with the requirements of the Public Finance Management Act No. 1 of 1999, the SITA Act No. 88 of 1998 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 the SITA Act No. 88 of 1998. The company derives all its revenue from 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 of 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 2008. Details of the authorised and issued share capital can be found in note 11 to the annual financial statements.

Financial highlights

The company's financial performance is summarised as follows:

Salient features

	31 March 2008 **R**	31 March 2007 % change
Revenue	**3 607 613 419**	7,48
Gross surplus	**917 323 621**	28,79
Surplus for the year – before tax	**427 974 452**	109,80
Total assets	**2 560 566 614**	9,21
Net assets	**1 365 962 288**	28,02
Cash generated from operations	**271 171 301**	63,25

Directors‘ report
(continued)

Dividends
There were no dividends declared for the current financial year (2007: 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 year internal controls operated effectively.

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 legislation. Any non-compliance with legislation is reported on a quarterly basis to both EXCO 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 of Public Service and Administration for the 2007/8 financial year.

Material losses through criminal conduct, irregular, 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 previous financial years

Gateway

Following the legal opinion received, SITA has sent a request for arbitration to the defendant in order to interrupt prescription. The defendant filed a "notice of exception" in terms of which it sought to contest the jurisdiction of the Arbitration Foundation of Southern Africa (AFSA) over the subject matter. However, its notice has been filed outside the time limits stipulated in Article 6.1.4 of the rules of AFSA. Legal opinion received indicates that should the defendant persist with its "notice of exception", the arbitrator will rule that the arbitration must proceed. SITA has accordingly instructed attorneys to request the defendant to abandon the "notice of exception" and to proceed forthwith with the filing of a statement of defence.

CabEnet

This matter is entirely in the hands of the Commercial Crime Unit of the South African Police Service. SITA has made available to the unit all the relevant information and documentation that has been requested.

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 Practices (GRAP) issued by the Accounting Standards Board.

Events subsequent to the date of financial position

Subsequent to the date of financial position, the directors are not aware of any matters or circumstances that may materially affect the financial statements. However, it should be noted that the CEO Mr LC Jones, tendered his resignation on 31 July 2008.

Going concern

The directors confirm that they are satisfied that the company has adequate resources to continue in business for the twelve month period from the date of this report. For this reason they continue to adopt the going concern basis for preparing the financial statements as confirmed in the Statement of Responsibility by the Board of directors on page 40.

Directors

Disclosure of directors' remuneration is detailed in Annexure A to the annual financial statements.

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

Resigned during the year under review:

Executive directors:	
Ms NC Isaacs-Mpulo	02 October 2007
Mr M Msimang	14 May 2007
Non-executive directors:	
Mr AP Pedlar	Acting CEO 15 May 2007 – 31 October 2007 Resigned 31 October 2007 Appointed Chief: Regulatory Affairs and Procurement and member of Exco on 01 November 2007
Ms N Moerane	25 April 2008

Statement of financial position

as at 31 March 2008

	Notes	2008 R	2007 R
Assets			
Non-current assets		**633 896 080**	517 504 162
Property, plant and equipment	4	**533 362 337**	430 655 983
Intangible assets	5	**60 770 677**	43 963 226
Deferred tax asset	6	**39 763 066**	42 884 953
Current assets		**1 926 670 534**	1 827 951 446
Cash and cash equivalents	7	**1 101 257 016**	1 096 727 939
Trade and other receivables	8	**801 626 203**	664 971 584
Contract work in progress	9	**15 852 236**	52 648 138
Prepayments	10	**7 935 079**	13 603 785
Total assets		**2 560 566 614**	2 345 455 608
Net assets and liabilities			
Net assets		**1 365 962 288**	1 066 761 877
Equity contributed	11	**1**	1
Non-distributable reserves	12	**625 333 736**	625 333 736
Accumulated surpluses		**740 628 551**	441 428 140
Liabilities			
Non-current liabilities		**108 813 275**	106 340 491
Interest-bearing borrowings	13	**15 600 250**	20 800 330
Post-retirement medical benefits	14	**93 213 025**	85 540 161
Current liabilities		**1 085 791 051**	1 172 353 240
Trade and other payables	15	**656 213 374**	697 412 198
Current portion of interest-bearing borrowings	13	**5 200 080**	5 200 080
Provisions	16	**73 500 000**	60 000 000
Income received in advance	17	**276 636 971**	352 327 175
Income tax payable		**74 240 626**	57 413 787
Total net assets and liabilities		**2 560 566 614**	2 345 455 608

Statement of financial performance
for the year ended 31 March 2008

	Notes	**2008 R**	2007 R
Revenue	18	**3 607 613 419**	3 356 615 384
Cost of sales	19	**2 690 289 798**	2 644 743 447
Gross surplus		**917 323 621**	711 871 937
Other income	20	**41 939 318**	20 280 360
Operating expenses	21	**607 441 821**	591 953 069
Results from operating activities		**351 821 118**	140 199 228
Finance income	22	**123 928 999**	88 523 193
Finance expenses	23	**47 775 665**	24 583 208
Surplus before income tax		**427 974 452**	204 139 213
Income tax expense	24	**128 774 041**	60 645 145
Surplus for the year attributable to shareholder		**299 200 411**	143 494 068

Statement of changes in net assets

for the year ended 31 March 2008

	Equity contributed R	Non-distributable reserve R	Accumulated surpluses R	Total R
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
Surplus for the year			299 200 411	299 200 411
Balance as at 31 March 2008	1	625 333 736	740 628 551	1 365 962 288
Note	11	12		

