annual report 2006

state information technology agency

SITA

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SITA

Our Mandate

The State Information Technology Agency (Proprietary) Limited (SITA) was established in 1999 to consolidate and coordinate the State's information technology resources in order to achieve cost savings through scale, increase delivery capabilities and enhance interoperability. SITA is committed to leveraging Information Technology (IT) as a strategic resource for government, managing the IT procurement and delivery process to ensure that the Government gets value for money, and using IT to support the delivery of e-Government services to all citizens. In short, SITA is the IT business for the largest employer and consumer of IT products and services in South Africa – the Government.

SITA is governed by the the SITA Act no.88 of 1998 as amended by the SITA Act 38 of 2002. Section 6 of this Act states that the objects of the Agency are:

- "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 departments and public bodies; and
- To promote the efficiency of departments and public bodies through the use of information technology."

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

SITA remains committed in all its engagements to adhere to the Government's "IT House of Values", aiming to achieve reduced costs, increased productivity and increased service to our citizens.

Our Vision

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

Our Mission

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

Our Values

- Service Excellence
- Transparency
- Integrity
- Fairness
- Prudence
- Innovation

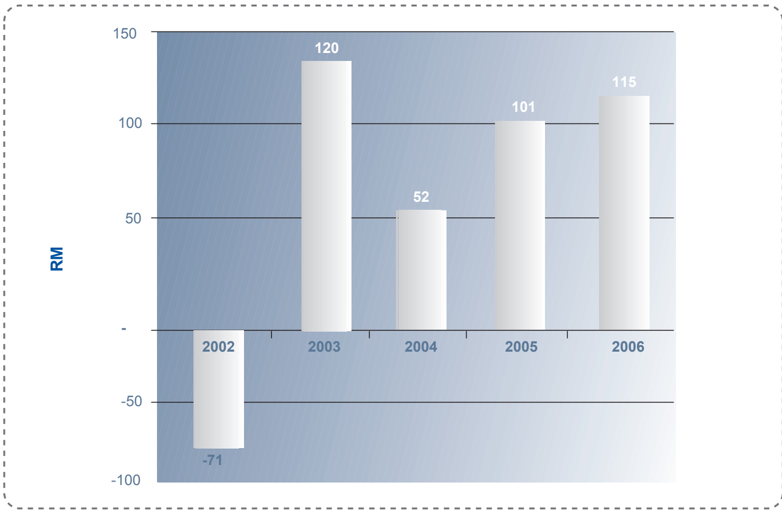
Our 3-Year Strategic Imperatives

- To continuously improve service delivery
- To prioritise citizen-focused projects and engage government departments to facilitate the implementation of the SITA value proposition
- To attain best demonstrated practices in people management and leadership
- To ensure that our internal and external communication is informative, transparent, and supports the mission and vision of SITA
- To build an organizational, management and leadership team that is appropriate for the achievement of our strategic objectives, mission and vision
- To ensure the financial sustainability of the organization.

Salient Features - Highlights of 2006

Revenue

(Loss) / Surplus before taxation



Ms Geraldine Fraser-Moleketi
Minister of Public Service and Administration

MINISTER'S FOREWORD

Information and communication technologies (ICT's) have come of age. The transformation of economies from the industrial to the information age has brought with it numerous opportunities but challenges as well. In the public sector ICT's offer the prospect of much improved government services to the citizens, and to do so with higher levels of efficiency and significant cost-savings. More significantly, ICT's greatly assist in facilitating access to remote and hitherto poorly serviced geographical locations. The challenges of this technology lie in the nature of its constant and rapid advances which render it all-too-quickly obsolete, which requires costly upgrades or replacements. An equally important challenge pertains to the essential requirement for the transformation of the mindsets of ICT workers. It is critical that they not only become competent knowledge workers but also that they understand the role and application of technology in the context of a developmental state. Then, too, we have challenges – welcome ones, I dare say – that result from a strong citizen demand for better and faster services. This calls for commensurate decision-making capabilities on the part of those charged with dispensing services.

SITA was established in the middle of the first decade of democracy in the Republic for the purpose of assisting government, through the use of information technology, to function more effectively. Through the application of the ICT House of Values framework, government departments in the national and provincial spheres would be in a position to interoperate effectively; there would be greater information security; minimum ICT service standards would be set; and ICT products and services would be procured more cost-effectively, given the size of government in the marketplace. I am pleased to note that the programmes carried out by SITA during the reporting period went a long way towards realizing the objectives for which the organization was set up.

The mainframe consolidation and upgrades that were implemented in October 2005, have resulted in better and faster service levels. The government common core network was effectively protected from viruses and other malicious intrusions. I note with satisfaction improvements that have been realised in the procurement environment. Notably, thanks to transparent processes that have been instituted, allegations of corruption and irregularities have greatly diminished. The cost of desktop ICT products and services for government has been much lowered. Significantly, plans are now afoot to provide much-needed ICT support to municipalities, the focal points of service delivery. Work being done in conjunction with the departments of Home Affairs, Social Development, Health and Education gives hope that we are witnessing the unfolding of an e-government programme of potentially great value to the citizens. Under the direction of the Board of Directors, management has entered into discussions with ICT industry players, including SMME's, with the view to partnering and sharing ICT service costs.

Pursuant to the objectives of the African Renaissance, the government has undertaken collaborative initiatives with several African states to help them stabilize their economies and build democratic institutions. SITA working in conjunction with the SANDF, provided critical ICT support for the peace-keeping forces in Burundi. Support was also given to my department in the organization of video conferences for Africa Public Service Day and African Peer Review Mechanism discussions. Procurement services support was also provided for the elections in the Democratic Republic of Congo. Worthy of mention also is SITA's participation in the NEPAD e-Commission programme; the support given to the Pan African Parliament; and hosting of various delegations from across the continent, which came to discuss collaboration on ICT.

Ms Geraldine Fraser-Moleketi
Minister of Public Service and Administration

25 August 2006

CHAIRPERSON'S STATEMENT

Ms T P C Chikane
Chairperson and Non-Executive Director

At the end of the financial year under review, the tenure of office of the Board that I have been privileged to chair was eight months. It has been an exciting and yet challenging period. The Board took over an institution that had gone through stressful times, yet was determined to succeed. It is an institution that has, delivered the requisite information technology infrastructure to government but continued to be perceived by many as ineffective.

During this period the shareholder completed the review and revision exercise on the Regulations that give operational support to the SITA Act. Thanks to the signing of the SITA Regulations some of the historical challenges facing the organisation have been addressed to the satisfaction of stakeholders. These include defining clear lines of responsibility and accountability for the procurement of information technology products and services by government departments.

I am pleased with the progress that the organisation has made in implementing the transformation process. Its acceleration has, in the main, resulted in the normalisation of the institution and our customers have indeed begun to derive tangible benefits from this process in the form of improved service levels. However, when it comes to service delivery, normal or improved performance is not good enough.

Our customers are demanding ***excellence* –** and excellence calls for ***focus.***

It is within this context, Excellence and Focus - that the Board has redefined the role of SITA in the provisioning of Information and Communication Technology for the public sector. This includes setting a five-year vision in which:

- ICT will be seen by government as the cornerstone to service delivery and economic development
- SITA is perceived as a thought leader in ICT for the public-sector
- e-Government is a reality and 'is powered by SITA'
- SITA influences more than 80% of government ICT expenditure
- Departments and vendors willingly partner with SITA and the customer satisfaction index is more than 70%
- SITA is financially sustainable – strong balance sheet and high growth
- The local BEE driven ICT industry is growing through partnership with SITA
- SITA employees are motivated, loyal and smart-workers.

During these eight months the Board supported the executive in its continuing efforts of streamlining the organisation for purposes of enhanced service delivery; the creation of a one-stop-shop service delivery centre; and, lastly, making sure that our service offerings are broadened to cover all spheres of government: national, provincial and local government.

The Board has worked closely with management to ensure that SITA is adequately positioned to fulfil its assigned role of prime systems integrator for the Integrated Financial Management Systems project. In carrying out this complex function, the Board has been keenly aware of the need to minimise the risks associated with the development of such a system.

The biggest challenge facing the Board is assisting and monitoring management in strengthening all controls as outlined in the Auditor-General's Report, to ensure that all the above objectives are achieved within acceptable timeframes. This will also include supporting management efforts to strengthen project management and corporate governance processes.

Finally, I would like to take this opportunity to thank the Minister for her demonstration of confidence in our ability to carry out the tasks associated with fulfilling Board functions for an institution of such strategic importance as SITA. We are grateful for the interest and support received from the Portfolio Committee on Public Service and Administration, under the energetic leadership of the Hon. Mr John Gomomo (MP). I particularly wish to thank all the directors who served on the Board prior to my term of office. To my fellow directors I want to say how privileged I am to work with such outstanding professionals. They have been selfless in giving SITA their precious time. They participated in numerous meetings and tasks, many of them unscheduled. It has indeed been a labour of love. Not least, I would like to thank management and staff for their dedication and commitment which has, against all odds, seen the organisation steadily climb to greater heights.

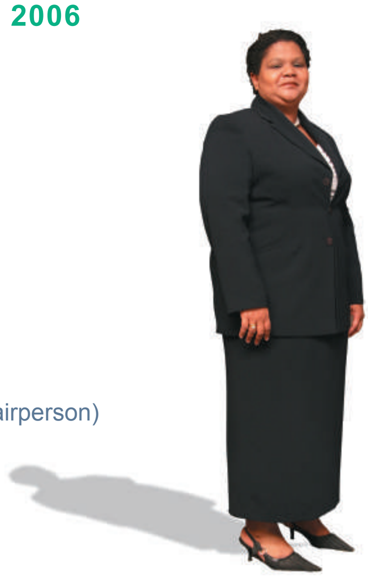
Ms T P C Chikane
Chairperson and Non-Executive Director
27 July 2006

BOARD OF DIRECTORS

During the year under review, the term of five of the non-executive directors ended and a new Board of Directors was appointed.

Board of Directors as on 31 March 2006

Ms T P C Chikane
(Non-Executive Chairperson)
- *CA (SA)*



Ms N C Isaacs-Mpulo
(Executive)
- *BSc (Hons) Computer Information Systems*

Mr R J Barjaktarevic
(Non-Executive)

Mr P Pedlar
(Non-Executive)
- *B Com*
- *Hons B (B & A)*
- *Diploma in Law & Tax*

Ms N Dhevcharran
(Non-Executive)
- *M Sc Computer Science*

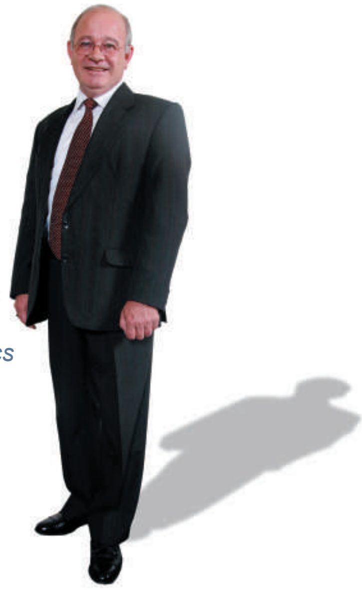
Mr L Jones
(Non-Executive)
- *BSc Electrical Engineering,*
- *M Sc Computer Science*
- *Director of ICT & Defence Market Segments*

Mr M Msimang
(Chief Executive Officer)
- *BSc Entomology/Biology*
- *MBA Project Management*

Prof T Marwala
(Non-Executive)
- *Post Doctrate in Information Technology*
- *PhD Computational Intelligence in Engineering Systems*
- *M Sc Mechanical Engineering*
- *BSc Mechanical Engineering*
- *Technical Analysis & Fund Management*
- *SAIM Programme in Business Management*
- *Governance Risk & Ethics*

Ms Z P Manase
(Non-Executive)
- *B Com*
- *BCompt (Hons)*
- *CA(SA)*
- *HDip Tax*

Ms N Moerane
(Non-Executive)
- *B Com*
- *LLB*
- *Certificate in Labour Relations Act*



Mr C Kruger
(Non-Executive)
- *B Com (Hons) Economics*


SITA

CHIEF EXECUTIVE OFFICER'S STATEMENT

Mr M Msimang
Chief Executive Officer

1. Introduction

The financial year 2005/06 saw the consolidation of Tswelopele – our turnaround strategy. A re-alignment of top-level structures saw the number of executive positions reduced from ten to four and that of General Managers being more than halved. Significant improvements have already been registered with respect to strategic focus, better coordination and minimization of duplication. The organisation is now structurally on a surer footing with the key business centres, namely, Business Operations, Shared Services, Finance and Strategic Services headed up by the four executives.

We have begun to benchmark our performance. For the second year running we have tested service delivery perceptions through customer satisfaction surveys. In the current year we participated for the first time in what is known as "The Best Company to Work for" survey. Some have questioned the wisdom of participating in such surveys right in the middle of our transformation process. But we believe that our transformation initiatives can only benefit from establishing baselines against which to measure progression, regardless of the outcome.

The results of the surveys were predictably not flattering, especially in the internal company environment where the transformation exercise has not run its course.

Customer satisfaction levels have continued to be indifferent, not showing an improvement on the 47% achieved the first time round (clients who are delighted with our service). However, a notable exception to this trend was with SAPS, a key client, who went from 41% to 69% overall. What we read from this is that much work still needs to be done to improve our customer satisfaction levels.

2. Business Highlights

2.1 Financial Performance

The company continues to show strong growth with gross revenues up 11.7% from the previous year at R2.946 billion. Cost containment initiatives that were started last year are bearing fruit. Gross profit at R563.6 million is 13.6% higher than previous year, while surplus for the year is up 17.4% at R81.3 million.

The R1.085 billion closing cash at the bank is quite deceptive in that it does not reflect the cash position throughout the financial year. The closing balance is a reflection of the 'hockey stick' effect resulting from some of our clients who release their payments in time to beat the financial year-end cut-off. It is a situation which causes much anxiety within the organisation. As we ramp up our client engagement model and with cooperation from our government counterparts, we believe we will be able to turn the situation around.

2.2 Procurement Services

The restructuring of the procurement function was completed in this financial year. The promulgation of the SITA Regulations during the year assisted in the final design of an appropriate procurement facility for government within SITA. The emphasis for this year was to improve efficiencies and reduce turnaround times for tenders. Some remarkable achievements were made even though improvements are still going on. Tender turnaround times are now below 80 days on average. Targets for next financial year are even steeper. In the interest of transparency a standing arrangement is now in place for unsuccessful bidders to have post-tender briefing sessions where they can review the entire process.

2.3 Convergence Strategy

SITA's Telecommunications and Convergence Strategy was approved by the Board. Excitement around this strategy revolves around the prospect of saving government some R1.8 billion cumulatively over a five-year period, with the rollout only to 66% of the target user community. By using voice over internet protocol (VoIP) we expect to put government on the cutting edge of convergence with many value-added services. However, in implementing the strategy SITA will need to invest more than R300 million in upgrading the current infrastructure and the provisioning of new devices for connectivity. A funding model is currently being devised and a proof-of-concept exercise has been successfully completed.

2.4 Various Operational Highlights

- **IDS/IPS (Intrusion Detection/Prevention System)**

The implementation of an Intrusion Detection and Prevention System on the Government Common Core Network (GCCN) was completed in September 2005. The system has drastically reduced the volume of malicious traffic on the GCCN, which in turn resulted in improved client response times and better service to government departments.

Since June 2005, over 18 million malicious code e-mails were blocked and prevented from invading the network, saving SITA millions in operational expenditure. In addition, SITA, unlike many other organisations in South Africa, was never affected by the *Sober* virus – a virus that was rated as one of the worst.

- **Project Khanya**

The 2005/6 Financial Year saw the decommissioning of many of SITA's older internal systems which were replaced by the newly acquired SITA Enterprise Resource Planning (ERP) system, running on Oracle technology. The Financial Systems and the Human Resources core data and Payroll were implemented on the ORACLE HR system on 1 October 2005.

The full payroll input function was moved from the Finance Division to the Human Resources Department, pursuant to the good-governance principle of segregation of duties between input and payment.

The payment function of the payroll has remained with Finance.

- **Historical Records Project**

The joint SITA/Department of Education project to scan and index all Matric examination records since 1910 is nearing completion. This project entails scanning and indexing of more than four million historical records from paper and microfiche to an electronic medium. The scale and significance of this project cannot be overstated, and SITA is proud to have been entrusted with the task of carrying out a task of this magnitude for the department. The project is due for completion in July 2006.

- **ARV Rollout Project**

SITA was requested by the National Department of Health to procure and deliver an information system that will help the department monitor and evaluate its Anti-Retroviral treatment program. SITA recommended two solutions which have since been implemented and maintained on behalf of the department. The project is progressing well, a veritable success story that directly impacts the citizen.

