



# Annual Report 2017/18



**SITA**

state information technology agency

**G-COMMERCE**



**INNOVATION**



**ICT SECURITY**



**PEOPLE INVESTMENT**



**CLOUD COMPUTING**



Building a refocused SITA that  
serves government to serve the nation

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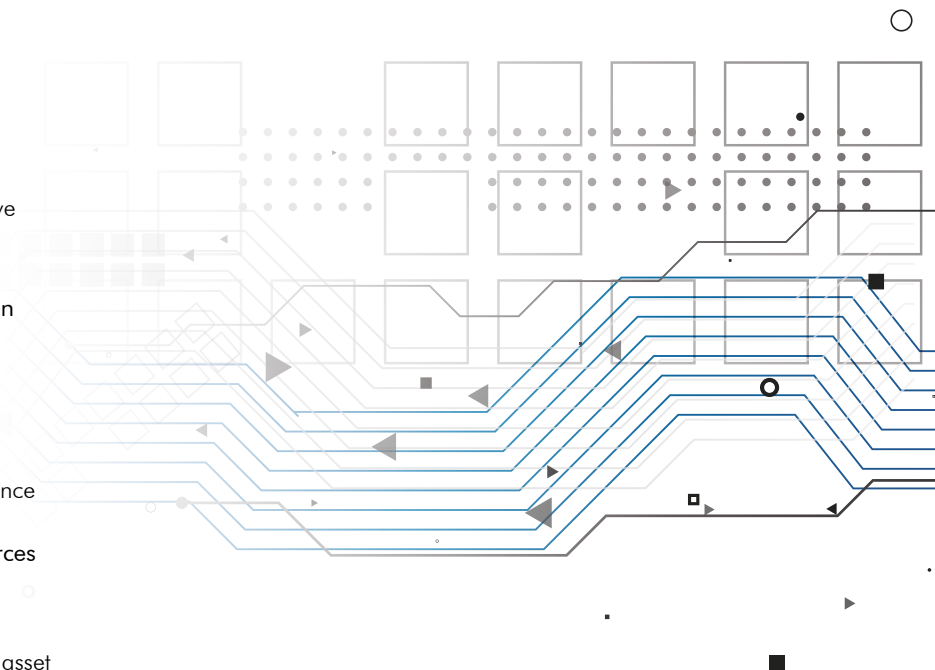
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# PART A

## GENERAL INFORMATION

# 1. PUBLIC

## ENTITY'S GENERAL INFORMATION

REGISTERED NAME	State Information Technology Agency (SITA) SOC Ltd
REGISTRATION NUMBER	1999/001899/30
PHYSICAL ADDRESS	459 Tsitsa Street Erasmuskloof Pretoria 0048 South Africa
POSTAL ADDRESS	PO Box 26100 Monument Park 0105 South Africa
TELEPHONE NUMBER	+27 12 482 3000
FAX NUMBER	+27 12 367 5151
EMAIL ADDRESS	tiyani.mongwe@sita.co.za
WEBSITE ADDRESS	www.sita.co.za
EXTERNAL AUDITORS	Auditor-General of South Africa
BANKERS	Standard Bank of South Africa PO Box 6232 Marshalltown Gauteng, 2107
COMPANY SECRETARY	Mr Tiyani Mongwe

## 2. LIST OF ABBREVIATIONS/ACRONYMS

<b>AFS</b>	Annual Financial Statements
<b>AG</b>	Auditor-General of South Africa
<b>APP</b>	Annual Performance Plan
<b>ARCC</b>	Audit, Risk and Compliance Committee
<b>BBBEE</b>	Broad-Based Black Economic Empowerment
<b>CAPEX</b>	Capital Expenditure
<b>CAS</b>	Crime Administration System
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>DBE</b>	Department of Basic Education
<b>DoD</b>	Department of Defence
<b>DHA</b>	Department of Home Affairs
<b>DHET</b>	Department of Higher Education and Training
<b>DTPS</b>	Department of Telecommunications and Postal Services
<b>DPSA</b>	Department of Public Service and Administration
<b>ECD</b>	Early Childhood Development
<b>EE</b>	Employment Equity
<b>Exco</b>	Executive Committee
<b>HCM</b>	Human Capital Management
<b>ICT</b>	Information and Communications Technology
<b>ICASA</b>	Independent Communications Authority of South Africa
<b>IFMS</b>	Integrated Financial Management System
<b>IFRS</b>	International Financial Reporting Standards
<b>IPSAS</b>	International Public Sector Accounting Authority
<b>IT</b>	Information Technology
<b>LAN</b>	Local Area Network
<b>Mol</b>	Memorandum of Incorporation
<b>MTSF</b>	Medium-Term Strategic Framework
<b>NC(V)</b>	National Certificates (Vocational)
<b>NDP</b>	National Development Plan

<b>NT</b>	National Treasury
<b>OHS</b>	Occupational Health and Safety
<b>PFMA</b>	Public Finance Management Act
<b>PPPFA</b>	Preferential Procurement Policy Framework Act
<b>PRC</b>	Presidential Review Committee
<b>SAPS</b>	South African Police Service
<b>SARS</b>	South African Revenue Service
<b>SCM</b>	Supply Chain Management
<b>SCOPA</b>	Standing Committee on Public Accounts
<b>SEC</b>	Social and Ethics Committee
<b>SHE</b>	Safety, Health and Environment
<b>SITA</b>	State Information Technology Agency SOC Ltd
<b>SLA</b>	Service Level Agreement
<b>SMME</b>	Small, Medium and Micro Enterprise
<b>SOC</b>	State-Owned Company
<b>WAN</b>	Wide Area Network

### 3. STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

We, the undersigned, hereby confirm that:

- (a) the information and amounts disclosed in the annual report are consistent with the Annual Financial Statement (AFS) audited by the Auditor-General;
- (b) the annual report is complete, accurate and free from any omissions;
- (c) the annual report has been prepared in accordance with the guidelines on annual reports as issued by National Treasury;
- (d) The AFS (Part E) has been prepared in accordance with the Generally Recognised Accounting Practice standards applicable to public entities;
- (e) the Accounting Authority of the entity is responsible for both the preparation of the AFS and for the judgments made based on the information contained in the AFS;
- (f) the Accounting Authority is responsible for establishing and implementing a system of internal control, which has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the AFS;
- (g) the external auditors are engaged to express an independent opinion on the AFS; and
- (h) in our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the public entity for the financial year ended 31 March 2018.



**Mr ZD Nomvete**

**Chairman of the Board of Directors**

State Information Technology Agency SOC Ltd



**Dr SJ Mohapi**

**Managing Director (CEO)**

State Information Technology Agency SOC Ltd



# FOREWORD

## BY THE CHAIRMAN



The year 2017/18 brought the genesis of our new vision. With the announcement and the unveiling of the new business model, we confidently moved into the fourth year of our five-year strategic plan 2015-19, a significant milestone in our transformation journey. Ours has been a long, challenging road of self-discovery.

Central to the business model is a customer-centric approach, with the eye on service delivery improvement, public service innovation and societal transformation. In essence, the new business model is an epitome of service excellence, solution-driven government and an equal, prosperous and growing society, all made possible through the creation of the new SITA, which is igniting the new public sector activism.

Internally and externally, our new business model challenges all to become agents for change, looking critically at society to generate solutions to the challenges of poverty, unemployment and underdevelopment. These could not be more exciting times for the Agency, the government and the country.

Unique to the model is the configuration of the Agency internally to have a 360 degree view of the client, to anticipate his requirements and simultaneously marshal all resources at hand to develop products, services and solutions that add value to clients and are life-altering. Understanding client requirements will enable us to develop technologies that will allow government to respond appropriately. The benefits for the country are immense.

Technology will be key as we enter the new era, as will human resources transformation as we engender new a skills set in line with their plans to produce more innovation, breed more happy clients and grow our market share. SITA will strive to become a consulting interface agency with the right competencies to solve clients' problems holistically. An agile, responsive public service characterised by adoption of technology and elimination of manual processes is the quintessence of any democracy.

Continuing with our previous theme of constructive industry engagement, we met with the industry through constructive forums to distil technology modernisation and government automation through eGovernment. The engagements represented a strategic partnership that looked beyond the transactional values of our relationship with clients and suppliers to a solution-oriented approach where our resources are geared to add value to the business of government, while driving societal change and transformation. The ultimate aim is to build a better society for citizen convenience.

We have committed, as part of our strategic considerations, to be a world-class provider of core network, hosting and data infrastructure services. To realise this commitment, SITA, during the period under review, started an infrastructure modernisation journey to re-engineer the current environment into modern, state-of-the-art facilities that include cloud capability.

Cloud technology as a service is being rolled out to a growing number of interested and excited clients, to help improve their service delivery and manage their data efficiently in a secured environment.

This is part of our drive to recapacitate and recapitalise the Agency to provide better service to our people and government.

Government procurement remains complex and cumbersome, often slowing acquisition and supply of essential goods and services. Procurement reforms remain high on the agenda of government and SITA has been driving the eCommerce solution for government, aimed at supporting National Treasury's reform agenda of standardising, automating and modernising government procurement and Supply Chain Management functions.

Supply Chain Management (SCM) reforms were initiated due to a high level of non-compliance to SCM legislation and policies. The first phase of gCommerce was launched in the period under review to enhance turnaround times for government departments and scaling up discounts. A swift and cost-effective public service is congruent with the developmental agenda and other noble outcomes of the state.

New technologies are instruments of change in the hands of our public servant that embraces new ways of thinking and executing. Again led by SITA, initiatives are underway to produce the public servants of the future, mindful of innovation and driven by the desire to make a difference to the country and its citizens. From the use and adaptation of technology to amplify two-way communication internally, to the adoption of new practices to engender creativity and innovation, the Agency has been working tirelessly to challenge the passive culture in the public service.

Public hackathons and other forums are being organised to elicit creative ideas to solve the challenges of public service. Their goal is to give participants a thorough understanding of society, its challenges and problems, their impact on service delivery and how information and communications technology (ICT) can be harnessed to yield solutions and a better quality of life for citizens.

These public coding festivals are part of the new culture and ethos evolving in the Agency to prioritise service delivery, and adopt a solution-oriented approach that shuns passivity and embraces proactiveness to improve public service delivery. Internally, employees have been urged to learn new skills and adopt the new SITA way. SITAzens will be required to be in service of citizens in line with the new vision, as the country continues to celebrate the milestones of the National Development Plan (NDP) and the 2030 vision, and prepares for the onset of the fourth industrial revolution, which will be characterised by intense digitisation, a role that only a transformed SITA will be able to champion.

In anticipation of this revolution, SITA has focused on building a lifecycle talent management for its human capital. In 2017/18, the Agency took steps to build leadership capacity and improve efficiencies by filling vacant executive and leadership positions. A number of these positions came into existence as a result of the review of the organisational strategy and structure, and have been positioned in the new macro-structure to give the Agency a competitive advantage in its human resources management. Core, critical and scarce skills are a necessary resource to give the Agency the competitive edge in the fast evolving ICT milieu.

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Mr ZD Nomvete

Academic and technical qualifications form an important part of growing the SITA talent pipeline to meet future core capabilities. To assist employees to acquire the requisite qualifications, several bursaries were granted to both internal and external applicants, prioritising ICT.

To improve the levels of employee effectiveness and performance, holistic interventions were considered, culminating in the implementation in the period under review of the SITA proactive wellness programme. In addition, sports and recreation clubs were established to promote a healthy lifestyle with employees and encourage participation in events such as sports, and spiritual and wellness days. The objective is to promote the new SITA as an employer of choice characterised by inclusivity, diversity and high employee satisfaction levels. Motivated employees are agents of change in the radical transformation of society.


Economic inclusivity is paramount for a hamstrung economy that is very slowly coming out of the blocks. To help build a new breed of future industrialists and economically empowered black entities in the ICT industry, the Agency subscribes to the Preferential Public Procurement Framework Act (PPPFA) as revised in 2017.

Allocating a minimum of 30% or more of all spend to the economically previously disadvantaged is a priority, as is the strategy to develop, capacity build and empower Small, Medium and Micro Enterprises (SMMEs) to participate in the ICT economy as fully fledged entities.

Strategic partnerships are being established with major stakeholders to invest in ICT skills and capabilities of beneficiary communities. Pilot programmes are planned with provincial governments to lay virtual foundations for the establishment of ICT academies to prepare beneficiaries for participation in the digital society and knowledge-based economy. This is central to our corporate social responsibility philosophy.

Also critical to the business philosophy of the Agency is conducting business ethically, transparently and accountably. The Agency stands against fraud, bribery and corruption, and has repeatedly called on its stakeholders to follow suit or be ostracised. The Agency is grateful to all stakeholders who lead by example and shun corruption.

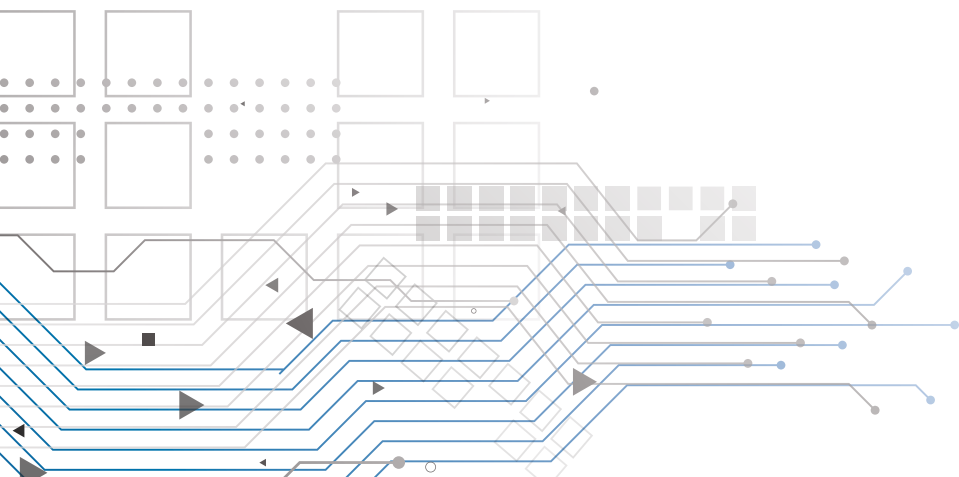
SITA would like to thank particularly the Portfolio Committee on Telecommunications and Postal Services, Members of Parliament and the Standing Committee on Public Accounts (SCOPA) for their oversight and indulgence. The support of industry partners is valued and the Agency looks forward to continued cooperation underlined by compatible values and ethics. A special word of gratitude goes to the Minister of Telecommunications and Postal Services and the Deputy Minister for entrusting me and my fellow members with the management of this dynamic organisation. Our work is always made lighter by the Chief Executive Officer and his able team of executives and to them we say a heartfelt thank you. This organisation is the sum of all its employees in their diversity as they contribute collectively to building a lead ICT agency of the state and they are to be congratulated for their diligence and dedication. To my fellow Board members, I salute you and thank you for your support and guidance.



**Mr ZD Nomvete**

**Chairman of the Board of Directors**

State Information Technology Agency SOC Ltd



# OVERVIEW

## BY THE MANAGING DIRECTOR



In this the third year of a major and arguably unprecedented overhaul of SITA's business and operating model and overall value proposition to various stakeholders, it is important to acknowledge that whilst we are starting to see the shoots of the future we seek, the year under review also highlighted that we still have a long way to go in clearing the old foundation and setting a new base...when I joined the organisation three and a half years ago, I found a number of sub-ecosystems around SITA, from the restlessness of those that wanted this organization to live to its original promise of being a key driver in the application of technology for step-change improvements in the social and economic conditions of fellow South Africans through public service, to the uneasy comfort of those who were either drivers of or had resigned to an organization that was, on any local and global metric, sub-optimal on the same lofty promise.

The three year journey has been one that is not only aligned with the aspirations of the former ecosystem, but also one that had to ensure the end of the road for the latter. It has not been easy: The past financial year shone a bright and public light into the unclean comforts of the old order, and we were all horrified when week in and week out, we uncovered the high price that the taxpayer had been paying to sustain that order. We pursued the twin purposes of our journey without fear or favour and unfortunately finished the financial year uncomfortably off our targets on our basic purpose for the financial year, the APP, particularly in a year when we had set out to start reaping the benefits of the new journey. We're comforted though that the transformation that we seek will never sustain unless we have a clean and competent critical mass of stakeholders as the new base, and as a result, we accept the results of the year as they are.

We've called ours an existential transformation. A journey that would ensure, when completed, that we would no longer be the brewers and sustainers of a sub-culture, within our industry and in Government, of public value destruction by commission and omission. A journey that would require extreme strength of character and courage in order to change the course of a ship of many passengers with intent to keep the rich comforts of the old destructive order. A journey, on the constructive side, that would create and attract a new breed of public servants: conscientized technologists with not only a keen and activist interest in and an analytical eye on the social and economic conditions around them, but the savvy and energy to create solutions for the betterment of all. Thus, despite all the challenges we experienced, we retained a critical mass of SITAzens that rallied around the aspirations of our journey and made themselves the foundation of a new organisational culture. Social consciousness has become the new driver for our public service ethos; in crafting relevant problem statements and designing smart business solutions and implementing enduring technologies that meet Government outcomes. It is a journey; we're not there yet but at least we've started.

At the end of the first quarter of the financial year, we launched our new business model which underpins our new internal and external promises of performance. We bid farewell to our old executive team, most of whom had reached the end of their respective three year tenures; we worked off an interim organization and challenged each and every

member of the interim leadership core to drive their teams around the new vision: a vision in which the primary deliverable of the new SITA to the industry and Government ecosystems lies in thought leadership at the apex of a new type of industry: the *govtech* industry, where technology is specifically designed, built, integrated and operated to enable positively disruptive improvements in public policy outcomes through and around Government; an industry that can sit side by side with for example *fintech* in terms of innovation power, inclusiveness, competence and transformational capacity. We confirmed with the Executive Authority that indeed, this business model fully supports and aligns with the Government's vision on the repurposing of SITA.

As part of the new business model, we institutionalized our successful eGovernment and Cloud Computing programs into our operations.

From the eGovernment program, we created a new Application Development department, and used a number of internal innovations such as our inaugural Hackathon to build the foundations of the new team. We tasked this team into ensuring that all eGov applications are deployed in partial support of the new e-Strategy and eGovernment Framework from the DTPS. We further challenged the team to use the activities of the financial year to prepare itself for a step-change in breadth and depth of input into the overall drive by Government to digitalize its operations, processes and assets, including data assets. By the end of the first year, we'd deployed the very first set of eServices in the form of eMatric (a first eService for the DBE) and various ePermits which were largely consumed by provincial departments that focus on the environment. We beat our modest target of 20 services and deployed 23 across various departments.

We wrapped our Cloud Computing program around our Hosting department and created an exciting multi-year modernisation roadmap for our entire Hosting plant. We went to the industry to learn through our innovative Industry Day, and from these lessons, we created a new Hosting Blueprint that allows the Government to fully benefit from the new world of Cloud Computing, using public and private assets, whilst retaining the flexibility to implement any data privacy imperatives of the Government. Out of this effort, we birthed the Government Private Cloud Ecosystem (GPC-E), which is a connected and fully orchestrated cloud computing platform that combines the power and capabilities of fully invested public cloud offerings, with the security of off-premises hosted enterprise cloud computing platforms, whilst allowing the State to retain control with its own on-premises cloud foundation for use as and when prudence, policy and/or legislation dictate.

*As Government, it is key to understand the global threats facing us in order to ensure a safe future to every citizen. Moving forward, SITA will establish a Security Operations Centre (SOC). This will ensure a centralised approach to information security services such as a 24/7/365 monitoring, detection, reaction and defensive service, protection of government information assets and services and with the latest security technology.*

Dr SJ Mohapi

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and defensive service, protection of government information assets and services and with the latest security technology.

SITA continues to support the SA Connect vision through the provision of broadband connectivity services to ensure that government provides affordable broadband connectivity which meet the diverse needs of Citizens.

Government procurement remains a vehicle to influence industry transformation and drive economic empowerment. This is one of the services that the Agency undertakes on behalf of government and yet procurement and its related lengthy turnaround times have been the source of pain for the clients and a magnet for the unethical and corrupt practices within the Agency. After successfully testing some principles in the previous financial year, the new business model clarified SITA's approach to the entire supply chain management line, and specifically adopted a posture that moved SITA's focus away from the transactional part of supply chain (i.e. the administrative procurement activities) towards the value-adding and specialized competencies in commercially-oriented supplier management, business-oriented demand management, operationally-focused contract management, efficiency-driving commodity sourcing through framework agreements, and consultative strategic sourcing that is underpinned by business and solution design



and not procurement expediency, with all these activities supporting a new drive towards industry transformation and supported by an agile automation system that would be capable of not only supporting supply chain management workflows but drawing highly valuable business intelligence from any part of the supply chain system. There were mixed results, the organization brought in considerable breadth and depth of expertise to expedite the transformation of this area and there were considerable successes with the creation of new Framework agreements, development of new strategies for a set of major commodities, initial implementation of the new industry transformation policy (SMME and ESD) and the initial implementation of the automation system. However, we had to confront the reality that the old destructive order around SITA was largely sustained by the procurement function and specifically governance, culture, process, technology and competency weaknesses within the division. As a result, we continued with the deep and comprehensive forensic investigation that we had initiated at the end of the previous financial year, and uncovered the uncomfortable truths that supported our hypothesis. We lost a considerable number of personnel within the division through either outcomes of disciplinary hearings, voluntary resignations on the back of pending disciplinary hearings and in a few rare cases, resignations that were not directly linked with the investigation. We accept that the effort caused disturbances but do not accept that we had any other choice other than to clean up the environment with the courage and energy we employed. Regrettably, the disturbances, in relation to both the strategic reforms and the cleanup, resulted in significantly poor performance against our APP targets.

Public sector procurement remains vital to promoting economic inclusion and building a new class of economic players from the previously excluded. Accordingly there is a heightened focus on the development of the SMMEs through the adoption and roll-out of the Enterprise and Supplier Development strategy. From training and development to tendering, the programme is well structured to goad the SMMEs through the value chain, for their sustainability. The aim is to undo the adverse effects of a growthless economy, diversify the market, transform the economy and create black industrialists.

On service delivery, the minimal improvement in the customer satisfaction index is a constant reminder of the challenging task to improve both our operations, our solutions, services and products lines as well as our service ethos to exceed the expectations of the clients and the wider stakeholders. In response, the new business model has created two centers of customer consulting at national and provincial levels, both of which will be capacitated by personnel highly trained and skilled in the art and practise of strategic and tactical consulting.

Numerous customer satisfaction surveys have proved that historically the Agency has constantly been falling short on the dimension of responsiveness and under the new business model our service management has been separated from the hosting and security environment and paired with networks to expedite and fast-track service related queries to reduce turn-around times and improve response levels in accordance with the spirit and the letter of the agreed upon service level agreements.

We will continue improving service delivery and customer satisfaction levels, ensuring institutional improvements that will mend SITA's reputation so that the Agency is known as capable to deliver and show real value to government and the country's development, as this will be SITA's collective legacy.

Our financial sustainability programme has streamlined our financial management process with the introduction of tight controls as guided by the best practice and driven by strong and competent leadership. For the first time in five years, SITA produced a positive free cash flow, which represents an ability to fund operations and capital requirements from cash generated, without utilising reserves.

Our governance processes are improving, the Auditor-General has conducted audit procedures on some of the predetermined objectives for usefulness and reliability, compliance with laws and regulations and internal control. An unqualified opinion has been expressed on the performance information. While the Agency welcomes the unqualified audit report, the SITA will work tirelessly to eliminate all future material findings, ensuring that the compliance regime is tightened to improve in general the supply chain management environment and the contract management in particular. In this regard, we will focus our newly energised risk management practice to the area of supply chain and ensure that we arrest operational, compliance and fraud risks as early as possible before they represent strategic and reputational risks for the organization.

We have introduced the new macro organisational structure which ensures the delivery of the strategic vision as defined in the business model. We have initiated the organisational design process at a micro level, to ensure integrity and transparency; a service provider has been appointed to design the structures and assist with the migration thereof. We will ensure that the organisational design process will be handled with integrity, professionalism and a positive energy free from opportunism, bias and unscrupulous careerism.

The organisational design will provide SITAzens with professional growth opportunities. We recognise that each SITAzene has in them the unique ability to be more, to do more, and to become so much more professionally if we simply invest in SITAzens qualitatively and provide more interesting and energizing work opportunities for them.

I would like to express my gratitude for the support I have received from the employees to ensure service continuity as the organisation was implementing processes to root out corruption and transform the operational environment.

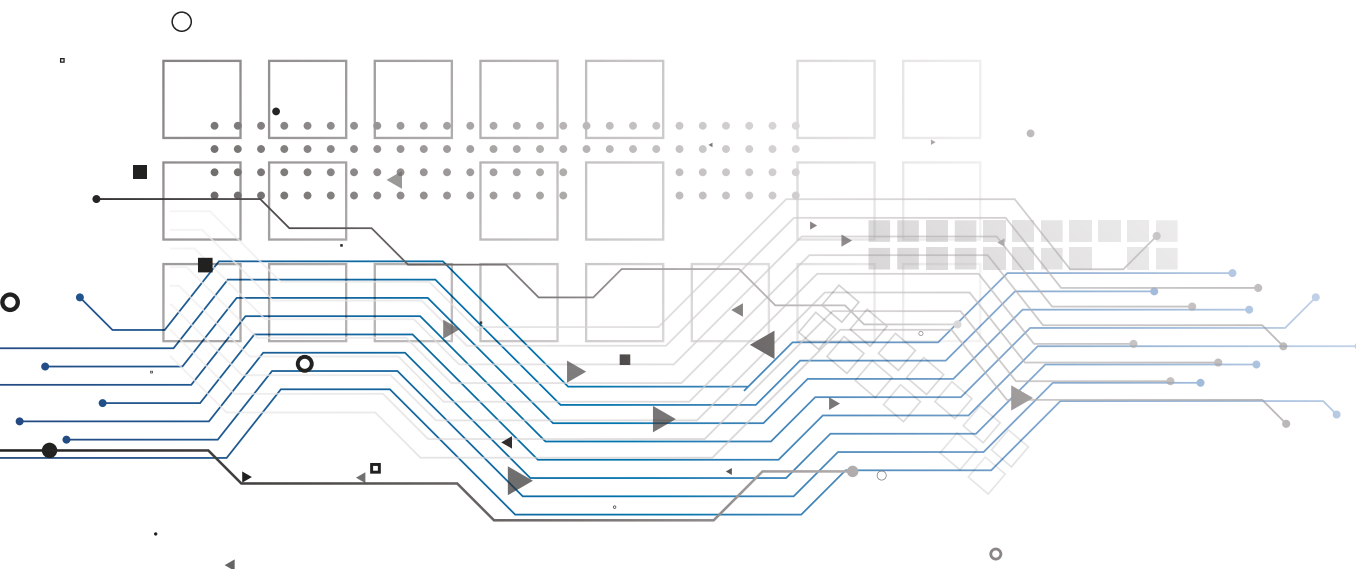
I would also like to extend my sincerest appreciation to my Exco colleagues and the SITA Board of Directors for their continued support. Finally, I would like to pay special tribute to the Ministry of Telecommunication and Postal services and the Portfolio Committee of Telecommunication and Postal services.



**Dr SJ Mohapi**

**Managing Director (CEO)**

State Information Technology Agency SOC Ltd



## 6. STRATEGIC OVERVIEW

This annual report covers the fourth year of activities towards achieving the strategic objectives and initiatives contained in the SITA 2015-2019 strategic plan and the 2017-2018 Annual Performance Plan (APP). During the year under review, SITA continued to deliver on its strategic intent, which is aligned to government priorities of the NDP and 2014-2019 Medium-Term Strategic Framework (MTSF), including the National Integrated Information Communication Technology (ICT) Policy White Paper, customer and stakeholder requirements. The figure below depicts SITA's strategic intent.