Cash flow statement

for the year ended 31 March 2008

	Notes	2008 R	2007 R
Cash flows from operating activities			
Receipts			
– Sale of goods and services		**3 487 740 945**	3 261 246 675
– Finance income received		**123 928 999**	88 523 193
Payments			
– Payment to suppliers and employees		**(3 183 897 663)**	(3 141 509 040)
– Finance costs paid		**(47 775 665)**	(24 583 208)
– Income tax paid	32.1	**(108 825 315)**	(18 089 879)
Cash flows from operating activities	32.2	**271 171 301**	165 587 741
Cash flows from investing activities			
Additions to property, plant and equipment and intangible assets		**(261 824 979)**	(149 450 764)
Proceeds from the disposal of property, plant and equipment and intangible assets		**382 835**	726 658
Cash flows from investing activities		**(261 442 144)**	(148 724 106)
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		**4 529 077**	11 663 555
Cash and cash equivalents at beginning of year		**1 096 727 939**	1 085 064 384
Cash and cash equivalents at end of year		**1 101 257 016**	1 096 727 939

Notes to the annual financial statements
for the year ended 31 March 2008

1. Corporate information

The State Information Technology Agency (Pty) Limited (SITA) is a private company domiciled in South Africa. The registered address of SITA is 459 Tsitsa Street, Erasmuskloof, Pretoria. SITA is primarily involved in the provision of IT goods and services. SITA has one share that is held by the state represented by the Minister of the Department of Public Service and Administration. The financial statements of SITA for the year ended 31 March 2008 were authorised in accordance with a resolution of the directors on 24 July 2008.

2. Basis of preparation

a) Statement of compliance

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 year	Retained earnings/(accumulated losses)
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 in 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.

2. Basis of preparation *(continued)*

b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These financial statements are presented in Rand which is also the functional currency of the company. All financial information presented has been rounded to the nearest Rand.

d) Use of estimates and judgement

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 revision and future periods if the revision affects both current and future periods.

3. Significant accounting policies

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

3.1 Foreign currency transactions

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.

3.2 Financial instruments

a) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Cash and cash equivalents comprise cash balances and call deposits.

Held-to-maturity investments are financial instruments that the company has with the positive intent and ability to hold to maturity. They are measured at amortised cost using the effective interest method less any impairment.

3. Significant accounting policies *(continued)*

3.2 Financial instruments *(continued)*

a) Non-derivative financial instruments (continued)

An instrument is classified at fair value through profit and loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition attributable transaction costs are recognised in the statement of financial performance when incurred. Financial instruments at fair value through profit and loss are measured at fair value, and changes therein are recognised in the statement of financial performance.

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

b) Derivative financial instruments

The company uses derivative financial instruments such as forward exchange contracts to hedge its risk associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and is subsequently measured at fair value. Derivatives are carried as assets when the fair value is positive and liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to the statement of financial performance.

The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.3 Property, plant and equipment

a) Recognition and measurement

Items of property, plant and equipment, except land, are measured at cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost and is not depreciated.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "Other income" in the statement of financial performance.

3. Significant accounting policies *(continued)*

3.3 Property, plant and equipment *(continued)*

b) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of financial performance as incurred.

c) *Depreciation*

Depreciation is recognised in the statement of financial performance on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment from the date that they are available for use. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

– Buildings	17 – 50 years
– Computer equipment	3 – 8 years
– Office furniture	7 – 10 years
– Vehicles	9 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates accounted for on a prospective basis.

d) *Derecognition*

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

3.4 Intangible assets

a) *Recognition and measurement*

Intangible assets consist of separately identifiable software that is utilised by the company. This software is measured at cost less accumulated amortisation and accumulated impairment losses.

b) *Subsequent measurement*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of financial performance when incurred.

c) *Amortisation*

Amortisation is recognised in the statement of financial performance on a straight-line basis over the estimated useful lives of the intangible assets, from the date that they are available for use.

The estimated useful lives for the current and comparative periods are as follows:

– Purchased software	3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates accounted for on a prospective basis.

d) *Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of financial performance in the year in which it is incurred.

There are no development costs.

3. Significant accounting policies *(continued)*

3.5 Leases

All lease arrangements entered into by the company are operating lease arrangements. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, 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. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an integral part of the total lease expense on a straight-line basis over the lease term.

3.6 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, once the outcome of the contract can be assessed with reasonable assurance. The stage of completion is determined with reference to estimates of work performed. As soon as losses on individual contracts become evident they are recognised in the statement of financial performance.

3.7 Impairment

a) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of financial performance.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of financial performance.

b) Non-financial assets

The carrying amounts of the company’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit 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 present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit).

3. Significant accounting policies *(continued)*

3.7 Impairment *(continued)*

b) Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of financial performance.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Employee benefits

a) Defined contribution plans

A defined contribution plan is a post-retirement benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of financial performance when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

b) Post-retirement 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 cost 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. Any actuarial gains or losses are deferred and recognised in the statement of financial performance over the remaining working lives of employees.

c) Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

d) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies *(continued)*

3.9 Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

a) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the company from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the company recognises any impairment loss on the assets associated with that contract.

3.10 Revenue

Revenue is measured net of value added tax.

a) Goods sold

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

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

b) Rendering of services

Revenue from services rendered is recognised in proportion 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.

c) Interest income

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

3.11 Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of financial performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies *(continued)*

3.11 Income tax *(continued)*

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.12 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 are 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.

3.13 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 instances of irregular, fruitless and wasteful expenditure are charged in the statement of financial performance in the period in which they are identified.

3.14 Finance income and expenses

Finance income comprises interest income on funds invested and the adjustment required by AC133 interpreted in Circular 9/2006 issued by SAICA. Interest income is recognised as it accrues in the statement of financial performance, using the effective interest method.

Finance expenses comprise interest expense on borrowings using the effective interest method.

Foreign currency gains and losses are reported on a net basis and are disclosed as either finance income or finance expenses as applicable.