- **Gateway Call Centre**

The Gateway Call Centre was enhanced to accommodate seven languages, in recognition of the diversity of the nation. The balance of our national languages will be added in future. The toll-free number (1020) was published for citizens to see and be able to use. Currently the Department of Public Service and Administration (DPSA) carries the cost of this number, while negotiations with the various service providers to reduce their tariffs in relation to this number are in progress.

3. A New Operating Model

The SITA transformation journey saw the company enter a new phase of consolidation and rationalisation. A need was identified to group the client-facing business units under one roof, and likewise for internal support functions. This resulted in the reduction of key executive positions from ten to four, allowing for better focus in the respective environments. The organisation now not only runs on a single opportunity pipeline, but has eliminated previous internal competition and multiple developments of solutions for similar requirements.

The new structure will allow for the building of core competencies much quicker, because the consolidation will facilitate the sharing and cross-pollination of skills and ideas.

3.1 Business Operations

This Division comprises all operational activities of SITA. The client-facing functions – Client Business Unit (CBU), IT Consulting, Infrastructure Services, Operational Performance and Marketing all fall under this Division. Regional operations have been grouped under three new clusters, namely, Coastal, Central and Northern Regions. This refinement of our structure is geared towards improved efficiency and effectiveness.

3.2 Shared Services

The former Corporate Services Division was combined with the Information Management Services Division to form the Shared Services Division. Again, the intention is to improve operational efficiencies by putting support functions together under one unit.

3.3 Financial Management

This is a strategic business unit that not only looks after our financial and accounting requirements, but it has to deal with issues of compliance (to PFMA, in particular). Again, the common theme all round is operational efficiency. We cannot hope to improve service delivery and customer satisfaction unless our internal systems are all geared towards serving our customers better. Debtor management is one of our performance bugbears, and this unit needs to be on top of its game in that regard.

3.4 Strategic Service

This Division is the custodian and driver of the organisation's strategic initiatives. It is by its nature, forward looking as opposed to being a traditional operating Division within the organisation. However, it does have an operational focus when it comes to strategic projects.

This Division's stated must-win-battles (MWB's) are:

- Development of *High-Level Strategy* for SITA by July 2006
- Development of a *Government-Wide Enterprise Architecture* framework and implement four (4) e-government initiatives in the current financial year
- Development of a *Municipality Go-To-Market Strategy* and implementation of three proofs-of-concept (POCs) by September 2006
- Identification of areas for partnering with the ICT industry and develop *Partnering* Models by September 2006
- Development of a three-year *Project Management Office (PMO) and Corporate Performance Management (CPM) Strategy* and implementation of Phase I of each by December 2006
- Development of a *Quality Framework* for SITA and implementation of Phase I by the end of March 2007.

3.5 The 'Tau Model'

At a strategic review session held in May 2005, much emphasis was placed on moving SITA away from trying to be everything for everybody. In a quest to refocus the organisation on its core mandate, it was decided that one of SITA's critical success factors would be to look at new ways of partnering with industry to improve service delivery. A partnering model based on the Professional Services Tender (RFT 348) was one such mechanism created to bring SITA closer to this reality. An overarching long-term business model – dubbed the 'Tau Model' (named after its promoter and dedicated SITAzen, Tau Mashigo), was developed. Its primary purpose is to assist divisions to review what is core to the business, and what could be outsourced or sub-contracted. Within the context of a planning cycle, this would have an impact on future resource requirements, partnerships and revenues.

4. Human Capital

4.1 Employee Statistics

The general staff statistics as at 31 March 2006 can be summarised as follows:

CATEGORY	HEAD COUNT 2006	2005
PERMANENT		
Executive & Senior Management	51	45
IT Staff	1,432	1,606
General Staff	659	694
TOTAL PERMANENT	**2,142**	**2,345**
CONTRACTORS	**1,513**	**907**
TOTAL	**3,655**	**3,252**

A demographic breakdown of the staff complement is as follows:

DETAILS	AFRICANS	COLOURED	INDIANS	WHITES	TOTAL
Executive & Senior Management	7	4	0	2	**13**
IT Staff	183	37	16	301	**537**
General Staff	233	33	14	103	**383**
Contractors	382	13	17	215	**627**
Total Females	**805**	**87**	**47**	**621**	**1,560**
Executive & Senior Management	25	0	5	8	**38**
IT Staff	342	62	68	423	**895**
General Staff	179	16	15	66	**276**
Contractors	354	22	60	450	**886**
Total Males	**900**	**100**	**148**	**947**	**2,095**
Executive & Senior Management	32	4	5	10	**51**
IT Staff	525	99	84	724	**1,432**
General Staff	412	49	29	169	**659**
Contractors	736	35	77	665	**1,513**
Total Employees	**1,705**	**187**	**195**	**1,568**	**3,655**

4.2 Training and Development

A total of 1287 SITAzens, 515 of whom were women, received training during 2005/6 financial year. Since these things are important in a country grappling with complex legacies, we mention that 585 of the people who received training were African, 66 Coloured, 81 Asian and 555 White. The training was provided at a total cost of R10.726 million. This excludes on-the-job training. The number of those who went through the Executive, Leadership and Management Development Programmes, respectively, is 125, of whom 35 were women. This was done at a cost of R5.86 million. At the E-band level 35 SITAzens, 6 of them women, received executive development training. To accelerate women's development in line with our Gender Policy, we co-opted into this E-band, executive programme female candidates drawn from the D3-D5 level.

In the Leadership Development Programme (D1-D3), 43 SITAzens, 15 of them women, received training. Finally, the Management Development Programme (C3-C5) for supervisors as per the SITA Levels of Work, put 27 SITAzens, including 14 women, through training.

The three development programmes were carried out in conjunction with the Gordon Institute of Business Science (GIBS). As part of this programme, trainees travelled in two groups to the UK for the first group, and Singapore and Malaysia for the other. In these countries they attended business courses with various institutions.

5. Provincial and Local Government Initiatives

SITA's Provincial and Local Government Strategy is a response to the government's stated position and strategy in The People's Charter, namely, that the coal face of service delivery is at the local municipality level. SITA's second strategic imperative, which is to prioritise citizen-focused projects, fits snugly into this strategic government strategy. The sheer magnitude of need dictates that the nation's designated ICT organisation, with absolutely nothing to gain financially, mobilise its resources to help bolster local government services to the populace.

SITA has been an active participant in Project Consolidate, which is implemented under the direction of the Department of Provincial and Local Government (DPLG). We have also proactively piloted a municipalities' financial management solution in partnership with CIPAL, a Belgian municipalities-owned organisation. We have, after consultation with municipality representatives, identified a need to develop a Municipality Blueprint, which will be an architecture framework supported by a suite of relevant applications. This will be piloted in the new financial year.

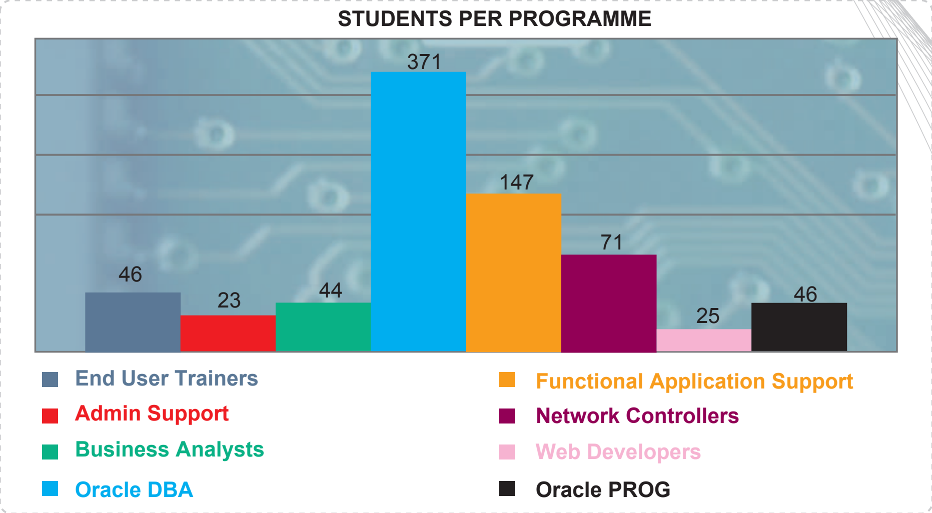
6. Strategic Partnerships with Industry

In line with our drive to add value to our customers and improve internal efficiencies, better ways of partnering with the ICT industry are being vigorously pursued. In the earlier-described Tau Model, areas where SITA is better positioned to play a leading role were identified and areas where industry partners should play a leading role were also identified. This takes cognisance of the respective competencies, capacities, and expertise resident within industry and SITA. To this end an elaborate process of building those strategic partnerships has started.

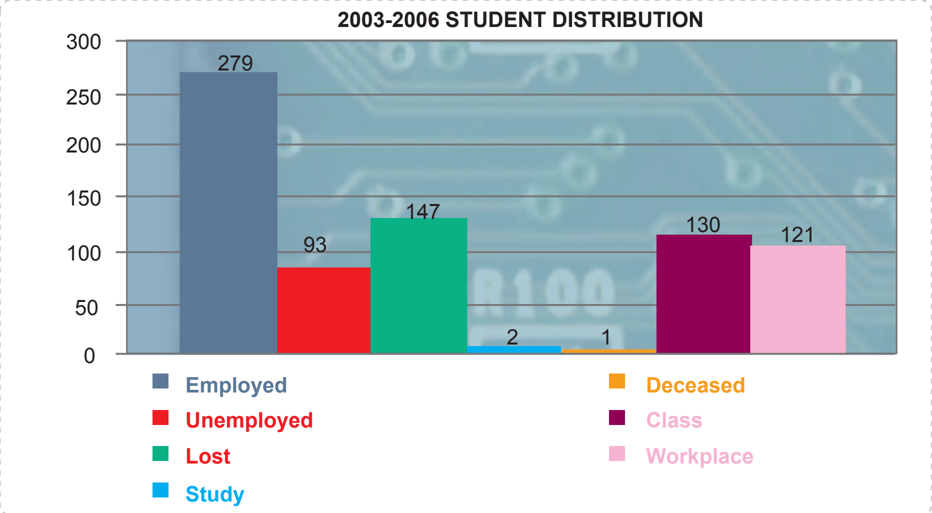
7. Corporate Social Responsibility

The Youth Internship Programme (YIP) continues to be our flagship corporate social responsibility programme. Through this programme we are able to contribute towards the creation of ICT skills and dealing with the youth unemployment in the country. There is strong emphasis on targeting female interns and ensuring the trainees have a nationwide spread, including remote locations. In this financial year approximately 276 youth were trained under the programme at a total cost of R17.575 million.

The following graphs indicate some of the accomplishments achieved since inception of this programme.



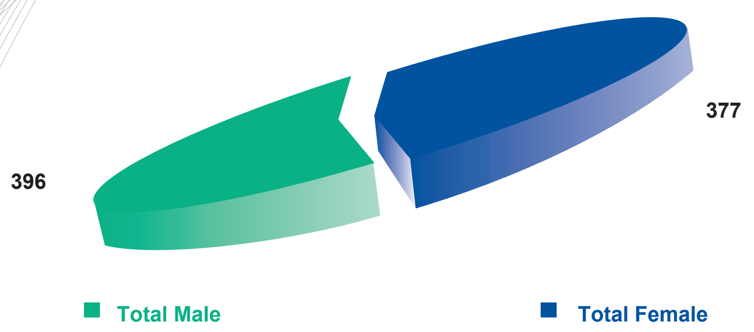
In the above illustration the largest number of students, were trained in the network controller discipline, in which the analysis indicated the major industry demand. This is a well established and well practiced discipline, which has shown a skill shortage due to the increasing number of networks and systems that need to be supported in all sectors. An emerging need is demonstrated by the number of business analysts which were trained. This is a fast emerging competency area which needs to be developed due to an increasing demand in all sectors. The two areas, functional application support and oracle database administrators, indicated the lowest demand and therefore the least amount of trainees.



36 % of the 773 students were employed. The distribution for the 36% is as follows:

Self employed:	0.3%
Private sector employment:	26.9%
Sita employment:	40.7%
Government employment:	32.1%

93 of the learners are in an unemployed pool which is still used for referrals. 147 learners could not be traced due to the fact that their contact details have changed. 251 learners are still in the programme; 130 in class and 121 in the workplace for practical experience.

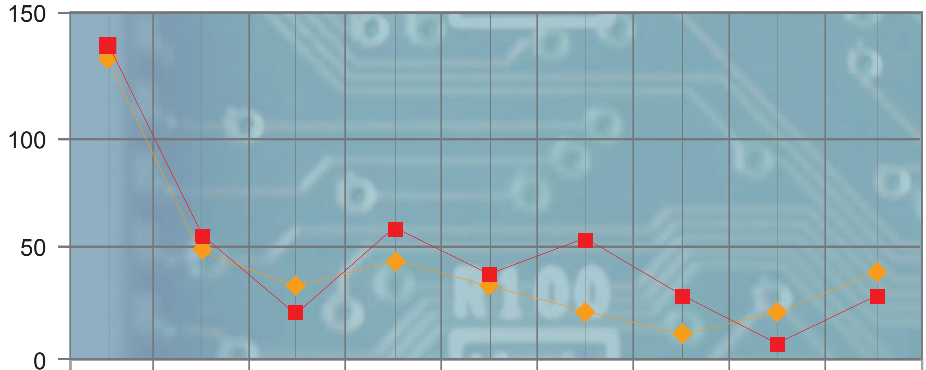


The above graph illustrates that we have achieved gender distribution of 396 males and 377 females more than 2005/6 targets. Our targets for 2006/7 financial year are as follows:

Female: 540

Male: 460

GENDER DISTRIBUTION PER PROVINCE



	GP	NW	FS	NP	MP	EC	WC	NC	KZN
Male	129	49	39	46	35	26	13	18	31
Female	132	53	15	56	36	51	23	7	23

The gender distribution per province as illustrated above indicates that the largest number of learners are from Gauteng. The least number of learners are from the Northern Cape. SITA intended to recruit learners from far rural provinces, however due to the fact that insufficient applications were received from these provinces this had not been achieved. Currently, there is a drive to recruit regionally through SITA offices.

8. Acknowledgements

This has been yet another challenging year. I am grateful to the employees, the SITAzens, for their tireless work throughout the year to help us achieve the good results. Tribute must also go to the Executive team who had to endure a sustained period of turbulence in the organisation over the past twelve months. I thank those who took in their stride the sometimes traumatic changes. The subordination of their personal interests to the greater ideals of the organisation showed an admirable level of maturity.

The new Board, ably led by Ms Thenjiwe Chikane, hit the ground running, arriving as it did in the middle of an intensive transformation programme. The repertoire of skills and experience is a great boon to management and will certainly stand SITA in good stead.

Minister for Public Service and Administration, Geraldine Fraser-Moleketi, who also has overall responsibility for SITA, has a reputation for expecting and accepting nothing short of the best, especially from an organisation founded on the requirement to employ quality knowledge workers. When at times we have faltered, she has been on hand to urge us on and, crucially, lend support. We are deeply indebted to her for this. Lastly, I would be remiss if I do not extend my gratitude to the Portfolio Committee on Public Service and Administration as well. We are appreciative of the support we received from this oversight Parliamentary institution, and from its chairperson, Hon. Mr John Gomomo (MP).

Mr M Msimang
Chief Executive Officer

EXECUTIVE MANAGEMENT COMMITTEE

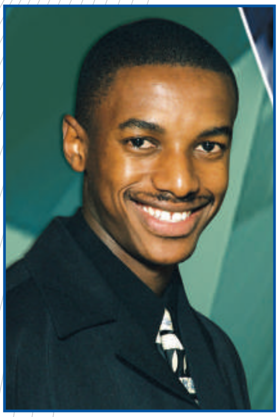
The Executive Management Committee (EXCO) is chaired by the Chief Executive Officer and comprises the Executives of SITA's various divisions. The committee is responsible for ensuring the effective management of the day-to-day operations of the business. During the year under review, there were a number of new appointments and resignations in EXCO. The following is a list of members as at 31 March 2006:

Mr M Msimang
(Chief Executive Officer)
- *BSc (Entomology/Biology) University of Zambia*
- *MBA (Project Management) US International University*

Mr B M F Mobu
(Executive Procurement)
- *National Diploma: Public Administration*
- *National Higher Diploma Public Administration*
- *BTech Degree Public Administration*

Ms N Isaacs-Mpulo
(Executive Corporate Services)
- *BSc (Hons) Computer Information Systems*

Mr J P Bogoshi
(Executive Client Services)
- *BSc Computer Science*
- *Certificate in Professional Management*
- *Certificate in Investment Management*



Mr V Magagula
(Executive Information Management Services)
- *Diploma: Information Technology Certification: Level 1+*

Mr S Ngubane
(Executive Strategic Implementation)
- *BA Physics, Computer Science and Mathematics*

Mr A Meyer
(Acting Chief Financial Officer)
- *CA (SA)*

CORPORATE GOVERNANCE

SITA

CORPORATE GOVERNANCE

Introduction

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

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

Compliance, not only with the letter, but also with the spirit of relevant governance codes remains a priority for the organisation. As a state owned enterprise, SITA is guided by the principles of the Code of Corporate Practices and Conduct contained in the King II Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. Furthermore, the statutory duties, responsibilities and liabilities imposed on the directors of SITA by the Companies Act 61 of 1973, as amended, are augmented by those contained in the Public Finance Management Act, 1 of 1999, as amended.