Figure 1 – SITA's strategic intent

The agency subscribes to the following values:

- Service excellence:** Strive to attain internationally recognised standards of service quality, and maintain continuous improvement in service delivery.
- Transparency:** Always ensure transparency in everything we do to build trust and confidence with all our stakeholders.
- Integrity:** Conduct our business with integrity at all times to inculcate a culture of honesty, respect and accountability among all our employees.
- Fairness:** Treat all our partners, our suppliers and our employees (all stakeholders) with fairness at all times.
- Prudence:** Exercise prudence and economy in running the business of SITA and in pursuance of its goals and the objectives of government.
- Innovation:** Pursue innovation by demonstrating thought leadership and proactive behaviour on the use of communication and Information Technology to enhance public service delivery.

## 7. LEGISLATIVE AND OTHER MANDATES

### 7.1 INTRODUCTION

SITA was established in terms of the SITA Act, 1998 (Act 88 of 1998), as amended, and its mandate is informed by, among others, the recommendations of the Presidential Review Commission of 1998. In executing its role, SITA is also guided by all public services legislation and regulations, including:

- (a) SITA Regulations of 2005;
- (b) Electronic Communications Act, 2005 (Act 36 of 2005);
- (c) Public Finance Management Act, 1999 (Act 1 of 1999);
- (d) Companies Act, 2008 (Act 71 of 2008);
- (e) Public Service Act, 1994 (Act 103 of 1994), as amended by the Public Service Amendment Act, 2007 (Act 30 of 2007);
- (f) Electronic Communication and Transactions Act, 2002 (Act 21 of 2002);
- (g) National Key Points Act, 1980 (Act 102 of 1980), as amended by the National Key Points Amendment Act, 1985 (Act 47 of 1985);
- (h) Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000);
- (i) Government IT House of Values, as contained in the eGovernment Policy;
- (j) The Machinery of Government (May 2003);
- (k) Minimum Interoperability Standards (MIOS);
- (l) Minimum Information Security Standards; and
- (m) National Treasury Regulations.

### 7.2 CONSTITUTIONAL MANDATES

According to the Constitution of the Republic of South Africa of 1996, SITA, as a public enterprise, is subject to the constitutional mandates below, as outlined in chapter 10.

#### 7.2.1 Section 195: Basic values and principles governing public administration as relevant to public enterprises

Public administration must be governed by the democratic values and principles enshrined in the Constitution, including the following principles:

- (a) a high standard of professional ethics must be promoted and maintained;
- (b) efficient, economic and effective use of resources must be promoted;
- (c) public administration must be development-oriented;
- (d) services must be provided impartially, fairly, equitably and without bias;
- (e) people's needs must be responded to, and the public must be encouraged to participate in policy-making;
- (f) public administration must be accountable;
- (g) transparency must be fostered by providing the public with timely, accessible and accurate information;
- (h) good human resource management and career-development practices, to maximise human potential, must be cultivated; and

- (i) public administration must be broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past to achieve broad representation.

### 7.2.2 Section 217: Procurement

- (a) When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective.
- (b) Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for the following:
  - categories of preference in the allocation of contracts; and
  - protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- (c) National legislation must prescribe a framework within which the policy referred to in subsection (2) must be implemented.

## 7.3 SITA ACT 88 OF 1998, AS AMENDED (ACT 38 OF 2002)

SITA is listed as a Schedule 3A national public entity in terms of the Public Finance Management Act (PFMA). Government is the sole shareholder of SITA, and the Minister of Telecommunications and Postal Services exercises the custodian rights attached to the shareholder on behalf of the state.

The mandate of SITA as stated in the Act is as follows:

- (a) **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
- (b) **to promote the efficiency of departments and public bodies** through the use of Information Technology.



The figure below depicts the 'must' and 'may' services that SITA provides to achieve its mandate.

SITA MUST		SITA MAY	
	<b>Private Telecoms Network</b> Act, Sec 7 (1)(b)(i)		<b>Department ICT Training</b> Act, Sec 7 (1)(b)(i)
	<b>Transversal Systems</b> Act, Sec 7 (1)(b)(ii)		<b>Department System Development</b> Act, Sec 7 (1)(b)(ii)
	<b>Transversal Data Processing</b> Act, Sec 7 (1)(b)(iii)		<b>Department ICT Maintenance</b> Act, Sec 7 (1)(b)(iii)
	<b>Information System Security</b> Act, Sec 6 (a)		<b>Department Data Processing</b> Act, Sec 7 (1)(b)(iv)
	<b>Disaster Recovery Plan</b> Regulation, Sec 4.1.2		<b>Advisory Services</b> Act, Sec 7 (1)(b)(v)
	<b>Procurement</b> Act, Sec 7 (3)		<b>ICT Management Services</b> Act, Sec 7 (1)(b)(vi)
	<b>Standards (Interoperability &amp; Security)</b> Act, Sec 7 (6)(a)(i), (ii)		<b>Provide Authentication Products</b> Act, Sec 7 (6)(c)
	<b>Certify against Standards</b> Act, Sec 7 (6)(b)		<b>Do ICT Research</b> Act, Sec 7 (6)(d)
	<b>IS Convergence Strategy</b> Regulation, Sec 4.1.1 (a)		
	<b>Information System Inventory</b> Regulation, Sec 4.6		
	<b>Research Plan</b> Regulation, Sec 4.1.1		

Figure 2 – SITA must and may services

## 7.4 PRESIDENTIAL REVIEW COMMITTEE

The Presidential Review Committee (PRC) of 1998 highlighted the need for a centralised information and technology systems agency for government on the basis of challenges identified at the time. These included the following:

- (a) lack of clear roles, responsibilities and coordination for IT in the public sector;
- (b) incompatibility of systems and architecture;
- (c) wastage of resources; and
- (d) lack of IT knowledge and skills and the fact that IT was not driven by the business processes of government.

The PRC recommended the establishment of a lead agency to deal with the procurement of IT goods and services, the use of economies of scale to reduce the cost of IT, the enhancement of government productivity through IT, and the use of government IT procurement to create citizen-centric services.



## PART B

## PERFORMANCE INFORMATION

# 1. AUDITOR-GENERAL'S

## REPORT: PREDETERMINED OBJECTIVES

The Auditor-General has conducted audit procedures on some of the predetermined objectives for usefulness and reliability, compliance with laws and regulations and internal control. An unqualified opinion has been expressed on the performance information.

Refer to page 95-100 of the Auditors-General's Report, included in Part E: Financial Information.

## 2. SITUATIONAL ANALYSIS

### 2.1 INTRODUCTION

The theme for the 2017/2018 financial year was 'building a refocused SITA that serves government to serve the nation'.

To effectively and efficiently deliver on its mandate, SITA launched a business review process that included the assessment of its capability and readiness to improve public service delivery in a reliable and cost-effective manner for the betterment of the lives of the citizens. The assessment included an analysis of its internal environment from the state of its infrastructure, technology requirements, process efficiencies, service delivery mechanisms and skills requirements.

The Agency initiated a modernisation programme on its key technical operating environment that is driven by the following considerations:

- (a) focus on specific value-added services;
- (b) fundamental changes in cost structure;
- (c) fundamental changes in agility and flexibility to meet demands of the eGovernment paradigm;
- (d) fundamental changes in resilience and integrity; and
- (e) ability to exploit and employ modern ICT skills to drive the changes.

The modernisation enables SITA to view the systems in the context of various public service value chains and the identification of roles and responsibilities. This equips SITA to build incremental integrated value at different levels of the business and technology stacks towards a completely new paradigm in public service delivery.

This paradigm shift considers various business scenarios within the public service 'end-to-end' value chains. The chain is based on how any object interacts with the entire government. Front-end procedures can be automated; applications, server infrastructure and public data structures can be modernised and integrated, and physical space can be modernised and consolidated.

SITA tested this model and developed an early childhood development (ECD) prototype that will be further developed in 2018/19.

ECD starts at childbirth, with registration of the birth of the child, which is documented on the Department of Home Affairs (DHA) core systems, which also carries the living health record of the child for tracking and management. This may also trigger a social grant need and administration on South African Social Security Agency (SASSA) core systems and governmental budgetary planning for population and needs on National Treasury core systems.

As the child reaches pre-school age, he must be placed at a school, requiring basic education planning and placement recorded and managed on the Department of Basic Education (DBE) core systems. As the child moves through primary and secondary school, the career progression of the child can be monitored on DBE and the Department of Higher Education and Training (DHET) core systems.

During career progression of the child, career advice can be given that will be informed by skills demand tracked and monitored on Department of Trade and Industry (DTI) core systems. In parallel, DTI will receive information from industry players on future required skills and trends. Intra-government services include planning and funding for higher education for the individual once he has completed secondary school. This is tracked and managed on DHET core systems and may trigger another feed to Treasury core systems to inform planning and accounting of funding. As the child completes school, he/she will require services for job placement and skills transfer of the job tracked and managed on the DBE and DHET core systems. The learner will be ready to be placed into the job market based on a DTI skills and job match. The figure below depicts the digitalisation of government.

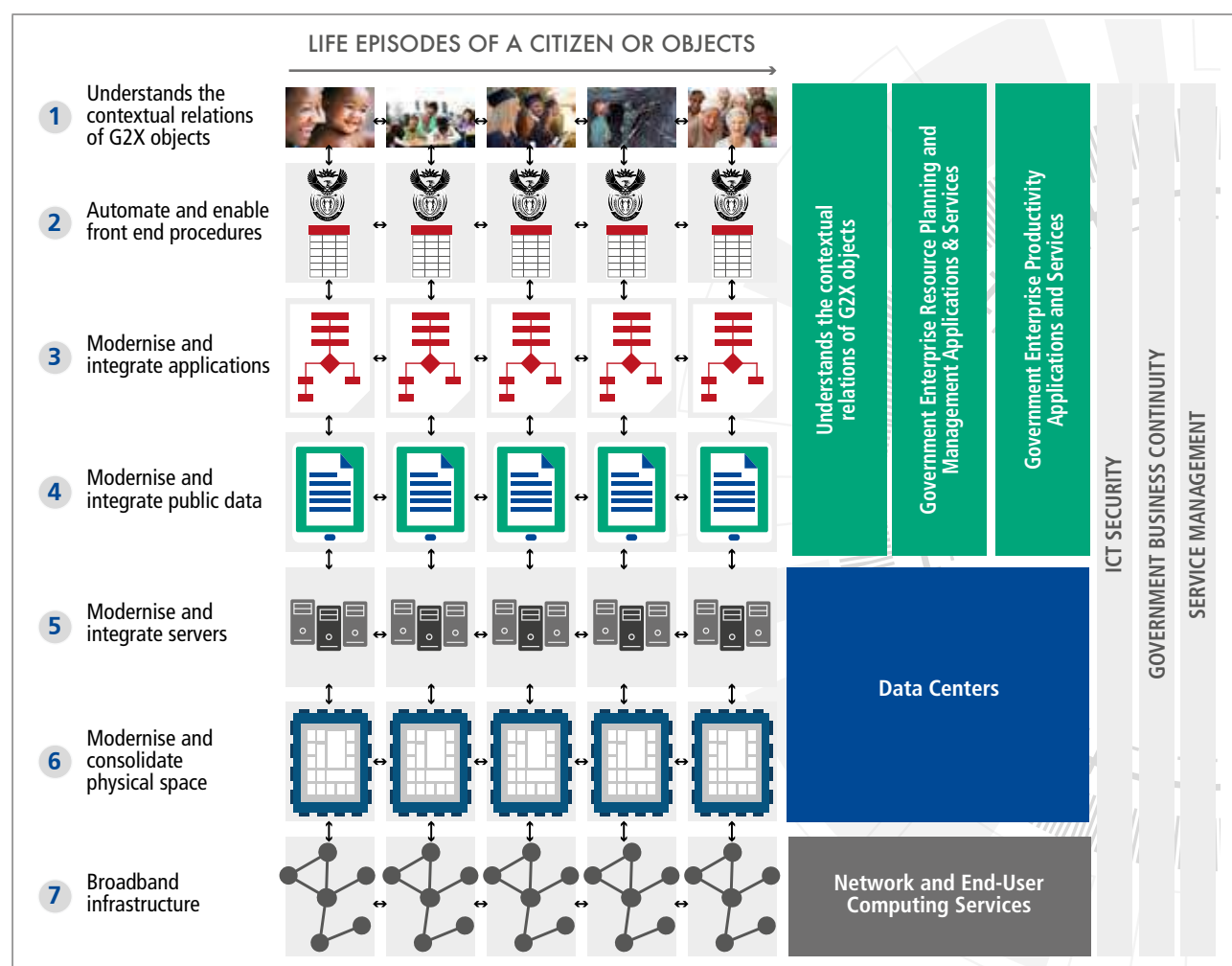


Figure 3 – Government digitalisation

The modernisation programmes are focused on the following levels of the business and technology stacks:

- (a) **Government business applications and services:** automate citizen-facing service delivery processes to activate a responsive government and citizen convenience supported by the national eGovernment strategy;
- (b) **Government enterprise resource planning and management applications and services:** improve the internal service delivery machinery of government through enhanced resource planning processes;
- (c) **Government enterprise productivity applications and services:** improving the productivity and efficiency of government using ICT;
- (d) **Data centres:** modernisation of the server and storage infrastructure to ensure cost effectiveness;
- (e) **Network services:** provision of stable and enhanced network services, which provide value for money and support the country's broadband connectivity programme;
- (f) **ICT security:** modernisation of information security services to protect government data assets against cyber warfare;
- (g) **Government business continuity:** deployment of disaster recovery and business continuity services; and
- (h) **Service management:** implement end-to-end service management practices and continual service improvement across all services.

### 2.1.1 Electronic government

SITA sits at the centre of the public ICT service delivery ecosystem, responsible for delivering ICT solutions at a scale for government. This commitment is defined in the NDP and, therefore, requires a firm strategy and approach.

As per the NDP 2030 sub-outcome 4, SITA is called upon to '*...make services more accessible, reduce the cost of accessing services, streamline administrative processes and improve turnaround times, and strengthen accountability and responsiveness. To achieve these objectives it is important that IT systems are tailored to specific areas of service delivery. Government will, therefore, identify and prioritise areas where IT has the greatest potential to improve access to services*'.

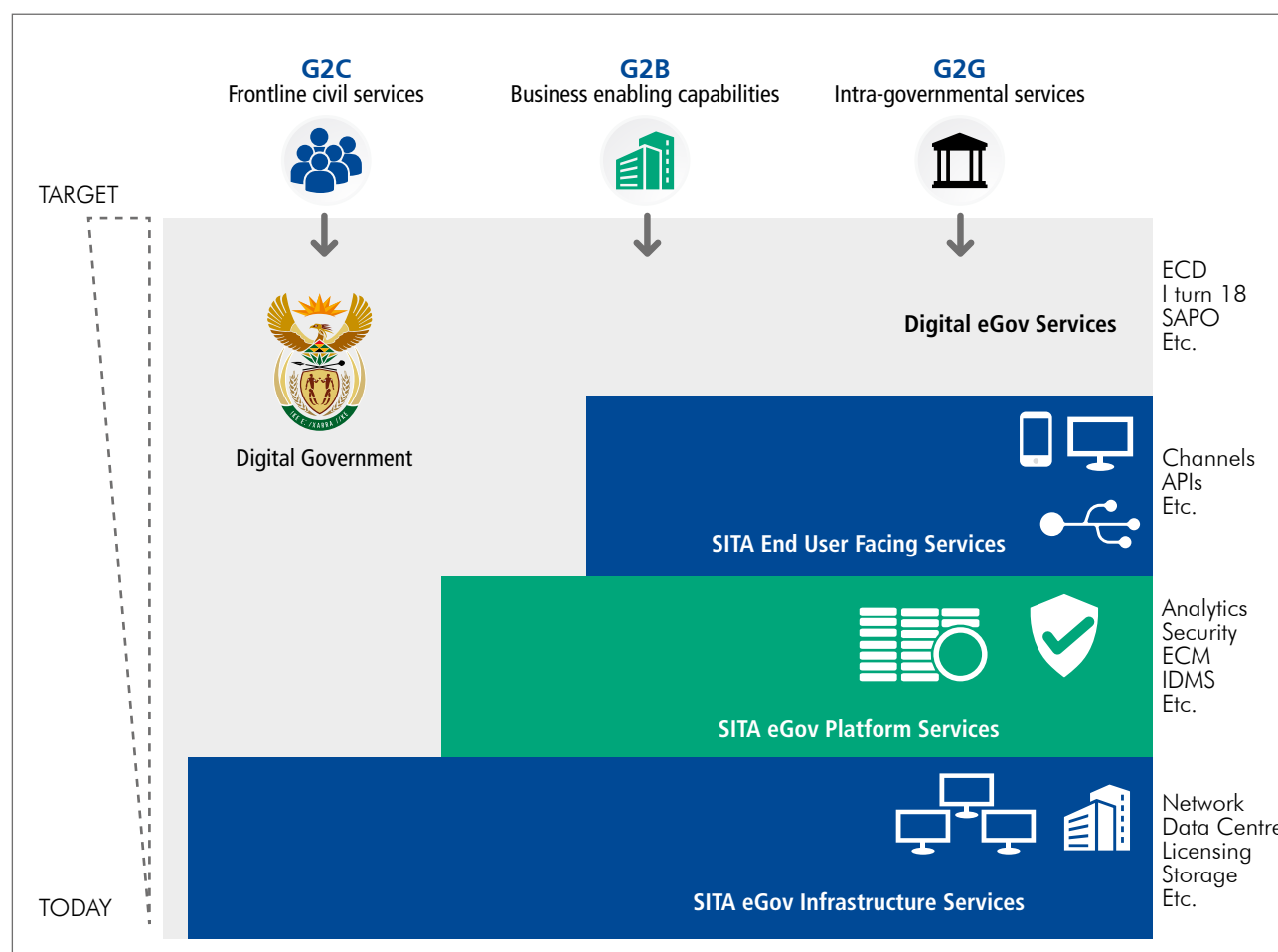
SITA has, therefore, launched a focused initiative to address South Africa's developmental challenges through technology. This initiative includes the enablement of a collaborative eGovernment services platform shared by various government departments. This empowers SITA to create and provide the right services to the right users, while delivering with certainty, pace and efficiency.

The eGovernment strategy focuses on how to make best use of SITA's capabilities in a way that it can offer its services in tiers. These include:

- (a) instant service offerings, which are underpinned by SITA's eGovernment infrastructure services;
- (b) intermediate offerings, which combine eGovernment platform and infrastructure services; and
- (c) digital offerings, which combine end-user-facing services and all other necessary services to deliver comprehensive eGovernment services.



The figure below depicts the eGovernment service offering.



**Figure 4 – eGovernment broader service offering**

eGovernment required a digital platform to introduce a different mindset to the current view of enterprise architecture. The vision for a collaborative, standardised and open eGovernment platform involves a fundamental shift to designing multiple services that achieve a range of high-yielding outcomes. This involves a solution that is not hindered by the traditional, silo approach to service delivery.

Digital architectures are focused on providing customer-facing capabilities at speed, while decoupling the dependency on legacy systems. They allow for:

- creation of services in shorter times;
- seamless multichannel experiences for customers to move effortlessly between different channels for service interaction; and
- provision of capabilities for the digitisation of business processes, enabling quicker response times for delivery of services.

The SITA eGovernment architecture framework describes the underlying structure for a common platform to which systems for different government departments will be unified to provide common services. The figure below depicts the eGovernment architecture framework.

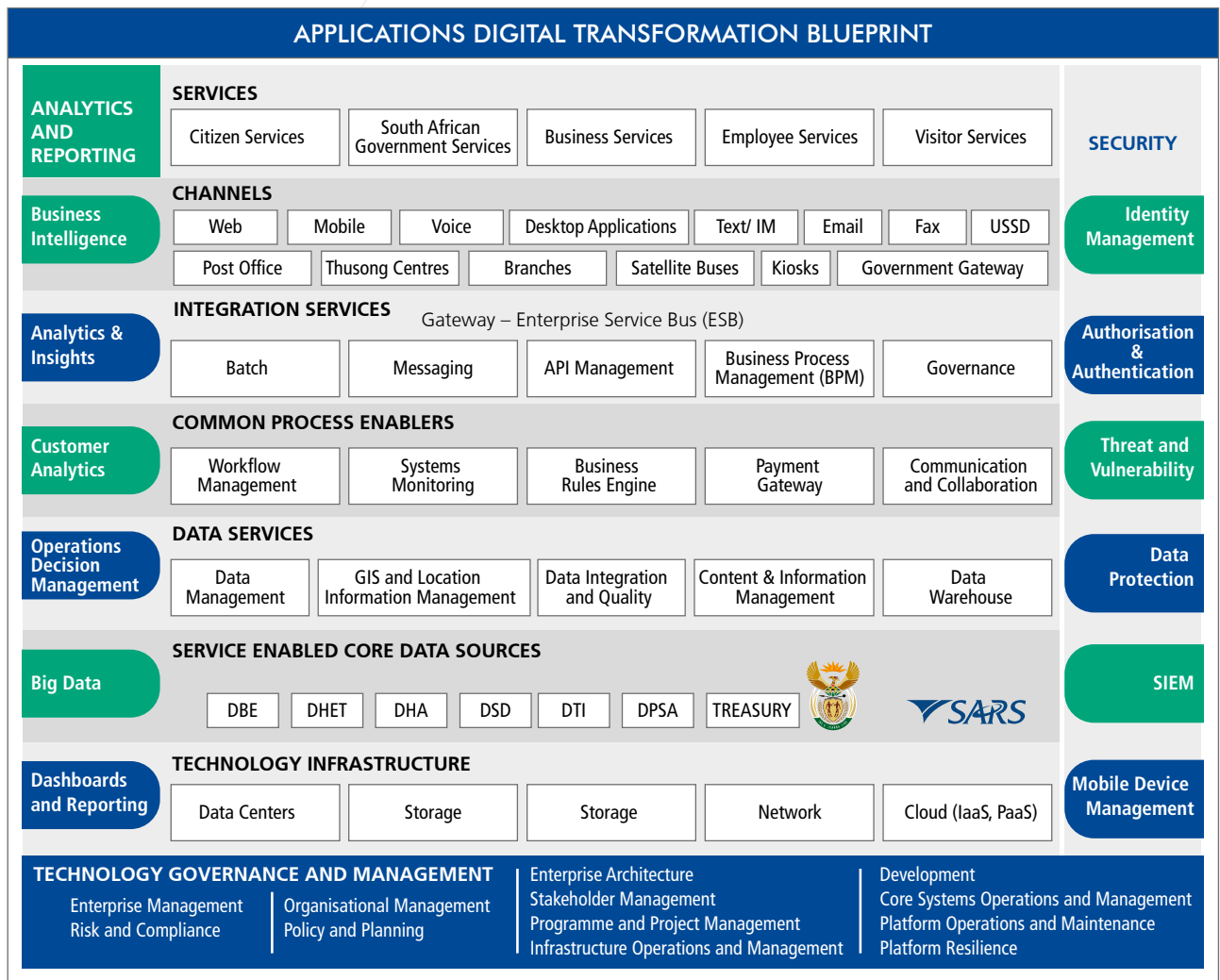


Figure 5 – eGovernment Architecture

The architecture framework consists of the following layers:

- Services:** functions that describe the tangible outcomes provided for citizens, business and government departments.
- Channels:** services that directly support the interaction of users with different applications, such as user interfaces through end-user systems, portals and mobile applications.
- Integration:** integration services that link different systems for various government departments.
- Technology governance and management:** capabilities for supporting the architecture, its planning and delivery, including the governance to support management of the ecosystem.
- Common services:** functions used across all layers in the framework, which may include applications for security and systems monitoring, for example.
- Technology infrastructure:** includes supporting infrastructure hardware, which may be hosted in data centres, and connectivity for systems of different government departments.
- Business intelligence and reporting:** functions are for the collection of data on services provided, monitoring of platform layers and generation of insights to enhance decision making.

A critical element of the SITA eGovernment implementation plan is to start small and then scale. Decisions around which services to build will be supported by a rigorous prioritisation and selection framework, with only services that meet the criteria of desirability, viability and feasibility being considered for investment. Through diligent application of the prioritisation and selection framework, SITA ensures that its own resources and that of government are always focused on the deployment of relevant, innovative services that create optimum value for government and citizens. The eGovernment initiative prioritisation approach is depicted on the figure below.

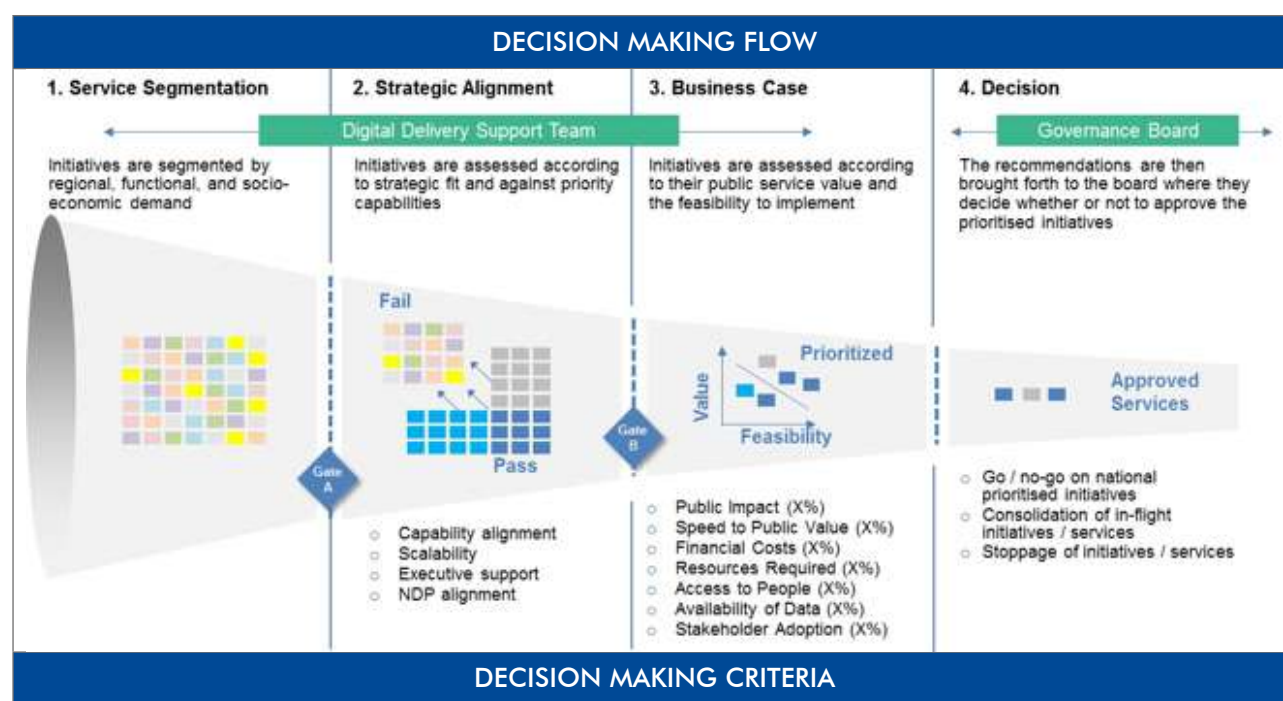


Figure 6 – eGovernment initiative prioritisation approach

During the year under review, SITA deployed 23 eGovernment services in the value chains of government enterprise productivity and government business solutions, founded on clear public service business cases, with a demonstration of clear socioeconomic value to citizens. eServices taken to market included eMatric and ePermits, which are online platforms providing examination services to students and permit application and issuing service to citizens, respectively. These support the government's eEnablement drive that seeks to digitally transform the public service.

Furthermore, SITA assisted DBE and DHET in the successful execution of 12 examination cycles, with results being released to qualifying candidates on time. This exam cycle included the national senior certificate for 2017. A significant improvement over previous years was reported in all the different examinations and resulting processes. This was brought about by system changes, further enhancement of standard operating procedures and the introduction of job schedules to control the execution of activities.