Notes to the annual financial statements

for the year ended 31 March 2008

4. Property, plant and equipment

	Land R	Buildings R	Computer equipment R	Office furniture R	Vehicles R	Total R
At 31 March 2008						
Cost						
Balance at beginning of year	22 742 785	207 832 749	703 672 298	51 370 684	1 564 372	987 182 888
Additions and improvements	–	10 565 054	171 805 803	31 462 049	–	213 832 906
Disposals	–		(138 772 494)	(437 204)	(677 843)	(139 887 541)
Balance at end of year	22 742 785	218 397 803	736 705 607	82 395 529	886 529	1 061 128 253
Accumulated depreciation						
Balance at beginning of year	–	30 085 743	502 388 872	22 487 918	1 564 372	556 526 905
Depreciation charge	–	7 231 923	80 981 153	5 234 529	–	93 447 605
Impairment	–	212 676	3 424 279	61 706	–	3 698 661
Disposals	–	–	(124 818 047)	(411 365)	(677 843)	(125 907 255)
Balance at end of year	–	37 530 342	461 976 257	27 372 788	886 529	527 765 916
Net carrying amount	22 742 785	180 867 461	274 729 350	55 022 741	–	533 362 337
At 31 March 2007						
Cost						
Balance at beginning of 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 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 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 year	–	30 085 743	502 388 872	22 487 918	1 564 372	556 526 905
Net carrying amount	22 742 785	177 747 006	201 283 426	28 882 766	–	430 655 983

4. Property, plant and equipment *(continued)*

Impairment losses

Impairment losses relating to buildings, computer equipment and office furniture amounting to R3 698 661 (2007: R4 420 533) were incurred due to the fact that their recoverable amounts exceed their value in use.

Security

The Erasmuskloof property with a net carrying value of R39,8 million (2007: R40,8 million) is bonded to Denel (Proprietary) Limited as disclosed in note 13. All other assets are freehold and have not been pledged as security for liabilities.

Other

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, were 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.

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 the 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 2008. Work on the separation of the water and electricity connection together with the replacement of the goods lift will commence in the 2008/9 financial year.

All the requisite conditions for registration of these properties have been met by SITA.

Notes to the annual financial statements

for the year ended 31 March 2008

		2008 R	2007 R
5. Intangible assets			
Cost			
Balance at beginning of year		**92 187 429**	74 781 155
Additions and improvements		**47 992 073**	20 471 762
Disposals		**(784 604)**	(947 881)
Transfers to property, plant and equipment		**–**	(2 117 607)
Balance at end of year		**139 394 898**	92 187 429
Accumulated amortisation			
Balance at beginning of year		**48 224 203**	30 789 495
Amortisation charge		**30 975 788**	18 137 627
Impairment		**–**	332 841
Disposals		**(575 770)**	(825 860)
Transfers to property, plant and equipment		**–**	(209 900)
Balance at end of year		**78 624 221**	48 224 203
Net carrying amount		**60 770 677**	43 963 226
6. Deferred tax assets			
Deferred tax assets are attributable to the following:			
	Statement of financial performance movement		
Movement in impairment on trade receivables	(66 572)	**13 206 960**	13 273 532
Accrual for leave pay benefits	290 199	**12 000 943**	11 710 744
Post-retirement medical benefits	1 293 000	**26 099 647**	24 806 647
Income received in advance	(24 716 529)	**77 458 352**	102 174 881
Leases	2 568 996	**2 568 996**	–
Prepayments	(597 689)	**(604 334)**	(6 645)
Section 24C allowance	21 240 007	**(59 855 261)**	(81 095 268)
Depreciation/amortisation	(3 133 299)	**(31 112 237)**	(27 978 938)
	(3 121 887)	**39 763 066**	42 884 953
Reconciliation between opening and closing balance			
Deferred tax asset at beginning of year		**42 884 953**	17 768 743
Statement of financial performance movement		**(3 121 887)**	25 116 210
Deferred tax asset at end of year		**39 763 066**	42 884 953

	2008 R	2007 R
7. Cash and cash equivalents		
Cash book balance	**133 547 744**	4 553 661
Call account balance	**164 111 652**	98 725 158
Investment account balance	**803 589 401**	993 629 474
Ring-fenced cash	**215 674 937**	288 630 449
Post-retirement medical benefits	**85 540 161**	–
Other surplus cash	**502 374 303**	704 999 025
Receipts clearing accounts and floats	**8 219**	(180 354)
	1 101 257 016	1 096 727 939

Ring-fenced cash represents monies received from customers to be utilised for specific projects in future, deposits held for rental and municipalities and money that has been ring–fenced to manage the immediate risk of an uncovered post–retirement medical benefit liability.

The company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

	2008 R	2007 R
8. Trade and other receivables		
Trade receivables	**845 823 666**	718 756 379
Less: Net provision for doubtful debts	**(57 436 068)**	(61 027 734)
	788 387 598	657 728 645
Other receivables	**13 238 605**	7 242 939
	801 626 203	664 971 584

Refer to note 26 for the breakdown of trade receivables due from related parties.

The company's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in note 25.

	2008 R	2007 R
9. Contract work in progress		
Projects in progress	**15 852 236**	52 648 138

The cost of work in progress comprises direct materials, direct labour and appropriate overhead costs plus profit recognised to date.