Shareholding

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

Shareholder Compact

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

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

Governing Bodies

Board of Directors

Composition of the Board

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

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

During the year, the terms of five of the non-executive directors ended on 31 May 2005. These terms were extended by two months to 31 July 2005. However one non-executive director resigned on 1 July 2005, before the end of his extended term.

In August 2005, a new Board of Directors was appointed.

The following is a list of Directors as at 31 March 2006:

NAME	QUALIFICATION
Ms T P C Chikane [d] (Non-Executive Chairperson)	CA (SA)
Mr R J Barjaktarevic [cd] (Non-Executive)	
Ms N Dhevcharran [acd] (Non-Executive)	M Sc Computer Science
Ms N C Isaacs-Mpulo [c] (Executive)	BSc (Hons) Computer Information Systems
Mr L Jones [bd] (Non-Executive)	BSc Electrical Engineering M Sc Computer Science Director of ICT & Defence Market Segments
Mr C Kruger [abd] (Non-Executive)	B Com (Hons) Economics
Ms Z P Manase [ab] (Non-Executive)	B Com BCompt (Hons) CA(SA) HDip Tax
Prof T Marwala [cd] (Non-Executive)	Post Doctorate in Information Technology PhD Computational Intelligence in Engineering Systems M Sc Mechanical Engineering BSc Mechanical Engineering Technical Analysis & Fund Management SAIM Programme in Bus Management Governance Risk & Ethics
Ms N Moerane [ac] (Non-Executive)	B Com LLB Certificate in Labour Relations Act
Mr M Msimang [abcd] (Chief Executive Officer)	BSc (Entomology/Biology) University of Zambia MBA (Project Management) – US International University
Mr P Pedlar [abd] (Non-Executive)	B Com Hons B (B & A) Diploma in Law & Tax

The following are details of the Board members as at 31 July 2005:

NAME	QUALIFICATION	DATE APPOINTED	DATE RESIGNED/ TERM EXPIRED
Ms Z P Manase [cd] (Non-Executive Chairperson)	B Com BCompt (Hons) CA(SA) HDip Tax	01 June 2002	31 July 2005
Ms L A Abrahams [cd] (Non-Executive)	BSc Post Graduate Diploma in Public Policy and Development Administration	01 June 2002	31 July 2005
Mr R J Barjaktarevic (Non-Executive)		01 April 2005	
Adv L Gcabashe [c] (Non-Executive)	BA Admin BA Law MA LLB	01 June 2002	31 July 2005
Mr C C W Kruger [ab] (Non-Executive)	B Com (Hons) Economics	01 June 2002	
Mr M Msimang (Chief Executive Officer)	BSc (Entomology/Biology) University of Zambia; MBA (Project Management) - US International University	01 April 2005	
Mr M Roussos [bd] (Non-Executive)	BA (Hons) MBA	01 June 2002	31 July 2005
Dr S Sibisi[d] (Non-Executive)	BSc (Hons) PhD	01 June 2002	01 July 2005

The small letters next to the names indicate membership of the Board Committees

a. Audit and Risk Committee
b. Finance and Capex Committee
c. Human Resources and Remuneration Committee
d. Strategic Committee

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

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

Members	Attendance (Meetings held: 7)
T P C Chikane (Chairperson)[1]	5
L A Abrahams [2]	2
R Barjaktarevic	5
N Dhevcharran[1]	5
L Gcabashe[2]	0
N C Isaacs-Mpulo [1]	5
L C Jones[1]	5
C C W Kruger[3]	6
Z P Manase[4]	6
T Marwala[1]	5
N Moerane[1]	3
M Msimang	7
A P Pedlar[1]	5
M Roussos[2]	1
SP Sibisi[5]	1

1 – Appointed 4 August 2005

2 – Term Expired 31 July 2005

3 – Reappointed from 4 August 2005

4 – Chairperson till 31 July 2005 and reappointed as director 4 August 2005

5 – Resigned 1 July 2005

Role and Function of the Board

The Board is the accounting authority of SITA in terms of the PFMA. The Board Charter sets out the roles, duties and responsibilities of the Board as well as salient corporate governance principles.

The role of the Board embraces the following activities:

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

Meetings

Main Board	7
Annual General Meeting	1
Audit & Risk Committee	4
Tender Board/SSA	23
HR & Remuneration Committee	4
Finance & Capex Committee	5
Strategic Committee	3

Delegation of authority

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

Director Induction and Orientation

All new directors are taken through an induction programme that is designed to enhance their understanding of SITA's legislative framework, its governance processes and the nature of 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. The shareholder determines fees after consultation with National Treasury who determines the rate. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on the company's behalf.

Further information on directors' remuneration appears on Annexure A

Company Secretarial Function

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

The company secretary together with other assurance functions, monitor SITA's compliance with the requirements of the PFMA, Companies Act and other relevant legislation.

Board Committees

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

The SITA Board Committees and their Chairpersons

	Until 30 September 2005	Appointed 1 October 2005
Audit and Risk Committee	Ms Y Kwinana	Ms ZP Manase
Finance and Capex Committee	Mr CCW Kruger	Mr CCW Kruger
Human Resources and Remuneration Committee	Ms Z Manase	Ms N Moerane
Strategic Committee	Ms Z Manase	Ms TPC Chikane

Audit and Risk Committee

Until the appointment of the new Board, the Audit and Risk Committee comprised a non-executive director and three external members. One of the three external members was elected Chairperson of the committee. As a result of the appointment of the new Board of Directors, the membership of the committee changed to five non-executive directors, one of whom is the Chairperson and one executive director.

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

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

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

The attendance of members at committee meetings was as follows:

Members	Attendance (Meetings held: 4)
Z P Manase (Chairperson)[1]	2
J Grundling[2]	0
N Dhevcharran[1]	2
B Kgomo[3]	2
C C W Kruger[4]	4
Y Kwinana[5]	2
N Moerane[1]	0
M Msimang[6]*	4
A P Pedlar[1]	1

1 – Appointed 1 October 2005
2 – Resigned 1 April 2005
3 – Term Expired 30 September 2005
4 – Reappointed 1 October 2005
5 – Term expired - Chairperson till 30 September 2005
6 – Attended by invitation – Appointed 1 October 2005*

Finance and Capex Committee

Until the appointment of the new Board, the Finance and Capex Committee comprised two non-executive directors, one of whom was the Chairperson of the committee and two external members. As a result of the appointment of the new Board of Directors, the membership of the committee comprises four non-executive directors, one of whom is the Chairperson and one executive director.

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

Five committee meetings were held during the financial year. These were attended by the Chief Executive Officer, the Acting Chief Financial Officer, the Chief Audit Executive and other relevant corporate officials.

*Up until the 30 September 2005, Mr Msimang was not a Board Member; as a result he attended the Board and the sub-committees meetings by invitation. On the 1 October 2005 he was appointed as an executive director

The attendance of members at committee meetings was as follows:

Members	Attendance (Meetings held: 5)
C C W Kruger (Chairperson)[1]	5
C Gassiep[2]	2
L C Jones[3]	2
Z P Manase[3]	2
M Msimang[4]*	5
A P Pedlar[3]	1
M Roussos[5]	0

1 – Reappointed 1 October 2005
2 – Term Expired 30 September 2005
3 – Appointed 1 October 2005
4 – Attended by invitation – Appointed 1 October 2005*
5 – Term Expired 31 July 2005

Human Resources and Remuneration Committee

Until the appointment of the new Board, the Human Resources and Remuneration Committee comprised three non-executive directors, one of whom was the Chairperson of the committee, two external members and the Chief Executive Officer. As a result of the appointment of the new Board of Directors, the membership of the committee comprises five non-executive directors, one of whom is the Chairperson and one executive director.

The committee:

- makes recommendations to the Board on the appointment of new executive and non-executive directors
- is responsible for the oversight and monitoring of the human capital management strategies and implementation within the company
- determines, agrees and develops the company's general policy on executive and senior management remuneration
- recommends to the Board specific remuneration packages for executive management.

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

Members	Attendance (Meetings held: 4)
N Moerane (Chairperson)[1]	2
L A Abrahams[2]	1
R J Barjaktarevic[1]	1
N Dhevcharran[1]	2
L Gcabashe[2]	1
N C Isaacs-Mpulo[1]	2
Z P Manase[3]	2
T Marwala[1]	2
L Mbete[4]	2
M Msimang[5]	4
T Orleyn[4]	1

1 – Appointed 1 October 2005
2 – Term Expired 31 July 2005
3 – Chaired meeting of 8 September 2005
4 – Term Expired 30 September 2005
5 – Attended by invitation

Supplier Selection Authority (SSA)

The SSA comprises four external members and is chaired by an external member. The Head of ITAC, the Divisional Executives and the Head of Contracts attend the meetings.

SITA has demonstrated a strong commitment to high standards of corporate governance. Compliance with the recommendations of the King II Report on Corporate Governance, the Protocol on Corporate Governance in the Public Sector, and the PFMA is maintained.

The SSA was constituted in order for SITA to render the mandated services, to ensure that all procurement for SITA and on behalf of its clients are transparent, impartial and fair, and to ensure that all legislation is adhered to, both by SITA employees and Industry tendering for SITA business.

**Up until the 30 September 2005, Mr Msimang was not a Board Member; as a result he attended the Board and the sub-committees meetings by invitation. On the 1 October 2005 he was appointed as an executive director*

SITA's own internal procurement, and procurement, for or on behalf of, participating departments is regulated by the SSA. The mandate of the SSA is to ensure that Government policies on procurement are complied with, whilst the procurement benefits Government and improves service delivery.

This is achieved through:

- cost reduction
- an increase in productivity
- convenience to Departments and Government overall.

This is also underpinned by:

- IT security
- the elimination of duplication
- economies of scale
- interoperability.

The SSA has the power to procure supplies and services for SITA and to procure information technology, information systems and related services to, or on behalf of, participating departments, and to act as procurement agency for non-participating departments with the approval of the State Tender Board.

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

Members	Attendance (Meetings held: 23)
I Mamoojee (Chairperson)	23
N Mlamla	21
P Monyeki	17
S Sakawuli	23

Strategic Committee

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

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

- define the SITA strategy in line with SITA's mandate
- to guide and lead the implementation of that strategy
- develop and manage the strategy capability needs
- manage business needs.

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

Members	Attendance (Meetings held: 3)
T P C Chikane (Chairperson)[1]	3
R J Barjaktarevic[1]	2
N Dhevcharran[1]	2
N C Isaacs-Mpulo[2]	1
L C Jones[1]	3
C C W Kruger[1]	3
T Marwala[1]	3
M Msimang[1]	2
A P Pedlar[1]	2

1 – Appointed 1 October 2005
2 – Attended by invitation

Executive Management Committee (EXCO)

EXCO is chaired by the Chief Executive Officer and comprises the Executives of SITA's various divisions and is attended by other relevant corporate officials. Details of the EXCO members appear on pages 18 to 19.

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

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

Members	Attendance (Meetings held: 12)
M Msimang (Chairperson)	12
J Bogoshi	11
K Buthelezi[1]	10
P Coertze[2]	2
P Els[3]	0
T Geldenhuys	12
N Isaacs-Mpulo	12
V Magagula	8
J Mazibuko[4]	7
A Meyer[5]	11
F Mobu	11
P Motsepe[6]	9
S Ngubane	11

1 – Resigned 31 March 2006
2 – Appointed 1 January 2006
3 – Resigned 31 July 2005
4 – Resigned 31 January 2006
5 – Appointed 21 February 2005
6 – Resigned 31 December 2005

Internal Control

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

Audit

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

One of the key inherent risks identified in the risk assessment process was procurement. Consequently, SITA's procurement processes and procedures are continually subject to heightened internal audit focus by S-GAS.

All important matters relating to weaknesses in the control environment are reported to management for appropriate remedial action, as well as to the Audit and Risk Committee, on a regular basis.

S-GAS is fully supported by the Board and the Audit and Risk Committee and has full unrestricted access to all organisational activities, records, property and personnel.

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

Forensic Investigations

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

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

As part of this plan, an independent Ethics Line was launched on 1 March 2005, where persons can report incidences of alleged fraud, corruption and other contraventions of SITA's Code of Ethics.

Other fraud prevention initiatives include regular fraud awareness and ethics training, the introduction of an ethics page on SITA's intranet and the performance of fraud detection analysis on major SITA systems.

Reporting to Stakeholders

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

Stakeholder Relations

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

Public Finance Management Act (PFMA)

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

- economic, efficient, effective and transparent systems of financial and risk management and internal controls are place
- a system is maintained for properly evaluating all major capital projects prior to a final decision on each project
- the implementation of appropriate and effective measures to prevent unauthorised, irregular and fruitless & wasteful expenditure not complying with legislation, or losses through criminal conduct
- all revenues due to SITA are collected
- the economic and efficient management of available working capital
- the definition of objectives and 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 "significant" in terms of sections 54(2) and 55(2) of the PFMA, develop and agree a framework of acceptable levels of materiality and significance with the relevant executive authority.

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

The King Code 2002 on Corporate Governance requires that disclosure be made on matters of ***significance,*** interest and relevance to shareholders and a wide range of stakeholders. The accounting authority should establish ***guidelines of materiality*** for disclosure by the organisation.

This framework will be reviewed and updated annually.

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

Section	Requirement	Material/Significant
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 includes 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 (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 ***R 20million***. This figure is based on the Auditor-General calculated materiality for the 2005/6 financial year audit.
Section 55(2)	The annual report and financial statements referred to in subsection 55(1)(d) must – (b) include particulars of – (i) any ***material*** losses through criminal conduct and any irregular expenditure and fruitless & wasteful expenditure that occurred during the financial year.	▪ ***All losses*** arising from criminal conduct are considered, by their nature, to be material and will be reported in accordance with the provisions of section 55(2) of the PFMA. ▪ Individual transactions in excess of **R 2,6** million arising from irregular expenditure and fruitless & 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 2004/5 financial year revenue.

Risk Management

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

The PFMA was enacted in 1999 with the primary purpose of securing sound and sustainable management of the financial affairs of government bodies. The responsibility of the SITA Chief Executive Officer, as specified by the Accounting Officer, is the management of the financial administration of SITA. Included in this duty is the maintenance of an effective, efficient and transparent system of risk management.

Furthermore, the King 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.

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. As such, the methodology of SITA employs an eight phased approach, which incorporates these principles.

By establishing and working from a set model, SITA has ensured a consistent and logical approach to risk management.

Within SITA, the risk management process began with an assessment of the inherent strategic risks that are facing the organisation. The risk listing was prioritised and the following risks were identified as those most crucial to the success of the organisation:

- Business continuity
- Adequate electronic security
- Adequate physical security and access control
- Effective understanding and implementation of the SITA mandate
- Adequate and efficient service delivery.

It should be noted that the majority of these are risks prevalent to the ICT environment and by proactively identifying the major risks that SITA could face, the organisation can better manage the achievement of the objectives as contained in the Strategic Imperatives.

The mitigation of these top 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. This will be ensured through the use of the risk management methodology as a key component of the Business Planning Process, in which business objectives, risks and strategies will be used to formulate business plans for every business unit. Further to this, the implementation of effective risk mitigating strategies are included as performance objectives for specific managers throughout the organisation.

All of the above is geared towards improving the control environment within SITA. However, as part of an effective system of risk management and in compliance to Part 9 of the Treasury Regulations issued in terms of the PFMA, S-GAS is required to compile a risk-based audit plan for each financial year. The outcome of the annual strategic risk assessment forms the basis of the S-GAS annual coverage plan. In this way, the results of the implementation of the risk management methodology is independently verified, which allows SITA to continually improve its risk management process.

HUMAN RESOURCES

SITA Human Resources Management Systems (HRMS) ERP

The ORACLE system has been identified as the ERP system for implementation in SITA. The HR Core data and Payroll were implemented on the ORACLE HR system effective 1 October 2005. This system has been used with success for HR Administration and Payroll functions and will be expanded to other Human Resources areas.