To support government in achieving economic growth, transformation and industrialisation, SITA established a panel of specialised applications development industry players, made up predominantly of SMMEs across the nine provinces to encourage the inclusion of the SMME sector in the country's economy. The objective is to collaborate with the industry to rapidly develop solutions for government and modernise legacy applications, while ensuring that intellectual property is owned by government. The engagement model also accommodates localisation, where provincial demand will be addressed by industry players from the provinces to stimulate local economies.

### 2.1.2 Infrastructure modernisation

SITA provides data centre services to government throughout the country. These facilities have been in existence for more than 20 years and the ICT footprint can be described as old, with minimal upgrades done in certain locations. The aging infrastructure and outdated architecture have reached critical levels of capacity and have been declared end of life by the original equipment manufacturers (OEMs). This has a direct impact on the support, management and cost of delivering services to existing client services contracted under Service Level Agreement (SLAs).

Modernising service delivery to government and the drive for technology rejuvenation forms a sound basis for SITA, not only to provide a secure and safe hosting environment for government business systems but to strengthen SITA's ability to effectively and efficiently meet the business demands of government.

The current state of the Agency's data centre facilities provides SITA with the ideal opportunity to re-engineer the entire environment into a modern state-of-the-art facility that includes cloud principles.

This process started during the year under review and will ultimately result in a government private cloud (GPC) for exclusive access by government departments, owned by government and operated and managed by SITA.

SITA exceeded its planned targets on the APP for the modernisation of infrastructure. Major inroads made with two cloud variants of the target government private cloud ecosystem (GPCE) include an off-premise hosted private cloud and on-premise private OEM cloud, which are already in production. SITA now offers the following cloud services to ensure maximum benefit for both SITA and government:

- (a) cloud hosting for the hosting of cloud-ready workloads in a virtualised shared environment that guarantees separation, isolation and segmentation;
- (b) virtual machines for special projects requiring development, testing and quality assurance environments, aimed at creating environments for proof of concept of pilot projects; and
- (c) storage for the hosting of critical government data in a central location that also encourages consolidation.

Achievements for national and provincial departments (National Treasury, National Department of Basic Education, National Department of Social Development, KwaZulu-Natal Department of Transport, KwaZulu-Natal Department of Education and KwaZulu-Natal Department of Transport), as well as SITA internal departments, culminated in SITA receiving 20 client acceptance certificates - 14 for government departments and 6 for internal departments.

Modernisation commenced in the IT environments of key customers such as the South African Police Service (SAPS) and the Department of Defence (DoD), with the former in planning stage and the latter in implementation.

### 2.1.3 Broadband connectivity

Broadband as an ecosystem of digital networks, services, applications, content and devices should be firmly integrated into the economic and social fabric of the country. SA Connect goal is that broadband must reach a critical mass of South Africans. The figure below depicts the broadband value-chain.

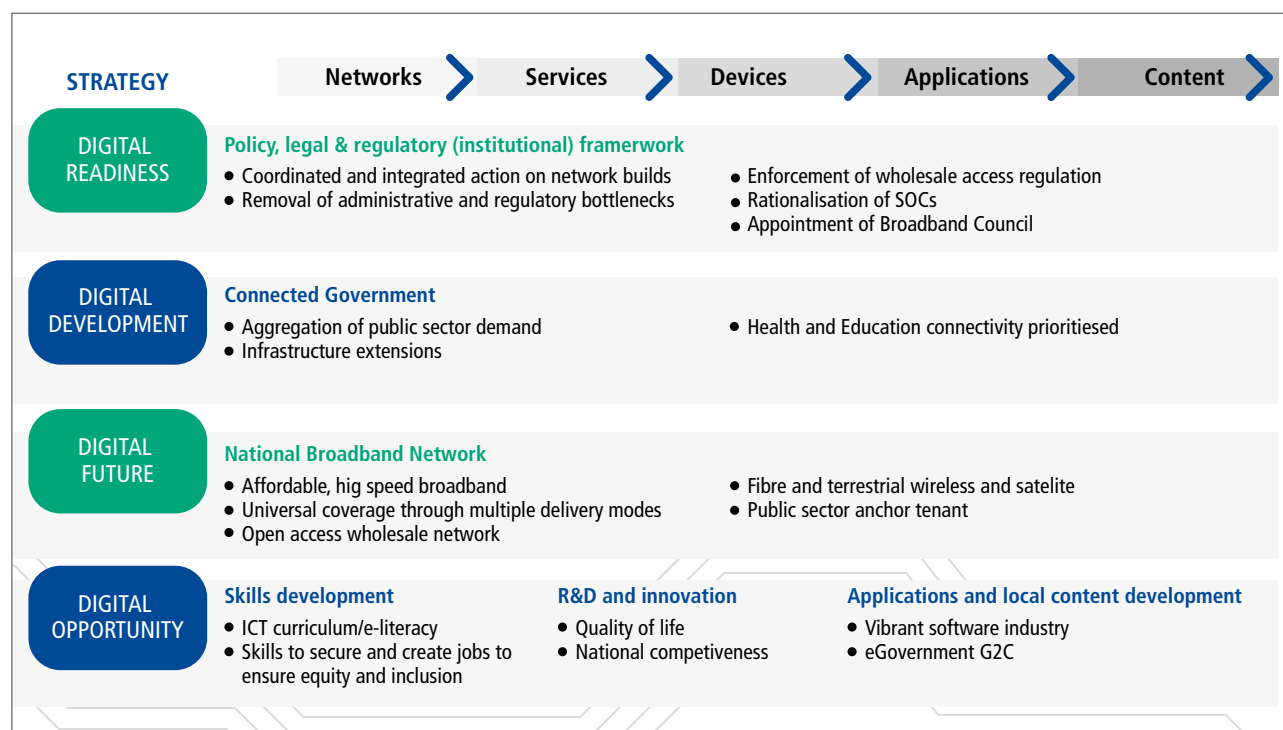


Figure 7 – Broadband value chain

SITA has a significant role in the implementation of SA Connect phase I. The rollout programme is still in its enablement phase, wherein governance frameworks, rules of engagement and plans are being finalised. Simultaneously, SITA has started upgrading eight sites to the SA Connect specification. The complete programme entails connectivity to 6 135 sites across eight district municipalities, which will benefit these rural districts and South Africa at large through the upliftment of SMMEs, skills development and job creation.

Furthermore, through the rollout of telecommunications solutions of varying scales, SITA currently connects about 7 000 government entities, enabling access to internet, transversals and other shared government services. Among the large rollouts, SITA leads the Western Cape broadband programme, which aims to connect about 2000 sites, including schools, clinics and public libraries, with some entities extending WiFi connectivity into the surrounding communities. The project is aligned to the SA Connect broadband targets and ensures a minimum of 10 Mbps to 1 Gbps connectivity speed.

Connectivity has now been established in all 25 local municipalities in the province. Of the 1 932 connected sites, 1244 are schools that, through the broadband network, now have access to the internet via a secured schools virtual private network (VPN) provided and managed by SITA. The uptake on internet for schools was initiated with a 500 Mbps internet bundle and now operates at 1800 Mbps and is to be further upgraded to 2400 Mbps. The Western Cape has started to use the broadband network as a conduit for eGovernment services, notably the eLearning and eHealth applications.

### 2.1.4 ICT security

SITA, as a custodian of government's data, has to be at the forefront of defence against ICT security threats. Security threats can be experienced in several ways including unavailability of ICT services, destruction of data due to hardware or software failures, denial of services, infection by malicious software and compromising data.

Effective management of information security has, thus, become a major concern for every government organisation. There are a number of substantial challenges, including:

- (a) constantly changing risks resulting from technological, legal, demographic and socioeconomic developments;
- (b) increasing demands of the business that has a 'zero tolerance' attitude to IT problems and disasters;
- (c) new legislation that demands more explicit evidence on monitoring risks within organisations;
- (d) a growing need for more online mobile and digital information and interactivity with other (external) parties, while maintaining transparent cost control; and
- (e) the ability to roll out new technologies quickly and flexibly with the right information security/protection.

The use of secure mainframe technology has provided a strong buffer against attacks, but as more services are brought closer to citizens and the use of server technology is adopted across the industry, opportunities for cyber-attacks will increase. Tried-and-tested methodologies are applied, such as separation of departmental data through multi-layered architecture. SITA's challenge is, however, to be aware that more sophisticated attacks are being formulated and that it must have the agility to defend government turf.

SITA implemented solid secure platforms and infrastructure to support eGovernment and cloud services, while also ensuring that private confidential data is not leaked, stolen or abused. In addition, SITA achieved ICT security level 2 status for all 21 disciplines of the information security forum (ISF) maturity model.

This assured stakeholders that all information and cyber-security-related activities are 'planned', where planned is defined as 'the activity is performed and supported by planning (which includes engagement of stakeholders, and standards and guidelines)'. Further detailed requirements are:

- (a) the activity has been documented in plans/procedures, with necessary approvals, and these are followed;
- (b) stakeholders have been identified, know their role and contribute to the documented process; and
- (c) all requirements and input has been identified and included in the documented process.

In the next financial year, SITA aims to achieve level 3 status in 11 of the 21 disciplines of the ISF maturity model. Level 3 assures stakeholders that information and cyber-security activities are 'managed', where managed is defined as 'the activity is performed, planned, and has sufficient organisational resources to support and manage it'. Further detailed requirements are:

- (a) the activity is governed within the organisation's governance structure, supported by policy and staff that are responsible and accountable for the activity;
- (b) necessary resources, including sufficiently skilled and experienced staff, and funding are available to perform and manage the activity; and
- (c) risks relating to the activity are identified and managed.

### **2.1.5 Customer service delivery**

The Agency is still facing service delivery challenges, with clients perceiving its services as less than effective, from providing proposals through to service delivery and service level management. SITA is seen as expensive, non-value adding and a burden rather than a preferred service provider of government.

There are also persistent complaints and dissatisfaction with quality of service, and turn-around times in procurement processes for both goods and services. These are mainly symptoms of internal inefficiencies and the lack of capable resources to provide the thought leadership expected by customers.

The 2015-19 SITA MTSF positions the Agency as a customer-centric organisation. Service improvement initiatives have been introduced, including continuous customer engagements within various platforms of government. The

objective of the engagements is to build relationships, understand the business and challenges of customers, with the aim of resolving problems and, where possible, minimising or eliminating recurrences.

SITA is committed to improving customer satisfaction through an enhanced understanding of customers and their needs. In line with improving service delivery, SITA commissioned a customer satisfaction survey to learn more about customers' priorities, expectations and level of satisfaction with SITA services. The satisfaction score was 51% in 2018, which was below the target of 70%, but 2% higher than the 2017 score of 49%.

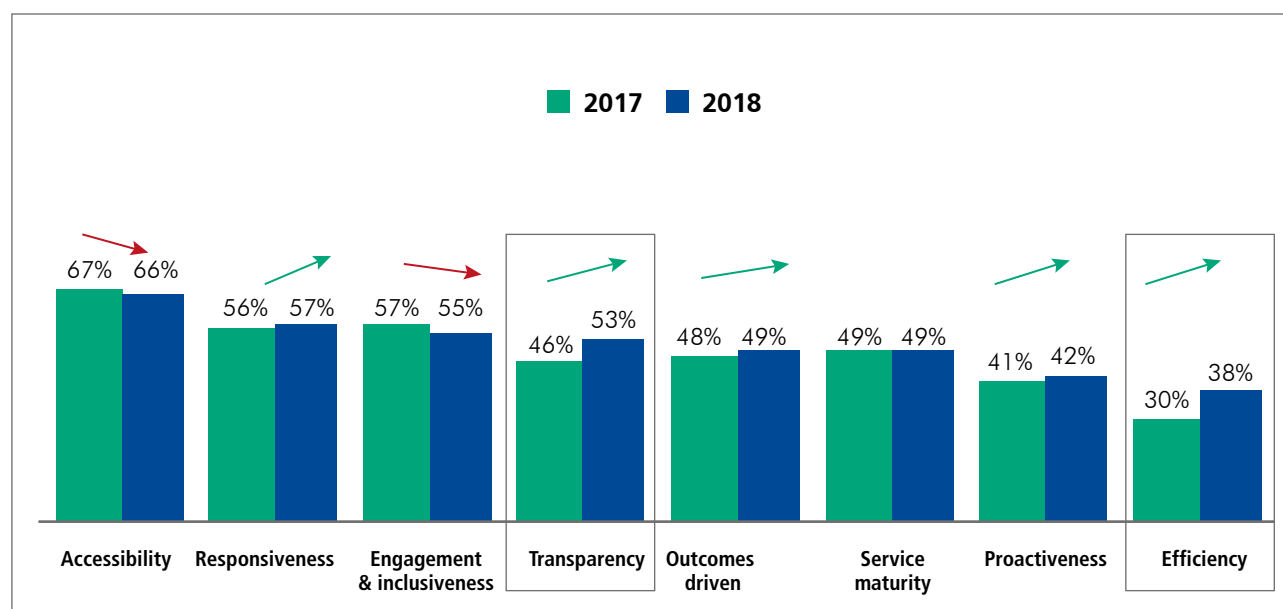


Figure 8 - Customer satisfaction scores for service attributes

The increase in the overall customer satisfaction score resulted from improvements experienced in the service attributes of 'efficiency' and 'transparency', which saw the biggest improvement, driven primarily by low prices, work completed on time, and an understanding of the costs of products and services. Service attributes of 'accessibility' and 'engagement and inclusiveness', where a decline in customer satisfaction was recorded, are areas to be improved upon.

### 2.1.6 Procurement reforms

Procurement is a strategic tool and a mechanism that enables government to implement policies for socioeconomic development. The SITA enterprise and supplier development (ESD) programme is a strategic vehicle to advance the transformation agenda and bridge the digital divide by actively promoting access to ICT, stimulating and supporting growth in the ICT sector, advancing economic and social transformation in the ICT sector, diversifying supply chains, contributing towards the reduction of unemployment and poverty alleviation, and supporting skills development and training initiatives.

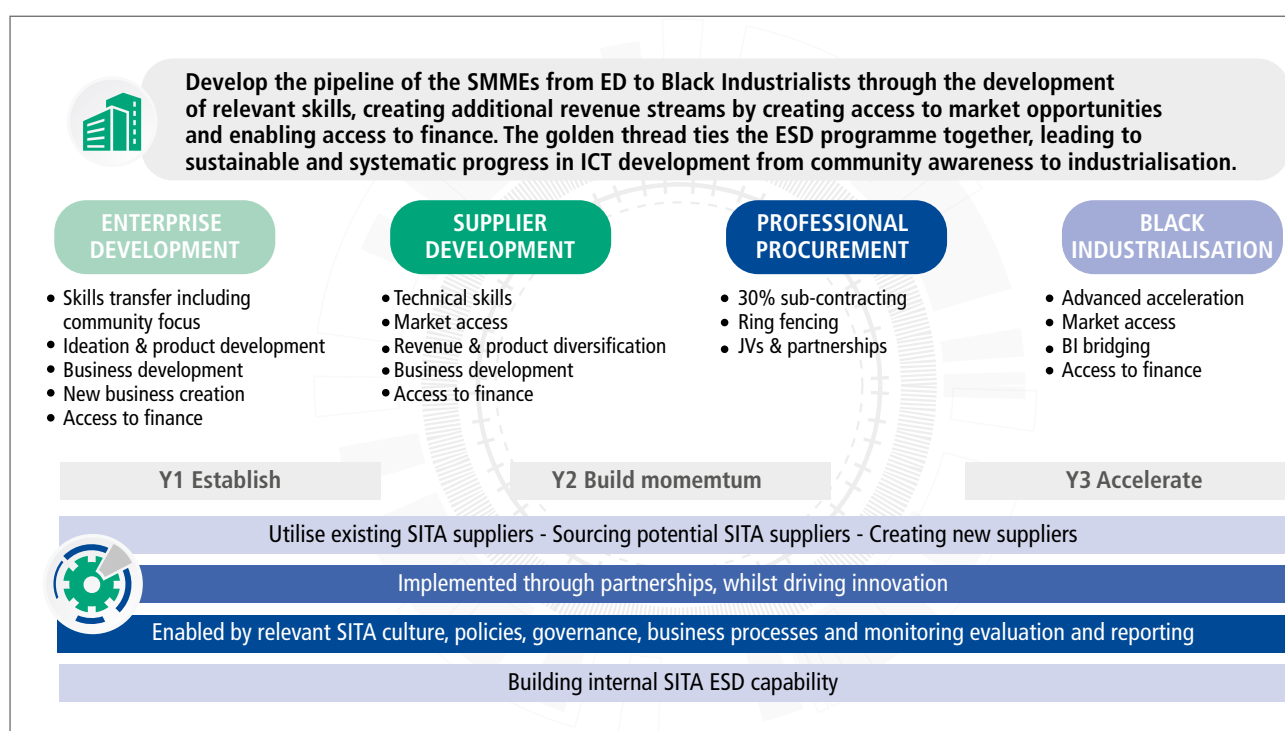
SITA's long-term ESD strategy seeks to achieve the following objectives in line with the organisation's vision:

- leverage the organisation's position to advance economic transformation in the ICT sector;
- promote and support the objectives of the Broad-Based Black Economic Empowerment (BBBEE) Act and related legislations, and meet compliance targets;
- increase the capacity of SITA's black-owned qualifying small enterprise and exempt micro enterprise suppliers to meet not only SITA's requirements, but those of other entities in the ICT sector through targeted business management and technical support (skills development);



- (d) advance procurement from SMMEs through preferential procurement enablers such as early payment, OEM partnering, technology solution development, joint ventures and targeted sourcing approach;
- (e) provide a platform for emerging SMMEs to develop into mainstream ICT suppliers that can do business with SITA and other public and private entities;
- (f) use SITA and government ICT goods demand to establish new competitive manufacturing companies in the ICT sector;
- (g) drive innovation in the SITA value chain for new product development or new venture creation; and
- (h) foster strategic partnerships with key role players in the ESD ecosystem, such as funders, development agencies and corporates.

SITA's ESD strategy framework is illustrated in the figure below. The strategy covers the high-level objective, supporting programmes, the implementation approach, innovation as a driver and key strategic enabler. Each of these elements in the SITA ESD strategy is briefly described below with more detail in the rest of the document.



**Figure 9 - ESD strategy framework**

The SITA ESD strategy will deliver its strategic objectives through four programmes:

- (a) **The enterprise development programme is designed around the three pillars:** development of ICT and business skills, driving ICT innovation, and the acceleration of new and existing ICT businesses to develop into potential SITA suppliers.
- (b) **The supplier development programme:** seeks to improve operational and financial capability of select SITA suppliers through a structured business development support programme, which runs over three years, beginning with in-depth support in the first year and business-specific support in years two and three. Supplier growth and performance are tracked and development gaps identified and addressed. The programme leverages existing SMME development platforms and partnerships. Qualifying suppliers will be taken on annually.
- (c) **SITA preferential procurement:** will be driven by SITA's procurement demand. The objective is to identify and enable procurement opportunities for SMMEs. Policy and procurement process alignment is essential to achieve targets.

- (d) **The black industrialisation programme:** aims to identify high potential black businesses in all disciplines of ICT and develop a structured support programme to accelerate their revenue, and access to supply chains and new markets.

ESD has a golden thread running across programmes, which should enable a pipeline of systematic progression from community skills all the way to black industrialist. Participants may enter or leave the continuum of ESD programmes at any logical point, if entrance and exit criteria have been met. The programme will be implemented through key partnerships with original equipment manufacturers (OEMs) and original software manufacturers (OSMs), public and private sector relationships, fund, and be driven by innovation. Underpinning the programme are enablers such as culture and change management, policies, governance, business processes and monitoring, evaluation and reporting (MER).

During the year under review, SITA continued to adopt a strategy that fosters partnerships with both the private and public sectors to ensure that services and products offered to customers are of the best quality and value for money.

To ensure the growth of the SMME ICT sector and broader transformation, SITA included eight preferential procurement clauses in the tender/s document to drive SMME spend. These clauses ensure that the contracts are either being ring-fenced exclusively for 51% black-owned SMMEs or that a minimum 30% direct and indirect spend (subcontracting) is enforced.

SITA has also used the signing of the agreements to empower SMMEs through commitments from OEMs to train and enhance skills, so that SMMEs will, over time, be prime implementers of solutions.

Furthermore, SITA has launched readiness programmes to equip SMMEs that do not qualify for request for accreditation (RFA) panels with technical and business management skills to participate in future opportunities. The following readiness training programmes were provided:

- (a) in preparation for the refresh of RFA, 71 SMMEs in 6 provinces were trained on Molex BP100 structured cabling and design certification;
- (b) 30 SMMEs were trained on the gCommerce fundamental to become train-the-trainers for regional projects where there is no SITA capacity to train; and
- (c) 'How to tender training' was given to the 14 beneficiary SMMEs of SITA's ESD programme.

Furthermore, SITA leveraged its premier GovTech 2017 ICT conference and collaborated with the ICT industry to successfully empower SMMEs with technical training through OEMs. Thirty exhibition spaces in the GovTech solution centre were allocated to SMMEs to exhibit their services and networking opportunities with government and industry stakeholders were created.

Moreover, a track dedicated to SMME development was provided, covering the subject on lack of access to markets by SMMEs and low levels of innovation commercialisation by SMMEs. This created a strategic platform for awareness on challenges faced by SMMEs, thereby allowing both SITA and government to contribute to possible solutions to the challenges faced by this key stakeholder group.

SITA continued to establish and manage framework agreement contracts with suppliers to provide goods and services to departments at pre-agreed rates and terms. During the year under review, it signed framework agreements with eight OEMs for licensing and maintenance, with terms negotiated not only for SITA and its clients, but for all organs of state. Favourable discounts now impact over 800 national and provincial departments, local authorities and their entities, as well as constitutional bodies. The cost saving, including the Microsoft framework agreement concluded last year, will be more than R2.9 billion over the next three years.

It is envisaged that the savings will be further enhanced by consolidating demand and preventing under- and over-deployment of licences. Simply, for a channel to benefit, it needs to add value to the process. To achieve this, SITA has challenged the traditional ways that OEMs have gone to market and, where applicable, will become a reselling partner of the OEM.

### 2.1.7 Procurement automation

The Office of the Chief Procurement Officer at National Treasury, in partnership with SITA, is modernising the procurement landscape within government through technology.

SITA is mandated by Section 7 of the SITA Act 88 of 1998, as amended, to render ICT services to government and to act as its procurement agency. Several technological SCM innovations have been phased since 2015, including the Central Supplier Database (CSD), eTender portal and gCommerce. SITA, as the technology implementation partner of government, is to roll out gCommerce to support modernisation and automation of the procurement reforms programme.

gCommerce is a government owned, managed and supported source-to-pay solution aligned to the procurement legislative prescripts supporting the procurement reform initiative aimed at modernising, simplifying, standardising and automating procurement across all spheres of government.

gCommerce will enable government to move from non-compliance to adding business value. It aims to provide a public procurement system that is fair, equitable, transparent, competitive and cost effective.

The solution has various benefits to government, including:

- (a) improved transparency, auditability and governance;
- (b) improved compliance and performance monitoring;
- (c) improved spend analysis;
- (d) improved service delivery;
- (e) accelerated turnaround times;
- (f) improved demand planning;
- (g) reduced cost to serve;
- (h) realtime reporting, e.g. spend analysis; and
- (i) centrally hosted.

The solution has various benefits to suppliers, including:

- (a) a single portal for suppliers to obtain bids, quotes and purchase orders;
- (b) secure electronic submissions of bids, including electronic receipt, alerts etc;
- (c) ease of use; and
- (d) reduced cost, i.e. preparation costs etc.

During the year under review, SITA delivered an eCommerce solution for government aimed at supporting National Treasury's SCM reform agenda of standardising, automating and modernising the procurement functions of government through gCommerce, the official government procurement portal. This has helped to overcome disparate expenditure trends, and collusive, uncompetitive and non-transparent tender processes. It further enables the move from compliance to adding business value that is fair, equitable, transparent, competitive and cost effective.

SITA launched the first phase of the gCommerce solution, which resulted in the Microsoft license and services contract being catalogued and loaded onto the gCommerce-BuySite, with the following benefits:

- (a) organisations with more than 150 users can procure directly;
- (b) discount has increased from 8% to 22%; and
- (c) all government entities can access the discount directly.

The gCommerce transversal sourcing panel (a web-based platform) was also launched, providing organs of state with an automated process of procuring computers, laptops, peripherals and consumables on SITA transversal contracts with the following benefits:

- (d) online portal to create and submit a requisition for goods;
- (a) online submission of the requisition to all approved OEMs (prices of OEMs are fixed on approved base price). OEMs have 24 hours to respond to requests and have the opportunity to reduce prices;
- (b) online submission of requisition to approved resellers. Resellers have 24 hours to respond to request and system will close automatically after 24 hours;
- (c) automatic evaluation and award of the bid based on best price and BBBEE points as aligned to the PPPFA;
- (d) resellers of the region are prioritised where the requisition has been raised, e.g. if the requisition is raised in Limpopo, resellers in Limpopo will be prioritized; and
- (e) the system has a full audit trail, with archiving, and the requisition will be sent to many resellers.

Other gCommerce modules implemented include supplier management, bid management, quotation management, contract management, item master management, requisitions management and purchase order management.

Implementation of all of the above has enabled many government departments and entities to comply with SCM legislation and policies. The gCommerce platform will be revitalised in 2018/19 undergoing modernisation through technology, including expanding the client base to include municipalities and state-owned entities (SOEs).

## 2.2 ORGANISATIONAL ENVIRONMENT

### 2.2.1 Introduction

The SITA Amendment Act 38 of 2002 changed SITA from an IT service provider to an entity that shares collective responsibility to the delivery of public services, as follows:







*“(a) 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 (b) to promote the efficiency of departments and public bodies through the use of Information Technology.”*

The shift in mandate compelled SITA to align its key performance indicators to those of government. The ability of government to deliver public services to its information society – in particular its citizens – is thus dependent on the effective and efficient performance of SITA.

Previous attempts to adequately resolve these challenges have been unsuccessful, mainly because of frequent leadership changes, lack of clear strategic direction and focus, and overlapping solutions. Strategic programmes implemented did not produce the desired outcomes and programmes were domain-specific and did not include a holistic view of SITA's operations.

Most state IT agencies have a narrower service portfolio than SITA. The Agency has to choose what products and services to offer, what role it should play in delivering the products and services, and which services should be delivered through industry partnership. The criteria to determine the execution model of each product and service is based on security risk to government data, availability or need to build internal skills and business efficiency in delivery.

The figure below provides a benchmark of IT agencies in comparison to SITA.

Technology Tower	 South Africa	 Australia	 France	 Germany	 UK	 US
Cross-department application development and maintenance	✓	✓	✓	✓	✓	✓
Department-specific application development and maintenance	✓	✗	✗	✗	✗	✗
Systems architecture and security	✓	✓	✓	✓	✓	✓
Data management and interoperability	✓	✓	✓	✓	✓	✓
Infrastructure provisioning and operations	✓	✗	✓	✗	✗	✓
Procurement	✓	✗	✗	✗	✗	✗
Standards and advisory services	✓	✓	✓	✓	✓	✓
Training and end user support	✓	✓	✓	✓	✓	✓

**Figure 10 - ICT service portfolio benchmark**

The Board of Directors and management initiated a process to review and redesign the Agency's business model to address systemic challenges, radically improve service delivery and build internal capability to provide excellent service delivery to government with minimal or no reliance on service providers, especially for high-security and critical services.

The business model process was also triggered by Proclamation 47 of 2014, which transferred the SITA shareholder powers and functions from Minister of Public Service and Administration (MPSA) to Minister of Telecommunications and Postal Services (MTPS). This resulted in SOC rationalisation which seeks primarily to ensure that there is an alignment of SOCs at all spheres of government, to satisfy the developmental objectives and aspirations of South Africa. This process intends to establish two entities, i.e. the infrastructure company and the ICT services company. This presents SITA with the opportunity to position itself within the shareholder's vision of creating an ICT services company.