	2008 R	2007 R
10. Prepayments		
Deposits	**22 914**	22 914
Deferred expenditure	**7 324 619**	11 994 444
Other	**587 546**	1 586 427
	7 935 079	13 603 785

Notes to the annual financial statements
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	2008 R	2007 R
11. Equity contributed		
Authorised and issued		
One (1) ordinary share at R1,00	**1**	1
12. 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.		
13. Interest-bearing borrowings		
Long-term loan	**20 800 330**	26 000 410
Less: Current portion	**(5 200 080)**	(5 200 080)
	15 600 250	20 800 330
Terms and repayment schedule This loan represents the long-term loan from Denel (Proprietary) Limited in accordance with the business transfer agreement between Denel and SITA on incorporation.		
This loan is secured by a first mortgage bond of R52 000 811 against the Erasmuskloof building with a carrying amount of R39,8 million (2007: R40,8 million) (refer note 4).		
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.		
Payable within two years	**10 400 160**	10 400 160
Payable between two and five years	**10 400 170**	15 600 250
Total borrowings	**20 800 330**	26 000 410
Less: Current portion	**(5 200 080)**	(5 200 080)
	15 600 250	20 800 330

	2008 R	2007 R

14. Post–retirement medical benefits

Present value of unfunded obligations	**73 345 000**	68 202 000
Unrealised actuarial gains	**19 868 025**	17 338 161
	93 213 025	85 540 161
Movement in the present value of the defined contribution liability		
Balance at beginning of year	**85 540 161**	78 195 280
Statement of financial performance movement	**7 672 864**	7 344 881
Current service cost	**2 951 045**	2 885 780
Interest cost	**5 905 703**	5 439 422
Contributions paid	**(177 381)**	(398 234)
Recognised actuarial (gain)/loss	**(1 006 503)**	(582 087)
Balance at end of year	**93 213 025**	85 540 161
Principal actuarial assumptions		
Long-term discount rate before tax	**9,9%**	8,3%
Long-term medical inflation rate	**8,3%**	6,7%
Normal retirement age	**60 years**	60 years

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

a) Ex-Infoplan employees who transferred to SITA on 1 April 1999 and are still members of the U-Med medical aid fund;

b) Ex-SAPS employees who transferred to the company on 1 April 1999; and

c) Other former public sector employees who transferred to SITA on or after 1 April 1999 and remain members of their respective medical aids.

The amounts due in respect of the company's liability regarding the post-retirement medical benefit have been determined by independent actuaries as at 31 March 2008 using the projected unit credit method.

Sensitivity analysis

	Liability **R**	Change in Liability %
Increase of 1%	**91 790 000**	25,1%
Base liability	**73 345 000**	0%
Decrease of 1%	**59 330 000**	(19,6%)

14. Post–retirement medical benefits *(continued)*

14.1 Employee benefits

All permanent employees are members of the following independent funds:

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 no. 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 R55,55 million (2007: R54,11 million). The company's financial obligation is limited to the current company contributions.

	2008 **R**	2007 R
15. Trade and other payables		
Trade payables	**570 774 779**	566 224 259
Leave pay accrual	**47 905 065**	45 426 433
Bonus accrual	**5 129 860**	5 300 728
Unearned revenue	**30 548 584**	32 504 338
Non-trade payables	**1 855 086**	47 956 440
	656 213 374	697 412 198
Refer to note 26 for the breakdown of trade payables owing to related parties.		
The company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.		
16. Provisions		
Balance at beginning of year	**60 000 000**	54 000 000
Additional provision raised during the year	**80 208 440**	60 000 000
Utilised during the year	**(66 708 440)**	(54 000 000)
Balance at end of year	**73 500 000**	60 000 000

16. Provisions *(continued)*

This provision relates to the performance bonus that qualifying employees are entitled to in terms of their performance contracts. Based on history, a constructive obligation has been created for the payment of these performance bonuses, which is expected to be settled within the next financial year.

	2008 R	2007 R
17. Income received in advance		
Ring–fenced cash (refer note 7)	**215 674 937**	288 630 449
Deferred income	**60 962 034**	63 696 726
	276 636 971	352 327 175
Ring–fenced cash represents monies received from customers to be utilised for specific projects in future periods.		
Deferred income represents advances received for work in progress and will be recognised as revenue when it becomes receivable.		
18. Revenue		
Computer equipment and maintenance	**400 365 608**	294 156 173
Labour	**1 335 000 052**	1 370 443 282
Mainframe	**668 929 343**	603 230 887
Network and internet	**523 197 428**	446 484 520
Printing	**53 256 352**	45 330 273
Site preparation	**44 172 868**	59 128 876
Software licences and maintenance	**411 127 335**	399 585 622
Project revenue	**80 716 267**	82 408 373
Sundry	**90 848 166**	55 847 378
	3 607 613 419	3 356 615 384
Refer to note 26 for the breakdown of revenue earned from related parties.		
19. Cost of sales		
Direct depreciation	**71 522 966**	65 314 391
Direct amortisation	**20 228 177**	6 914 962
Direct labour	**920 573 209**	914 766 107
Operating costs	**1 035 468 295**	1 033 495 472
Service delivery overheads	**642 497 151**	624 252 515
	2 690 289 798	2 644 743 447

Notes to the annual financial statements
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		2008 R	2007 R
20.	**Other income**		
	Net catering income	**2 310 034**	942 171
	Rental income	**6 761 007**	6 590 941
	Sundry income	**18 068 659**	1 157 424
	GovTech income	**14 799 618**	11 589 824
		41 939 318	20 280 360
21.	**Operating expenses**		
	The following separately disclosable items are included in operating expenses:		
	Depreciation		
	– Buildings	**7 231 923**	4 981 614
	– Computer equipment	**80 981 153**	88 724 557
	– Office furniture	**5 234 529**	4 331 579
	– Vehicles	**–**	–
	Total depreciation	**93 447 605**	98 037 750
	Included in cost of sales	**(71 522 966)**	(65 314 391)
	Non-recoverable depreciation	**21 924 639**	32 723 359
	Amortisation		
	Total amortisation	**30 975 788**	18 137 627
	Included in cost of sales	**(20 228 177)**	(6 914 962)
	Non-recoverable amortisation	**10 747 611**	11 222 665
	Impairment	**3 698 661**	4 753 374
	Movement in impairment on trade receivables	**(3 591 665)**	16 642 130
	Bad debts written off	**27 663 731**	10 877 333
	Research costs	**16 596 908**	14 690 039
	Auditor's remuneration		
	– Audit fees	**1 890 801**	3 917 144
	– Other expenses	**–**	–
	– Under provision previous year	**–**	22 412
	– Transversal systems audit	**654 439**	1 455 904
		2 545 240	5 395 460