Levels of Work

The Levels of Work titles were implemented with the go-live of the Oracle system. In order to improve internal salary equity the salaries of all staff who were affected by the levels of work exercise were increased to the minimum of the applicable SITA salary band.

Performance Management

For the second time in the history of SITA the company financial performance has been taken into consideration when calculating the available funds for distribution to qualifying staff.

The Performance Management Policy for SITA was developed and signed-off for implementation on 21 February 2005 with immediate implementation.

A focus area for the Human Resource Performance & Remuneration team together with the Human Resource Operations team was that of ensuring one hundred percent compliance to the Performance Management Policy which resulted in a successful rollout of the Performance Management Policy.

SITAzens soon grasped the importance of setting and measuring objectives in ultimately achieving effectiveness for individual and corporate level performance.

Payroll

The full payroll input function has been moved from the Finance Department to the Human Resources Department to improve on the segregation of duties between input and payment. The payment function of the payroll has remained with the Finance Department.

The following remuneration related activities took place:

- The finalisation of the job family salary bands on 1 April 2006 together with the Remuneration Policy
- Finalisation of the Retention Tool to be used for nomination purposes. Role-players are in the process of nominating relevant employees who could be eligible for retention as per the retention strategy of the Company to retain skilled employees
- The new proposed updated SITA Conditions of Service is in progress and hope to be finalised soon to be presented for approval
- The establishment of the SITA AFRF (Alexander Forbes Retirement Fund) committee which consists of both the employer and employee representatives
- The updating of the salary restructuring.

Gender

Towards the latter part of 2005, the SITA Executive Committee approved the organizational gender strategy. This strategy catered for the application of gender issues from an empowerment perspective both with regards to the broader ICT environment and SITA as an organizational entity.

The embracement of the strategy is reflected in the recent restructuring process which saw the appointment of a larger representivity of women appointed to Executive and Senior positions. To this end, a Gender Forum has been founded within the organization consisting of 46 women from the various lines of business within the SITA environment.

This process was precipitated by an educational drive which included but is not limited to a national roadshow, various communiqués and an extensive nomination and election process. Within the broader ICT platform mutually beneficial strategic alignments have been formed with similar ICT blue chip organizations. The Gender Forum will be introduced to the larger SITA environment during the course of Women's Month as part of our celebrations. The view is to have it entrenched as a component of SITA's evolving cultural renaissance.

Best Company to Work for Survey

One of our strategic imperatives speak to the "best demonstrated practices in people management" spurned the realization that true transformation can only be realized through the creation of a conducive cultural environment. With this objective it was resolved that SITA would participate in the Best Company to Work for survey. The survey serves to comparatively locate SITA's cultural standing with a wide array of organizations across various industries. The primary purpose of SITA's participation was to create a foundation upon which the best of the breed human resources cultural practices would be based.

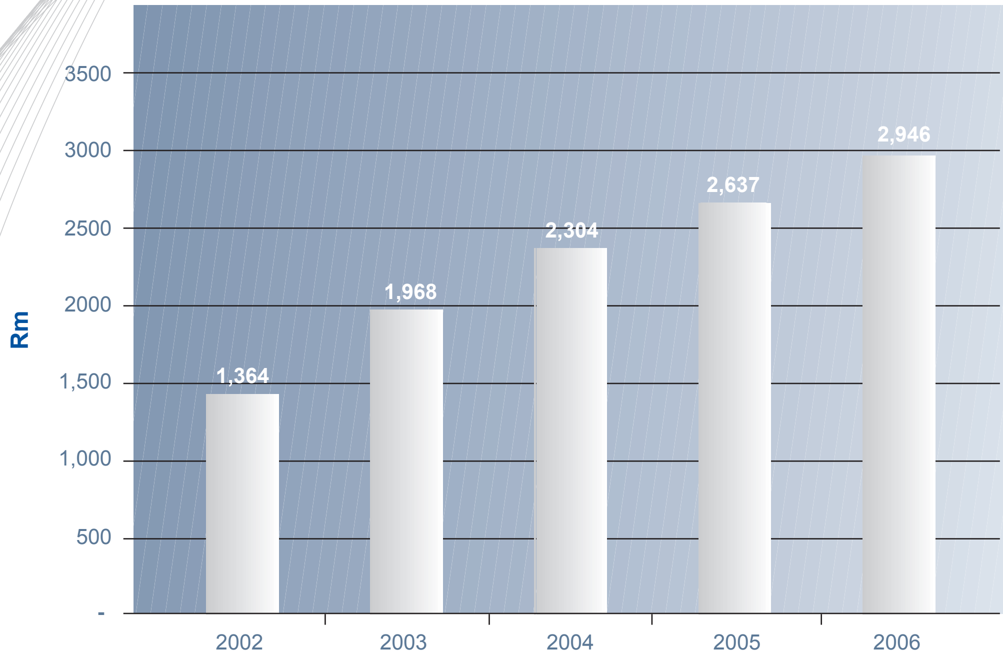
From the initial results it became apparent that significant work was required to improve our cultural landscape. The outcomes have served to tactically locate SITA's cultural changes and the work that the organization has and is set to earnestly undertake corrective measures. The organization has as an outlook continued participation in the survey both from a benchmarking perspective as well as a concrete measure in terms of progress.

SALIENT FEATURES

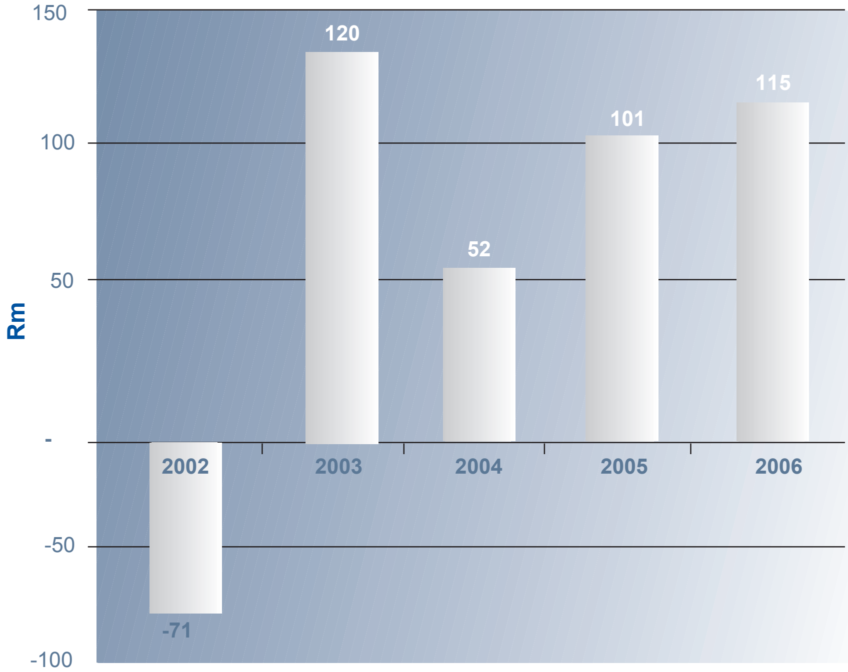
Salient features for the years ending:

(in Rand million)	31 March 2006	31 March 2005
Revenue	2,946	2,637
Gross Profit	564	496
Surplus before taxation	115	101
Net surplus for year	81	69
Total assets	2,227	1,924
Total net assets	923	842
Cash flow from operating activities	509	342
Capital expenditure	84	124
Gross Profit margin (%)	19.14%	18.81%
Surplus before taxation (%)	3.90%	3.83%
Net surplus for year (%)	2.75%	2.62%

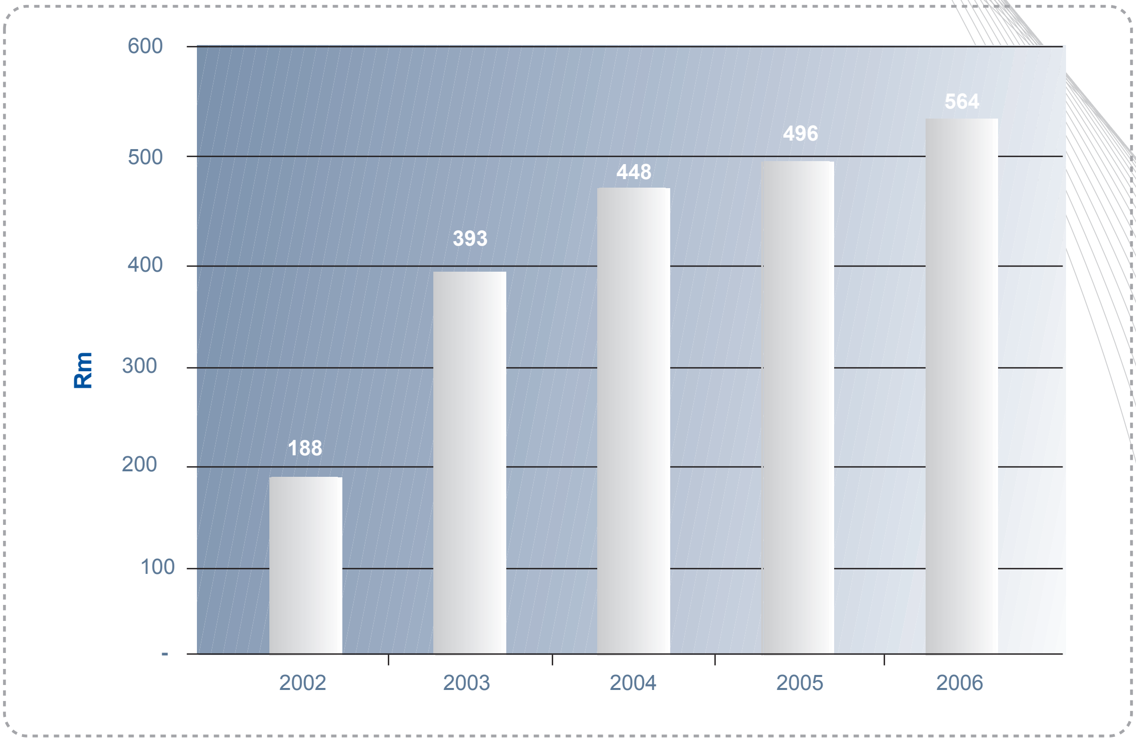
Revenue



(Loss) / Surplus before taxation



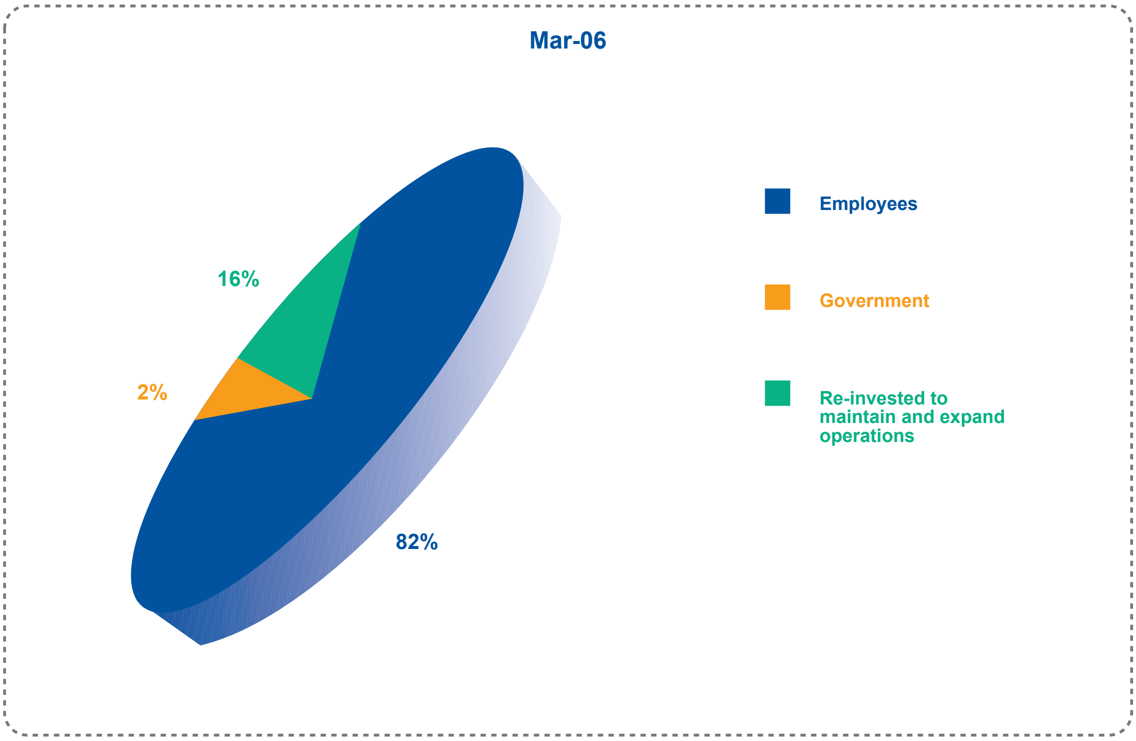
Gross profit



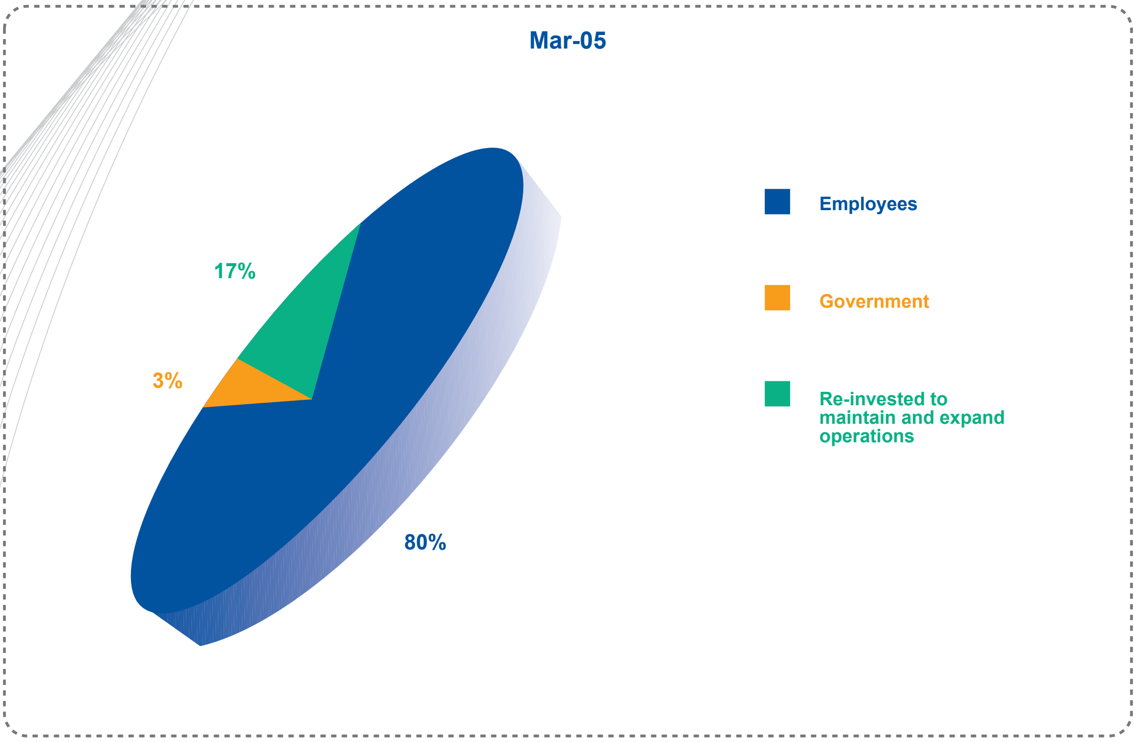
VALUE ADDED STATEMENT

Value added statement in Rm	Mar-06	%	Mar-05	%
Revenue	2,946		2,637	
Paid to suppliers for materials and services	1,660		1,484	
Value added by operations	1,286	97%	1,153	98%
Other income	12	1%	2	0%
Finance income	33	2%	23	2%
Total wealth created	**1,331**	**100%**	**1,178**	**100%**
Distributed as follows:				
Employees:	1,080	82%	948	80%
Salaries, wages and other benefits	1,026		905	
Retirement benefit costs	54		43	
Government:				
Income tax expense	33	2%	32	3%
Re-invested to maintain and expand operations:	218	16%	198	17%
Depreciation	137		129	
Surplus for year	81		69	
Total wealth distributed	**1,331**	**100%**	**1,178**	**100%**

March 2006:



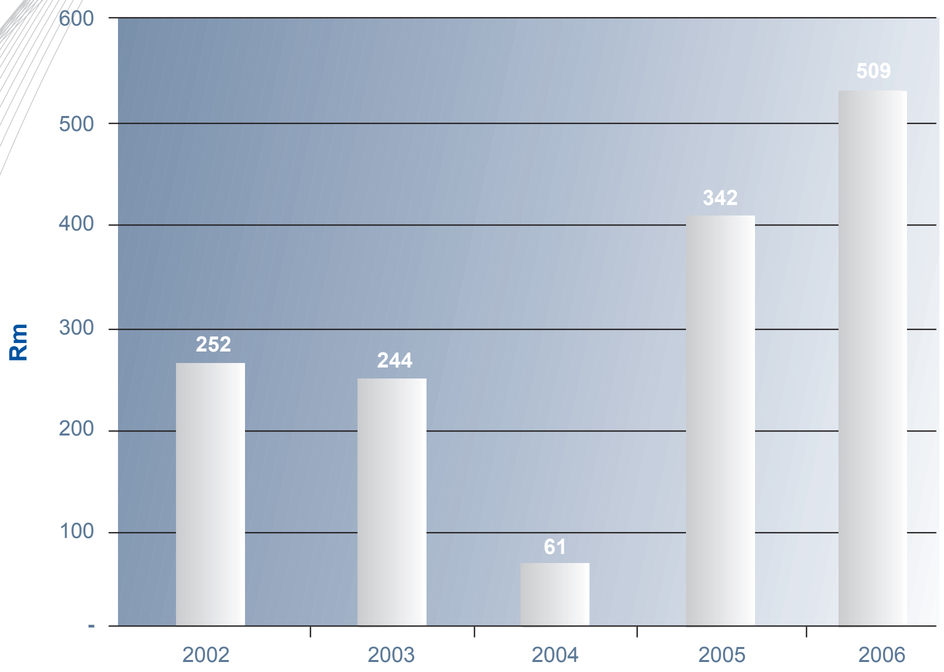
March 2005:


Mar-05
17%
3%
80%
Employees
Government
Re-invested to maintain and expand operations

FIVE-YEAR REVIEW

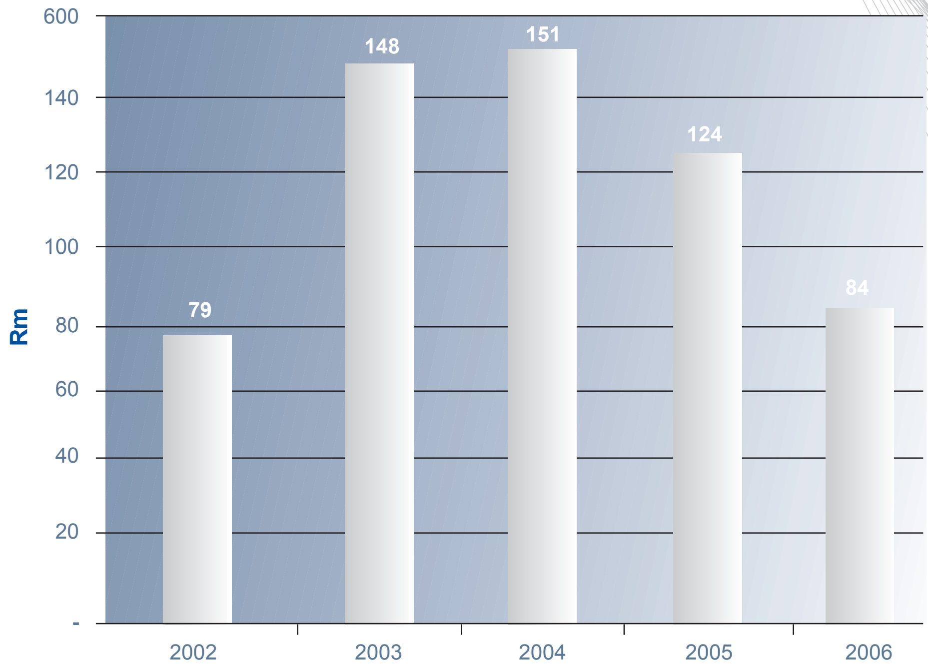
	31 Mar 06	31 Mar 05	31 Mar 04	31 Mar 03	31 Mar 02
STATEMENT OF FINANCIAL PERFORMANCE AND CASH FLOW	Rm	Rm	Rm	Rm	Rm
Revenue	2,946	2,637	2,304	1,968	1,364
Gross profit	564	496	448	393	188
Other income	12	2	9	19	9
Finance income	33	23	27	38	13
Finance costs	5	9	4	10	5
Operating expenses	488	411	428	320	276
Surplus /(Loss) before tax	115	101	52	120	(71)
Income tax expense	33	32	17	37	19
Surplus /(Loss) for the year	81	69	35	83	(52)
Cash generated from operations	509	342	61	244	252
STATEMENT OF FINANCIAL POSITION					
Current assets	1,732	1,387	958	978	801
Non-current assets	495	537	467	439	370
TOTAL ASSETS	2,227	1,924	1,425	1,417	1,171
Total net assets	923	842	692	657	574
Current liabilities	1,200	981	626	658	502
Non-current liabilities	104	101	107	102	95
TOTAL NET ASSETS AND TOTAL LIABILITIES	2,227	1,924	1,425	1,417	1,171
CAPITAL EXPENDITURE	84	124	151	148	79

Cash flow from operating activities



Total net assets

Capital expenditure



BUSINESS PERFORMANCE

FINANCIAL PERSPECTIVE

Objective	Target	Stretched Target	Actual Performance
Revenue	R2.6bn	R2.86bn	R2.95bn
Gross Profit Margin	20%	>25%	19.13%
Net Profit Margin	3%	>5%	3.89%
Liquidity Ratio (Current Ratio)	> 1.5:1	> 2:1	1.4:1
Cash Cover	>2 months of OPEX	>3 months of OPEX	2.8 Months
Saving on OPEX	2.5% Saving on OPEX	5% Saving on OPEX	15%
Debtors Management	<55 Days	50 Days	60 Days
Creditors Management	60 Days	45 Days	88 Days
Compliance with GAAP	Errors reported by outside auditors are mitigated and does not re-occur	Zero non compliance	Achieved
Compliance with tax	Errors reported by outside auditors are mitigated and does not re-occur	Zero non compliance	Achieved
Insurance of SITA assets	Asset register effectively maintained	Optimal insurance cover and all claims recover the value of the assets	Achieved
Cost recovery from cost centre expenditures	90% Cost Recovery Facilities & Property	100% Cost Recovery on facilities & property	100% + profit
	90% Cost Recovery Training & Development	100% Cost Recovery Training & Development	100%
Board and Independent members' fees	Board and Independent Members fees approved and submitted for payment within 5 working days	Board and Independent Members fees submitted for payment within 3 working days	1 Day
Drive BEE/SMME Development	50% BEE Procurement vs. Total Procurement	60% BEE Procurement vs. Total Procurement	66%
Ensure corporate governance level is maintained and improved	100% PFMA Compliance	100% PFMA Compliance	Achieved
	No material risks/issues resulting in a disclaimer, qualification or emphasis of matter in the external audit report	100% Internal Audit Report risks/issues mitigated	Not Achieved

CUSTOMER PERSPECTIVE

Objective	Target	Stretched Target	Actual Performance
CSI for SITA	60% CSI	65% CSI	43%
Key Projects	80% CSI	85% CSI	80%
SLA Deviation	5% SLA deviation	2% SLA deviation	2%
Invoicing completed accurately, timely	2% error in invoices issued	1% error in invoices issued	< 1%
Overhaul Internal and External Communications - improved communication & relationships with external Stakeholders	10% improvement on Delahay Media Indicator	15% improvement on Delahay Media Indicator	Achieved - 10%
Improve SITA's Image	10% Improvement on SITA's image	15% Improvement on SITA's image	Over Achieved Stretch
To establish, develop and sustain strategic relationships with key stakeholders (MPSA, DGs, DDGs, CIOs, GITOC, etc), key industry players and suppliers	Positive feedback from key stakeholders, industry players & suppliers	New relationships established or developed	Achieved Stretch
Prioritised citizen-focused projects	70% of IS client projects completed on time	80% of IS client projects completed on time	80%
Drive Interoperability	2 x Private Govt Networks integrated	3 x Private Govt Networks integrated	1 Private Govt Network
Disaster Recovery Plan	Completed 31 March 2006	Completed 31 January 2006	Achieved

BUSINESS PROCESS

Objective	Target	Stretched Target	Actual Performance
Proposal Lead-times	21 days	14 days	80% Done in less than 14 days
Procurement Lead-times	80% tenders awarded within 78 working days	90% tenders awarded within 75 working days	Average Days = 74 Days
Operating Model Execution	80%	90%	Achieved Target
Drive towards Infrastructure best practices through approved policies, procedures & standards	50%	60%	Achieved Stretch Target
Improve technical performance, stability & operational security	Total value of penalties not exceeding 0.5% of revenue.	Total value of penalties not exceeding 0.3% of revenue.	Nil (Penalties)
	<1% Total downtime of contracted SLA metric	<0.75% Total downtime of contracted SLA metric	Achieved Stretch
Deployment of e-Procurement	100% Deployment by March 2006	100% Deployment by December 2005	100% Deployment
Implement Quality Management Initiatives in Provinces	Implementation in at least 1 Province	Implementation in at least 2 Provinces	ISO9001 KZN and DOD
GCCN Upgrade Project (as per plan)	95% Project Plan Milestones met	98% Project Plan Milestones met	>98%
Data Centre Consolidation (as per plan)	95% Project Plan Milestones met	98% Project Plan Milestones met	Achieved Target
DOD Data Centre Upgrade (as per plan)	95% Project Plan Milestones met	98% Project Plan Milestones met	>98%
Project Khanya	90% data accuracy 90% data completeness	100% data accuracy 100% data completeness	HR Data 100% Fin-Data 90%
	Go live 1 Sept 2005	Successful roll out after go-live	Achieved

LEARNING AND GROWTH

Objective	Target	Stretched Target	Actual Performance
Drive Employment Equity	65% EE candidates actual vs. target 65% Black candidates actual vs. target 40% Female candidates actual vs. target 1% Disabled candidates actual vs. target 40% Female employees empowered and developed in all job families 40% Female talent attracted and retained	70% EE candidates actual vs. target 70% Black candidates actual vs. target 45% Female candidates actual vs. target 1% Disabled candidates actual vs. target 45% Female employees empowered and developed in all job families 45% Female talent attracted and retained	Gender 47.8% Race 70% in all categories except C1-C2 to D4-D5
Train & Develop Staff	80% staff trained as per PDP	95% staff trained as per PDP	84% Employees trained as per PDP
	95% training budget used	100% training budget used	Achieved
Retain Critical Skills & Best Performers	<3% Turnover of identified top performers	<2.5% Turnover of identified top performers	Staff turnover is 5.39 excluding VSP vs. Top performers turnover is 12.23%.
Manage Performance	90% of Performance Contracts & Assessments Completed on time	100% of Performance Contracts & Assessments Completed on time	100% Assessments 99.7% Contracted
Motivate Staff	Establish baseline for BCTWF	15% Improvement on BCTWF	Achieved
Productivity Output per Head	3.90% Productivity	4.12% Productivity	4.61%
Current organisation structure optimised	70% projects completed on time	90% projects completed on time	Achieved

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SITA

REPORT OF THE AUDIT AND RISK COMMITTEE

in terms of regulations 27 (1)(10)(b) and (c) of the Public Finance Management Act, 1 of 1999, as amended

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

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

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

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

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

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

- Information Systems Management
- Procurement Policies and Procedures
- Payroll
- Fixed Assets
- Accruals
- Service Level Agreements Management
- Project Management
- Infrastructure Spend
- Receivable Management.

The Audit and Risk Committee is particularly concerned that the first six areas of control weaknesses mentioned above, were raised in the previous years audit report, yet, they have not been resolved.

In addition, during the year, the Company implemented a new Enterprise Resource Planning (ERP) system to replace many of its legacy systems to further improve the organisation's internal control environment. Various deficiencies were identified during the post implementation review of the ERP system. Added focus will be directed during the next financial year on assessing the adequacy of the internal control environment in this area on the issues raised by the Auditor-General in his report.

During the current financial year the company adopted the Statement of Generally Recognised Accounting Practises for the first time, issued by the Accounting Standards Board. The Audit and Risk Committee has evaluated the annual financial statements of the company for the year ended 31 March 2006 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, 61 of 1973, as amended, the Public Finance Management Act, 1 of 1999, as amended, the SITA Act, 1998 (Act No 88 of 1998), as amended and the South African Statements of Generally Accepted Accounting Practice including the statements of Generally Recognised Accounting Practices issued by the Accounting Standards Board.

The Audit and Risk Committee concurs that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. At its meeting held on 19 July 2006, the Audit and Risk Committee recommended the adoption of the annual financial statements by the Board of Directors.

Ms Zodwa Manase
Chairperson

Audit Committee Members

Ms Z P Manase
Ms N Dhevcharran
Mr C C W Kruger
Ms N Moerane
Mr M Msimang
Mr A P Pedlar

CERTIFICATE BY THE COMPANY SECRETARY

I, Theresa Victoria Geldenhuys, in my capacity as Company Secretary of the State Information Technology Agency (Pty) Ltd, 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 Theresa Victoria Geldenhuys
SITA Company Secretary

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

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

The Directors meet periodically, primarily through the audit committee, with the external and internal auditors and executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The company's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the external auditors. The Auditor-General is responsible for reporting on the financial statements. Both external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee. The Directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The Directors are of the opinion, based on the information and explanations given by management and internal auditors, and on comment by the Auditor-General on the results of his audit conducted for the purpose of expressing his opinion, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. As the Directors have reviewed the company's financial budgets for the period to 31 March 2007, and in the light of the current financial position, they consider it appropriate that the annual financial statements be prepared on the going-concern basis. The Auditor-General has audited the annual financial statements of the company and his report appears on page 54. Against this background, the Directors of the company accept responsibility for the annual financial statements, which were approved by the Board of Directors on 28 July 2006 and are signed on its behalf by:

Ms T P C Chikane
Chairperson:
SITA Board of Directors

Mr M Msimang
Chief Executive Officer

REPORT OF THE AUDITOR-GENERAL

Report of the Auditor-General to Parliament
on the financial statements of the State Information Technology Agency (Proprietary) Limited (SITA) for the year ended 31 March 2006

AUDITOR - GENERAL

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 57 to 92, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 16(9) of the State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and the Companies Act of South Africa, 1973 (Act No. 61 of 1973). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette no. 28723 of 10 April 2006* and *General Notice 808 of 2006*, issued in *Government Gazette no. 28954 of 23 June 2006*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

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

3. BASIS OF ACCOUNTING

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

4. AUDIT OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of SITA at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements, and in the manner required by the Companies Act of South Africa, 1973 (Act No. 61 of 1973) and the Public Finance Management Act, 1999 (Act No. 1 of 1999).

5. EMPHASIS OF MATTER

Without qualifying the audit opinion, attention is drawn to the following matters:

5.1 *Properties and related costs*

SITA has signed transfer agreements with National Department of Public Works for the transfer of the properties into SITA's name. Although the transfer of the Numerus and Beta properties to SITA has not been finalised, SITA has recorded the properties in the accounting records and fixed asset register. The book values of the properties at year end amounted to R 21 million. Further particulars of this matter are disclosed in note 4.6 to the financial statements and in the Directors' Report.

5.2 *Internal controls*

With reference to paragraph 4.3 of my previous report, the internal control deficiencies in the following areas continued to occur:

- Information systems
- Payroll
- Fixed assets
- Accruals
- Non-compliance with procurement policies and procedures
- Service level agreements were not concluded in a timely manner and some service level agreements had not been concluded for the financial year.

The following additional areas were identified during the current year and reported to management and the Audit and Risk Committee for corrective action:

- Project management
- Infrastructure spend
- Receivable management

Although these deficiencies in internal controls do not affect the fair presentation of the financial statements, they need to be improved in order to reduce the risk and improve efficiencies. The main reasons for these deficiencies were either as a result of policies and procedures that are not documented or policies, procedures and controls that were not complied with. Furthermore, some of these deficiencies resulted in adjustments to the financial statements.

5.3 *Performance information*

General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006, requires that performance information should be submitted together with the financial statements for audit purposes. The financial statements were received on 31 May 2006, whilst draft performance information was only submitted on 12 July 2006.

At the Board meeting of 28 July 2006 the final performance information had not been submitted and therefore the required audit procedures could not be finalised.

5.4 *Performance audit*

As reported in paragraph 4.4 of last year's report following upon the hearing of the Standing Committee on Public Accounts (SCOPA) held on 8 March 2005, an audit on Information Technology Governance which includes the service level agreements between SITA and its stakeholders is in the process of being finalised. This is a comprehensive government-wide audit the outcome of which will be reported in a separate report.