The figure below provides a matrix of the appropriate delivery model of each product and service as defined in the service catalogue. The vertical axis of the matrix relates to strategic importance to SITA (from low to high) and the horizontal axis relates to the operational responsibility of partners (from none to full).

SERVICES ARE MAPPED ON A MATRIX OF STRATEGIC IMPORTANCE VERSUS OPERATIONAL RESPONSIBILITY TO DETERMINE THE DELIVERY MODEL				
DELIVERY MODEL MATRIX				
Strategic importance of service line		“Fully in-house” SITA has full accountability for strategy & plan, design & optimise, build & operate service using internal employees	“Partner delivery or automation” SITA remains accountable for strategy & plan and design & optimise oversight but alternative delivery models are used for day-to-day operation	“Full transfer to partner” SITA transfers full accountability for the service to a partner
	High	<b>IT services:</b> <ul style="list-style-type: none"> <li>Architecture</li> <li>Research</li> <li>Standards</li> <li>Security</li> <li>Service Management</li> <li>Hosting</li> <li>Data Centre facilities</li> <li>End User computing- High Risk</li> <li>App Maintenance- High Risk</li> </ul> <b>Procurement services:</b> <ul style="list-style-type: none"> <li>Automated procurement platform</li> <li>Strategic sourcing</li> <li>Demand management &amp; supply intelligence</li> </ul>	<b>SITA and partner share responsibility for day-to-day operations (project dependent) :</b> <ul style="list-style-type: none"> <li>App Development</li> <li>Training</li> </ul> <b>Partner fully responsible for day-to-day operations:</b> <ul style="list-style-type: none"> <li>WAN</li> <li>App Maintenance- Low Risk</li> <li>End User Computing- Low Risk</li> </ul> <b>Automation:</b> <ul style="list-style-type: none"> <li>Tender administration</li> <li>Commodities sourcing</li> </ul>	<b>No services</b> , as SITA needs to retain full accountability for services that are high in strategic importance
	Low	<b>No services</b> , as SITA should not retain full accountability and carry resources for services that are low in strategic importance	<b>No services</b> , as SITA should not retain accountability and carry resources for services that are low in strategic importance	<b>IT services<sup>1</sup>:</b> <ul style="list-style-type: none"> <li>Bulk Printing</li> <li>Business Process Outsourcing</li> </ul>
		None	Partial	Full
Operational responsibility of partners				
<sup>1</sup> Transfer to other government entities that are better positioned to deliver the service to government				

Figure 11 - Service delivery model matrix

The service delivery model matrix places a strong emphasis on thought leadership, with a mix of in-house and alternative delivery models. This indicates that SITA intends to build internal capability to deliver on IT consulting services (architecture, research, security and standards), core IT services (hosting, service management, data centre facilities, and application management and end-user computing for high-risk environments) and strategic procurement.

The matrix also shows that, for business efficiency, SITA should adopt three distinct alternative delivery models:

- (a) **SITA and partner share responsibility for day-to-day operations (project dependent):** SITA provides strategy and plan, and design-and-optimize services, and also retains some core operational capabilities. This enables SITA to retain operational control, but to partner with the industry to provide additional operational resources. This category includes application development and training, amongst others.

- (b) **Partner fully responsible for day-to-day operations:** SITA provides strategy and plan, and design-and-optimize services, but partners with vendors to provide operational services for services requiring no proprietary development. This is the delivery mechanism for Wide Area Network, application maintenance (low-risk environments) and end-user computing (low-risk environments).
- (c) **Automation:** SITA will implement an automated platform for tender administration and commodity sourcing requiring no operational capability.

Bulk printing and business process outsourcing services will be transferred to other government departments for delivery since they are not of high strategic importance to SITA. These services will be transferred systematically to limit the impact on revenue, clients and employees.

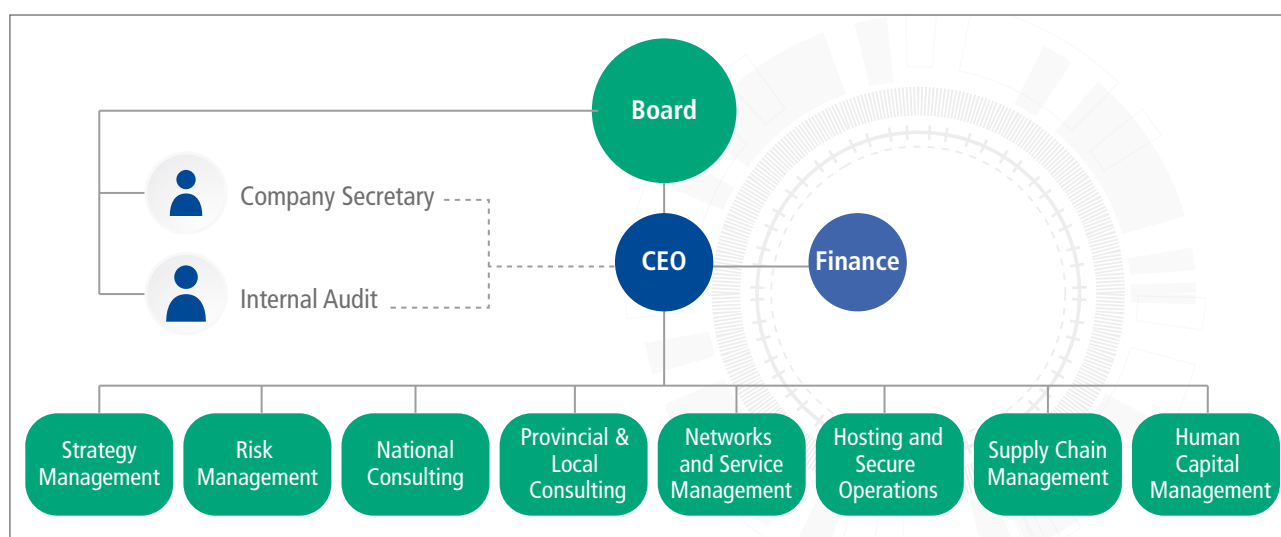
Successful implementation of the business model will transform SITA to achieve, among others, the following broad goals:

- (a) improving service delivery and customer satisfaction levels;
- (b) showing real value to government and the country's development, as this will be SITA's collective legacy;
- (c) ensuring institutional improvements that will mend SITA's reputation so that the Agency is known as a clean SOE with strong internal controls;
- (d) developing SITAzens' talent and contributing to their growth as top-notch professionals;
- (e) growing the client base and internal resources to meet client demand, and providing innovative services;
- (f) establishing a SITA that becomes an IT centre of excellence, a driver of innovation and economic development in both the local market and international trade;
- (g) developing a SITA that changes its primary deliverable to the ecosystem in thought leadership and not necessarily technical operations;
- (h) building a capability that is neither public nor private sector but which has private-sector-calibre employees and can provide consultancy to government using effective service delivery matrices;
- (i) creates internal capacity in government and right collaborations with private sector to generate national ICT capacity that can improve society; and
- (j) a self-sustainable SITA that invests in its employees, infrastructure, technology and assets.

The organisational structure has been revised to align to the new business model and to support the implementation of the corporate strategy. The Agency has started to bolster its internal environment to respond adequately to prominent and prevailing service delivery issues facing the organisation and to respond better to the needs of key stakeholders.



The organisational structure is depicted below:



**Figure 12 - Organisational structure**

The national consulting environment is client facing, with the focus on end-to-end-service delivery and a broad understanding of our business and the customers we serve and the capabilities to propose and/or develop solutions with flexibility and speed. The provinces will also have a more focused and localised approach, focusing on rapid technological advancement and increasing flexibility and speed to ensure relevant and needed services.

The structure also provides a split between in-house services as these are different areas of specialty, one focusing on delivering the eGovernment vision and cloud computing, and the other on delivering the SA Connect vision and operating a fully-fledged service management centre that monitors delivery against Service Level Agreements and provides business intelligence to optimise service delivery.

The organisation aligned its existing resources to the new business model while capacitating the macro-structure for greater stability at executive levels. In particular, the introduction of new capabilities such as a consulting arm to better fulfil its core mandate and serve clients in local, provincial and national government has resulted in career growth opportunities for employees, including radical talent management initiatives.

In addition, the organisation design project is being implemented to develop the organisation micro-structure to support the macrostructure. The project includes extensive evaluation of business processes, competency assessments, job profiling, and migration and placement of staff.

The SITA Board continued to provide support to leadership in the extensive forensic investigations conducted to root out corruption and curtail fraudulent activities. The initiatives implemented in the year under review provided a compelling argument for zero tolerance to underhanded activities and to eliminating from the system any contravention of good governance practices.

## 2.2.2 Key policy developments and legislative changes

There were no significant changes in SITA legislation and other mandates.

## 2.2.3 Strategic outcome-oriented goals

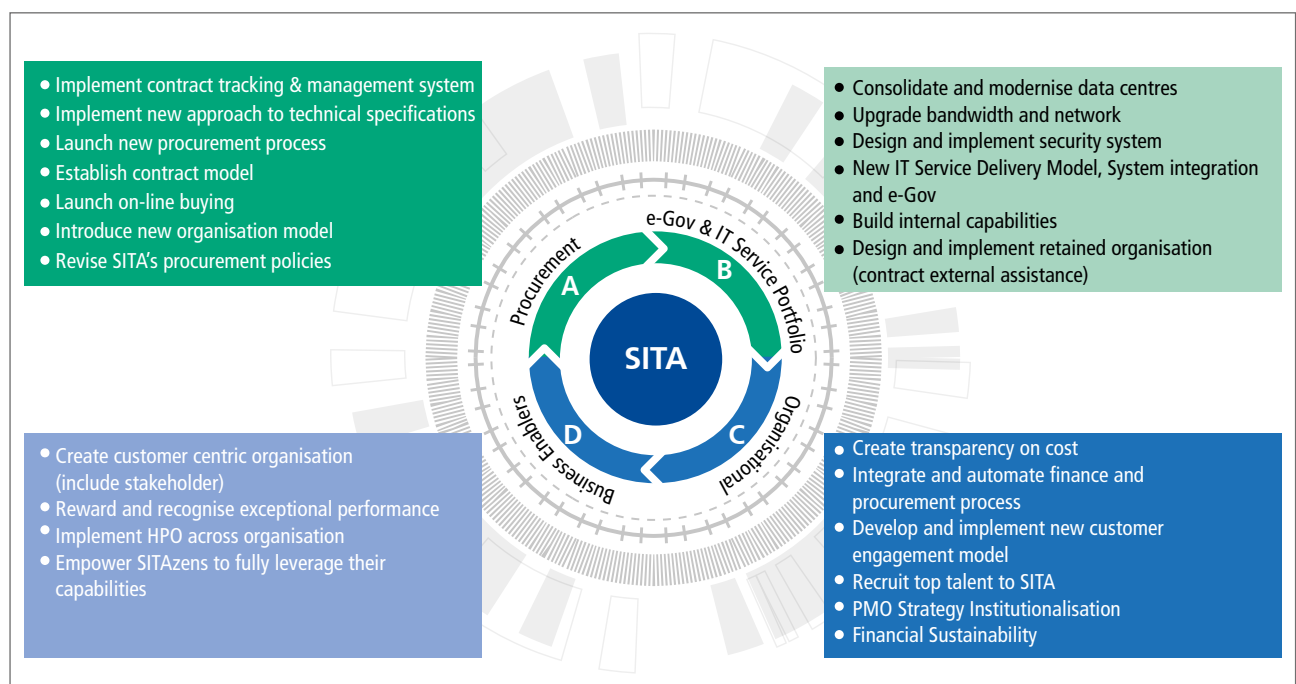
SITA has defined six strategic outcome-oriented goals to be achieved within the medium-term strategic cycle. They are supported by 13 strategic objectives to allow implementation across SITA.

The strategic goals are depicted in the diagram below.



**Figure 13 – Strategic programmes and outcome-oriented goals**

In the fourth year of its five-year strategy, SITA continued to implement its transformation journey (23 strategic initiatives across four key categories, namely procurement, eGov and IT service portfolio, organisational health and business enablers). This included an aggressive transformation programme aimed at rapidly stabilising the organisation, bolstering its internal capabilities, modernising its SCM arm, providing eGovernment services to transform the government landscape, introducing key enablers such as new business models, and driving cost-containment, which support overall growth and sustainability of the organisation. The strategic initiatives are depicted in the diagram below.



**Figure 14 – Strategic initiatives**

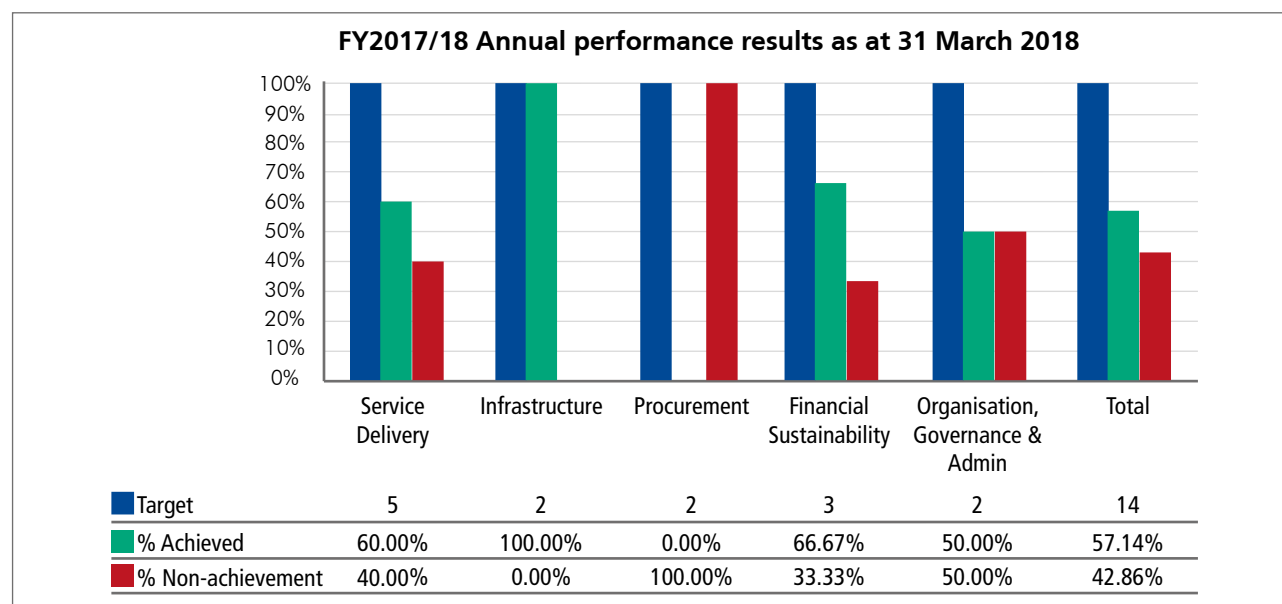
### 3. PROGRAMME PERFORMANCE INFORMATION

The 2017/18 financial year represented a change in posture for SITA as it realigned its business model and primary deliverables to the ecosystem that shares and delivers on thought leadership in IT, with the immediate benefit of enabling government to be more effective in the delivery of public services.

The business model was implemented during the financial year and was a vehicle to refocus SITA to enable government to better serve the nation.

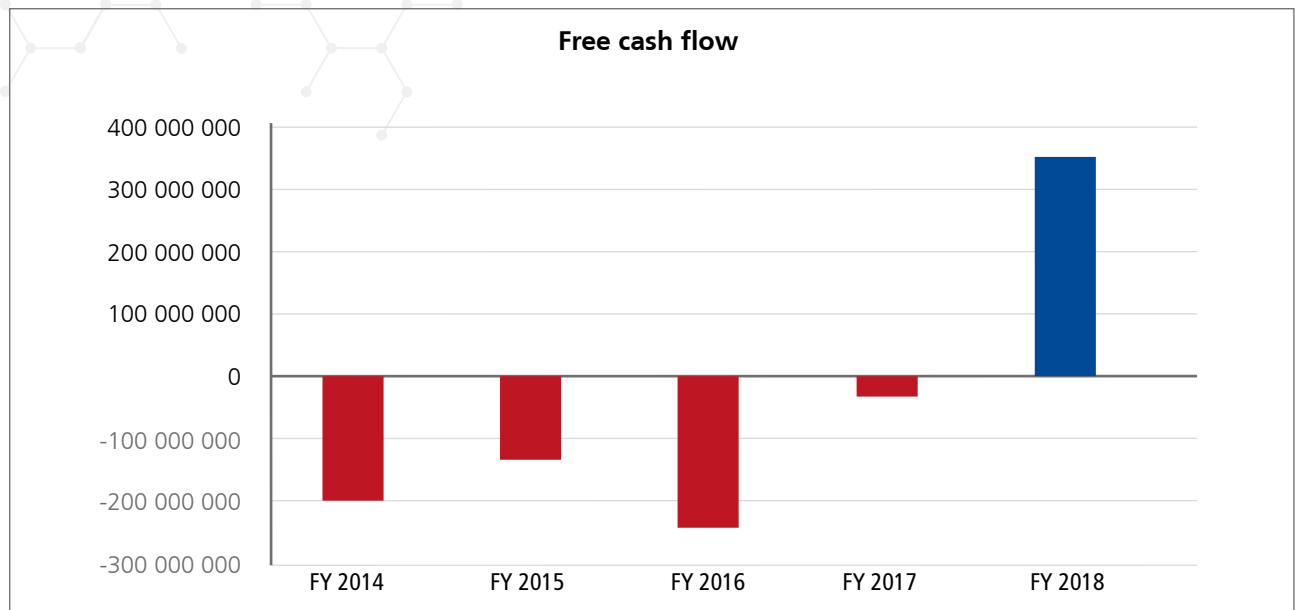
To drive change, key strategic projects were introduced that were not included in the 2017/18 APP, but were managed through operational business plans. This has resulted in improved service delivery with visible achievements and notably increased demand for services.

The Agency achieved an overall audited performance of 57.14% on its APP targets. The highest-performing programmes are customer-facing programmes (service delivery and infrastructure) and the financial sustainability programme.



**Figure 15 - APP annual performance per programme at 31 March 2018**

For the first time in five years, SITA produced a positive free cash flow, which represents its ability to fund operations and capital requirements from cash generated, without utilising reserves. This proves that efforts to stabilise and change the direction of SITA are bearing fruit. There are now cash resources available to fund certain capital infrastructure requirements, which will generate positive growth.



**Figure 16 – Free cash flow**

The lowest performance was recorded for the following key performance measures:

- (a) **Customer satisfaction level:** The customer satisfaction score was lower than targeted, but there is an improvement when compared with the 2016/17 customer satisfaction result. Customers have acknowledged improvement in services delivery through the new business model and are beginning to see SITA as a trusted IT partner.
- (b) **Performance against measured contracted SLA metrics:** The SLA metric is an indication of how customers experience service delivery. This indicator performed well in previous years, but the customer experience was not improving. Management has since elevated and increased performance on the key sub-metrics (response and resolve), which provides a true reflection of the service performance, hence the decline. SITA has embedded service management in all services and has introduced improvement processes to ensure continuous service improvement.
- (c) **ICT acquisition spend through SMME entities:** The Agency has implemented process enablers to attain the SMME target and has leveraged on the requirements of the PPPFA. It has also trained SMMEs and conducted awareness roadshows to enable them to qualify for the RFA to conduct business. These attempts have failed as a result of the current corrupt and unethical behaviour internally at SITA and externally in the industry.
- (d) **Tender awards completed within the targeted turnaround time:** The SCM system has not performed well, including in previous financial years. There are challenges with the cancellation of tenders and with the management of SCM, which led to assistance being provided to the SCM function to augment capacity and impart technical expertise. These attempts also failed. Going forward, the gCommerce platform will improve procurement turnaround times through automation of tenders.
- (e) **Succession planning:** The organisation set aside funds to train employees to ensure that there is a minimum cover ratio of 1:2 on critical positions, but this was not used as desired. There have also been several corruption-related dismissals. The organisation is reviewing and redesigning processes, which requires development of skills in line with the new business model and customer expectations.

The tables below provide a summary of corporate annual performance related to APP performance indicators.

### 3.1 PROGRAMME 1: SERVICE DELIVERY

The purpose of this programme is to provide high-quality IT services to enable government to deliver efficient and convenient services to citizens through the use of ICT.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
<b>C1: Enhance efficiency of government business processes</b>	<b>M4:</b> Number of eGovernment services deployed	28 e-services implemented	20 e-services deployed	<b>Achieved</b> 23 e-services deployed	3	Additional services were developed to meet identified clients needs. These were mostly e-permits for the export and import of wild animals and birds for the Eastern Cape DESTEA and Free State DESTEA.
<b>C2: Improve security of government data assets</b>	<b>M5:</b> Level of maturity of ICT security	Implemented end protection and threat management security controls	Attain information security maturity level 2 as per generic security controls model	<b>Achieved</b> Attained information security maturity level 2	None	No variance. Security Maturity Level 2 as per generic security controls model was attained as planned.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
C3: Transform SITA into customer-centric organisation	M6: Customer satisfaction level	49% customer satisfaction level	70% customer satisfaction level	<b>Not achieved</b> 51%	-19%	The expected improvements in the customer service levels were premised largely on the implementation of the new business model and related changes in the operating model, culture and skills sets. This would have required robust and practical change management and extensive involvement of executive line management to drive changes through operational leadership. All these proved to be a challenge and the change management and executive management involvement in operations were affected by the need to focus on the clean-up operation, whose benefits will most certainly be felt in later years.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
	M7: % performance against measured contracted SLA metrics	95.6% level performance against measured contracted SLA metrics	98% level performance against measured contracted SLA metrics	<b>Not achieved</b> 96.56%	-1.44%	The target of 98% was 3% points higher than the old target of 95% that had been in place for at least the last 5 years. In order to achieve the new target, a number of changes were required in skills sets, processes and technologies used to draw and analyse systems performance data and improve service levels accordingly. The required changes were more intensive than anticipated given the base and therefore, the organization missed its targets in the first two quarters of the financial year whilst the changes were being implemented. This being a cumulative target meant that whilst the third and fourth quarter targets were improved, the year end target could not be achieved because of the performance in the first half of the year.
C4: Achieve growth in government market share	M8: % increase in government market share	10.8% increase in government market share (increase on 2014/15)	10% increase in government market share on designated services (increase on 2016/17 target)	<b>Achieved</b> 10.7%	0.7%	Improved customer relationships and improved value proposition through our transformation programmes.



### 3.2 PROGRAMME 2: INFRASTRUCTURE

The purpose of this programme is to optimise the provision of SITA's IT infrastructure services in order to increase availability, flexibility, scalability, predictability and security.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
<b>C5: Consolidate and modernise data centres</b>	<b>M9:</b> Number of government private cloud services available	-	1 government private cloud service available	<b>Achieved</b> 13 government private cloud services deployed.	12	SITA implemented various activities to drive implementation of GPCE and the take-on of clients onto the designated infrastructure escalated significantly.
<b>C6: Improvement of ICT infrastructure: Disaster Recovery (DR)</b>	<b>M10:</b> Number of clients provided with disaster recovery services	-	Disaster recovery services provided to 2 clients	<b>Achieved</b> Disaster recovery services provided to 4 clients	2	Due to client demand

### 3.3 PROGRAMME 3: PROCUREMENT

The purpose of this programme is to address all issues relating to delayed procurement turnaround times, operational inefficiencies, removing customer pain points, cost ineffectiveness and transforming the procurement function.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
<b>C7: Drive economic ICT transformation agenda</b>	<b>M11:</b> % of ICT acquisition spend through SMME entities	20.03% of ICT acquisition spend through SMME entities	30% of ICT acquisition spend through SMME entities	<b>Not achieved</b> 14.22%	-15.78%	SITA created an SMME and ESD policy for the first time during FY2016/17. This policy was supported by additional work in the commodity strategy and ESD strategy whose implementation would have created commodity and general spend spaces for SMMEs.

Strategic objective	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
P1: Improve procurement operational efficiency to enable service delivery	M12: % of tender awards completed within the targeted turnaround time	34% of tender awards completed within the targeted turnaround time	80% of tender awards completed within the targeted turnaround time	<b>Not achieved</b> 28.94%	51.06%	<p>The target was premised on the fact that the lines of business were ready in terms of demand planning and operational contract management to support the programs however; this was not the case, reflecting that there was a need to drive extensive change management within the organization.</p> <p>Late design and implementation of the new supply chain operating model and delayed implementation of supply chain automation for efficient use of resources and improvement of turnaround times. This was exacerbated by the investigations that were conducted in the supply chain environment, which resulted in disturbances within the environment.</p>

### 3.4 PROGRAMME 4: FINANCIAL SUSTAINABILITY

The purpose of this programme is to ensure an effective and efficient financial management and ensure financial growth and sustainability.

Strategic Objectives	Performance Indicator	Actual Achievement 2016/17	Planned Target 2017/18	Actual Achievement 2017/18	Deviation from Planned Target 2017/18	Reasons for Variance
F1: Achieve sound financial management	M1: % EBIT*	2.75%	R139m	<b>Achieved</b> R263m	R124m	Strict cost-containment measures and improved contract negotiations that yielded positive results.
	M2: % net collection rate		80%	<b>Achieved</b> 94%	14%	Implementation of the electronic document delivery (EDD) system, which ensures that customers receive their invoices within the shortest time after being raised.
	M3: % gross margin*	-18.5%	R1326m	<b>Not achieved</b> R1262m	(R64m)	Non-achievement of services revenue targets as a result of unapproved labour tariffs.

NOTE \*Due to the uncertainty surrounding the achievement of revenue budgets, the targets for EBIT and gross margin are denominated in Rm for this financial year to protect the cash-generating profitability of the business. The intention is to grow sustainable revenue to enable us to revert to percentage measurements in the outer years.

### 3.5 PROGRAMME 5: ORGANISATION, GOVERNANCE AND ADMINISTRATION

The purpose of this programme is to build and maintain organisational capability to enable SITA to achieve its strategic imperatives.

Strategic objectivea	Performance indicator	Actual achievement 2016/17	Planned target 2017/18	Actual achievement 2017/18	Deviation from planned target 2017/18	Reasons for variance
L1: Build a healthy and high-performing organisation	M13: % of critical positions with minimum cover ratio of 1:2	13% of the talent pool was achieved	30% of critical positions with minimum cover ratio of 1:2	<b>Not achieved</b> 12.5%	-17.5%	Delays in finalising competency assessments and development plans and programmes for potential candidates.
	M14: Employee satisfaction level		60% employee satisfaction level	<b>Achieved</b> 67.25%	7.25%	Due to favourable scores obtained in the areas of strategy and change management as a result of aggressive engagements and communication on the new business model.

Legend: M = Measure | C = Customer | P = Process | L = Learning | F = Financial

## 4. PERFORMANCE LINKS TO FINANCIAL RESOURCES

### 4.1 SUMMARY OF REVENUE COLLECTION

This table below reflects revenue billed as per the SITA service catalogue.

Sources of revenue	2017/18			2016/17		
	Actual	Budget	Over-/ (under-) billed	Actual	Budget	Over-/ (under-) billed
	R'000	R'000	R'000	R'000	R'000	R'000
Commercial printing	28,262	21,729	6,532	10,550	16,632	(6,082)
ICT advisory services	20,520	43,980	(23,460)	20,046	32,081	(12,035)
Information management	53,591	55,456	(1,864)	49,463	56,063	(6,600)
Managed applications	723,054	854,082	(131,029)	669,305	750,144	(80,839)
Managed desktop	878,488	820,461	58,027	935,382	1,082,125	(146,743)
Managed infrastructure	2,444,343	3,211,700	(767,356)	2,229,929	2,483,482	(253,553)
Project management	10,551	13,151	(2,600)	29,910	27,656	2,254
Requesting and fulfilment	1,420,371	1,106,053	326,807	1,483,252	1,601,594	(118,342)
Security management	36,520	36,910	(390)	36,286	54,261	(17,975)
Service management centre	84,581	87,046	(2,465)	141,960	151,234	(9,274)
Training	41,596	49,961	(8,365)	39,470	47,282	(7,812)
Solution development	83,605	60,115	23,489	35,240	92895	(57,655)
<b>TOTAL</b>	<b>5,825,482</b>	<b>6,360,644</b>	<b>(522,674)</b>	<b>5,680,793</b>	<b>6,395,449</b>	<b>(714,656)</b>

4.2 SUMMARY EXPENDITURE BY PROGRAMME

The table below provides summary details of payments per programme for the financial year under review.