	2008 R	2007 R
21. Operating expenses *(continued)*		
Staff costs		
– Contractors	**423 994 629**	456 131 675
– Pension contributions	**50 598 425**	46 152 690
– Medical contributions	**55 547 479**	54 113 360
– Post-retirement medical benefits	**7 672 864**	7 344 881
– Salary and employee costs	**703 064 860**	625 322 468
Total staff costs	**1 240 878 257**	1 189 065 074
Included in cost of sales	**(920 573 209)**	(914 766 107)
Non-recoverable staff costs	**320 305 048**	274 298 967
Refer to Annexure A for directors' remuneration.		
Loss on disposal of assets	**13 806 286**	–
Operating lease expense	**29 708 719**	27 787 684
Operating lease income	**6 572 027**	6 235 207
GovTech expenses	**18 973 944**	12 228 871
22. Finance income		
Fair value adjustment on trade receivables	**53 042 073**	35 245 553
Other	**–**	4 866 432
Interest on cash balances	**70 886 926**	48 411 208
	123 928 999	88 523 193
23. Finance expenses		
Fair value adjustment on trade payables	**34 349 312**	9 179 483
Foreign exchange loss	**10 814 581**	12 803 255
Interest paid – Denel	**2 130 135**	2 594 128
Interest paid – Other	**481 637**	6 342
	47 775 665	24 583 208

Notes to the annual financial statements
for the year ended 31 March 2008

	2008 R	2007 R
24. Income tax expense		
Current tax expense		
Current period	**124 689 341**	85 761 355
Adjustment for prior periods	**962 813**	–
	125 652 154	85 761 355
Deferred tax expense		
Origination and reversal of temporary differences	**1 701 777**	(25 116 210)
Reduction in tax rate	**1 420 110**	–
	3 121 887	(25 116 210)
Total income tax expense	**128 774 041**	60 645 145
Reconciliation of effective tax rate		
Profit for the period	**299 200 411**	143 494 068
Total income tax expense	**128 774 041**	60 645 145
Profit excluding income tax	**427 974 452**	204 139 213

	2008 %	2008 R	2007 %	2007 R
Income tax using the company's domestic tax rate	**29,0%**	**124 112 592**	29,0%	59 200 372
Reduction in tax rate	**0,3%**	**1 420 110**	0,0%	–
Under/over provision in prior year	**0,2%**	**962 813**	0,0%	–
Non-deductible expenses	**0,5%**	**2 278 526**	0,0%	1 444 773
Effective income tax	**30,1%**	**128 774 041**	29,7%	60 645 145

25. Financial instruments

a) 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 consist mainly of national, provincial and local government departments, is managed by entering into contractual agreements that indicate payment terms of the services rendered. These clients fall within the ambit of the Public Finance Management Act,1999 (Act no. 1 of 1999) and Municipal Finance Management Act no. 56 of 2003 respectively. These Acts prescribe that suppliers of products and services be paid within 30 days or as stipulated by agreements entered into.

25. Financial instruments *(continued)*

a) Credit risk *(continued)*

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

	Note	Carrying amount 2008 R	2007 R
Receivables	8	**801 626 203**	664 971 584
Cash and cash equivalents	7	**1 101 257 016**	1 096 727 939
Forward exchange contracts		**64 830 622**	45 468 662
		1 967 713 841	1 807 168 185
The maximum exposure to credit risk for trade receivables at the reporting date by major customer cluster was:			
Crime and prevention cluster		**157 416 877**	116 777 540
Economic and investment cluster		**60 379 485**	34 359 511
Government and administration cluster		**42 414 531**	31 894 557
Social and international cluster		**127 768 227**	150 311 343
Other		**400 408 478**	324 385 694
		788 387 598	657 728 645
Impairment losses			
The aging of trade receivables net of the provision for doubtful debts at the reporting date was:			
Not past due		**457 561 913**	413 537 972
Past due 0 – 30 days		**110 378 817**	76 894 240
Past due 31 – 120 days		**88 419 590**	60 459 012
Past due 121 – 365 days		**95 517 237**	52 164 787
Past due – more than 1 year		**36 510 041**	54 672 634
		788 387 598	657 728 645

The due date of invoices is determined as being 30 days after the invoice date.

An amount of R57 436 068 has been provided for as doubtful and is included in the amounts disclosed above. R46,8 million relates to specifically identified invoices while the remaining R10,6 million represents a general provision. The specific provision was determined based on individual invoices older than 365 days that were not committed for payment.

Notes to the annual financial statements
for the year ended 31 March 2008

25. Financial instruments *(continued)*

a) Credit risk *(continued)*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008 R	2007 R
Balance at beginning of year	**61 027 734**	44 385 605
Impairment loss recognised	**(3 591 665)**	16 642 129
Balance at end of year	**57 436 069**	61 027 734

The impairment loss is based on specifically identified invoices that are considered doubtful based on information in the company's possession. Each invoice is scrutinised in its own right and a decision to impair is made.

b) 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amounts R	Contractual cash flow R	6 months or less R	6 – 12 months R	1 – 2 years R
31 March 2008					
Trade and other payables	**656 213 374**	**695 202 757**	**695 202 757**	**–**	**–**
Other forward exchange contracts:					
Outflows	**3 982 592**	**3 982 592**	**3 982 592**	**–**	**–**
Inflows					
	660 195 966	**699 185 349**	**699 185 349**	**–**	**–**
31 March 2007					
Carrying amounts					
Trade and other payables	697 412 198	697 412 198	697 412 198	–	–
	697 412 198	697 412 198	697 412 198	–	–

25. Financial instruments *(continued)*

c) Currency risk

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. All foreign exchange balances have been covered at reporting date.