5.5 *Irregular, Fruitless and Wasteful Expenditure*

With regard to paragraph 4.2 of my previous report, the actions taken by management to resolve/clear the amounts, are set out in page 59 to 60, of the directors' report.

5.6 Information Systems Audit

Two information systems audits were completed at the State Information Technology Agency in July 2006, namely an audit of the general controls surrounding the key financial applications, i.e. the Oracle, Star, Network 97, Remedy and IX Billing systems, and a system development life cycle audit of the Oracle implementation. Weaknesses that could impact the integrity, completeness, accuracy and validity of data were identified during both audits.

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

The physical and logical access controls were inadequate and no change control procedures or logs were in place to manage and monitor changes made to the systems. Furthermore, user access rights and the segregation of duties were not reviewed by management.

The most significant weaknesses identified during the audit of the Oracle implementation were the following:

No or insufficient evidence could be provided of the reconciliation of accounts payable and inventory during data migration. Various application control deficiencies were identified. For instance, payments could be made to inactive accounts and duplicate employee records could be created. Furthermore, the audit trail was inadequately configured and certain application controls were compromised by inadequate segregation of duties.

6. APPRECIATION

The assistance rendered by the staff of SITA during the audit is sincerely appreciated.

Shauket Fakie

Auditor –General

Pretoria

31 July 2006

DIRECTORS' REPORT

The directors have pleasure in presenting their report, which forms part of the audited annual financial statements of the State Information Technology Agency (Pty) Ltd (SITA) for the year ended 31 March 2006. This report and the annual financial statements comply with the requirements of the Public Finance Management Act No 1 of 1999 (as amended), the SITA Act No 88 of 1998 (as amended by Act 38 of 2002) and the Companies Act No 61 of 1973. The Board of Directors is the accounting authority in terms of section 49(2)(a) of the PFMA.

Nature of Business

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

Ownership

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

Equity Contributed

There were no changes to either the authorized or issued share capital of the company during the year ended 31 March 2006. Details of the authorized and issued share capital can be found in note 11 to the annual financial statements.

Financial Highlights

Abridged financial performance for the year ended 31 March 2006

	2006 R	2005 R
Revenue	2,946,185,226	2,636,756,614
Surplus before taxation	114,760,715	100,884,635
Finance income	33,145,957	22,729,359
Surplus for the year	81,331,849	69,255,119

Abridged financial position at 31 March 2006

Total Assets	2006 R	2005 R
Non current assets	494,897,343	536,982,714
Current assets	1,732,017,675	1,387,144,381
	2,226,915,018	**1,924,127,095**
Net assets and liabilities		
Net assets	923,267,809	841,935,960
Total liabilities	1,303,647,209	1,082,191,135
	2,226,915,018	**1,924,127,095**

Properties

Beta, Numerus and Centurion Properties

With the exception of Centurion property, these properties had not been transferred into the company's name at the date of approval of these financial statements. They have, however, been recognised in the books of the company at 31 March 2006.

Beta

A Memorandum of Agreement, which regulates the responsibilities between the company and the National Department of Public Works, is still in force. In terms of this agreement, the National Department of Public Works remains liable for property taxes, municipal costs as well as essential services until full transfer is effected. The National Department of Public Works had not complied with the fire regulation requirements as stipulated by the City of Tshwane Metropolitan Municipality at 31 March 2006. Transfer can only be effected once these regulatory requirements have been met.

Numerus

The City of Tshwane Metropolitan Municipality requires that the municipal services to this building be separated from the adjacent property occupied by the Department of Agriculture, which shares the same service lines as Numerus Property. As at 31 March 2006, the Department of Public Works had not completed the installation of a separate sewer line to Numerus Property. Until this installation is completed and approved by the City of Tshwane Metropolitan Municipality transfer cannot be effected.

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

Centurion

During the financial year ended 31 March 2006, SITA received copies of the title deeds in respect of this property as confirmation that transfer had been effected.

Dividends

There were no dividends declared for the current financial year (2005 : 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 largely operated effectively with the exception of the following internal control deficiencies.

System internal control deficiencies were encountered in the following ERP modules:

- Accruals
- Debtors management
- Fixed assets
- Information systems
- Project management
- Payroll

Other non system internal control deficiencies were limited to the following areas:

- Infrastructure spend
- Non-compliance with procurement policies and procedures
- Service level agreements were not concluded in a timely manner whilst others were not concluded for this financial year.

PFMA compliance

Various sections of the PFMA place responsibility on the Board to ensure that the company complies with all applicable legislations. A compliance section in the Finance department has been formed to formally identify and report on any non-compliance with legislation. Their findings are reported on a quarterly basis to both EXCO and the Board of Directors. Furthermore, formal training was given to management and employees in respect of the PFMA and Treasury Regulations.

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 Services and Administration for 2005/6 financial year.

Material losses, 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. Details of irregular expenditure and fruitless and wasteful expenditure are set out below.

(a) Irregular expenditure

	Opening balance	Concluded during current period	Discovered during current period	Closing balance
Gateway	50,706,332	-	-	50,706,332
CabEnet	43,856,426	-	-	43,856,426
Turnaround Strategy	15,372,169	-	-	15,372,169
Youth Internship Program	12,399,092	-	-	12,399,092
Establishment of the Office of the Ombudsman	6,279,612	-	-	6,279,612
Other	1,635,900	-	662,106	2,298,006

Gateway

Regarding the alleged irregularities on the Gateway Project, approval has been obtained from the Minister of Department of Trade and Industry (DTI) to proceed with the matter in terms of Sections 257 to 262 of the Companies Act, of 1973.
Inspectors, who are required to report monthly to the Minister of the DTI, were appointed on 12 June 2006. They are expected to issue a report towards the end of November 2006.

CabEnet

Legal opinion, which recommended that disciplinary and criminal actions be taken against responsible officials and former employees of the company, was obtained. This opinion together with legal reports has been submitted to the Director of Public Prosecution for consideration. Disciplinary action against the responsible officials still in the company's employ is in progress.

Turnaround Strategy

Disciplinary hearings have been concluded against three company officials. One official was dismissed. The other two were issued with final written warnings.

Youth Internship Program

The affected officials are no longer in the employment of the company. Executive Committee recommended to the Board of Directors that this matter should not be pursued further as such efforts were not considered to be cost effective.

Establishment of the Office of the Ombudsman

The cost incurred in the establishment of the Office of the Ombudsman amounted to R6 279 612. These costs were in respect of consulting services. A civil action for overpayments made has been lodged against the consultants amounting to R5 224 507. The court trial date has been set for 10 August 2007. It is doubtful if the balance of R1 055 105 is recoverable.

In addition proper procedures were not followed in the appointment of these consultants.

(b) Fruitless and wasteful expenditure

	Opening balance	Concluded during current period	Discovered during current period	Closing balance
Gateway	21,647,110	-	-	21,647,110
Other	1,327,265	**580,145**	386,181	1,133,301

Gateway

Approval has been obtained from the Minister of Department of Trade and Industry (DTI) to proceed with the matter in terms of Sections 257 to 262 of the Companies Act, of 1973. Inspectors, who are required to report monthly to the Minister of the DTI, were appointed on 12 June 2006. They are expected to issue a report towards the end of November 2006.

Public Private Partnerships

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

Generally Recognised Accounting Practice

The Accounting Standards Board (ASB) is required in terms of Section 89(1) of the PFMA to determine the standards of Generally Recognised Accounting Practice (GRAP). This accounting framework is mandatory to all public entities with financial years beginning on or after 1 January 2005. SITA is classified as a National Public Entity in terms of the PFMA and is therefore required to implement this accounting framework. Refer to the basis of preparation in note 1.1 of the financial statements.

Value Added Tax Act (Vat) Amendments

Amendments to the VAT Act, which were introduced in the Revenue Laws Amendment Act No.45 of 2003 and Act No. 32 of 2004 became effective on 1 April 2005.

In terms of these amendments, government departments, national and provincial public entities listed in schedules 1, 3A and 3C of the PFMA as well as constitutional institutions are not required to register for VAT unless they are specifically notified to do so in accordance with a decision by the Minister of Finance. A written confirmation has been received from SARS legal department to the effect that SITA's current status as a VAT vendor will remain unchanged.

Events Subsequent to the Date of Financial Position

Subsequent to the date of financial position, Ms Fatima Habib and Mr Mfanyana Salanje were appointed as executives for Shared Services and Finance respectively. These appointments were effective from 1 May 2006.
Other than these appointments, directors are not aware of any matters or circumstances arising since the date of financial position.

Project Khanya

During the current financial year SITA's back office systems were decommissioned and replaced by an Enterprise Resource Planning (ERP) system.

The implementation will be rolled out in three phases. Phase I addressed the financial systems and core human resources requirements. Phase II will focuses on the implementation of Human Resources, Supply Chain and Project Management systems requirements. Phase III will address the reporting requirements.

Project Khanya is currently focusing on achieving closure of phase I and the initiation of phase II.

Donor Funding

No donor funding was received for the current financial year. An amount of R1 884 536 has still not been utilised out of the total funds of R8 603 595 received in previous financial years from the Department of Public Service and Administration. The usage of these funds is subject to a separate audit commissioned by the Department of Public Service and Administration.

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 53.

Directors and Secretary

Disclosure of directors' remuneration is detailed in Annexure A to the Annual Financial Statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2006

	Notes	2006	2005
		R	R
ASSETS			
CURRENT ASSETS		1,732,017,675	1,387,144,381
Cash and cash equivalents	2	1,085,064,384	664,892,196
Trade and other receivables	3	556,251,255	664,784,323
Work in progress		58,298,953	20,344,475
Prepayments		27,789	4,748,093
Taxation owed		32,375,294	32,375,294
NON-CURRENT ASSETS		494,897,343	536,982,714
Property, plant and equipment	4	477,128,600	535,279,283
Deferred tax asset	5	17,768,743	1,703,431
TOTAL ASSETS		2,226,915,018	1,924,127,095
LIABILITIES			
CURRENT LIABILITIES		1,199,451,519	981,225,965
Trade and other payables	6	581,600,825	560,166,754
Current portion of interest-bearing borrowings	7	5,200,080	5,200,080
Provisions	8	54,000,000	58,644,921
Income received in advance		536,541,190	346,520,830
Taxation owing		22,109,424	10,693,380
NON-CURRENT LIABILITIES		104,195,690	100,965,170
Interest-bearing borrowings	7	26,000,410	31,200,490
Post-retirement medical liabilities	9	78,195,280	69,764,680
TOTAL LIABILITIES		1,303,647,209	1,082,191,135
TOTAL NET ASSETS		923,267,809	841,935,960
TOTAL LIABILITIES AND TOTAL NET ASSETS		2,226,915,018	1,924,127,095
NET ASSETS ANALYSED AS FOLLOWS:			
Equity contributed	11	1	1
Non-distributable reserves	12	625,333,736	625,333,736
Accumulated surpluses		297,934,072	216,602,223
TOTAL NET ASSETS		923,267,809	841,935,960

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006	2005
		R	R
Revenue	**13**	2,946,185,226	2,636,756,614
Cost of sales		2,382,588,700	2,140,601,034
Gross profit		563,596,526	496,155,580
Other income	**14**	11,762,341	1,854,022
Finance income	**15**	33,145,957	22,729,359
Operating expenses		488,347,315	410,802,102
Finance costs	**16**	5,396,794	9,052,224
Surplus before taxation	**17**	114,760,715	100,884,635
Income tax expense	**18**	33,428,866	31,629,516
Surplus for the year		81,331,849	69,255,119

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2006

	Note	Equity contributed	Non-distributable reserve	Accumulated surpluses	Total net assets
		R	R	R	R
Balance as at 31 March 2004 as previously stated		1	625,333,736	66,563,253	691,896,990
Prior year error	**19**			80,783,851	80,783,851
Restated balance as at 31 March 2004		1	625,333,736	147,347,104	772,680,841
Surplus for the year as previously stated				59,303,482	59,303,482
Prior year error	**19**			9,951,637	9,951,637
Restated balance as at 31 March 2005		1	625,333,736	216,602,223	841,935,960
Surplus for the year				81,331,849	81,331,849
Balance as at 31 March 2006		**1**	**625,333,736**	**297,934,072**	**923,267,809**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 R	2005 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
- Sale of goods and services		3,769,582,237	3,392,823,797
- Finance income received		28,354,768	21,972,768
Payments			
- Payments to suppliers and employees		(3,245,530,150)	(3,042,951,070)
- Finance costs paid		(5,396,794)	(5,823,108)
- Taxation paid	**20.1**	(38,078,134)	(23,761,042)
Cash flows from operating activities	**20.2**	**508,931,927**	**342,261,345**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(83,919,940)	(123,964,168)
Proceeds from disposal of property, plant and equipment		360,281	779,686
Reclassification of property, plant and equipment		-	12,550
Cash flows from investing activities		**(83,559,659)**	**(123,171,932)**
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		420,172,188	213,889,333
Cash and cash equivalents at beginning of year		664,892,196	451,002,863
Cash and cash equivalents at end of year	**2**	**1,085,064,384**	**664,892,196**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

1. ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (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 replacing equivalent GAAP statements as follows:

Standard of GRAP	Replaced Statement of GAAP
GRAP1 - Presentation of financial statements	AC101 - Presentation of financial statements
GRAP2 - Cash flow statements	AC118 - Cash flow statements
GRAP3 - Accounting policies, changes in accounting estimates and errors	AC103 - Accounting policies, changes in accounting estimates and errors

These financial statements represent the first-time adoption of these standards of GRAP.

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

1. Terminology differences:

GRAP	GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/(deficit) for the period	Profit/(loss) for the period
Accumulated surplus/(deficit)	Retained earnings/(Accumulated losses)
Contributions from owners	Share capital
Distributions to owners	Dividends
Reporting date	Balance sheet date

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information such as:

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

b) taxes and transfers payable;

c) trade and other payables from non-exchange transactions;
must be presented separately on the statement of financial position.

4. The amount and nature of any restrictions on cash balances is required to be disclosed.

Paragraph 11 -15 of GRAP1 has not been implemented as the budget reporting standard is in the process of being developed by the international and local standard setters. Although the inclusion of budget information would enhance the usefulness of the financial statements, non-disclosure will not affect fair presentation.

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

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

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

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

1.2 Property, plant and equipment

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

Depreciation is charged on the straight-line basis over the current estimated useful lives of the assets. Items of property, plant and equipment are depreciated from the date that they are available for use. Depreciation ceases only when the asset is derecognised or when it is classified as held for sale.

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

- Buildings	50 years or 17 years
- Vehicles	9 -10 years
- Office furniture	7 - 10 years
- Computer equipment and software	4 - 7 years

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

The residual value and current estimated useful lives are reassessed annually.

Subsequent expenditure

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

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

Gains and losses on the disposal of items of property, plant and equipment are taken to the statement of financial performance.

1.3 Impairment of property, plant and equipment

All items of property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the carrying amount is written down to the higher of its fair value less costs to sell and value in use.

In assessing value in use, the expected future cash flows are discounted to their 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 item of property, plant and equipment. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

Where an item of property, plant and equipment does not generate cash inflows largely independent of those from other items of property, plant and equipment, the recoverable amount is determined for the cash-generating unit to which the item of property, plant and equipment belongs. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there is an indication that the impairment may have reversed and there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

1.4 Leases

Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease. Payments received from operating leases are recognised as per the revenue policy (refer 1.12)

1.5 Intangible assets

Research costs incurred with the prospect of gaining new scientific or technical knowledge and understanding are charged as an expense in the statement of financial performance in the period in which they are incurred.

There are no development costs incurred.

1.6 Income taxes

Income tax expense

Income tax is recognised in the statement of financial performance except to the extent that it relates to items recognised directly in net assets, in which case it is recognised in net assets. Current tax is the expected tax payable on the taxable income for the year, using rates enacted or substantively enacted at reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the associated deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated using tax rates that have been enacted at reporting date. The effect on deferred tax of any changes in the tax rates is charged/ (credited) to the statement of financial performance, except to the extent that it relates to items previously charged or credited directly to net assets.

1.7 Financial instruments

In assessing the fair value of financial instruments, the company uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than 1 year, are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the company for similar financial instruments.

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

Trade and other receivables originated by the company are stated at amortised cost less impairment losses. Bad debts are written off during the year in which they are incurred.

Trade and other payables are stated at fair value which approximates the carrying value.

Cash and cash equivalents are measured at fair value.

Financial liabilities not at fair value through surplus or deficit are recognised at amortised cost, namely original debt less principle payments and amortisations, using the effective interest rate method.

Derivative instruments are measured at fair value. Fair values are obtained from the quoted market prices and option pricing models as appropriate.