Programme name	2017/18		
	Budget	Actual	(Over-)/under expenditure
Programme 1: Service Delivery	3,152,226	3,162,220	(9,994)
Programme 2: Infrastructure	2,345,339	1,876,412	468,927
Programme 3: Procurement	92,630	142,825	(50,195)
Programme 4: Financial Stability	287,378	192,158	95,220
Programme 5: Organisation, Governance and Administration	374,751	251,031	123,720
<b>TOTAL</b>	<b>6,252,324</b>	<b>5,624,646</b>	<b>627,678</b>

### 4.3 CAPITAL INVESTMENT, MAINTENANCE AND ASSET MANAGEMENT PLAN

The table below provides summary details of capital investment and maintenance expenditure for the financial year under review.

Sources of revenue	2017/18			2016/17		
	Budget	Actual	Over-/ (under-) billed	Budget	Actual	Over-/ (under-) billed
	R'000	R'000	R'000	R'000	R'000	R'000
Infrastructure: network	152,700	1,631	151,069	76,169	51,912	24,257
Infrastructure: switching centres	21,821	-	21,821	12,300	697	11,603
Infrastructure: data centres	58,756	60,509	(1,753)	134,021	33,109	100,912
Infrastructure: modernisation	148,014	29,827	118,187	66,750	13,333	53,417
Solution development: Transversal	-	-	-	53,605	185,000	(131,395)
Solution development: customer unique	-	-	-	1,504	-	1,504
Solution development: modernisation	-	-	-	38,256	3,190	35,066
Solution development: integration	45,127	27,196	17,931	-	-	-
Solution development: R&D	-	-	-	5,000	4,023	977
IT security	19,300	-	19,300	29,700	24,629	5,071
Service Management: Contact Centres	17,491	11,665	5,827	5,365	-	5,365
Service Management: Decentralised Support and 1st line support	9,500	2,294	7,206	3,150	707	2,443
Operational Support: Internal IT	70,941	8,797	62,144	47,547	2,452	45,095
Operational Support: Facilities	18,850	428	18,423	5,023	441	4,582
Operational Support: Production Toolsets	-	-	-	1,800	270	1,530
Operational Support: Integrated Security	37,500	29	37,471	16,980	1,569	15,411
<b>TOTAL</b>	<b>600,000</b>	<b>142,376</b>	<b>457,624</b>	<b>497,170</b>	<b>321,332</b>	<b>175,838</b>



The table below provides details of capital expenditure in line with the budget for the year under review.

Infrastructure projects	Actual	Budget	Over-/ (under-) expenditure
	R'000	R'000	R'000
Infrastructure: network	1,631	152,700	151,069
Infrastructure: switching centres	-	21,821	21,821
Infrastructure: data centres	60,509	58,756	(1,753)
Infrastructure: modernisation	29,827	148,014	118,187
Solution development: integration	27,196	45,127	17,931
IT security	-	19,300	19,300
Service management: contact centres	11,665	17,491	5,827
Service management: decentralised support and first line support	2,294	9,500	7,206
Operational support: internal IT	8,797	70,941	62,144
Operational support: facilities	428	18,850	18,423
Operational support: integrated security	29	37,500	37,471
<b>TOTAL</b>	<b>142,376</b>	<b>600,000</b>	<b>457,624</b>



PART C

GOVERNANCE

# 1. Introduction

Corporate governance embodies processes and systems by which public entities are directed, controlled and held to account. In addition to legislative requirements based on a public entity's enabling legislation and the Companies Act, corporate governance for a public entity is applied through the precepts of the PFMA and run together with the Protocol on Corporate Governance, which encapsulates the principles contained in the King III and IV Reports on Corporate Governance of 2009 and 2016, respectively.

Parliament, the Executive and the Board of the public entity are responsible for corporate governance.

## 2. PORTFOLIO COMMITTEES

### 2.1 COMPOSITION OF THE PARLIAMENTARY PORTFOLIO COMMITTEE

As part of its governance endeavour and oversight, SITA briefs Parliament on its legislative mandate and related activities, and responds to parliamentary questions. The Portfolio Committee on Telecommunications and Postal Services oversees the activities of SITA.

### 2.2 PORTFOLIO COMMITTEE ENGAGEMENTS WITH SITA

- (a) In the 2017/18 financial year, SITA briefed the Portfolio Committee on Telecommunications and Postal Services on the following:
  - (i) 2015-2019 strategic plan amendments and 2017/18 APP;
  - (ii) quarterly performance reports;
  - (iii) SITA 2016/17 annual report;
  - (iv) progress on SA Connect broadband rollout; and
  - (v) services rendered to government departments.
- (b) During the period under review, SITA also briefed the various portfolio committees, namely:
  - (i) Portfolio Committee on Higher Education and Training on the eradication of the backlog experienced by the National Certificates (Vocational) - NC(V) - and on the examination certification backlog challenges and process;
  - (ii) Portfolio Committee on Home Affairs on service delivery challenges and performance of SITA networks to DHA;
  - (iii) Portfolio Committee on Defence and Military Veterans on the development of a credible military veterans database and the relocation of the call centre to defence headquarters;
  - (iv) Portfolio Committee on Public Service and Administration, Performance Monitoring and Evaluation on eGovernance, integrated financial management system replacing PERSAL, aging IT government systems; and
  - (v) Standing Committee on Public Accounts on:
    - SITA's involvement in the Remand Detainee Offender Management System and Integrated Inmate Management System projects;
    - responding to matters related to the integrated financial management system;
    - fruitless and irregular expenditure for SAPS related to the Rofin and Forensic Data Analysts contracts.

### 3. EXECUTIVE AUTHORITY

All reports prescribed by the PFMA and Treasury Regulations were submitted to the Executive Authority during the period under review. Additional reports submitted related to the elimination of the NC(V) backlog and request to approve the new SITA service delivery tariffs.

### 4. ACCOUNTING AUTHORITY

#### 4.1 SITA BOARD OF DIRECTORS

The Board is the Accounting Authority, as defined by the PFMA. Board members need to define strategy, provide direction and establish the ethics and values that will influence and guide practices and behaviours to achieve sustainable performance. The Board's role and responsibilities are provided for in:

- (a) State Information Technology Act, as amended
- (b) Public Finance Management Act;
- (c) National Treasury Regulations issued in terms of the PFMA (March 2005);
- (d) Companies Act;
- (e) SITA Board charter approved on 28 January 2016;
- (f) Memorandum of Incorporation (Mol); and
- (g) King III and IV Reports on Governance for South Africa (King Reports).

#### 4.2 ROLE OF THE BOARD

The Board has determined its main function and responsibility as adding significant value to the Agency by:

- (a) retaining full and effective control over the Agency and providing effective leadership in the best interest of the agency;
- (b) informing and approving the strategies and strategic objectives of the Agency and ensuring that strategy, risk, performance and sustainability considerations are effectively integrated and appropriately balanced;
- (c) determining and setting the tone of Agency values, including principles of ethical business practice and the requirement of being a responsible corporate citizen;
- (d) bringing independent, informed and effective judgment to bear on material decisions of the Agency, including policies, the framework of delegated authority, the appointment and removal of the Managing Director (CEO), approval of the appointment or removal of executive managers, capital expenditure, transactions and consolidated agency budgets;
- (e) satisfying itself that the Agency is governed effectively in accordance with corporate governance best practice, including risk management, legal compliance management, appropriate and relevant non-binding industry rules, codes and standards, and internal control systems to
  - (vi) maximise sustainable returns,
  - (i) safeguard the people, assets and reputation of the Agency, and
  - (ii) ensure compliance with applicable laws and regulations;
- (f) monitoring, through Board committees and executive management, the implementation of the Board's strategies, decisions, values and policies, employing an approved governance framework that provides a structured approach to governance, reporting, risk management, information management (including Information Technology) and risk-based auditing;

- (g) ensuring that the Agency has effective Board committees as required by the Companies Act, Mol and recommended by best corporate governance practice that the company chooses to apply;
- (h) ensuring that there is an effective risk-based internal audit;
- (i) governing the disclosure control processes of the Agency, including ensuring the integrity of the Agency's integrated report and reporting on the effectiveness of the Agency's system of internal controls;
- (j) ensuring that disputes are resolved as effectively, efficiently and expeditiously as possible; and
- (k) monitoring the relationship between management and stakeholders of the Agency.

### 4.3 BOARD CHARTER

The SITA Board charter is informed, inter alia, by the Constitution of the Republic of South Africa, the SITA Act and Regulations, the PFMA and Regulations, the Companies Act and Regulations, the King Reports on Corporate Governance, and best practice in the management of boards of directors. Its departure point is that governance in any context reflects the value system of the society in which it operates. In the South African context, this means collectiveness over individualism, consensus rather than dissension, humility instead of criticism, and inclusiveness as opposed to prejudice. It acknowledges that corporate governance thrives on co-existence, consultation, and high standards of ethics and trust. It further recognises that corporate governance is essentially about leadership – leadership for efficiency and for probity, with responsibility that is both transparent and accountable. These are the ideals that inform the SITA Board charter.

The charter begins by acknowledging the constitutional and legislative roots of SITA governance. This is followed by a brief overview of the principles of corporate governance and detailing of the powers, functions and responsibilities of the Board and the directors, including delegation of authority. The charter then deals with the constitution, responsibilities and management of the Board and Board committees, the disclosure of directors' interest in the business of SITA, and the need to assess the performance of individual directors and directors as a collective. It provides for alternative dispute resolution, and highlights the nature and importance of risk management, internal audit, Information Technology, compliance and the management of stakeholder relationships. The charter also recognises that directors are entitled to have access to members of the SITA Company Secretariat and to secure independent professional advice at the company's expense. The charter concludes by recognising the pivotal role of the Company Secretary in the administration of the company, as well as the non-static nature of its prescripts. There has been material compliance with the provisions of the charter.

### 4.4 COMPOSITION OF THE BOARD

Section 8(1) of the SITA Act provides that SITA will be governed and controlled by a Board of Directors appointed by the Minister after consultation with Cabinet. According to Section 10(1B) (a), the Minister may appoint an alternative member for each non-executive member of the Board, other than the chairperson. In terms of Section 10(1) of the SITA Act, the Board consists of a maximum of 14 members appointed in the following capacities:

- (a) a non-executive chairperson;
- (b) executive members, one of whom must be designated as the managing director;
- (c) additional non-executive members, consisting of:
  - (i) one person representing the DPSA;
  - (ii) one person representing National Treasury
  - (iii) one legal expert; and
  - (iv) other persons on the grounds of their expertise.

It also states that the majority of Board members must be non-executive members and that then Minister must designate one of these non-executive members as the deputy chairperson to step in, should the chairperson be unable to perform his/her functions. The table below provides details of the Board of Directors for the period under review.

Name	Designation (in terms of the public entity board structure)	Date of appointment	Date resigned/ term expired	Other committees/Board
<b>Mr ZD Nomvete</b>	Chairman	18 September 2013 and appointed Acting Chairman from 21 November 2015 – 11 December 2016 Reappointed on 12 December 2016		Board
<b>Dr SJ Mohapi</b>	Managing director (CEO)	1 April 2015		<ul style="list-style-type: none"> <li>• Ex-officio on the following Board committees:</li> <li>• Audit, Risk and Compliance Committee</li> <li>• Human Resources and Remuneration Committee</li> <li>• Social and Ethics Committee</li> <li>• ICT, Research, Development and Innovation Committee</li> <li>• Board Procurement Committee</li> </ul>
<b>Ms SH Chaba</b>	Non-executive director	18 September 2013 Reappointed on 12 December 2016		<ul style="list-style-type: none"> <li>• Chairperson of Human Resources and Remuneration Committee</li> <li>• Social and Ethics Committee</li> </ul>
<b>Mrs N Ehrens</b>	Non-executive director	12 December 2016		<ul style="list-style-type: none"> <li>• ICT, Research, Development and Innovation Committee</li> <li>• Human Resources and Remuneration Committee</li> </ul>
<b>Ms N Magubane</b>	Non-executive director	12 December 2016		<ul style="list-style-type: none"> <li>• Board Procurement Committee</li> <li>• Human Resources and Remuneration Committee</li> </ul>
<b>Adv N Mahlangu</b>	Non-executive director	12 December 2016		<ul style="list-style-type: none"> <li>• Board Procurement Committee</li> <li>• Human Resources and Remuneration Committee</li> </ul>
<b>Dr VF Mahlali</b>	Non-executive director	12 December 2016	26 March 2018	<ul style="list-style-type: none"> <li>• Chairperson of the ICT, Research, Development and Innovation Committee</li> <li>• Social and Ethics Committee</li> </ul>
<b>Ms P Matlala</b>	Non-executive director	12 December 2016		<ul style="list-style-type: none"> <li>• Board Procurement Committee</li> <li>• Human Resources and Remuneration Committee</li> </ul>

Name	Designation (in terms of the public entity board structure)	Date of appointment	Date resigned/ term expired	Other committees/Board
<b>Mr JS Mngomezulu</b>	Non-executive director	18 September 2013 Reappointed on 12 December 2016		<ul style="list-style-type: none"> <li>Chairperson of the Board Procurement Committee</li> <li>Social and Ethics Committee</li> </ul>
<b>Mr NW Mudau</b>	Non-executive director	18 September 2013 Reappointed on 12 December 2016		<ul style="list-style-type: none"> <li>Audit, Risk and Compliance Committee</li> <li>ICT, Research, Development and Innovation Committee</li> </ul>
<b>Mr M Ndlangisa</b>	Deputy CEO	1 June 2014	31 May 2017	<ul style="list-style-type: none"> <li>Ex-officio on the following Board committees:               <ul style="list-style-type: none"> <li>Audit, Risk and Compliance Committee</li> <li>Human Resources and Remuneration Committee</li> <li>Social and Ethics Committee</li> </ul> </li> <li>ICT, Research, Development and Innovation Committee</li> <li>Board Procurement Committee</li> </ul>
<b>Ms RC Rasikhinye</b>	Chief financial officer	9 November 2015		<ul style="list-style-type: none"> <li>Ex-officio on the following Board committees:               <ul style="list-style-type: none"> <li>Audit, Risk and Compliance Committee</li> <li>Human Resources and Remuneration Committee</li> <li>Social and Ethics Committee</li> </ul> </li> <li>ICT, Research, Development and Innovation Committee</li> <li>Board Procurement Committee</li> </ul>
<b>Mr MT Sadik</b>	Non-executive director	12 December 2016		<ul style="list-style-type: none"> <li>Chairperson of the Social and Ethics Committee</li> <li>Audit, Risk and Compliance Committee</li> </ul>
<b>Mr GA Victor</b>	Non-executive director	18 September 2013 Reappointed on 12 December 2016		<ul style="list-style-type: none"> <li>Chairperson of the Audit, Risk and Compliance Committee</li> <li>ICT, Research, Development and Innovation Committee</li> </ul>



## 4.5 BOARD AND BOARD COMMITTEES

To properly discharge its responsibilities and duties, the Board has delegated certain responsibilities to various Board committees. However, the creation of these committees does not reduce the directors' overall responsibilities.

- (a) During the period under review, the Board organised itself in terms of various committees.
- (b) Audit, Risk and Compliance Committee (ARCC);
- (c) Human Resources and Remuneration Committee (HR&Rem);
- (d) Social and Ethics Committee (SEC);
- (e) Board Procurement Committee (BPC); and

Information and Communication Technology Research, Development and Innovation Committee (ICTRDIC)

The table below provides details of the Board committee meetings for the year under review.

Members	Board	Special Board	ARC	HR& Rem	SEC	BPC	ICTRDIC	AGM	Strategy sessions	Board workshop	Board induction	Notes
<b>Number of meetings</b>	7	2	5	5	3	11	6	1	1	1	1	Not applicable
Mr ZD Nomvete	7	2						1	1	1	1	
Dr SJ Mohapi	7	1	5	2	3	8	4	1	1	1	1	
Ms SH Chaba	7	2		5	2			-	1	1	1	
Ms NN Ehrens	7	2		5			6	1	1	1	1	
Ms N Magubane	6	1		4		9		-	1	-	1	
Adv N Mahlangu	7	2		5		10		1	1	-	1	
Dr VF Mahlati	3	1			2		6	1	1	1	1	Resigned 26 March 2018
Ms P Matlala	7	2		4		10		1	1	1	1	Not applicable
Mr JS Mngomezulu	4	2			2	8		-	-	1	-	
Mr NW Mudau	5	2	4				2	1	1	1	1	
Mr M Ndlangisa	1	-	2	1		2	2	-	-	-	1	Term ended 31 May 2017
Ms RC Rasikhinya	7	2	5	4	3	10	5	1	1	1	1	Not applicable
Mr MT Sadik	5	2	3		3			1	1	1	1	
Mr G Victor	7	2	5					1	1	1	1	

## 4.6 REMUNERATION OF BOARD MEMBERS

Non-executive directors and committee members who are not employed by government receive board fees for their contributions to the Board and committees on which they serve. The board fees are determined by the shareholder, with the concurrence of the Minister of Finance.

Non-executive directors and committee members who are employed by government (National Treasury and DPSA) are not entitled to remuneration.

Executive directors are remunerated according to the policies of the organisation.

Full disclosure on the remuneration of non-executive and executive directors is included in the annex on financial statements.

## 4.7 BOARD PROFILES

### Mr Zukile Nomvete – Chairman SITA Board of Directors: 12 December 2016



**Certificate in Aeronautical Engineering (Ireland); Diploma and Licence in Aviation Maintenance (Ethiopia); Diploma as Flight Engineer B727 (Ethiopia); Management Advancement Programme (MAP) Wits**

Mr Nomvete currently serves as chairman of Hermes Apollo Engineering. He also serves on the board for the Foundation for Human Rights. He is a previous chairman of World Expo 2025 South Africa (NPC). He was previously a non-executive director at the South African Civil Aviation Authority and has served as its deputy chairman. He has also served as chairman of the board for Great North Transport, South African Rail Commuter Corporation (now PRASA), the Gauteng Tourism Authority, 1Time Airlines, Moving into Dance Mophathong and Pekwa Travel.

Other previous board engagements include director at the Airports Company of SA, Sun Air, the Tourism Business Council of SA, and One Connect. He previously served as executive director of Transnet responsible for South African Airways and its subsidiaries as well as Transnet's property portfolio, Propnet. Mr Nomvete was also a coordinator/project manager of government's 2010 FIFA World Cup project management unit and is an honorary colonel of the South African Air Force.

He has also worked at Metrorail and Thebe Investments.

### Dr Setumo Mohapi – Managing Director (CEO): 1 April 2015



**BSc in Electrical Engineering and Computer Science (MIT); Master's in Electrical Engineering (MIT); PhD in Electrical Engineering (Wits)**

Dr Mohapi is well versed in ICT, with a wealth of experience from various executive positions held in both public sector and private sector. He was the chief executive officer of Sentech SOC Limited between 1 November 2010 and March 2015. Prior to Sentech, he worked in various technology and business positions at Transtel, Internet Solutions, Neotel and Telkom.

**Mr Graeme Victor – Non-executive Board member: 12 December 2016**

**BSc in Engineering cum laude (Wits); MSc (Stanford), MEng (Stanford); B Com Hons (Unisa); CA (SA)**

Mr Victor is the Group CEO of Du Pont Telecom. Prior to that he was managing director at Tiscali World Online, Vodacom Service Provider and Computicket. Before his various stints in senior management, he was a partner at Kessel Feinstein (now Grant Thornton) auditors and founded Kessel Feinstein Consulting, growing it into a highly successful consulting business spanning more than 10 years.

**Ms Seadimo Chaba – Non-executive Board member: 12 December 2016**

**BA (Economics and Industrial Psychology); Postgraduate Diploma in Human Resources Management (Wits); Senior Executive Programme (Wits); Harvard Business School**

Ms Chaba runs a number of businesses and sits on a number of boards in the public and private sectors and on non-governmental organisations.

In the public sector, she has done work in the three spheres of government and in SOEs. In the private sector, she worked in the petrochemical, retail and financial industries.

She is a human resources expert and business strategist and has done consulting and advisory work in these areas as a board member and a practitioner.

She currently sits on the Safrican Insurance Pty Ltd, Alviva Holdings Pty Ltd and Kgosi Neighbourhood Foundation and is the specialist member of the Attorneys Fidelity Fund (AFF) REMCO.

## Mrs Nokuzola Ehrens – Non-executive Board member: 12 December 2016



**BSc in Mathematical Statistics and Applied Mathematics (University of Zululand, 1981); Diploma in Public Relations (Birman Business College, 1994); B Phil in Engineering Management (Stellenbosch University, 2012); Certificate in Financial Management for Non-Financial Managers (Unisa, 2004)**

Mrs Ehrens has 33 years' experience in the ICT industry, 11 years of which were in technical occupations – from programming to systems design and systems analysis.

She has been chief executive officer of the South African Women in the ICT Forum since July 2016. Prior to that, she was the chairperson of the forum. She is also chairperson of the ICT Sector Council.

Previously, she worked as a director of strategic business development at Ericsson (2002-2016), responsible for developing business and government relations for Ericsson in SA and supporting BBBEE compliance requirements.

Her earlier career was spent as family magazine programme presenter for SABC 1 (1990-1997).

She also worked in the following capacities: chairperson and executive director for Sondela TV (2001-2002); account executive for Nortel Networks (1999-2001); data analyst for Nedbank (1998-1999); business intelligence analyst for Avgold/Avmin (1997-1998); marketing and communications executive for the SABC Commercial Radio Service (1996-1997); business analyst at Edcon (1993-1996); and senior programmer at Tongaat Hulett Group (1982-1987).

## Mr Talib Sadik – Non-executive Board member: 12 December 2016



**Chartered Accountant, CA (SA) (1992); B Com (1987); Advanced Diploma in Accounting (1988); Certificate in Advanced Management Programme (1996)**

Mr Talib Sadik was the chief financial officer of Basil Read Holdings Limited, a civil engineering, building and construction company (2016-2017). Prior to that, he worked as consultant for PricewaterhouseCoopers Advisory Services and Harrison & White Group (2012-2016). He occupied executive and senior management roles as group CEO and group chief financial officer/financial director (2006-2012) at Denel; DeBeers Group Services (2004-2006); New Africa Investment Limited (1999-2001); Times Media Limited (1998); SABC (1993-1997); and lectured at the University of Natal (1992-1993).

He started his career as an article clerk at KPMG (1988-1991). He participated in the turnaround and growth of Denel from an insolvent, poorly governed company, with an annual loss of R1.6bn and cash-burn of R1.2bn, to a sustainable, profitable and cash-generative company with strong balance sheet, unqualified audit reports and legal compliance. He currently serves as non-executive director/member of the boards of private companies Sectional Poles and Sunspray. He was chairman of the St Katharine's Transformation Committee and member of the board of Foskor Limited (2002-2004), and African Media Entertainment Limited (2002-2004).

**Ms Phuti Matlala – Non-executive Board member: 12 December 2016**

**BA in Psychology (University of Limpopo, 1984); Honours in Clinical Psychology (University of Limpopo, 1985); Management Advancement Programme (Wits, 1995); Managing Economic Strategies (UWC, 2002) Senior Executive Development Programme (Gordon Institute of Business, 2003); Programme in Corporate Governance (Institute of Directors, 2004)**

Ms Matlala has worked in the private sector, Highveld Steel and Vanadium, Nestle SA in various capacities, including participating in mergers and acquisitions. She occupied various positions at SOEs such as Transnet and Eskom during the times of critical commercial transition. In government she worked at the DTI (trade policy) and Statistic South Africa.

Previous board engagements include Gauteng Gambling Board, Civil Aviation Authority and Mintek. She is currently a business consultant and has done work with government, ICT and financial services sectors.

**Ms Nelisiwe Magubane – Non-executive Board member: 12 December 2016**

**BSc in Electrical Engineering (University of Natal, 1991); Postgraduate Diploma in Business Administration (University of West London, 2001); Programme in Executive Leadership (Gordon Institute of Business, 2003)**

Ms Magubane is currently an independent adviser to the government of Tanzania on the design of its reverse auctions. She is also working with the TetraTech team in restructuring Tanesco, the Tanzanian electricity utility, as part of the Power Africa Transactions and Reform Programme (PATRP). She is a former Director-General of the Department of Energy (2009-2014). Prior to this she held various positions in the Department of Energy that included acting Director-General (2009); Deputy Director-General of Electricity and Nuclear Energy (2002-2009); and Chief Director of Electricity Promotion (2000-2002). She is currently a director at Matleng Energy Solutions and non-executive director of Eskom Holdings.

She is a founder and managing director of Magubane Isibonelo Projects (1996-2000). Prior to forming Magubane, she held various positions in Eskom, including senior engineer: systems operations (1995-1996) and area sales and customer service engineer (1993-1994). She started her career as a trainee engineer at Eskom (1990-1992). She has served as an advisory member of the board of Thebe Energy and Resources (2015); member of the board of Aurecon (2015); member of the Exco of the Engineering Council of South Africa (ECSA) (2012); chairperson of the audit and risk committee of ECSA (2012); non-executive member of the boards of the South African National Energy Research Institute (2004-2007); Electricity Distribution Industry Holdings (2003-2007); and National Electricity Regulator (2001-2004).

**Adv Ndumiso Mahlangu – Non-executive Board member: 12 December 2016**

**LLB (University of Pretoria, 2008)**

Advocate Mahlangu is an advocate of the High Court of South Africa, having been admitted in 2011. He started his legal career as candidate attorney at Ledwaba Mazwai Attorneys (2009-2010). While he was studying law at the University of Pretoria, he worked part-time as BEE analyst at BEE2Business (2005-2008). He is member of Appeals Advisory Committee of Gauteng Department of Health and also the chairperson of the board of Khulanathi Capital Holdings since 2014.



## Dr Vuyokazi Mahlati – Non-executive Board member: 12 December 2016 - 26 March 2018



**BSc (UWC, 1988); Masters of Science, Social Policy and Planning (London School of Economics, 1995); PhD in Public Development Management (Stellenbosch, 2011)**

Dr Mahlati is an entrepreneur and thought leader with experience in strategy, governance and regulatory matters. She is currently serving her second term as national planning commissioner for the Presidency of South Africa. As a social entrepreneur, she received recognition for the application of ICT in development, including a logistics app for farmers. She is currently the chairperson of the Tourism BBBEE Charter Council and global director of the International Women's Forum.

Dr Mahlati has provided Independent advisory services in the public and private sectors, including United Nations entities. She previously served as chairperson of the board of the South African Post Office (2006-2012), where, among other things, she grew revenue in postal digitalisation. She is the co-founder and director of Siyaya TV, with a broadcasting licence and successful digital terrestrial TV trials.

## Mr Walter Mudau (DPSA representative) – Non-executive Board member: 12 December 2016



**BSc Hons in Computer Science (University of Limpopo); UED or University Education Diploma (University of Venda); MBA (University of North West/ Potchefstroom University for CHE)**

Mr Mudau is a chief director at the DPSA responsible for ICT stakeholder management and ICT service management. He was initially director for the GITO Council Secretariat. Previously, he worked for more than 10 years at the University of Venda as Deputy Director: ICT Services, where he was also a part-time lecturer in statistics and business management. He also lectured in computer studies at a teacher training college and taught high-school mathematics.