The company's exposure to foreign currency risk was as follows based on notional amounts:

	2008 US$	2007 US$
Trade payables	**13 242 168**	6 436 420
Forward exchange contracts	**64 830 622**	45 468 662
Net exposure	**78 072 790**	51 905 082

The following significant exchange rates applied during the year

	Average rate		Reporting spot rate	
	2008 **R**	2007 R	**2008** **R**	2007 R
US$ 1	**7.094**	7.011	**8.1203**	7.2363

Sensitivity analysis

SITA is not affected by foreign exchange gains/losses. This is due to SITA's business policies which state that all losses incurred should be recovered from their clients. Therefore a sensitivity analysis regarding currency is not provided.

d) Interest rate risk

At the reporting date the interest rate profile of the company's interest-bearing financial instrument was:

	Carrying amount	
	2008 **R**	2007 R
Fixed interest rate		
Financial liability	**20 800 330**	26 000 410

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial liabilities at fair value through profit and loss, and the company does not designate derivatives (interest-rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at reporting date would not affect profit or loss.

Notes to the annual financial statements
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25. Financial instruments *(continued)*

e) Fair values of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	2008		2007	
	Carrying amount R	**Fair value R**	Carrying amount R	Fair value R
Trade and other receivables	**801 626 203**	**801 626 203**	664 971 584	664 971 584
Cash and cash equivalents	**1 101 257 016**	**1 101 257 016**	1 096 727 939	1 096 727 939
Other forward exchange contracts	**3 982 592**	**3 982 592**	509 954	509 954
Trade and other payables	**656 213 374**	**656 213 374**	697 412 198	697 412 198
Loans payable	**20 800 330**	**20 800 330**	26 000 410	26 000 410
	2 579 896 923	**2 579 896 923**	2 485 622 085	2 485 622 085

26. Related parties

Transactions with national sphere departments

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

The company is a schedule 3A national public entity in terms of the Public Finance Management Act,1999 (Act no.1 of 1999). The related party disclosures are 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.

	2008 R	2007 R
26. Related parties *(continued)*		
Revenue for the year		
Crime and prevention cluster	**1 609 000 332**	1 442 213 300
Economic and investment cluster	**265 727 286**	226 857 519
Government and administration cluster	**157 091 757**	148 157 089
Social and internal cluster	**349 841 591**	365 196 285
Other related parties	**6 052 443**	6 822 459
Revenue from related parties	**2 387 713 409**	2 189 246 652
Revenue from other parties	**1 219 900 010**	1 167 368 732
Revenue per statement of financial performance	**3 607 613 419**	3 356 615 384
Amounts owed at year-end		
Crime and prevention cluster	**120 882 913**	116 777 540
Economic and investment cluster	**48 383 339**	34 359 511
Government and administration cluster	**37 310 826**	31 894 557
Social and internal cluster	**96 986 508**	150 311 343
Other related parties	**192 191**	1 029 267
Total related parties	**303 755 777**	334 372 218
Balance of trade receivables	**542 067 889**	384 384 161
Trade receivables	**845 823 666**	718 756 379

An amount of R27 663 731 has been written off in the current financial year that relates to various related parties.

Doubtful debts to the value of R57 436 068 has been provided in the current financial year and relates to the various related parties.

Amounts received in advance at year-end		
Crime and prevention cluster	**92 081 607**	235 038 648
Economic and investment cluster	**62 386 258**	32 691 283
Government and administration cluster	**716 047**	–
Social and internal cluster	**16 378 130**	8 292 988
Total Nationals	**171 562 042**	276 022 919
Balance of income received in advance	**105 074 929**	76 304 256
Income received in advance per statement of financial position	**276 636 971**	352 327 175

Transactions with key management personnel

The key management personnel are the directors and executive members of the company for the year ended 31 March 2008.

Transactions with key management personnel are disclosed in Annexure A.

Notes to the annual financial statements
for the year ended 31 March 2008

	2008 R	2007 R
27. Operating leases		
Operating lease expense		
The company entered into non-cancellable operating lease agreements for the occupation of certain premises and computer equipment. At the reporting date, the future minimum lease payments under these lease agreements were as follows:		
Less than one year	**27 597 916**	30 268 395
Between one and five years	**44 491 078**	61 629 850
More than five years	**–**	–
	72 088 994	91 898 245
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 were as follows:		
Less than one year	**6 432 982**	6 761 007
Between one and five years	**5 161 459**	11 534 764
More than five years	**192 635**	252 311
	11 787 076	18 548 082

28. Capital commitments

At year end the company has a budgeted amount of R126 million (2007: R117 million) that has been approved for capital acquisitions and has been contracted for.

29. 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 R7,2 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 R120 000.

There are various labour court claims against the company by dismissed employees. The directors are of the opinion, based on legal advice, that the outcome of these claims cannot be reasonably determined.

There are various other claims against SITA estimating R6 123 268. The related legal fees with regard to these claims approximate R372 338.

30. 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
GRAP4	The Effects of Changes in Foreign Exchange Rates	YES
GRAP5	Borrowing Costs	YES
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
GRAP10	Financial Reporting in Hyperinflationary Economies	N/A
GRAP11	Construction Contracts	YES
GRAP12	Inventories	YES
GRAP13	Leases	YES
GRAP14	Events after the Reporting Date	YES
GRAP16	Investment Property	N/A
GRAP17	Property, Plant and Equipment	YES
GRAP19	Provisions, Contingent Liabilities and Contingent Assets	YES
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
IFRS2	Group and Treasury Share Transactions	N/A
IFRS4	Insurance Contracts	N/A
IFRS7 (AC144)	Financial Instruments: Disclosures and the Amendment to IAS1 Presentation of Financial Statements: Capital Disclosures	N/A
IFRS8	Operating Segments	N/A
AC503	Accounting for Black Economic Empowerment Transactions	N/A
IAS 1 (AC101)	Presentation of Financial Statements	YES
IAS 23 (AC114)	Borrowing Costs	YES
IAS 32 (AC125)	Financial Instruments: Presentation	YES
IAS 1 (AC101)	Puttable Financial Instruments and Obligations Arising on Liquidation	N/A
IFRIC 8 (AC441)	Scope of IFRS2 – Share-based Payment	N/A
IFRIC 9 (AC442)	Reassessment of Embedded Derivatives	N/A
IFRIC 10 (AC443)	Interim Financial Reporting and Impairment	N/A
IFRIC 11 (AC444)	IFRS2 – Group and Treasury Share Transactions	N/A
IFRIC 12 (AC445)	Service Concession Agreements	N/A
IFRIC 13 (AC446)	Customer Loyalty Programmes	N/A
IFRIC 14 (AC447)	IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.	N/A