Gains and losses arising from a change in fair value of financial instruments that are not part of a hedging relationship are included in net surplus or deficit in the period in which the change arises.

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

1.8 Interest-bearing borrowings

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

1.9 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on current, call and investment accounts with banking institutions, all of which are available for use by the company.

1.10 Employee benefits

Post employment benefits

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

Defined contribution plans

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

Defined benefit plans

Defined benefit plans are provided for pension and medical aid costs. The company's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered in the current and prior periods. The company's liability is limited to current contributions (refer to disclosure set out in note 9 and 10).

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

Termination benefits

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

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

Short-term benefits

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

1.11 Provisions

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

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

1.12 Revenue recognition

Revenue

Revenue, which excludes value added tax, represents the gross value of goods and services invoiced.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
a) the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) the company retains neither continuing managerial involvement to the degree usually associated with ownership of the goods;
c) the amount of revenue can be measured reliably;
d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

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

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

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

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

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

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

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

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

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

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

Other income

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

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

1.13 Foreign currencies

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the transaction date. Liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains or losses on translation are credited or charged to the statement of financial performance.

1.14 Irregular, fruitless and wasteful expenditure

Irregular expenditure is defined as expenditure incurred in contravention of or not in accordance with a requirement of any applicable legislation. Fruitless and wasteful expenditure represents expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure are charged to the statement of financial performance in the period in which they are identified.

1.15 Related parties

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

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

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

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

1.16 Work in progress

Work in progress is recognised when expenses have been incurred in respect of services that have not yet been rendered and billed. Work in progress is measured at cost.

2. CASH AND CASH EQUIVALENTS

	2006 R	2005 R
Cash at bank	1,083,179,849	663,007,661
Cash received in respect of donor funding	1,884,535	1,884,535
	1,085,064,384	664,892,196

3. TRADE AND OTHER RECEIVABLES

	2006 R	2005 R
Trade receivables	598,861,179	683,276,097
Less: Impairment	(44,385,604)	(25,281,940)
	554,475,575	657,994,157
Other receivables	1,775,680	6,790,166
	556,251,255	664,784,323

4. PROPERTY, PLANT AND EQUIPMENT

	2006	2005
	R	R
4.1 Land		
Cost at end of year	22,742,785	22,742,785
4.2 Buildings		
Net carrying value at beginning of year	161,746,215	154,260,613
Additions	781,573	11,467,789
Reclassification	-	109,150
Disposals - net book value	(271,878)	(160,367)
Disposals - cost	466,861	453,675
Disposals - accumulated depreciation	(194,983)	(293,308)
Depreciation charge	(4,205,108)	(3,930,970)
Net carrying value at end of year	158,050,802	161,746,215
Consisting of:		
Cost	183,154,931	182,840,219
Accumulated depreciation	(25,104,129)	(21,094,004)
	158,050,802	161,746,215
4.3 Computer equipment		
Net carrying value at beginning of year	335,282,803	358,621,587
Additions	81,859,158	105,738,066
Reclassification	-	(5,204,953)
Disposals - net book value	(5,119,471)	(6,409,469)
Disposals - cost	15,226,039	72,321,840
Disposals - accumulated depreciation	(10,106,568)	(65,912,371)
Depreciation charge	(127,136,626)	(117,462,428)
Net carrying value at end of year	284,885,864	335,282,803
Consisting of:		
Cost	750,423,134	683,790,015
Accumulated depreciation	(465,537,270)	(348,507,212)
	284,885,864	335,282,803

		2006	2005
		R	R
4.4	**Office furniture**		
	Net carrying value at beginning of year	14,810,583	9,436,469
	Additions	1,279,209	6,758,313
	Reclassification	-	5,210,484
	Disposals - net book value	(16,627)	(131,863)
	Disposals - cost	269,544	1,347,972
	Disposals - accumulated depreciation	(252,917)	(1,216,109)
	Depreciation charge	(4,624,016)	(6,462,820)
	Net carrying value at end of year	11,449,149	14,810,583
	Consisting of:		
	Cost	29,610,242	28,600,577
	Accumulated depreciation	(18,161,093)	(13,789,994)
		11,449,149	14,810,583
4.5	**Vehicles**		
	Net carrying value at beginning of year	696,897	1,399,497
	Additions	-	-
	Reclassification	-	(127,232)
	Disposals - net book value	-	-
	Disposals - cost	373,753	508,429
	Disposals - accumulated depreciation	(373,753)	(508,429)
	Depreciation	(696,897)	(575,368)
	Net carrying value at end of year	-	696,897
	Consisting of:		
	Cost	2,169,725	2,543,478
	Accumulated depreciation	(2,169,725)	(1,846,581)
		-	696,897

	2006	2005
	R	R
NET CARRYING VALUE AT END OF YEAR	477,128,600	535,279,283
Consisting of:		
Cost	988,100,817	920,517,074
Accumulated depreciation	(510,972,217)	(385,237,791)
	477,128,600	535,279,283

4.6 Land and Buildings

The Erasmuskloof property, with a book value of R41.80 million (2005: R42.77 million), is bonded to Denel (Pty) Ltd as disclosed in note 7. All other assets are freehold and have not been pledged as security for liabilities.

Erf number 262, 263, 264, 677 and Portion 1 of Erf 492 Erasmuskloof extension 3 (23 730m2) and CCS (Centurion) Portion 50 of the farm Brakfontein 390JR, Centurion consisting of land and buildings, was acquired in April 1999 at a combined cost of R169.5 million.

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

4.7 Impracticability with respect to the recreation of the asset register for 2005

In the restatement of the comparatives for property, plant and equipment, it was impractical to agree the restated general ledger balances to the fixed asset register for 2005. This was as a result of the company implementing a new financial system which incorporated a new asset register module.

5. DEFERRED TAX ASSET

	*Charged / (credited) to the statement of financial performance R	2006 R	2005 R
Movement in impairment on trade receivables	4,155,047	9,653,869	5,498,822
Accrual for leave pay benefits	(1,082,789)	11,080,752	12,163,541
Post-retirement medical benefits	2,444,874	22,676,631	20,231,757
Income received in advance	55,105,903	155,596,944	100,491,041
Prepayments	303,677	(8,059)	(311,736)
Section 24C allowance	(45,816,029)	(145,316,393)	(99,500,364)
Depreciation adjustment	954,629	(35,915,001)	(36,869,630)
	16,065,312	17,768,743	1,703,431

	2006 R	2005 R
Reconciliation between opening and closing balance		
Deferred tax asset at beginning of year	1,703,431	39,689,866
Statement of financial performance movement for the year	15,110,683	(1,116,805)
Depreciation ad justment	954,629	36,869,630
Deferred tax asset at end of year	17,768,743	1,703,431

* Represents after tax amounts that were charged to or credited to the statement of financial

6. TRADE AND OTHER PAYABLES

	2006 R	2005 R
Trade payables	511,315,400	432,705,830
Leave payables	43,254,047	46,987,799
Bonus accural	5,332,100	5,423,015
Other payables	21,699,278	75,050,110
	581,600,825	560,166,754

Leave payables - This is in respect of accumulated vested leave benefits not taken by employee during the leave cycle. The obligation is renewed annually in terms of company policy.

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

	2006	2005
	R	R

7. INTEREST-BEARING BORROWINGS

Long-term loan	31,200,490	36,400,570
Less : Current portion transferred to current liabilities	(5,200,080)	(5,200,080)
	26,000,413	1,200,490

This amount represents the long term loan from Denel (Pty) Ltd in accordance with the business transfer agreement between Denel (Pty) Ltd and the company on incorporation.

This loan is secured by a first mortgage bond of R52,000,811 against land and buildings with a carrying amount of R41.80 million (2005: R42.77 million) (Refer to note 4).

The interest rate is fixed at 9% per annum until 31 March 2009, where after this rate will be linked 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.

Maturity of interest bearing borrowings:

Up to 2 years	10,400,160	10,400,160
Between 2 and 5 years	15,600,240	15,600,240
Over 5 years	5,200,090	10,400,170
Total borrowings	31,200,490	36,400,570
Less: Current portion	(5,200,080)	(5,200,080)
	26,000,410	31,200,490

8. PROVISIONS

	VSP Provision	Performance Bonus	Total
Balance at Beginning of year	24,228,147	34,416,774	58,644,921
Additional provisions during the year	-	54,000,000	54,000,000
Utilised during the year	(24,228,147)	(34,416,774)	(58,644,921)
Balance at End of year	-	54,000,000	54,000,000

Voluntary severance packages (VSP) - This is in respect of voluntary severance packages which were offered to employees as part of a restructuring programme.

Performance Bonus - This represents the performance bonus which qualifying employees are entitled to in terms of their performance contracts.

The above provisions are expected to be settled within 12 months from the date of the statement of finacial position.

	2006	2005
	R	R

9. POST-RETIREMENT MEDICAL BENEFITS

	2006 R	2005 R
Present value of unfunded obligations	65,107,000	65,592,000
Unrealised actuarial gains	13,088,280	4,172,680
	78,195,280	69,764,680
Movement in the post-retirement medical benefits		
Balance at beginning of year	69,764,680	71,157,000
Other expenses/(income) included in staff costs	8,430,600	(1,392,320)
Current service costs	3,295,586	3,474,073
Over provision ad ustment * ( )	-	(10,567,000)
Contributions paid	(720,431)	-
Interest capitalised	5,855,445	5,700,607
Balance at end of year	78,195,280	69,764,680

(*) The over provision was as a result of ex-SAPS employees not being entitled to benefits in line with the company's scale but were rather entitled to benefits in line with the subsidy policy as set out in thePSCBC Resolution No. 3 of 4 February.

Principal actuarial assumptions:

	2006	2005
Long term discount rate before tax	8.0%	8.5%
Long term medical aid inflation	6.4%	6.5%
Normal retirement age	60 years	60 years

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

- Ex-Infoplan employees who transferred to the company on 1 April 1999

  April 1999 and are still members of the U-Med Medical Aid Fund.

- Ex-SAPS employees who transferred to the company on 1 April 1999.

- Other former public sector employees who transferred to the company on or after 1 April 1999 and remain members of their respective medical aids.

The number of qualifying employees are as follows:
- Ex-Infoplan employee's - 344 (2005: 361)
- Ex-Public Service (incl SAPS) - 731 (2005: 803)

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

The amounts due as set out above have been determined by independent actuaries at 31 March 2006 utilising the projected unit credit method.

10. EMPLOYEE BENEFITS

All permanent employees are members of the following independent funds:

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

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

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

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

Current medical benefits

The company contributes to three medical aid schemes for the benefit of permanent employees and their dependants. Contributions charged against income amounted to R60.99 million. (2005: R57.28 million). The company's financial obligation is limited to the current company contributions.

	2006 R	2005 R
11. EQUITY CONTRIBUTED		
Authorised and issued:		
One ordinary share of R1.00	1	1

	2006 R	2005 R
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 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.

	2006 R	2005 R
13. REVENUE		
Labour	1,092,736,387	955,968,666
Mainframe	530,806,284	517,150,910
Network and internet	498,145,525	440,240,340
Software licences and maintenance	383,276,234	355,543,826
Printing	45,145,636	45,394,584
Computer equipment and maintenance	285,637,972	238,758,611
Site preparation	66,097,675	50,355,978
Sundry	44,339,513	33,343,699
	2,946,185,226	2,636,756,614

14. OTHER INCOME

	2006 R	2005 R
Discount received	796,979	309,838
Catering income/(loss)	875,352	(1,960,499)
Rental and sundry	10,090,010	3,504,683
	11,762,341	1,854,022

15. FINANCE INCOME

	2006 R	2005 R
Interest received	28,354,768	21,972,768
Foreign exchange gain	4,791,189	756,591
	33,145,957	22,729,359

16. FINANCE COSTS

	2006 R	2005 R
Interest paid - Denel loan	3,062,136	3,522,757
Interest paid - other	2,334,658	2,300,351
Foreign exchange loss	-	3,229,116
	5,396,794	9,052,224

	2006	2005
	R	R
17. SURPLUS BEFORE TAXATION		
The following items have been taken into account in arriving at surplus before		
Depreciation		
- Buildings	4,205,108	3,930,970
- Computer equipment	127,136,626	117,462,428
- Office furniture	4,624,016	6,462,820
- Vehicles	696,897	575,368
	136,662,647	128,431,586
Recoverable depreciation included in Cost of Sales	(97,547,030)	(117,921,348)
Non-recoverable depreciation	39,115,617	10,510,238
Loss on disposal and scrapping of property, plant and equipment	5,047,694	5,922,013
Movement in im airment on trade receivables	19,103,664	6,405,936
Auditor's remuneration		
- Audit fees	3,978,384	1,666,976
- Other expenses	50,000	21,200
- Under provision prior year	491,039	115,717
- Transversal systems audit	1,372,684	1,134,068
	5,892,107	2,937,961
Research costs	16,338,513	18,078,010
Directors' remuneration - refer to Annexure A		
Staff costs		
- Salaries and employee costs	640,895,606	596,982,168
- Pension contributions	46,001,894	44,450,578
- Post-retirement medical benefits	8,430,600	(1,392,320)
- Contractors	383,978,266	306,804,134
	1,079,306,366	946,844,560
Staff costs included in Cost of Sales	(828,489,122)	(730,213,937)
Non recoverable indirect staff costs included above	250,817,244	216,630,623
The salary cost to contractors can be broken down as follows:		
- Professionals	211,188,046	168,742,274
- Technicians	161,270,872	128,857,736
- Clerical	11,519,348	9,204,124
	383,978,266	306,804,134

18. INCOME TAX EXPENSE

	2006 R	2005 R
South African normal taxation		
Current taxation	49,494,178	28,212,458
Current	50,448,807	28,329,053
Over provision in previous year	(954,629)	(116,595)
Deferred taxation (credit)/charge	(16,065,312)	3,417,058
Current	(15,110,683)	(217,319)
Adjustment due to change in tax rate	-	150,177
Adjustment due to prior year error	(954,629)	3,484,200
	33,428,866	31,629,516

Tax rate reconciliation

	2006	2005
Standard tax rate	29.0%	30.0%
Tax effect of non-deductible permanent differences	0.1%	1.4%
Effective tax rate	29.1%	31.4%

19. PRIOR YEAR ERROR

Operating lease payments:

The change in the manner of recognising lease payments arises as a result of a change in interpretation of AC105: Leases by South African entities in order to align the South African practice with that applied internationally. The effect of the revised interpretation is that operating lease payments will be recognised on a straight-line basis over the lease term and not as incurred. The required adjustment has been made as required by AC103: Accounting policies, changes in accounting estimates and errors with the necessary restatement of comparative figures. The financial statements of the prior period have been restated to reflect this change. The effect of the restatement on the financial statements is summarised below:

	R
Reduction in opening accumulated surpluses resulting from the straight-lining on lease payments	(3,163,489)
Tax effect	949,047
	(2,214,442)
Decrease in surplus resulting from the straight-lining of lease payments	(790,883)
Tax effect	197,721
	(593,162)

Depreciation adjustment:

In calculating the depreciation charge, the company reduces the depreciable amount of the asset by its residual value. Previously, under AC123: Property, plant and equipment, under SA GAAP, pre revision, the estimated residual value was fixed on recognition of the asset and was not subject to reassessment. AC123 revised, requires the residual value of the assets to be reassessed at each reporting date. This was seen to be clarification and has resulted in the useful lives of all categories of property, plant and equipment being revised.

Increase in opening accumulated surpluses resulting from the revision of depreciation rates in prior year	118,516,717
Tax effect	(35,518,424)
	82,998,293
Increase in surplus resulting from the revision of depreciation rates in previous year	13,042,773
Tax effect - depreciation adjustment	(3,681,921)
- adjustment due to change in tax rate	1,183,947
	10,544,799

20. NOTES TO THE CASH FLOW STATEMENT

20.1 Normal tax paid

	2006 R	2005 R
Opening balance	10,693,380	6,241,964
Current year normal tax charge	49,494,178	28,212,458
Closing balance	(22,109,424)	(10,693,380)
	38,078,134	23,761,042

20.2 Reconciliation of net cash flows from operating activities

Net cash inflow from operating activities

	2006 R	2005 R
Surplus before taxation	114,760,715	100,884,635
Adjustments for non-cash flow items:		
-Depreciation	136,662,647	128,431,586
-Increase in provision for impairment	19,103,664	6,405,936
-Loss on disposal and scrapping of property, plant and equipment	5,047,694	5,922,013
-AC105 adjustment	-	790,882
-Increase/(decrease) in provision for post-retirement medical benefits	8,430,600	(1,392,320)
-Finance costs paid	5,396,794	5,823,108
-Finance income received	(28,354,768)	(21,972,768)
-(Decrease)/Increase in provisions	(4,644,921)	34,898,955
Operating profit before working capital changes	256,402,425	259,792,027
Working capital changes:		
Decrease/(increase) in trade and other receivables	89,429,404	(215,639,915)
Decrease in Prepayments made	4,720,304	-
(Increase) in Work in progress	(37,954,477)	-
Increase in trade and other payables	21,434,071	158,309,699
Increase in income received in advance	190,020,360	147,410,916
Cash generated in operations	524,052,087	349,872,727
Normal taxation	(38,078,134)	(23,761,042)
Finance costs paid	(5,396,794)	(5,823,108)
Finance income received	28,354,768	21,972,768
	508,931,927	342,261,345

21. FINANCIAL INSTRUMENTS

Liquidity risk

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

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

Credit risk

Credit risk relates to potential counter-party exposures. The company's counter-parties consist of financial institutions and trade and other receivables.