## Mr Stadi Mngomezulu (National Treasury representative) – Non-executive Board member: 12 December 2016



**B Com (Vista University); Masters in Business Leadership (Unisa); Executive Development in Leadership (Gestalt International Study Centre, Massachusetts)**

Mr Stadi Mngomezulu has been the Deputy Director-General of Corporate Affairs at the National Treasury since 2011. Prior to this, he held various positions at National Treasury, including chief risk officer (2009-2011); chief financial officer (2006-2009); and director of financial administration (2002-2006). He is a former financial manager of the South African Civil Aviation Authority (2002); financial manager of Lucent Technology SA (1998-2001); management accountant at Mercedes Benz SA (1996-1998); trainee accounts clerk at Colgate-Palmolive SA (1993-1996); and educator/teacher at the Department of Education (1991-1993). He started his career as an article clerk at Ernst & Young (1989).

**Ms Rudzani Rasikhinya – Executive director and chief financial officer: 9 November 2015****Chartered Accountant CA (SA)**

Ms Rasikhinya is a chartered accountant. Prior to joining SITA as Chief Financial Officer (CFO), she held the positions of acting CEO and CFO at Sentech; CFO at the Department of Home Affairs; and various other senior positions, including chief director: accounting and support at National Treasury. She was a board member of the Accounting Standards Board for six years ending 28 February 2018, and served as a Treasury representative on the board of the Government Employment Pension Fund. She is a member of the South African Institute of Chartered Accountants.

**Mr Mboneli Ndlangisa – Executive director: 1 June 2014 - 31 May 2017**
**BSc Hons in Computer Science and Information Systems (Rhodes University); MSc in Computer Science (Rhodes University); Higher Diploma in Computer Auditing, IEDP (Wits and London Business School)**

Mr Ndlangisa has spent all of his working life in ICT. Before joining SITA, he worked for the MIH Group as head of ICT strategy and business development, which entailed giving strategic support to all ICT subsidiaries within the group. Prior to that, he held senior management positions in organisations such as SSA (COMSEC), Standard Bank of South Africa and Telkom SA. He is a certified information systems security professional and certified information security manager.

## 5. INTERNAL CONTROL

The Board is ultimately responsible for establishing a framework of internal controls designed to provide cost-effective assurance of the financial wellness and financial management of the company. The internal control environment (including the assignment of authority and responsibility, segregation of duties, supervision, integrity and ethical values, and governance structures) is managed and monitored by the Internal Audit department.

While internal controls were in place during the year, internal control weaknesses were, nevertheless, identified by Internal Audit (and by the Auditor-General) and reported to management for appropriate corrective action. Progress on the implementation of the corrective action is further monitored by the Executive Committee (Exco) and the Audit, Risk and Compliance Committee of the Board.

The Internal Audit department reports functionally to the Audit, Risk and Compliance Committee. The committee was established in terms of Section 51(1) (a) (ii) of the PFMA and Section 27.1.1 of Treasury Regulations (PFMA 76(4) (d)), whereby the Board must establish an audit committee as a subcommittee of the Board. The committee monitors, *inter alia*, compliance with legislation and ensures that appropriate systems of internal control are implemented and maintained to protect SITA's interests and assets. The committee further reviews the activities and effectiveness of Internal Audit.

Internal Audit focuses on the risk, governance and control processes of the organisation and is responsible for expressing an opinion on the adequacy and effectiveness of the internal controls within those processes. SITA management is responsible for the achievement of the business objectives, which include the design, implementation and monitoring of adequate and effective internal controls. Internal Audit is not responsible for the implementation and related controls of any business processes.



Internal Audit evaluates processes with the view of providing assurance that the internal controls in the company are operating as intended and, in so doing, assists in the achievement of the strategic objectives of the organisation. Internal Audit further ensures that any identified weaknesses in controls, governance and risk are adequately and timeously resolved. The work of Internal Audit and external audit is monitored by the Audit, Risk and Compliance Committee.

The table below discloses information on Audit, Risk and Compliance Committee members.

Member	Qualifications	Internal/ external	Date of appointment	Number of meetings attended
<b>Mr GA Victor</b>	<ul style="list-style-type: none"> <li>BSc in Engineering, cum laude (Wits), MSc (Stanford), MEng (Stanford), B Com Hons (Unisa), CA (SA)</li> <li>Non-executive Board member: 12 December 2016</li> </ul>	External	Appointed chairperson of the Audit, Risk and Compliance Committee on 14 December 2016	5
<b>Mr NW Mudau</b>	<ul style="list-style-type: none"> <li>BSc Hons in Computer Science (University of Limpopo), University Education Diploma (University of Venda), MBA (University of North West/ Potchefstroom University for CHE)</li> <li>Non-executive Board member: 12 December 2016</li> </ul>	External	Appointed member of the Audit, Risk and Compliance Committee on 14 December 2016	4
<b>Mr MT Sadik</b>	<ul style="list-style-type: none"> <li>Chartered Accountant (SA), B Com, Advanced Diploma in Accounting, Advanced Management Programme</li> <li>Non-executive Board member: 12 December 2016</li> </ul>	External	Appointed Member of the Audit, Risk and Compliance Committee on 14 December 2016	3

## 6. COMPLIANCE WITH LAWS AND REGULATIONS

To ensure compliance with laws and regulations, the Audit, Risk and Compliance Committee, the Company Secretary and the following divisions within SITA have a role to play:

- the Finance division maintains a PFMA checklist, as recommended by National Treasury, and updates the checklist every month;
- the Human Capital Management division ensures that SITA is compliant with all human resource management and facility management laws and regulations;
- the Legal Services division assists with interpreting the laws and regulations applicable to SITA; and all applicable ICT laws.

## 7. RISK MANAGEMENT

### 7.1 INTRODUCTION

The risk management process assists the Board to execute its fiduciary duty to actively manage risk that may otherwise affect or prevent SITA from achieving its strategic objectives and to ensure its long-term sustainability. The Board, through the Audit, Risk and Compliance Committee, ensures that effective risk management processes and procedures are in place to actively manage risks that may affect SITA's performance.

### 7.2 MANDATE

The Board has committed SITA to a process of risk management that is aligned to requirements of the:

- (a) SITA Act;
- (b) Companies Act of 2008;
- (c) Public Finance Management Act of 1999;
- (d) National Treasury Regulations of 2005;
- (e) codes of good corporate governance, including the King IV Code and the code issued by the Committee of Sponsoring Organisations (COSO), an internationally accepted framework for good governance;
- (f) ISO 31000:2009 (risk management principles and guidelines); and
- (g) Other relevant legislation.

The enterprise risk management policy and framework is in line with ISO 31000:2009.

### 7.3 ROLES AND RESPONSIBILITIES

The figure below depicts the risk management governance structure, with roles and responsibilities.

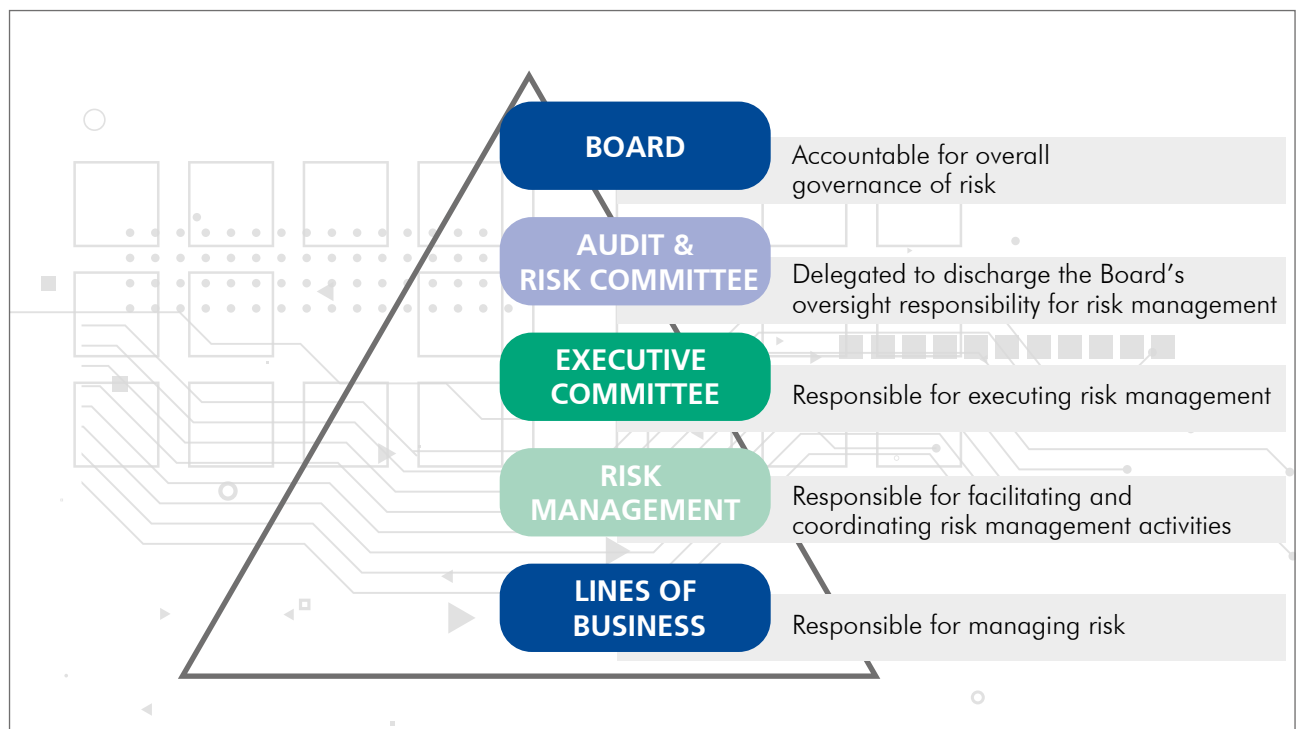


Figure 17 – Risk management governance structures

The roles and responsibility for risk management within SITA are clearly defined in the risk management policy and framework. The Board is ultimately accountable for ensuring that SITA effectively manages risk. To this end, the Board has formally delegated its oversight role to the Audit, Risk and Compliance Committee.

The Executive: Risk Management is accountable to the Audit, Risk and Compliance Committee and is responsible for the facilitation, embedding and monitoring of risk management in SITA in terms of the risk management policy and framework. Management is responsible for the day-to-day management of risks and for ensuring that employees are aware of and carry out their risk management responsibilities in their operational areas.

The Risk Management division executed its roles in line with the approved operational plan for the 2017/18 financial year. The focus was on the development of strategic, operational and strategic programme risk profiles and its monitoring through key risk indicators for all risks outside the SITA appetite and tolerance levels.

## 7.4 MONITORING

Progress on risk mitigation actions and controls was reported to the Executive Management Committee, the Audit, Risk and Compliance Committee, Social and Ethics Committee, Human Resources and Remuneration Committee, Information and Communication Technology, Research, Development and Innovation Committee and the Board.

## 7.5 CONCLUSION

The integrity of SITA's financial reporting relies on a sound system of internal control and effective risk management processes. During the year, the Board implemented adequate and effective policies and procedures covering the risk exposures prioritised by the Board, including mechanisms to ensure compliance and continuous improvement. The Board is of the opinion that it has maintained sound risk management processes, policies and procedures, and that these have kept SITA's risk exposure at acceptable levels and within SITA's appetite and tolerance for risk.

## 8. FRAUD AND CORRUPTION

SITA has prioritised the management of fraud risk as per the PFMA and fraud-related regulations, with zero tolerance to fraud and corruption. SITA is committed to investigating any individual, group, or internal or external stakeholder who commits or attempts to commit acts of fraud and corruption through its systems, officials or clients. Forensic investigations have been undertaken and additional detection measures have been implemented, and SITA employees have undergone lifestyle reviews.

Fraud prevention, detection and response plans are in place, and fraud and awareness campaigns have been rolled out to promote ethical behaviour within the organisation.

An anonymous fraud hotline has been implemented for whistle-blowers to report suspicions about fraud and corruption. The hotline is outsourced to and managed by a private company to ensure independence and protection of whistle-blower identity. SITA has sound internal controls in place to prevent fraud and corruption. All reported cases are registered, investigated and monitored.

## 9. MINIMISING CONFLICT OF INTERESTS

The declaration of interest is important in promoting and demonstrating good governance through the highest standards of conduct and ethical practice. This includes ensuring that all SITA employees and all stakeholders have the confidence and the assurance that every employee in SITA is executing his or her work without any influence, prejudice, bias or conflict of interest.

Over the past few years, SITA has strived to rectify matters related to SITA's corporate reputation as we build a new SITA for the future; and the declaration of interest is one of the key governance pillars instituted to preserve and protect the integrity of SITA.

Executives, prescribed officers, managers, all SITA employees and consultants have a legal and ethical obligation to act in the best interest of the Agency. Therefore, they are not allowed to conduct business with SITA or government and are also prohibited from having interests in IT or IT-related companies; companies that do or would do business with SITA or government; companies that subcontract, either directly or indirectly, with companies that engage with SITA; and any line of work that is in conflict or might be perceived to be in conflict with SITA's business operations.

The policy objectives are:

- (a) to promote and enforce ethical business practices and standards in SITA.
- (b) to provide guidance on behaviours expected in accordance with the values of SITA.
- (c) to promote transparency and avoid conflicts of interest.
- (d) to ensure fairness and consistency in decision making.
- (e) to document the process for disclosure, approval and review of activities this may amount to actual, potential or perceived conflicts of interest.
- (f) to provide a mechanism for the objective review of personal conflicts of interests.

The policy states that any person with a conflict of interest with a contract or transaction must disclose this in writing to the Company Secretary. Where the contract or transaction will be considered at a Board or Board committee meeting, any person with a conflict of interest must disclose all material facts to the Chairman of the Board or the Board committee prior to the meeting. Any person with a conflict of interest will not participate nor be permitted to hear the Board's or committee's discussion of the matter except to disclose material facts and to respond to questions.

## SITA PROMOTES A CULTURE OF DISCLOSURE

During the 2017/18 financial year, 2 977 employees of 3 156 (94.33%) declared their interests.

The cornerstone of creating a culture of disclosure is to have and encourage open discussions on conflict of interest in a way that is supportive and non-judgmental. SITA has promoted a culture of disclosure by informing newly appointed employees and non-executive directors about its policy, clearly stating the expectation that everyone must record any real, potential or perceived conflict of interest.

Conflict of interest has also been made a regular agenda item in all Board and Board committee meetings to routinely remind directors and employees of their responsibility to record and register conflicts.

## 10. CODE OF CONDUCT

The SITA code of conduct is a set of ethical values and standards consistent with the objectives and vision of SITA, and the constitutional and legal framework.

All business conducted should be well above the minimal standards required by law. Accordingly, employees must ensure that their actions cannot be interpreted as contravening, in anyway, the laws and regulations governing SITA operations. Anything prohibited by SITA's policies, and laws and regulations would be prohibited even if done on behalf of SITA Board members or SITA employees representing SITA.

All Board members and SITA employees are required to comply with the code. The principles contained in the code also apply to contract labour, consultants, temporary employees, casual employees, suppliers and others acting for and on behalf of SITA. Although SITA has limited legal rights to enforce the code on its goods and service providers, it can exercise moral persuasion to gain compliance or choose not to enter into business relationships with providers who do not comply with the code.

SITA will not conclude contracts or collaborate with any third party that has sought in any sphere of activity to improperly influence day-to-day activities and decision-making within SITA. Any contravention of the code will be considered a serious matter.

Any investigation conducted into any suspected or alleged contravention will be treated confidentially.

Any Board member or employee who believes that his or her actions have, or may have, contravened the code should report the matter to the immediate supervisor, a manager, the chairman of the Board, the chairperson of the Social and Ethics Committee, the CEO or the Company Secretary. Any Board member or employee who suspects that a fellow Board member or employee has contravened the code should report this promptly and confidentially, preferably in writing, to his or her immediate supervisor, a manager, the chairman of the Board, the chairperson of the Social and Ethics Committee, the CEO, or the Company Secretary. The Board member or employee making the report should not confront the suspected individual to maintain confidentiality and impartiality of any subsequent investigation and also limit the risk of damaging the reputation of the suspected person, should the suspicion be unfounded.

Any breach or suspected breach of ethical standards by a Board member or employee will be dealt with in accordance with the applicable disciplinary policies and procedures. It is the Board's responsibility to bring any breach of ethical standards by a Board member to the attention of the President of the Republic of South Africa through the office of the responsible minister.

## 11. HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

### 11.1 INTRODUCTION

A fundamental principle in the Occupational Health and Safety (OHS) Act of 1993 is that the employer must, as far as is reasonably practicable, provide and maintain a work environment that is safe and without risk to the health and safety of employees. Moreover, an employee must take reasonable care for his or her own health and safety, and for the health and safety of others.

During the year under review, an OHS audit was conducted to assess the effectiveness of OHS and determine whether the offices complied with and conformed to the requirements of the OHS Amendment Act 181 of 1993 and the National Building Regulations (SANS 10400). The audit was also to provide value-adding assurances to ensure that non-compliances in the implementation of the OHS management system are timeously identified and adequately addressed.

The OHS/Wellness and Facilities Management departments collaborated to draft an emergency business case to approve the procurement of a multidisciplinary team to manage the implementation of the OHS audit remedial action plan to ensure compliance with the requirements of the OHS Amendment Act 181 of 1993 and the National Buildings Regulations. Approximately 80% of the remedial works have been completed.

### 11.2 HEALTH AND SAFETY LEGAL APPOINTMENTS

All OHS Amendment Act 181 of 1993-related appointments are still valid, including Section 16.2 duly appointed delegates; SHE reps, SHE committees, incident investigators, first-aiders, and firefighters.

### 11.3 ESTABLISHMENT OF SHE COMMITTEES

SHE committees have been established and quarterly meetings are held to comply with the requirements of Section 19 of the OHS Amendment Act 181 of 1993. Each committee includes a SHE representative, OHS consultant and chairpersons of the SHE committee, first-aiders, evacuation officers and facilities management representatives.

## 11.4 HEALTH AND SAFETY INJURIES

Slipping, tripping and falling injuries are still the most reported injuries at SITA. A continuous awareness programme is conducted to promote incident reporting and preventive measures to mitigate identified risks.

## 11.5 OCCUPATIONAL HYGIENE SURVEYS

Occupational hygiene surveys, which determine whether the indoor air quality, lighting, noise and ergonomics are within the parameters of the OHS Amendment Act 181 of 1993 (environmental regulations) were conducted in some SITA offices. The project will be rolled out to other offices in the next financial year.

## 12. COMPANY SECRETARY

All directors have access to the advice and services of the SITA Company Secretary, who is responsible to the Board for ensuring compliance with established procedures, statutes and regulations. The Company Secretary's responsibilities include:

- (a) ensuring that directors (individually and collectively) are aware of, and understand, the law relevant to SITA and are kept abreast of changes in the law, their implications and how to respond to them;
- (b) ensuring that SITA is compliant with all applicable laws and regulations, and that the Board is conversant and complies with the provisions of the SITA Act, the Companies Act, the Companies Regulations and the PFMA;
- (c) inducting and orienting new directors and guiding directors on their duties, responsibilities and powers, with particular reference to ethics and good governance;
- (d) providing legal advice to the Board and Board committees on issues pertaining to SITA;
- (e) assisting with Board strategy and APP development, and monitoring performance against predetermined objectives;
- (f) ensuring the Board has relevant, accurate, timely and complete information to monitor, review, make decisions and report to the shareholder;
- (g) preparing agendas for Board and Board committee meetings in consultation with the chairpersons of the Board and Board committees, and ensuring that adequate notices of meetings are given and all meeting papers and other important information are provided in time;
- (h) ensuring that Board meetings are properly constituted and providing support to the chairpersons of the Board and Board committees during and outside meetings to ensure the proper running of meetings;
- (i) developing Board and Board committee terms of reference, policies and procedures for approval by the Board and ensuring that they are regularly reviewed, and that Board policy, resolutions, instructions and wishes are consistently implemented;
- (j) arranging indemnification for directors to the extent allowed by the law, ensuring protection of the intellectual property of SITA and that the interests of SITA are protected when contracting;
- (k) ensuring that the Board has comprehensive communication and stakeholder management frameworks, strategies, policies and programmes; and
- (l) acting as chief correspondent of SITA, and ensuring the preservation of institutional memory prescribed by legislation and policy, or as deemed appropriate by the Board.

## 13. SOCIAL RESPONSIBILITY

The SITA corporate social responsibility framework, as revised, intends to bring about developmental impact to the society through strategic partnerships aimed at harnessing ICT to solve the socioeconomic challenges of poverty, unemployment and inequality. This is evident in the collaboration between SITA and the Free State Department of Education, which is establishing the SITA Free State ICT Academy to promote digitally enabled societies in a knowledge-based economy. Still in its pilot stage, the initiative aims to inaugurate at least one computer centre in each of the five district municipalities of the province, providing complete connectivity to the government network to allow learners access to a suite of tools to develop applications and other software in response to the socioeconomic challenges that they face daily.

This is part of contributing to the national skills pipeline, and a comprehensive multiyear ICT curriculum. Built-in theoretical and practical assessments in the identified ICT proficiencies will form the nucleus of the academy to equip participants with ICT skills necessary to solve the problems of service delivery, social development and economic growth. On graduation from the participating high schools, the learners will be armed with verifiable competencies in ICT and equipped to join the industry as part of the national youth service, pursue their tertiary academic aspirations or participate in the ICT industry (and the economy) as emerging ICT industrialists.

In response to the plight of rural communities, and to bring about rural development, SITA joined hands with the Office of the Deputy President to establish an ICT centre for the community of Ndevana Village outside East London, Eastern Cape. The Ndevana Empilisweni HIV/Aids Centre provides a base from which government social interventions can be rolled out to impact the lives of citizens of the surrounding rural communities. With the aid of technology, government services will be better managed and delivered.

In anticipation of and to manage the expectations of the fourth industrial revolution, SITA, with Limpopo Provincial Government, will work firstly with the provincial Department of Education to make an impact on the ICT curriculum currently offered through ICT high schools in the province. In addition, SITA will collaborate with the University of Limpopo to create a pipeline of ICT skills at secondary and tertiary education levels. The initiative aims to create a seamless ICT-conscious transition for youngsters from high school up to and including postgraduate levels, specialising in ICT.

In terms of an ICT-conscious transition, SITA continued to invite and involve society in using ICT to find solutions to social and economic problems through hackathons.

At the 2017 GovTech conference in Durban, 50 learners from previously disadvantaged communities in and around the eThekweni Metropolitan Municipality participated and honed their ICT skills in coding and applications developments for the betterment of society and citizen convenience. More than half of the learners were drawn from schools with SITA ICT laboratories, ensuring that the investment goes beyond technology to human resource transformation.

## 14. AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

### 14.1 INTRODUCTION

The Audit, Risk and Compliance Committee (ARCC) report is prepared in terms of the PFMA, National Treasury Regulation 27 and in line with the recommendations of the King IV Report on Corporate Governance for South Africa.

The ARCC was constituted as a committee of the Board to fulfil its statutory duties in terms of sections 51(1) (a) (ii), 76 and 77 of the PFMA, and associated National Treasury Regulations, the Companies Act, as well as all other duties assigned to it by the Board.



## 14.2 TERMS OF REFERENCE OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE

The ARCC adopted formal terms of reference as approved by the Board and confirms that it has complied with its statutory obligations and terms of reference during the financial year under review. The committee's terms of reference are reviewed at least annually and are amended as required to incorporate changes in legislation, business circumstances and corporate governance principles.

A key responsibility of the ARCC is to assist the Board in fulfilling its oversight responsibilities in the evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes. In addition, the ARCC reviews and assesses the effectiveness of the Internal Audit function and the independence and effectiveness of the company's external auditors (Auditor-General).

## 14.3 AUDIT, RISK AND COMPLIANCE COMMITTEE RESPONSIBILITY

The committee complied with its responsibilities arising from the requirements of the Companies Act of 2008, the Public Finance Management Act of 1999 and National Treasury Regulations of 2005. It has adopted appropriate formal terms of reference as its charter, has regulated its affairs in compliance with this charter and has discharged the responsibilities contained therein.

## 14.4 THE QUALITY OF FINANCIAL INFORMATION PROVIDED

The committee is of the opinion, based on the information and explanations given by management, the internal auditors and the Auditor-General on the results of the audits conducted, that the financial information provided to management and other users of such information is adequate, reliable and accurate.

## 14.5 THE EFFECTIVENESS OF INTERNAL CONTROL

From the various reports of the internal auditors, the audit report on the annual financial statements and the management letter of the Auditor-General, management identified shortcomings in the internal control environment.

The ARCC has, therefore, continued to initiate investigations into areas with weak internal control and areas that are prone to unethical behaviour. In particular, the forensic investigation into the SCM environment uncovered a number of sole supplier contracts, some established without procurement process and in most cases originating from potentially irregular relationships between SAPS, SITA staff and the external service provider. SITA has exposed these findings to the Independent Police Investigative Directorate (IPID), Directorate for Priority Crime Investigation (Hawks) and National Treasury. It has also shared the findings with the Standing Committee on Public Accounts (SCOPA) on a number of occasions.

These investigations have led to a number of dismissals, with criminal action being initiated where necessary, together with legal action being taken against the external companies involved.

SITA's executive management, with the full support from the Board, will continue to act decisively against the threat of corruption perpetrated within and against the organisation, and implement appropriate remedial measures to strengthen SITA's internal control environment.

Attention is specifically drawn to the following areas, where further attention by management is required:

- (a) cyber security and information security governance; and
- (b) Supply Chain Management.

## 14.6 INTERNAL FINANCIAL CONTROL

During the 2017/18 financial year, the ARCC reviewed the effectiveness of the company's system of internal financial control and, based upon the processes and assurances obtained from management, Internal Audit and external audit, is satisfied that the significant internal financial controls are effective.

## 14.7 THE EFFECTIVENESS OF INTERNAL AUDIT

The committee received a wide variety of risk-based audit reports from the internal auditors and is of the opinion that Internal Audit is effective in the fulfilment of its mandate. We are satisfied with the activities of the Internal Audit function, including its annual work programme, quality assurance, coordination with the external auditors, the report of significant investigations and, generally, the responses of management to specific recommendations.

## 14.8 RISK MANAGEMENT

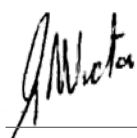
A Risk Management division has been established within the company to assist the ARCC in discharging its responsibilities for the management of risks within the company, in line with the committee's oversight responsibilities. The ARCC receives and considers regular reports in relation to risk-management-related activities from the Executive: Risk Management.

## 14.9 COMPLIANCE WITH LEGAL AND REGULATORY PROVISIONS

The committee has received regular reports from, among others, the Legal Services and Finance division on compliance with the SITA Act, PFMA and all other applicable laws and regulations, and is satisfied with the quality thereof.

## 14.10 EVALUATION OF THE FINANCIAL STATEMENTS

The committee has evaluated the annual financial statements of the Agency for the year ended 31 March 2018 and, based on the information provided, concurs and accepts the Auditor-General's conclusions on the statements, and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General.



**Mr Graeme Victor**

**Chairperson of the Audit, Risk and Compliance Committee**

State Information Technology Agency SOC Ltd

## 15. SOCIAL AND ETHICS COMMITTEE REPORT

### 15.1 INTRODUCTION

The purpose of this report is to outline how the Social and Ethics Committee (SEC) has for the period under review discharged its responsibilities as set out in Section 72 of the South African Companies Act No. 71 of 2008, as amended, and Regulation 43 of the Companies Regulations 2011, issued in terms of the Act.

Constituted by the Board, the Committee is a statutory body and fulfils the required functions on behalf of the Board. The Board has delegated the oversight of SITA's social and ethics management processes to the SEC.

### 15.2 COMPOSITION

The SEC comprises four non-executive directors whereas the executive directors and members of management are invited as ex-officio members. Mr Talib Sadik serves as the Chairperson of the Committee which met three times during the 2017/18. Secretarial services and support to the Committee is provided by the Office of the Company Secretary.