Notes to the annual financial statements
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	2008 R	2007 R
31. Irregular expenditure		
Opening balance	**22 000 000**	–
Add: Irregular expenditure – current year	**11 749 063**	23 695 944
Less: Amounts condoned	**22 000 000**	–
Less: Amounts recoverable (not condoned)	**–**	–
Less: Amounts not recoverable (not condoned)	**1 347 820**	1 695 944
Irregular expenditure awaiting condonation	**10 401 243**	22 000 000
Analysis of expenditure awaiting condonation per age classification		
Current year	**10 401 243**	22 000 000
Prior years	**–**	–
Total		

Details of irregular expenditure – current year

Incident	Disciplinary steps taken	Amount
1. A senior official acted outside his approved delegation of authority by approving a five-year operating lease agreement.	Management has initiated disciplinary action against two staff members.	R10 401 243
2. The tender process was not followed during the procurement process. Purchase orders have been split below the threshold to avoid the tender process.	Disciplinary investigation is in progress.	R1 020 941
3. Three valid quotations as required by procurement process were not obtained nor was the reason for non-compliance provided.	Disciplinary investigation is in progress.	R326 879

Details of irregular expenditure condoned

Incident	Condoning authority	
The tender process was not followed in respect of the procurement of computer equipment.	The incident has been condoned by the Board.	R22 000 000

	2008 R	2007 R
32. Cash flow notes		
32.1 Normal tax paid		
Opening balance	**57 413 787**	22 109 424
Current year normal tax charge	**125 652 154**	85 761 355
SARS refund	**–**	(32 367 113)
Closing balance	**(74 240 626)**	(57 413 787)
	108 825 315	18 089 879
32.2 Reconciliation of net cash flows from operating activities		
Net cash inflow from operating activities		
Surplus before taxation	**427 974 452**	204 139 213
Adjustments for non-cash flow items:		
– Depreciation/amortisation	**124 423 393**	116 175 377
– Impairment	**3 698 661**	4 753 374
– (Decrease)/increase in provision for impairment	**(3 591 665)**	16 642 130
– Loss/(gain) on disposal or scrapping of property, plant and equipment	**13 806 284**	(400 023)
– Increase/(decrease) in provision for post-retirement medical benefits	**7 672 864**	7 344 881
– Overprovision of tax refund	**–**	8 184
– Finance costs paid	**47 775 665**	24 583 208
– Finance income received	**(123 928 999)**	(88 523 193)
– (Decrease)/increase in provisions	**13 500 000**	6 000 000
Operating profit before working capital changes	**511 330 655**	290 723 151
Working capital changes:		
Decrease/(increase) in trade and other receivables	**(133 062 953)**	(125 362 460)
(Increase)/decrease in prepayments made	**5 668 706**	(13 575 996)
Decrease/(increase) in work in progress	**36 795 902**	5 650 814
(Decrease)/increase in trade and other payables	**(41 198 824)**	115 811 373
(Decrease)/increase in income received in advance	**(75 690 204)**	(153 509 247)
Cash generated in operations	**303 843 282**	119 737 635
Normal taxation	**(108 825 315)**	(18 089 879)
Finance costs paid	**(47 775 665)**	(24 583 208)
Finance income received	**123 928 999**	88 523 193
	271 171 301	165 587 741

Annexure A

for the year ended 31 March 2008

31 March 2008

	Designation	Duration	Fees as director R	Other services R
Non-executive directors				
Current Board members				
Ms TPC Chikane	Chairperson	12 months ending 31 March 2008	**566 430**	–
Ms N Dhevcharran	Board member	12 months ending 31 March 2008	**147 472**	–
Mr C Kruger	Board member	12 months ending 31 March 2008	–	–
Ms ZP Manase	Board member	12 months ending 31 March 2008	**183 902**	–
Prof T Marwala	Board member	12 months ending 31 March 2008	**237 385**	–
Ms R Sekese	Board member	6 months ending 31 March 2008	–	–
Ms M Williams	Board member	6 months ending 31 March 2008	–	–
Mr LC Jones	Board member	7 months ending 31 October 2007	**137 182**	–
Mr AP Pedlar	Board member	2 months ending 31 May 2007	**40 686**	–
			1 313 057	–
Executive members				
Mr LC Jones	CEO	5 months ending 31 March 2008	–	–
Mr AP Pedlar	Member	5 months ending 31 March 2008	–	–
Mr M Msimang	CEO	2 months ending 14 May 2007	–	–
Ms R Magoma-Nthite	Member	3 months ending 31 March 2008	–	–
Ms F Pienaar	Member	3 months ending 31 March 2008	–	–
Mr GM Salanje	CFO	9 months ending 31 December 2007	–	–
Mr A Pretorius	Acting CFO	3 months ending 31 March 2008	–	–
Ms E Strydom	Company Secretary	2 months ending 31 March 2008	–	–
Ms T Geldenhuys	Company Secretary	6 months ending 30 September 2007	–	–
Mr M Mtimunye	Member	5 months ending 31 March 2008	–	–
Mr E Khan	CIO	3 months ending 31 March 2008	–	–
Ms F Habib	Member	9 months ending 31 December 2007	–	–
Ms N Isaacs-Mpulo	Member	6 months ending 2 October 2007	–	–
Mr J Bogoshi	Member	2.5 months ending 15 June 2007	–	–
			–	–