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

Foreign currency risk

Foreign currency risk arises from exposure to foreign currencies when the value of the rand changes in relation to these currencies. Hedging instruments are utilised to hedge foreign currency exposures against exchange rate fluctuations. Where such instruments are not utilised, suppliers are required to take cover on import transactions. The company primarily transacts in US Dollar when dealing in foreign transactions. The uncovered exposure at the reporting date as converted at the closing rate at that date amounts to R32 413 030 (2005: R21 510 284).

Fair value of financial instruments

At 31 March 2006 the carrying amounts of cash, trade receivables, trade payables and accrued expenses approximated their fair values due to the short term maturities of these assets and liabilities.

22. RELATED PARTY TRANSACTIONS

22.1 Shareholder

The shareholder of the company is the Government of South Africa represented by the Minister of Public Service and Administration.

22.2 Key management personnel

The key management personnel are the directors and executive members of the company for the year ended 31 March 2006.

Transactions with key management personnel are disclosed in Annexure A.

22.3 National sphere of government

All national departments are related parties to the company. The following revenue is in respect of sales made at arms lenght to national department clusters during the year under review

	2006	2005
	R	R
Crime and Prevention	1,261,129,813	1,293,262,263
Economic and Investment	184,479,441	199,656,912
Government and Administration	142,232,069	168,918,012
Social and International	269,356,689	176,986,742
Total national	1,857,198,012	1,838,823,929
Balance of revenue	1,088,987,214	797,932,685
Revenue per statement of financial performance	2,946,185,226	2,636,756,614

The following are trade recievables owing at year-end.

	2006	2005
Crime and Prevention	135,837,048	232,051,125
Economic and Investment	59,365,943	73,784,024
Government and Administration	55,586,253	89,760,355
Social and International	115,646,102	71,234,513
	366,435,346	466,830,017
Balance of trade receivables	232,425,833	216,446,080
Trade receivables per Note 3	598,861,179	683,276,097

The following are amounts received in advance:

	2006	2005
Crime and Prevention	444,984,220	238,345,073
Economic and Investment	19,854,175	1,859,545
Government and Administration	9,011,179	41,000,397
Social and International	18,419,820	29,407,437
	492,269,394	310,612,452
Balance of income received in advance	44,271,796	35,908,378
Income received in advance per statement of financial position	536,541,190	346,520,830

Included in the company's surplus for the year is the straight-lined amount of R5 035 355 in respect of operating lease payments received from National Treasury.

An amount of R23 441 686 was paid to National Treasury in the year in respect of the current contributions to the Government Employees Pension Fund.

R14 068 822 in respect of interest was accrued to the Department of Justice relating to prepayments received for the implementation of the Virtual Private Network.

The company does not give any guarantees to any related parties.

23. CAPITAL COMMITMENTS

There are no capital commitments entered into or agreed to at reporting date.

At year-end the company has a budgeted amount of R264.1million that has been approved for capital acquisitions which has not yet been contracted for.

24. CONTINGENT LIABILITY

A claim of approximately R149 million has been instituted against the company and two national government departments for non-awarding of a tender. Based on legal advice the director's believe that there is a reasonable prospect of success of defending the claim. At the date of approval of these financial statements, it was not possible to quantify the associated legal costs. However, such costs will be shared among the defendants.

25. OPERATING LEASE EXPENSE

The company entered into non-cancellable operating lease agreements for the occupation of certain premises. At the reporting date, the future minimum straight-lined lease payments under these lease agreements are as follows:

	2006 R	2005 R
Payable within 1 year	20,512,308	20,980,353
Payable between 1 and 5 years	23,368,546	43,967,139
Payable over 5 years	-	42,178
	43,880,854	64,989,670

The company does not have any contingent rent that is payable.

OPERATING LEASE INCOME

The company entered into non-cancellable operating lease agreements as lessor. At reporting date, the future minimum straight-lined lease receivable under these lease agreements are as follows:

	2006 R	2005 R
Receivable within 1 year	6,502,291	6,543,331
Receivable between 1 and 5 years	16,416,371	22,918,662
	22,918,662	29,461,993

26. RESTATEMENT OF COMPARATIVES:

The following comparatives have been restated to ensure better disclosure:

	As previously stated R	Currently stated R
Trade and other receivables	689,876,891	664,784,323
Prepayments	-	4,748,093
Work in progress	-	20,344,475
	689,876,891	689,876,891

Prepayments received and work in progress were previously disclosed as part of trade and other receivables. They are now separately disclosed on the face of the statement of financial position.

	As previously stated R	Currently stated R
Trade and other payables	509,001,648	560,166,754
Straight-lining of leases	-	(3,954,372)
Current portion of interest-bearing borrowings	-	5,200,080
Provisions	111,055,735	58,644,921
	620,057,383	620,057,383

A portion of items previously classified as provisions is now being disclosed as part of trade and other payables. The straight-lining of leases has been disclosed as part of trade and other payables. The current portion of interest-bearing borrowings was previously disclosed as part of trade and other payables, it is now disclosed separately on the face of the statement of the financial position.

	As previously stated R	Currently stated R
Taxation owed	21,681,914	32,375,294
Taxation owing	-	(10,693,380)
	21,681,914	21,681,914

Previously the taxation owing and owed was disclosed on a net basis. They are now disclosed separately on the face of the statement of financial position.

	As previously stated R	Currently stated R
Property, plant and equipment	403,719,795	535,279,283
Depreciation adjustment	-	(131,559,488)
	403,719,795	403,719,795

The prior year adjustment relating to property, plant and equipment required that the comparatives be restated.

27. 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		Effective date	Applicable to SITA
AC 143	*Exploration for and Evaluation of Mineral Resources*	Annual periods commencing on or after 1 January 2006*	N/A
AC 144	*Financial Instruments: Disclosures (including amendments to AC 101, Presentation of Financial Statements: Capital Disclosures)*	Annual periods commencing on or after 1 January 2007*	Yes
AC 116 amendment	*Employee Benefits (December 2004)*	Annual periods commencing on or after 1 January 2006*	Yes
AC 133 amendment	*Financial Instruments: Recognition and Measurement (April 2005) – Cash flow hedge accounting of forecast intra group transactions*	Annual periods commencing on or after 1 January 2006*	N/A
AC 133 amendment	*Financial Instruments: Recognition and Measurement (June 2005) - Fair vale option*	Annual periods commencing on or after 1 January 2006*	Yes
AC 133 & AC 141 amendment	*Financial Instruments: Recognition and Measurement (August 2005) Insurance Contracts - Financial Guarantee Contracts*	Annual periods commencing on or after 1 January 2006*	N/A
AC 112 amendment	*The Effects of Changes in Foreign Exchange Rates (December 2005) – Net Investment in a Foreign Operation*	Annual periods commencing on or after 1 January 2006*	N/A
AC 437	*Determining whether an Arrangement contains a Lease*	Annual periods commencing on or after 1 January 2006*	Yes
AC 438	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Annual periods commencing on or after 1 January 2006*	N/A
AC 439	*Liabilities arising from Participating in a Speciefic Market – Waste Electrical and Electronic Equipment*	Annual periods commencing on or after 1 December 2005*	N/A
AC 440	*Applying the Restatement Approach under AC 124* Financial Reporting in Hyperinflationary Economies	Annual periods commencing on or after 1 March 2006*	N/A
AC 441	*Scope of AC 139*	Annual periods commencing on or after 1 May 2006*	N/A
AC 442	*Reassessment of Embedded Derivatives*	Annual periods commencing on or after 1 June 2006*	N/A
AC 503	*Accounting For Black Economic Empowerment (BEE) Transactions*	Annual periods commencing on or after 1 May 2006*	N/A
GRAP 18	*Segment Reporting*		N/A
GRAP 17	*Property, plant and Equipment*		Yes
GRAP 16	*Investment Property*		N/A
GRAP 13	*Leases*		Yes
GRAP 12	*Inventories*		Yes

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

DIRECTORS' REMUNERATION SCHEDULE 2006

State Information Technology Agency (Pty) Ltd
Annexure A - Remuneration Schedule 2006

Non Executive Directors	Designation	Duration	Fees as Director	Other Services	Basic Salary	Annual Payment: Bonus & leave	Expense Allowances	Petrol Card	Contributions to pension, medical or insurance funds	Commissions or Profit sharing	Share options	Other - Performance Bonus	Total
Current Board Members													
Ms TPC Chikane	Chairperson	8 months ending 31 March 2006	56,112	122			0	0	0	0	0	0	56,234
Mr RJ Barjaktarevic	Board member	12 months ending 31 March 2006					0	0	0	0	0	0	0
Ms N Dhevcharran	Board member	8 months ending 31 March 2006	45,069	2,298			0	0	0	0	0	0	47,367
Mr L Jones	Board member	8 months ending 31 March 2006	42,205				0	0	0	0	0	0	42,205
Mr C Kruger	Board member	12 months ending 31 March 2006											0
Ms ZP Manase	Board member	12 months ending 31 March 2006	55,696	1,102	0	0	0	0	0	0	0	0	56,798
Prof T Marwala	Board member	8 months ending 31 March 2006	43,445	1,377									44,822
N Moerane	Board member	8 months ending 31 March 2006											0
P Pedlar	Board member	8 months ending 31 March 2006											0
Ms L Abrahams	Board member	4 months ending 31 July 2005	12,271	367									12,638
Adv L Gcabashe	Board member	4 months ending 31 July 2005	3,962	122									4,084
Mr M Roussos	Board member	4 months ending 31 July 2005	3,490	177									3,667
Dr S Sibisi	Board member	3 months ending 1 July 2005											0
			262,250	**5,565**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**267,815**
Executive members													
Mr M Msimang	CEO	12 months ending 31 March 2006			960,883	59,555	34,000					1,309,744	2,364,182
Mr JP Bogoshi	Member	12 months ending 31 March 2006			748,746		138,082					402,687	1,289,515
Mr FK Buthelezi	Member	12 months ending 31 March 2006			531,183	21,361	234,847					419,217	1,206,608
Mr P Els	CFO	4 months ending 31 July 2005			199,983	94,608	76,000					-	370,591
Mr A Meyer (Deloitte and Touche)	Acting CFO	12 months ending 31 March 2006			1,161,750							-	1,161,750
Ms TV Geldenhuys	Company Secretary	12 months ending 31 March 2006			563,237	40,720	121,200					396,447	1,121,604
Ms N Isaacs-Mpulo	Member	12 months ending 31 March 2006			669,239							443,969	1,113,208
Mr V Magagula	CIO	12 months ending 31 March 2006			447,763		195,378					282,157	925,298
Mr MJ Mazibuko	Member	10 months ending 31 January 2006			476,733		220,067					-	696,800
Mr F Mobu	Member	12 months ending 31 March 2006			554,943		180,000					358,819	1,093,762
Mr P Motsepe	Member	9 months ending 31 December 2005			436,084	227,200	208,761					-	872,045
Mr S Ngubane	Member	12 months ending 31 March 2006			799,959		164,304					368,688	1,332,951
													-
													-
													-
													-
					7,550,503	**443,444**	**1,572,639**	**-**	**-**	**-**	**-**	**3,981,728**	**13,548,314**

DIRECTORS' REMUNERATION SCHEDULE 2005

Non Executive Directors	Designation	Duration	Fees as Director	Other Services	Basic Salary	Annual Payment: Bonus & leave	Expense Allowances	Petrol Card	Contributions to pension, medical or insurance funds	Commissions or Profit sharing	Share options	Other - Performance Bonus	Total
Current Board Members													
Z Manase*	Chairperson of the Board	12 months ending 31 March 2005	195,724	245	0	0	176,319	0	0	0	0	0	372,288
L Abrahams	Board Member	12 months ending 31 March 2005	30,843	1,086	0	0	0	0	0	0	0	0	31,929
L Gcabashe	Board Member	12 months ending 31 March 2005	36,611	1,224	0	0	0	0	0	0	0	0	37,835
Mr M Roussos	Board Member	12 months ending 31 March 2005	22,393	1,242	0	0	0	0	0	0	0	0	23,635
Mr C Kruger	Board Member	12 months ending 31 March 2005	0	0	0	0	0	0	0	0	0	0	0
Dr S Sibisi	Board Member	12 months ending 31 March 2005	0	0	0	0	0	0	0	0	0	0	0
			285,571	**3,797**	**0**	**0**	**176,319**	**0**	**0**	**0**	**0**	**0**	**465,687**
Executive Members													
M Msimang*	CEO	12 months ending 31 March 2005			755,560	59,555	351,448	7,345				1,320,000	2,493,908
K Buthelezi	Member	12 months ending 31 March 2005			518,602	39,880	214,996	10,500	2,289			225,405	1,011,672
P Els	CFO	12 months ending 31 March 2005			629,922		230,378	9,000	1,962			-	871,262
H Fouche	Member	3.5 months ending 16 July 2004			127,925		70,014	5,565					203,504
J Bogoshi	Member	8 months ending 31 March 2005			408,271	10,975	110,048		981			167,375	697,650
N Isaacs-Mpulo	Member	12 months ending 31 March 2005			607,243		87,963	7,081	4,670			262,924	969,881
T Geldenhuys	Company Secretary	12 months ending 31 March 2005			530,982	27,147	167,650	7,339	2471			228,300	963,889
M Mojapelo	Member	3.5 months ending 15 July 2004			183,555		71,456	5,250	817			-	261,078
V Magagula	CIO	9 months ending 31 March 2005			317,885	8,510	139,055		2,907			154,834	623,191
J Mazibuko	Member	9 months ending 31 March 2005			398,428	14,612	179,392		296			174,334	767,062
S Ngubane	Member	12 months ending 31 March 2005			687,401	30,584	215,260	10,500	518			258,202	1,202,465
F Mobu	Member	9 months ending 31 March 2005			376,485	12,942	136,490		1,308			167,757	694,982
P Motsepe	Member	8 months ending 31 March 2005			368,087	3,764	180,579		715			164,153	717,298
D Ramahotswa	Member	3 months ending 30 June 2004			124,500	476,243	87,337	4,500	1,548			-	694,128
Z Serepo	Member	2 months ending 31 May 2004			100,506	41874	36,252	3,000				-	181,632
					6,135,352	**726,086**	**2,278,318**	**70,080**	**20,482**	**-**	**-**	**3,123,284**	**12,353,602**

SHAREHOLDER'S DIARY

SHAREHOLDER'S DIARY	DATE
Seventh Annual General Meeting	25 August 2006
Submission to the Minister	31 August 2006
Submission to Parliament	15 September 2006
End of new financial year	31 March 2007
Business Plan: 2006/2007	
Approval by the Board of Directors	February 2006
Submission to Department of Public Service and Administration	March 2006
Submission to National Treasury	March 2006
Strategic Plan: 2007/2008 to 2009/2010	
Approval by the Board of Directors	September 2006
Submission to Department of Public Service and Administration	October 2006
Submission to National Treasury	October 2006
Quarterly Reports	
Submission to Department of Public Service and Administration	30 days after end of each quarter
Tariff Increases	
Submission to Department of Public Service and Administration	July 2006

DIRECTORATE 1 APRIL TO 3 AUGUST 2005	DIRECTORATE FROM 4 AUGUST 2005
Ms Z P Manase (Chairman),	Ms T P C Chikane (Chairman)
Ms L A Abrahams,	Mr R J Barjaktarevic
Mr R J Barjaktarevic	Ms N Dhevcharran
Adv L Gcabashe,	Ms N C Isaacs-Mpulo
Mr C C W Kruger,	Mr L Jones
Mr M Msimang	Mr C C W Kruger
Mr M Roussos,	Ms Z P Manase
Dr S P Sibisi (Resigned 1 July 2005)	Prof T Marwala
	Ms N Moerane
	Mr M Msimang
	Mr P Pedlar

COMPANY SECRETARY
Ms T V Geldenhuys

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