The table below provides details of attendance at meetings:

Name	11 April 2017	17 July 2017	17 January 2018	
Mr MT Sadik (Chairperson)	✓	✓	✓	
Dr V Mahlati	✓	✓	-	
Ms SH Chaba	-	✓	✓	
Mr JS Mngomezulu		✓	✓	Appointed on 17 July 2017

### 15.3 TERMS OF REFERENCE

During 2016, the terms of reference were revised to remove duplication of roles between the SEC and other Board committees. On recommendation by the SEC, the Board approved the revised terms of reference.

### 15.4 ROLE OF THE SOCIAL AND ETHICS COMMITTEE

As part of the Board's overall mandate to provide direction and establish the ethics and values pivotal to sustainable performance, the Committee performs an oversight and monitoring role in partnership with the Audit Risk & Compliance Committee (ARCC) to ensure that SITA's business both internally and externally is conducted in an ethical and appropriately governed manner.

SITA fully subscribes to good corporate citizenship and actively promotes it as part of its culture. Furthermore the Committee develops and/or reviews policies and governance processes and their impact on expected acceptable practices and behaviours as they relate to the performance and the reputation of the Agency. In this manner the Committee guides the company's approach in managing new and emerging social and ethics challenges.

For the period under review, the position of the Company Secretary was filled and the Committee prioritised the creation of the position of Head of Department: Social and Ethics in the Office of the Company Secretary with appropriate delegations of authority to discharge roles and responsibilities effortlessly.

In addition, the Committee oversees the Agency's corporate social investment policy and its institutionalisation through the corporate social responsibility strategy, which details the programmes and other interventions in support of SITA's business objectives and the developmental agenda of the State.

## 15.5 DISCHARGE OF RESPONSIBILITIES

During the 2017/18 financial year, the Committee considered the following:

- (a) Social and ethics Dashboard for the Committee and the Agency.
- (b) Corporate Social Responsibility programmes, including details of donations and charitable giving, and the annual calendar commemorating proposed corporate social responsibility events.
- (c) The Agency's risk register, which addresses, inter alia, the risks associated with the Agency in addressing the statutory responsibilities of the Committee and how they are addressed, including combined assurance responses.
- (d) The conflict of interest policy for staff members; and
- (e) The code of conduct, conflict of interests and gifts and entertainment policies of non-executive directors.

## 15.6 CODES AND POLICIES

Following from the previous year's work, the Committee continued to commission several initiatives to mitigate the risks associated with bribery and corruption in the workplace. To give effect to the ethics and compliance policies, and to promote their institutionalisation, a national roadshow was undertaken internally by the Office of the Company Secretary to create awareness and urge compliance with the codes and policies adopted.

Online registration has been enabled both for the declaration of conflict of interests and the gifts register, representing two significant means of aiding policy implementation across the Agency.

As a standard practice, all new employees' contracts include the conduct pledge, while for existing employees they are encouraged to continue with the voluntary endorsement of the good corporate citizen pledge. In addition, the Committee approved the SITA Corporate Social Responsibility policy and provided guidance and inputs into the related strategy.

## 15.7 ETHICS GOVERNANCE STRUCTURES

The Committee has, in fulfilling its mandate, continued to promote collaboration between its own activities and those of other Board committees and operational structures, such as the ARCC and the Human Resource and Remuneration Committee. Specific Interventions to embed ethical behaviour and positively influence organisational culture, in support of the code of ethics, will continue to be prioritised in the new financial year.

On capacity building, the Committee has also recognised the need for the creation of a dedicated Social and Ethics function to ensure that:

- (a) Appropriate structures, systems and processes are in place for ethics management.
- (b) Ethics performance within the Agency is tracked against agreed measures.
- (c) Employees are familiar with and adhere to the Agency's ethical standards; and
- (d) Ethics performance is reported to the SEC.

## 15.8 INSTITUTIONALISING AND REPORTING

Awareness creation remains key and the Agency accordingly continues with communication campaigns and other information sessions to draw attention to acceptable business conduct and educate them on a range of ethical issues. Part of that includes observing international days dedicated to combatting fraud and corruption.


## 15.9 CONCLUSION

The Committee is of the view that the Agency continues to take its environmental, social and governance responsibilities seriously. Appropriate policies, plans and programmes are in place to contribute to social, ethical and economic development, good corporate citizenship, environmental responsibility, fair labour practices and good client relations, and the nature (unqualified) of the Agency's audit report is indicative of the best efforts to adhere to legislative and regulatory compliance.

In spite of this, the Committee is not oblivious to the ever present risk of unethical behaviours represented through fraud, corruption and collusion. Allegations of wrongdoings continue to be raised through whistle-blowing systems currently in place. The Agency has been unrelenting in pursuing these allegations and intensive investigations continue to reveal and confirm prevalence of corruption often involving collusion between the employees, the clients and the service providers.

In response the Agency is prompted to proactively investigate certain information contained in the employees' declaration of interests to determine inherent risks. Also the Agency has recently approached the National Treasury to recommend the blacklisting of companies implicated in corrupt activities.

The committee recognises that the areas within its mandate are evolving and that management's responses will adapt to changes in the environmental, social and governance environment.



**Mr Talib Sadik**

**Chairperson of the Social and Ethic Committee**

State Information Technology Agency SOC Ltd



## PART D

## HUMAN CAPITAL MANAGEMENT



# 1. INTRODUCTION

SITA Human Capital is a key driver of its success, with increasing importance being placed on re-aligning the organisation capabilities and motivation in the drive to create high performance. The SITA leadership has also identified the organisation health as a key issue, namely: culture and climate, accountability, coordination and control. The new business model is centred on people, their intellectual capital and competence on cutting-edge technology.

In this regard, the information communication and technology (ICT) drivers dictate the archetype of the SITA employee of the future. This archetype is a customer-centric, responsive, agile and adaptive employee with a shared vision to deliver South Africa's information technology ambitions.



The total headcount statistics shown in figure 18 indicate a slight year-on-year decrease of four percent (from 3204 to 3076). This was attributed to retirement as well as the drive to contain the labour costs associated with filling of indirect positions that were not directly related to service level agreements with the customers. As the company embarked upon the organisation micro structure design process, indirect posts that became vacant through natural attrition were also not filled. The decline in the areas of women representation in leadership and African representation in leadership are due to employees exiting the organisation for better opportunities in the competitive ICT marketplace. The headcount data suggests that human capital has a huge impact on SITA's ability to create value and sustain future growth.

Description	2017/18	2016/17
Number of employees	3 076	3 204
Employee turnover	9.54%	7.92%
Women representation in leadership	11.28%	11.64%
African representation in leadership	15.77%	16.64%
Total training spend (Rm)	1.45*	8.9

\* The number of employees has been restated to exclude 81 learners

**Figure 18 - Total Year-on-Year Headcount Statistics**

The migration of human resources in alignment to the new business model requires human capital strategies that are focussed on succession management, talent development and the acquisition of critical and scarce skills.

The level of employee satisfaction and their health and wellness was managed using workforce health metrics as an integral indicator of overall organisational productivity within the broader corporate accountability framework. Survey data was also used to understand the level of employee morale and to inform rigorous change management interventions that support achievement of the organisational strategy. To this end, employees were mobilised to participate in modernisation programmes such as Cloud and eGovernment, thereby contributing to the building of internal communities and making a difference to government and society at large.

## 2. TALENT MANAGEMENT

### 2.1 ACQUISITION OF CRITICAL TALENT

#### 2.1.1 Leadership Skills Recruitment

The link between human capital and strategy was highly dependent on the organisations leadership capability. To this end, the structure realignment programme introduced the macro-structure in June 2017. This resulted in new executive and leadership level positions which initiated an internal and external recruitment process for these critical requirements. To date, the executive level appointments included the following achievements:

- (a) **Executive: Human Capital Management** was appointed to provide the function with the strategic prominence to drive human capital outcomes.
- (b) **Executive: Provincial and Local Consulting** position supports the strategic drive to promote ICT consulting capability at provincial level.

The filling of the vacancies for the following positions was still being finalised:

- (a) **Executive: National Consulting** role which will, amongst other responsibilities, manage partnerships and relationships with SITA stakeholders at a national governmental to improve customer satisfaction and strategically position SITA as a customer-centric value-adding organisation.
- (b) **Executive: Hosting and Secure Operations** role which enables SITA to deploy and effectively monitor and control information systems infrastructure, data and system availability with strong emphasis on disaster recovery.
- (c) **Executive: Networks and Service Management:** to define the direction, objectives and strategies for networks and service management which refines services and improve efficiency.
- (d) **Executive: Strategy Management** role to lead the corporate strategic planning process and ensure alignment to the objective of the shareholder and government priorities.



## 2.1.2 Technical Skills Recruitment

The internal and external recruitment for the critical technical and support environments within the organisation were aligned with the service level agreements to ensure customer service delivery. Out of a total of 248 appointments made during FY2017/18, 45 were permanent employees, 81 were interns and 121 were fixed term contractors.

Job Family	Fixed Term Contractor	Interns	Permanent	Grand Total
Corporate Governance			3	3
Financial and Accounting	1		2	3
Learnership / Core Business		81*	0	81
Human Resources			2	2
Information Technology	121		38	159
<b>GRAND TOTAL</b>	<b>122</b>	<b>81</b>	<b>45</b>	<b>248</b>

\* To develop SITA's internal skills pipeline, 81 interns were appointed during the financial year and were placed predominantly in the software development domains (90%) and in the network management functions (10%).

**Figure 19 – Technical Skills Recruited by Job Family**

The status quo of skills in the organisation was not ideal as there were gaps between the technical skills possessed by internal staff versus that which was required to implement the new business model. In response to this scenario, SITA embarked on a process to redefine the required competencies aligned to the organisation's vision and strategic objectives and assess its internal talent base. A proactive talent management strategy was adopted and aimed at acquiring, developing and retaining high performing employees in a very competitive ICT skills market.

## 2.2 TALENT DEVELOPMENT

A key element of a successful talent management programme within SITA was the creation of "talent pools" within the company; thereby establishing an internal pipeline of critical skills and supporting the succession planning process. In the quest to build ICT skills and create employment for the youth of our country 150 interns and 30 learners were appointed over a two year period, commencing in 2017/18 and ending in 2018/19. To date, 81 interns were appointed within the core business environment. 90% of the interns are placed within the software development environment whilst 10% are within the network environment. The company will absorb 50% of the interns upon completion of the internship programme to build a talent pipeline which will address future skills requirement created by new business opportunities, retirement and natural attrition.

As part of building and improving the organisational technical capability, a total of eight employees completed a six months Cisco Certified Internetwork Expert (CCIE) qualification during February 2018 and are preparing for final examinations.

SITA launched and concluded its first CEO Hackathon to stimulate innovation and to mine for new talent in our organisation. This resulted in 24 innovative ideas from 8 teams. The teams were mentored with coaching and guidance to refine their ideas and to develop sound business proposals to improve government service delivery. These SITAzens were deployed into the development environment to further grow their newly acquired skills.

## 2.3 BURSARIES

Academic and technical qualifications form an important part of growing the SITA talent pipeline to meet future core capabilities. To assist employees to acquire qualifications, 75 new bursaries were granted to SITA employees, while 103 were awarded to continuing studies. A total of 56% of the bursaries are in ICT and the remaining 44% in support disciplines.

The bursary statistics for the annual report for the reporting period 2017/18 is as follows:

- (a) Continuations: **103** bursary holders;
- (b) New Applications awarded in January 2018: **75** and
- (c) The budget for bursaries amounted to **R1 098 210-77**.

The initial number of bursary holders from April – December 2017 was **146**, however, due to employees having completed studies and resignations, from January to March 2018, only 103 bursary holders were left as continuations.

## 2.4 EMPLOYEE SATISFACTION SURVEY

In previous years, the organisation undertook several initiatives to measure its performance and the level of satisfaction of employees. The past financial year focussed on determining the level of employee satisfaction with the organisation, which correlates with the level of employee effectiveness and improvement in performance. The key purpose of the survey was firstly, to establish an organisational employee satisfaction level baseline, and secondly, to measure the organisation against the corporate balanced scorecard set target of 60%. The overall weighted employee satisfaction level for this period was 67.25%.

The graphs depicted in figures 20 and 21 reflect dimensions where SITA obtained the highest and the lowest composite scores. The dimensions in which SITA performed highest in this study were 'compliance and ethical standards' and 'change management', while the dimensions with the lowest composite scores were 'diversity' and 'training and development'. The greatest gap between performance score and importance rating was between 'training and development' and 'performance management'.

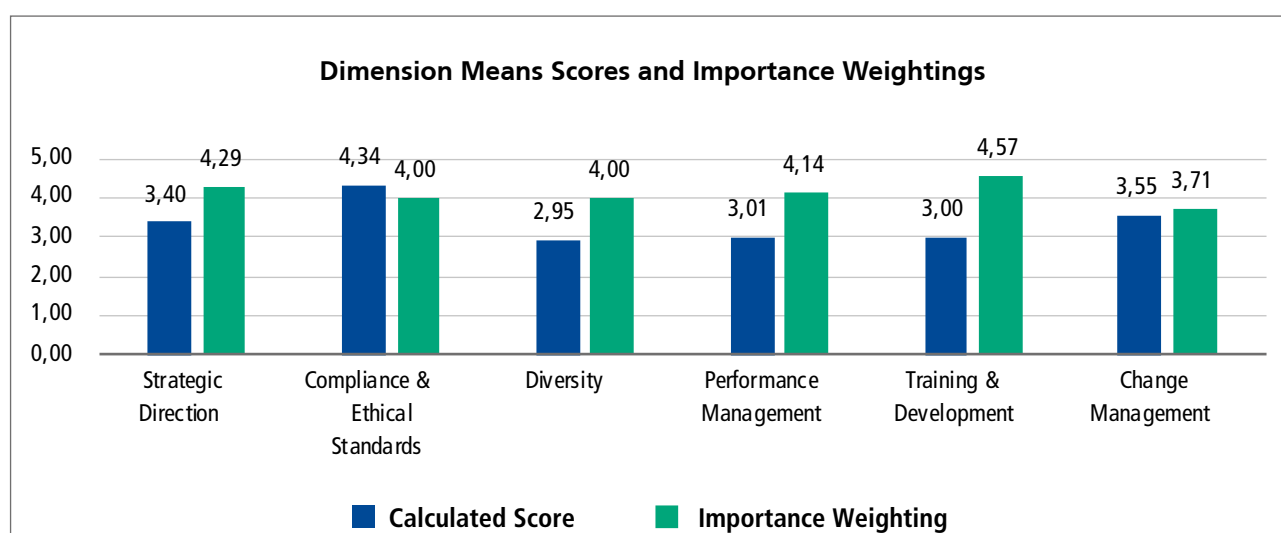
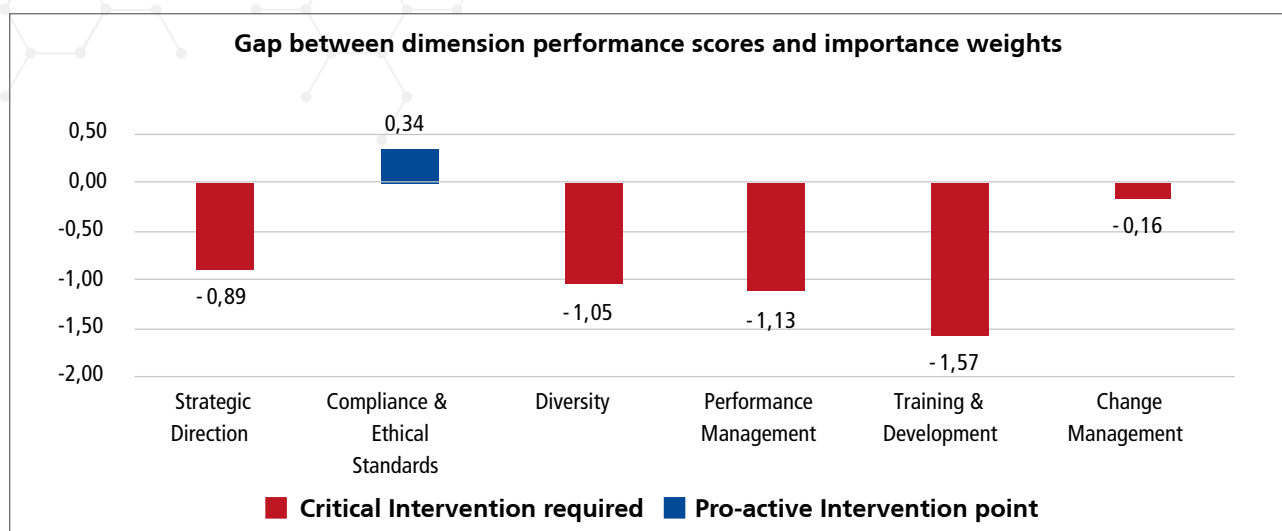


Figure 20 – Dimension Scores and Importance Weightings

To determine the overall score, importance weights were calculated through an anonymous survey of senior management, and were shown besides the calculated performance scores (the individual factor scores within each category were also polled and applied to the calculated scores). This corresponded to the importance level assigned by employees' survey responses regarding gaps for performance management and training.



**Figure 21 – Gap between dimension scores and importance weights**

SITA responded to the above findings by implementing a process to completely overhaul the policies and related initiatives to improve the performance management and training in the company. During this period, the performance management processes were based on improved efforts to communicate and to focus employees' individual performance plans on SITA's new business model and key strategic objectives. This ensured employees' clearly understood their responsibilities associated with specific objectives and to strengthen accountability by assigning measurable and clearly articulated objectives company-wide.

The Workplace Skills Plan for 2018/19 was developed in line with the key current and new technology requirements. Competency gaps identified and procurement bottlenecks were eradicated to ensure delivery of required training initiatives and to demonstrate to employees that the company was serious about executing improvement plans to address their concerns.

## 2.5 EMPLOYEE WELLNESS

The Employee Wellness Programme works in collaboration with other Human Capital Management functions to promote all aspects of employee engagement and satisfaction by making services visible, responsive and user-friendly as a management support tool.

With the increase of the millennials in the SITA workplace and those who work on shifts and standby (work life blending), employees have a higher expectation from the employer than a salary.

The SITA Employee Assistance Programme (EAP) is designed to meet the needs of its diverse, technology workforce. The programme is multi-faceted towards ensuring support that reduces stress at work and at home, leading to improved employee retention, engagement and performance. The programme supports employees' family members in all aspects of life. The five key components include the following:

- (a) Diversity and Inclusion initiatives (employees and family members are eligible for services regardless of location):
  - differentiating the needs of the different age groups (millennials, baby-boomers)
- (b) 24/7 Access to Services:
  - mobile, text and email contact mechanisms to appeal to different employee needs
- (c) Modern Workforce Solutions:
  - lifestyle disease management (chronic diseases affecting employees in the workplace)
  - financial wellness

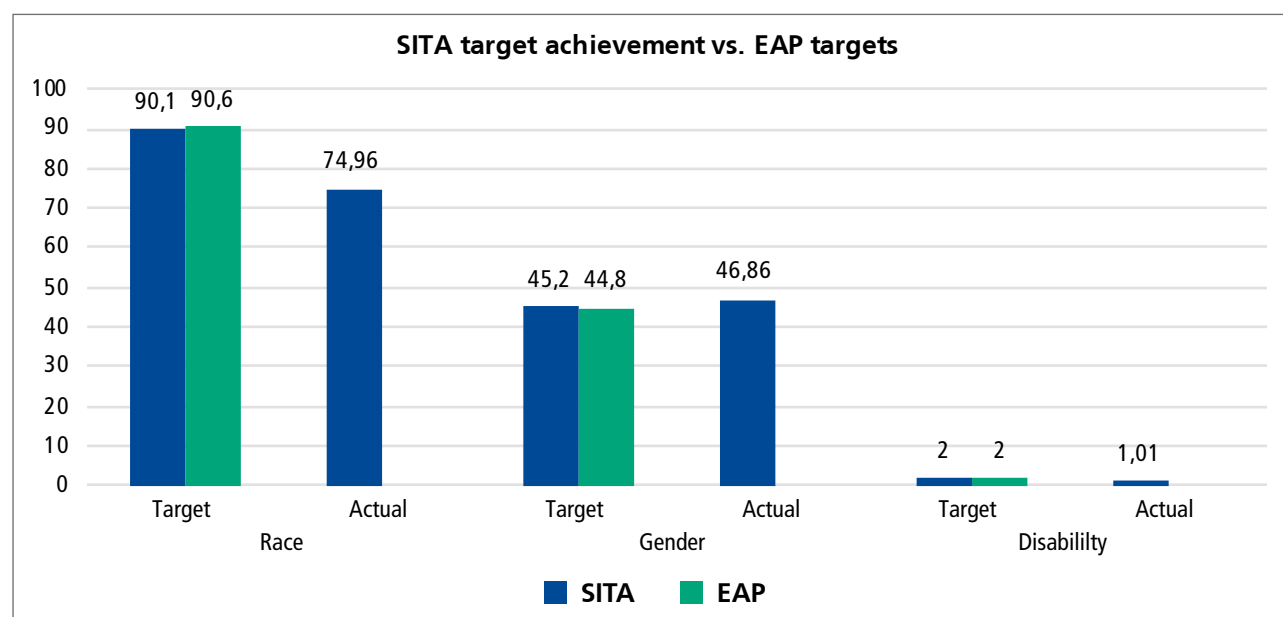
- holistic life coaching and referrals to Occupational Health Medical practitioners to assist SITA to manage employee productivity
- (d) Psycho-social therapy (supporting mental and emotional well-being through professional occupational therapists and psychologists).
- (e) The SITA proactive wellness programme was implemented in September 2017. Sports and recreation clubs were established to promote a healthy lifestyle and facilitate participation in recreation and wellness events such as sports, spiritual and wellness days.
- (f) Proactive wellness programme (SITAzens participating in the Comrades Marathon). The programme included sharing with colleagues the unique and beautiful stories of determination, fortitude and life changing moments participants have experienced as runners.

### 3. EMPLOYMENT EQUITY STATUS COMPARED TO EAP TARGETS

#### 3.1 OBJECTIVE

The main objective of the employment equity (EE) agenda was to ensure that the organisation's workforce was reflective of the country's Economically Active Population (EAP) demographics. To achieve this, programmes aimed at inclusivity and diversity, focusing on previously disadvantaged employees.

SITA's current actual achievement for its Gender target was 46.86%, against its target of 45.2 %; actual achievement of 74.96% for Race, against a target of 90.1%, and actual achievement of 1.01% for employees living with disabilities, against a target of 2%. SITAs actual achievement for Race and Disability was slightly less than the EAP targets, whilst for Gender, the company's actual achievement was higher by over two percent.



\* SITAs targets are aligned with the Economically Active Population (EAP) target. Source Statistics SA – OLFS 3rd Quarter, 2016)

**Figure 22 – EE targets vs. actual achievements as at 31 March 2018**

To improve on targets, the Disability Forum was established to give a voice to the issues experienced by disadvantaged employees in this category. Also, a focused drive to create access for employees living with disabilities made huge improvements for the day-to-day experience of these SITAzens, especially where SITAs buildings had limitations. The EE plan was reviewed and the focus to recruit the 81 interns in the 2017/18 reporting period was against the required employment equity targets as well as providing people living with disabilities, employment opportunities.

Furthermore, a transformational plan was established to ensure that all positions advertised addressed under-representation in all specified categories. The Women in leadership programme is another facet of the employment equity programme and promotes gender-balanced practices at SITA.

### 3.2 EMPLOYMENT EQUITY STATISTICS PER OCCUPATION LEVEL

Statistics show an under-representation of employment equity candidates at the professional qualified, experienced specialist, mid-management and skilled, academic, junior management, supervisors and foremen occupation levels, which are the core of the business. The disability group is also under-represented. To improve under-representation, a number of the company's strategic programmes, e.g. Cloud, gCommerce, eGovernment, etc., will create recruitment opportunities in the short to medium term.

Occupation level	Africans		Females		Disability	
	Actual	Target	Actual	Target	Actual	Target
Top management	100%	90.1%	50%	45.2%	0.0%	2%
Professionally qualified, experienced specialist and mid-management	72%	90.1%	42%	45.2%	2.8%	2%
Senior management	58%	90.1%	42%	45.2%	0.5%	2%
Skilled, academic, junior management, supervisors, foremen	77%	90.1%	46%	45.2%	0.9%	2%
Semi-skilled and discretionary decision-making	91%	90.1%	63%	45.2%	2.4%	2%
Unskilled and defined decision-making	100%	90.1%	22%	45.2%	0.0%	2%
<b>Breakdown - SITA EE Actual vs Target</b>	<b>74.96%</b>	<b>90.1%</b>	<b>46.86%</b>	<b>45.2%</b>	<b>1.01%</b>	<b>2%</b>

Figure 23 – EE Statistics 2017/18

Ongoing focus on the women empowerment programme will provide opportunities to young females in this occupational category. The core, critical and scarce skill project was sponsored by Exco to build existing human capital capacity that is agile and innovative. SITA's intern programme and graduate recruitment pipeline impact positively on the lower career levels and under-represented categories.

## 4. HUMAN CAPITAL MANAGEMENT OVERSIGHT STATISTICS

### 4.1 SUMMARY OF KEY PERSONNEL PERFORMANCE INDICATORS

#### 4.4.1 Personnel Cost

The total personnel expenditure as a percentage of total organisational expenditure was 1,807,533 million rand which constitutes 32% of the total expenditure for the entity. This was attributed to the total headcount decrease of four percent (from 3204 to 3076). In addition, the company implemented a drive to contain the labour costs where vacant positions that were not directly related to the service level agreement requirements with the customers, were not automatically filled. As the company embarked on an organisation design process to align the micro structure to its new business model, indirect positions were also not automatically filled, following natural attrition.

Occupational level	Number of employees per level	Personnel expenditure ('000)	% of personnel expenditure to total personnel cost
Top management	2	R 11 424	0.63%
Senior management	36	R 60 330	3.34%
Professionally qualified and experienced	785	R 784 899	43.42%
Skilled, academic, technicians	1 870	R 854 949	47.30%
Semi-skilled	455	R 94 023	5.20%
Unskilled	9	R 1 908	0.11%
<b>TOTAL</b>	<b>3 157</b>	<b>R 1 807 533</b>	<b>100%</b>

Figure 24 - \*Personnel cost by occupational level

\* Personnel costs consist of Total Guaranteed Package (TGP), Overtime, Skills, Employer UIF, Cell Allowance, Data Allowance, Standby Allowance, Shift Allowance. (All allowances)

## 4.2 STAFF TURNOVER

The staff turnover rate varied over the course of the year as shown below. April and January were notably higher which necessitated the implementation of human capital programmes geared to drive employee retention and boost employee satisfaction.