Basic salary R	Annual payment: bonus and leave R	Expense allow-ances R	Petrol card R	Contri-butions to pension, medical or insurance funds R	Com-missions or profit sharing R	Share options R	Other – perfor-mance bonus R	Total R
								–
–	–	84 381	–	–	–	–	–	650 811
–	–	183 174	–	–	–	–	–	330 646
–	–	–	–	–	–	–	–	–
–	–	2 189	–	–	–	–	–	186 091
–	–	3 313	–	–	–	–	–	240 698
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	137 182
–	–	517	–	–	–	–	–	41 203
–	–	273 574	–	–	–	–	–	1 586 631
833 583	–	–	–	–	–	–	–	833 583
563 461	40 378	50 330	–	–	–	–	–	654 169
255 306	94 349	–	–	–	–	–	1 404 872	1 754 525
212 325	–	17 738	–	–	–	–	–	230 063
269 327		15 000	–	–	–	–	–	284 327
748 545	61 271	49 246	–	–	–	–	472 488	1 331 548
–	–	–	–	–	–	–	–	–
99 669	–	3 500	–	–	–	–	–	103 169
336 713	–	50 500	–	–	–	–	290 265	677 478
384 414	23 660	44 865	–	–	–	–	–	452 939
179 123	–	48 000	–	–	–	–	–	227 123
724 890	4 680	119 970					424 027	1 273 569
525 981	–	–	–	–	–	–	576 000	1 101 981
182 750	140 851	28 767	–	–	–	–	561 600	913 970
5 316 087	365 189	427 916	–	–	–	–	3 729 252	9 838 443

Annexure A
for the year ended 31 March 2008

31 March 2007

	Designation	Duration	Fees as director R	Other services R
Non-executive directors				
Current Board members				
Ms TPC Chikane	Chairperson	12 months ending 31 March 2007	98 106	–
Mr RJ Barjaktarevic	Board member	8 months ending 30 November 2007	–	–
Ms N Devcharran	Board member	12 months ending 31 March 2007	78 724	–
Mr LC Jones	Board member	12 months ending 31 March 2007	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	–
Prof T Marwala	Board member	12 months ending 31 March 2007	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	–
			377 585	–
Executive members				
Mr M Msimang	CEO	12 months ending 31 March 2007	–	–
Mr JP Bogoshi	Member	12 months ending 31 March 2007	–	–
Mr GM Salanje	CFO	11 months ending 31 March 2007	–	–
Ms N Isaacs-Mpulo	Member	12 months ending 31 March 2007	–	–
Mr BS Ngubane	Member	12 months ending 31 March 2007	–	–
Mr A Meyer (Deloitte)	Acting CFO	2 months ending 31 March 2007	–	–
Ms FM Habib	Member	11 months ending 31 March 2007	–	–
			–	–

Basic salary R	Annual payment: bonus and leave R	Expense allow-ances R	Petrol card R	Contri-butions to pension, medical or insurance funds R	Com-missions or profit sharing R	Share options R	Other – perfor-mance bonus R	Total R
–	–	–	–	–	–	–	–	98 106
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	78 724
–	–	–	–	–	–	–	–	60 676
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	43 117
–	–	–	–	–	–	–	–	47 138
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	49 824
–	–	–	–	–	–	–	–	377 585
1 009 906	–	–	–	–	–	–	1 320 000	2 329 906
839 834	–	138 082	–	–	–	–	447 684	1 425 600
850 310	–	60 189	–	–	–	–	–	910 499
873 523	–	–	–	–	–	–	493 579	1 367 102
860 887	–	164 304	–	–	–	–	409 885	1 435 076
738 907	–	–		–	–	–	–	738 907
788 350	–	146 850	–	–	–	–	–	935 200
5 961 717	–	509 425	–	–	–	–	2 671 148	9 142 290

Shareholder's diary

1.	**Schedules**	
1.1	Ninth Annual General Meeting	22 August 2008
1.2	Submission of Financial Statements and Annual report to the Minister (DPSA)	31 August 2008
1.3	Submission of Annual report to Parliament	15 September 2008
1.4	End of new financial year	31 March 2009
2.	**Annual budget: 2009/2010**	
2.1	Approval by the Board of directors	February 2009
2.2	Submission to DPSA	March 2009
2.3	Submission to National Treasury	March 2009
3.	**Strategic Plan: 2009/2010 to 2011/2012**	
3.1	Approval by the Board of directors	September 2008 and March 2009
3.2	Submission to MPSA	September 2008 and March 2009
3.3	Submission to National Treasury	March 2009
4.	**Quarterly reports**	
	Submission to DPSA	30 days after end of each quarter
5.	**Tariff increases**	
	Submission to DPSA	August 2008

Administration

1. Directorate: 01 April 2007 t0 31 March 2008

Ms TPC Chikane (Chairman)
Ms N Dhevcharran
Mr L Jones (Appointed as CEO with effect from 01 November 2007)
Mr CCW Kruger
Ms ZP Manase
Prof T Marwala
Ms R Sekese (Appointed with effect from 15 October 2007)
Ms MO Williams (Appointed with effect from 15 October 2007)
Ms N Isaacs-Mpulo (Resigned on 02 October 2007)
Mr AP Pedlar (Acting CEO with effect from 15 May 2007 to 31 October 2007)
Mr M Msimang (Resigned with effect from 14 May 2007)

2. Company Secretary

Ms T Geldenhuys (Resigned with effect from 30 September 2007)
Ms E Strydom (Acting Company Secretary with effect from 01 October 2007
Company Secretary with effect from 01 February 2008)

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5. Bankers

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