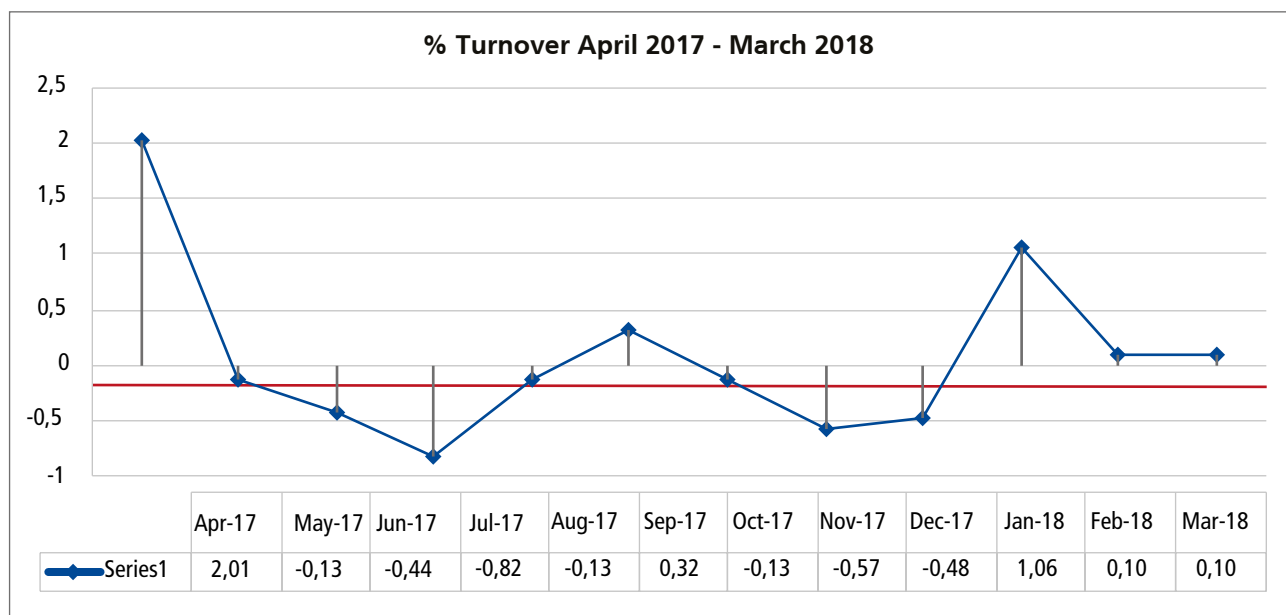


Figure 25 - % Turnover April 2017 - March 2018

## 4.3 TRAINING COSTS

During the year under review, the training budget was underspent due to efforts that required time to ensure the identification of appropriate training interventions that supported the development of capabilities in the new business model. Implementation of suitable training initiatives was hampered by the timely finalisation of the procurement procedure of a preferred service provider panel.

During the transition phase of implementation of the new business model, SITA training and development approach consisted of key measures to retain talented employees in a highly competitive skills market, namely; :

- (a) establishing redefined technology competencies derived from the organization's vision and strategic objectives to measure its internal skills;
- (b) ensuring that the criticality of the talent management initiatives was central to drive SITA strategy to develop framework training initiatives with OEMs and OSMs such as Microsoft and CISCO;
- (c) identifying and developing potential succession candidates for critical and scarce positions;
- (d) driving new intern and learnership intake as a talent pipeline;
- (e) providing wider reach for SITAzens to access bursary benefits; and
- (f) compiling the Workplace Skills Plan during this period to ensure the submission for the next year (2018/19) would focus on the new skills requirement.

## 4.4 EMPLOYEE AND LABOUR RELATIONS

Over the past three years, the organisation had enforced ethical behaviour and rooted out corruption. Several forensic investigations have been undertaken and a number of employees found to be complicit in unethical behaviour and serious misdemeanours.

Human Capital Management and Supply Chain Management (SCM) processes were specifically targeted to ensure that internal and external clients placed confidence in these processes. The actions taken to deal with the findings are depicted figure 26 below.

### 4.4.1 Disciplinary Matters

#### 4.4.1.1 Targeted Investigations

The targeted investigation programme showed SITA's commitment to address corruption with a zero tolerance approach. At the end of the financial year, the programme was conducted in Human Capital, Supply Chain and core business areas.

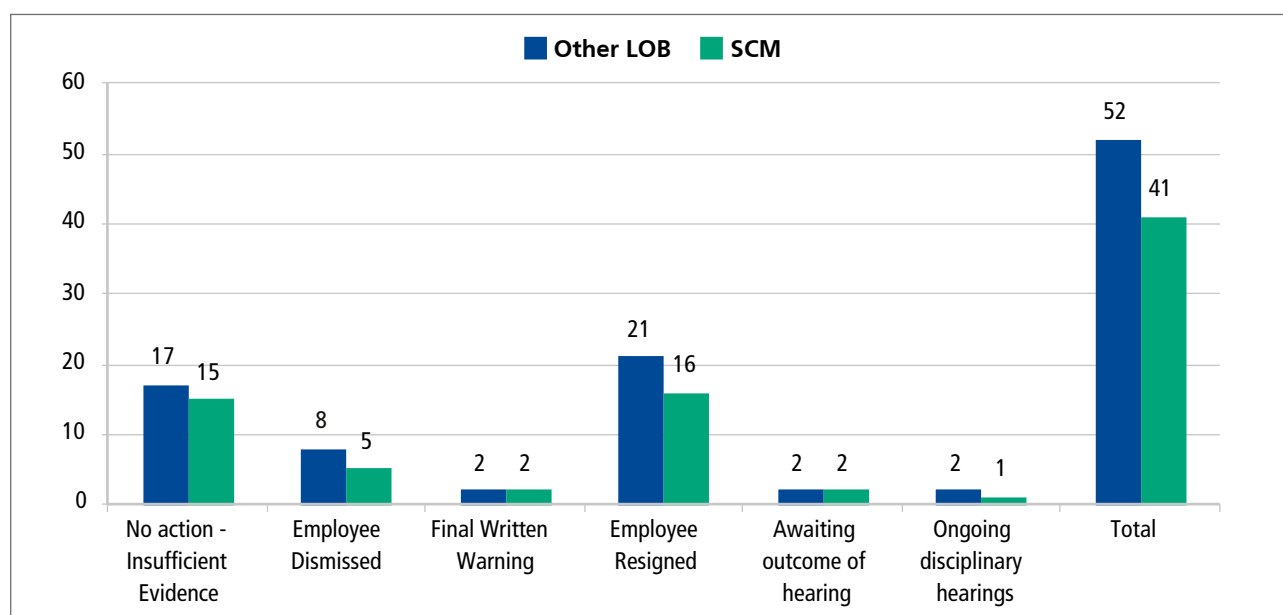


Figure 26 – Targeted Forensic Investigations Status

#### 4.4.1.2 Loss Control

The Loss Control Committee has been established to ensure effective management of incidents of financial misconduct relating to fruitless and wasteful and irregular expenditure and to improve overall compliance and minimise losses.

In the financial year under review 59 cases were presented of which 20 cases were recommended for condonation/ write-off, disciplinary action was recommended for 34 cases, 3 cases were referred to Internal Audit for a full investigation and 2 cases previously reported as irregular were removed from the register after discussion with the Auditor General.

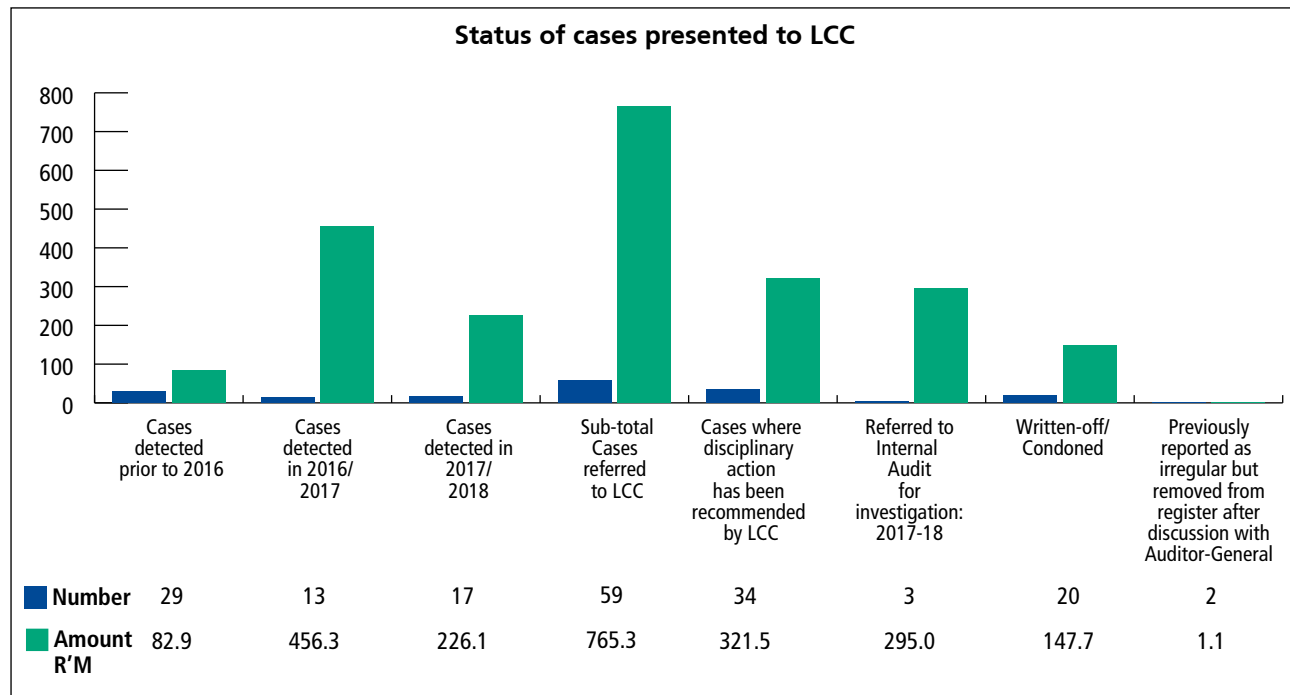


Figure 27 – Loss Control Matters Statistics







## PART E

## FINANCIAL INFORMATION

# FINANCIAL INFORMATION

## 1. CERTIFICATE BY COMPANY SECRETARY

I, Tiyani Mongwe, in my capacity as Company Secretary for the State Information Technology Agency SOC Ltd, hereby certify that, to the best of knowledge and belief, the company has lodged with the Registrar of Companies, all such returns as required by the Companies Act No. 71 of 2008, and that all such returns are true, correct and up to date.



**Tiyani Mongwe**

**Company Secretary**



## 2. 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 SOC Ltd for the year ended 31 March 2018. This report and the annual financial statements comply with the requirements of the Public Finance Management Act No 1 of 1999 (PFMA), the SITA Act No 88 of 1998 (as amended by Act 38 of 2002) and the Companies Act No 71 of 2008. The Board of Directors is the accounting authority in terms of section 49(2) (a) of the PFMA.

### 2.1. 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). The company derives all its revenue from ICT services and goods.

### 2.2 REGISTRATION DETAILS

The company's registration number is 1999/001899/30. The registered office is 459 Tsitsa Street, Erasmuskloof, Pretoria, 0001.

### 2.3 OWNERSHIP

The company is wholly owned by the Government of the Republic of South Africa as represented by the Minister of Telecommunications and Postal Services, Dr. Siyabonga Cwele MP

### 2.4 EQUITY CONTRIBUTED

There were no changes to either the authorised or issued share capital of the company during the year ended 31 March 2018. Details of the authorised and issued share capital can be found in note 11 to the annual financial statements.

### 2.5 FINANCIAL HIGHLIGHTS

The financial statements are set out on pages 101 to 163 of this report.

The financial performance is summarised as follows:

	31 MARCH 2018	31 MARCH 2017
	R'000	% change
Revenue	5 758 712	1.37
Gross surplus	1 221 631	19.90
Surplus for the year – before tax	310 528	26.74
Total asset	4 149 075	5.94
Net asset	2 961 635	8.30
Cash generated from operations	520 910	121.91

From the above it is clear that SITA is a sustainable organisation and is financially sound.

## 2.6 DIVIDENDS

There were no dividends declared for the current financial year (2018: R Nil).

## 2.7 INTERNAL CONTROLS

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

## 2.8 PUBLIC FINANCE MANAGEMENT ACT (PFMA)

### 2.8.1 PFMA compliance

Various sections of the PFMA place responsibility on the Board to ensure that the company complies with all applicable legislations. Any non-compliance with legislation is reported on a monthly basis to Exco and on a quarterly basis to the Board of Directors.

### 2.8.2 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.

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

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

### 2.8.4 Internal Controls

#### 2.8.4.1 Commitments

Management identified the disclosure of commitments as a risk two years ago and has embarked on a process in order to ensure that commitments disclosed are complete and accurate. During the 2015/16 financial year significant audit findings were identified that have been addressed.

During the 2016/17 financial year management made significant improvements in the system used as a basis for the disclosure of commitments. However, there were still material audit findings that were identified during the audit.

During the 2017/18 financial year management made further enhancements to the reporting system and the schedule that was provided to the auditors for audit was accurate and complete and no material findings were identified. Differences were identified between the amount as per the amount disclosed and the amount as per the schedule, Management believes that this issue has now been resolved going forward.

#### 2.8.4.2 Tax Matters

Management has identified tax as a risk and has decided to appoint a tax specialist to assist with tax related issues as well as to ensure that tax in the financial statements is disclosed properly. The service provider will also be responsible to act as a liaison with the South African Revenue Services (SARS) in order to address any tax related issues that SITA may have with SARS. The appointment of a tax specialist is in progress.

### 2.8.4.3 Fixed Assets

Management has improved controls over the fixed asset verification process during the year by automating the fixed asset verification process including new controls, for example, reviews by the responsible supervisors.

During the audit the staff in the provinces that assisted the Auditor-General (AG) in the provinces and specifically the KwaZulu-Natal Province (KZN) was not suitable and as a result did not identify the assets at the time of the verification. However, management confirmed the existence of the assets in the provinces that could not be identified and send photos to the AG as initially agreed with them. However, due to the Auditor-General's experience during the fixed asset verification in KZN the AG decided not to rely on the photos provided.

As a result of the issues experienced during the audit of the assets it was agreed with the AG that going forward a staff member from head office will accompany the AG to fixed asset verifications to ensure that the necessary support is provided. This should prevent a reoccurrence of the issues with regards to the external audit of the fixed assets in the provinces. Apart from this, awareness sessions with staff will be held on asset controls and the verification process and the current automated system will be improved.

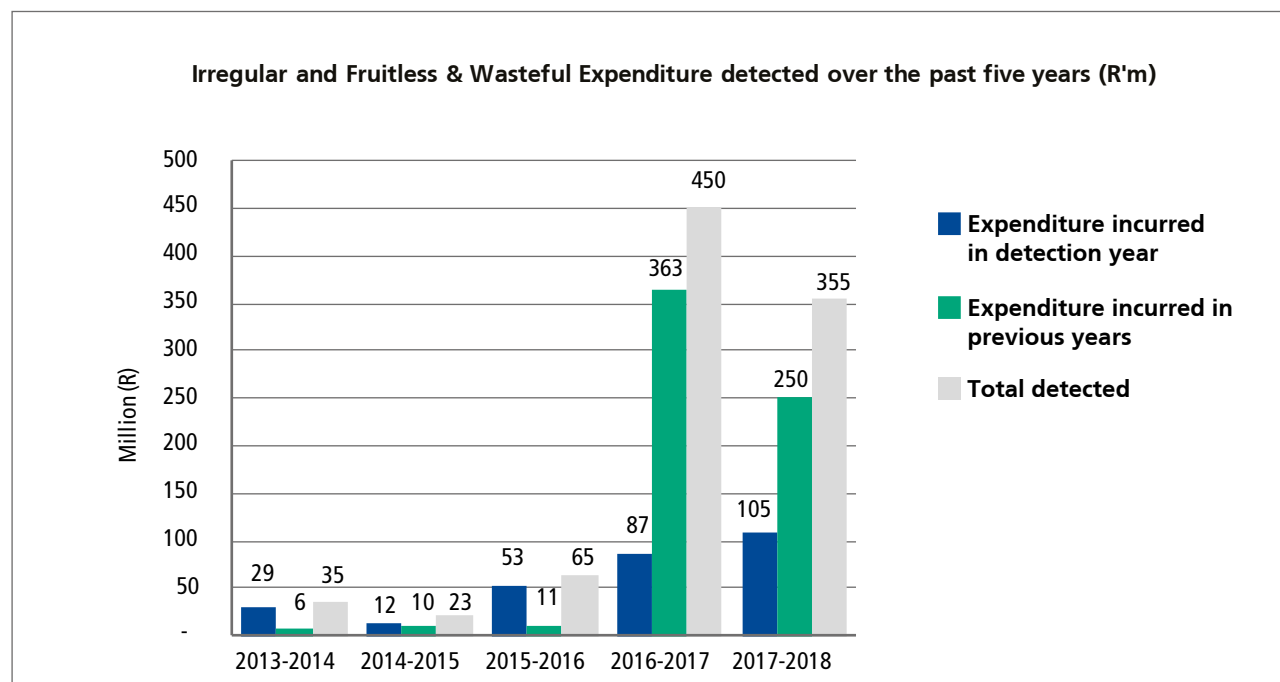
### 2.8.4.4 Irregular Expenditure

Management has embarked on a process to transform the Supply Chain Management function that includes investigations into possible irregularities. The verification and cleaning-up exercise resulted in a significant increase in the number of reported cases of irregular expenditure in 2018, of which the majority arose in previous financial years.

As part of the above-mentioned cleaning-up exercise possible irregular expenditure was identified by external investigators appointed by management relating to Rofin/FDA contracts for the VA/Amis systems. This investigation is in the process of being finalised.

It is anticipated that the transformation of the SCM function will result in improved service delivery and will also contribute towards the prevention of irregular expenditure. This includes the roll out of gCommerce and using this system to implement improved contract management.

The following graph provides information on irregular expenditure detected in the current year:



Graph: Illustration of the period Irregular Expenditure detected relates to

## 2.9 PUBLIC PRIVATE PARTNERSHIPS

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

## 2.10 BASIS OF PRESENTATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations and directives issued by the International Accounting Standards Board (IASB). In terms of these standards (GRAP), in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order, in developing an accounting policy for such a transaction, event or condition:

- Standards of GRAP that have been issued, but are not yet effective,
- International Public Sector Accounting Standards (IPSAS); and
- International Financial Reporting Standards (IFRS).

## 2.11 EVENTS SUBSEQUENT TO THE DATE OF FINANCIAL POSITION

No events subsequent to the date of financial position were identified.

## 2.12 GOING CONCERN

The directors confirm that they are satisfied that the company has adequate resources to continue in business for the next 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.

## 2.13 DIRECTORS

Disclosure of Directors' remuneration is detailed in Annexure of the Annual Financial Statements.

The following individuals were Directors during the year under review:

### Non-Executive Directors:

#### Chairperson

Mr ZD Nomvete

#### Deputy Chairperson

Vacant

#### Members

Ms S H Chaba

Mr GA Victor

Ms N N Ehrens

Mr M T Sadik

Ms P Matlala

Ms N Magubane

Adv N Mahlangu

Dr V Mahlati

Resigned 26 March 2018

#### Executive Directors:

Dr S J Mohapi (Chief Executive Officer)

Ms R C Rasikhinya (Chief Financial Officer)

Mr M Ndlangisa (Deputy Chief Executive Officer)

Term Expired 31 May 2017

#### Company Secretary

Ms S L Kgope (Acting)

Acting Term Expired 30 June 2017

Mr T Mongwe

Appointed 1 July 2017



### 3. REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE STATE INFORMATION TECHNOLOGY AGENCY SOC LIMITED

#### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

##### Opinion

1. I have audited the financial statements of the State Information Technology Agency SOC Limited set out on pages 101 to 163, which comprise statement of financial position as at 31 March 2018, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Information Technology Agency SOC as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

##### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### Responsibilities of accounting authority for the financial statements

6. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with requirements of the SA Standards of GRAP and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting authority is responsible for assessing the State Information Technology Agency SOC's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

### Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2018.

Programmes	Pages in the annual performance report
Programme 1 – Service delivery	41-43
Programme 2 – Infrastructure	44
Programme 3 – Procurement	44-45

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes.
  - Programme 1 - Services delivery
  - Programme 2 - Infrastructure
  - Programme 3 - Procurement

## Other matters

15. I draw attention to the matter below.

## Achievement of planned targets

16. Refer to the annual performance report on pages 41 to 47 for information on the achievement of planned targets for the year and explanations provided for the under or over achievement of targets.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
18. The material findings on compliance with specific matters in key legislations are as follows:

### Expenditure Management

19. Effective steps were not taken to prevent irregular expenditure amounting to R351 649 000, as disclosed in note 28 to the annual financial statements, as required by section 51(1) (b) (ii) of the PFMA. Of this amount, R278 631 000 relates to non-compliance with legislation relating to prior years that was identified in the current year. Majority of the irregular expenditure was caused by the lack of effective implementation of contract monitoring measures to track expiry of contracts timeously.
20. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 886 512, as disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by long outstanding invoices and contract that was unlawfully terminated.

### Procurement and contract management

21. Some of the bid documentation for procurement of commodities designated for local content and production, did not meet the stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
22. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar non-compliance was also reported in the prior year.
23. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). Similar non-compliance was also reported in the prior year.

## OTHER INFORMATION

24. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No. 71 of 2008). The other information does not include the financial statements, the auditor's report and those selected programmes presented in the annual performance report that have been specifically reported in this auditor's report.
25. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
27. If, based on the work I have performed, I conclude that there is a material misstatement in this other information; I am required to report that fact.
28. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## INTERNAL CONTROL DEFICIENCIES

29. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

### Financial and performance management

30. There is a lack of effective implementation of contract monitoring measures to track expiry of contracts timeously to ensure prevention of non-compliance with laws and regulations.

## OTHER REPORTS

31. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on compliance with legislation.

### Investigations

32. The entity has embarked on a number of investigations by independent consultants to investigate alleged entity-wide fraudulent activities most notably within the supply chain management division. Some of the investigations resulted in a number of employees including senior management implicated on these investigations being dismissed or some resigned, and in certain instances, mutual separation agreements were signed. At the date of this auditor's report some of these investigations were still in progress.

*Auditor-General*



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**Pretoria**

31 July 2018

## ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the public entity's compliance with respect to the selected subject matters.

### FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
  - conclude on the appropriateness of the board of directors, which constitute the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the public entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

The cover features a dark green background with a hexagonal pattern. A large, semi-transparent circular graphic is centered, containing a photograph of a desk with a laptop, a cup, and papers. The word 'ANNUAL' is written in large, white, outlined letters at the bottom left.

ANNUAL

**FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 31 MARCH 2018

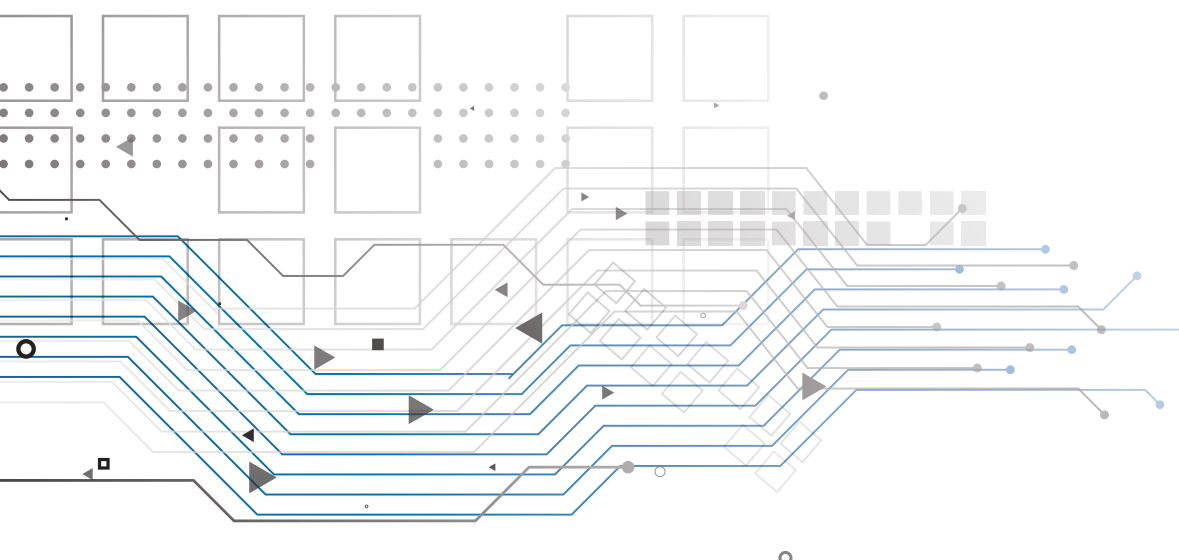


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## STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2018

Figures in Rand Thousand	Note	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>1 208 719</b>	<b>1 377 260</b>
Property, plant and equipment	4	709 478	756 719
Intangible assets	5	457 100	514 430
Non-current portion of Prepayments	10	41 050	70 254
Deferred tax assets	7	1 091	35 857
<b>Current assets</b>		<b>2 940 356</b>	<b>2 539 270</b>
Cash and cash equivalents	8	1 605 114	1 183 329
Trade and other receivables	9	1 158 954	1 108 846
Income Tax receivable		111 322	179 444
Current portion of Prepayments	10	64 966	67 651
<b>TOTAL ASSETS</b>		<b>4 149 075</b>	<b>3 916 530</b>
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>		<b>2 961 365</b>	<b>2 734 487</b>
Share capital	11	-	-
Reserves	12	627 335	627 335
Accumulated surpluses		2 334 030	2 107 152
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>		<b>97 677</b>	<b>114 302</b>
Post-retirement employee benefits	13	97 677	114 302
<b>Current Liabilities</b>		<b>1 090 033</b>	<b>1 067 741</b>
Trade and other payables	14	856 293	841 696
Income received in advance	15	233 740	226 045
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>4 149 075</b>	<b>3 916 530</b>

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 MARCH 2018

Figures in Rand Thousand	Note	2018	2017
Revenue	16	5 758 712	5 680 793
Cost of sales	17	(4 537 081)	(4 661 882)
Gross surplus		1 221 631	1 018 911
Other income	18	32 755	38 345
Operating expenses	19	(1 040 302)	(954 839)
Surplus from operating activities		214 084	102 417
Finance income	20	151 780	192 273
Finance expenses	21	(55 336)	(49 678)
Surplus before income tax		310 528	245 012
Income tax	22	(83 649)	(84 172)
<b>Surplus/(Deficit) for the year attributable to shareholder</b>		<b>226 879</b>	<b>160 840</b>

## STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 31 MARCH 2018

Figures in Rand Thousand	Share capital	Reserve	Accumulated surpluses	Total
Balance as at 31 March 2016	-	627 335	1 946 312	2 573 647
Surplus for the year	-	-	160 839	160 839
Balance as at 31 March 2017	-	627 335	2 107 151	2 734 486
Surplus for the year	-	-	226 879	226 879
<b>Balance as at 31 March 2018</b>	<b>-</b>	<b>627 335</b>	<b>2 334 030</b>	<b>2 961 365</b>
<i>Note</i>	<i>11</i>	<i>12</i>		

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2018

Figures in Rand Thousand

Note

2018

2017

### CASH FLOWS FROM OPERATING ACTIVITIES

#### Receipts

	6 778 818	6 390 211
– Sale of goods and services	6 690 600	6 235 145
– Finance income received	62 727	62 616
– Income tax receipt	25 491	92 450

29,1

#### Payments

	(6 257 908)	(6 155 474)
– Payment to suppliers and employees	(6 257 370)	(6 154 984)
– Finance costs paid	(538)	(490)
– Income tax paid	-	-

29,1

#### Net Cash flows from operating activities

29,2

520 910

234 737

### CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment	(90 201)	(32 837)
Purchase of intangible assets	(8 924)	(171 057)
Proceeds from the sale of property, plant and equipment	-	-
<b>Net Cash flows from investing activities</b>	<b>(99 125)</b>	<b>(203 894)</b>

### CASH FLOWS FROM FINANCING ACTIVITIES

(Repayment)/Receipt of interest-bearing borrowings	-	-
<b>Net Cash flows from financing activities</b>	<b>-</b>	<b>-</b>

Increase/(Decrease) in cash and cash equivalents	421 785	30 843
Cash and cash equivalents at beginning of year	1 183 329	1 152 486
Cash and cash equivalents at end of year	<b>1 605 114</b>	<b>1 183 329</b>

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## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

FOR THE YEAR ENDED 31 MARCH 2018

Figures in Rand Thousand	Note	ACTUAL AS PER STATEMENT OF FINANCIAL PERFORMANCE	ADJUSTMENT FOR NOTIONAL INTEREST	ACTUAL EXCL. NOTIONAL INTEREST (A)	BUDGET (B)	VARIANCE % (A-B)/B
<b>Revenue</b>	<b>a</b>	<b>5 758 712</b>	<b>79 242</b>	<b>5 837 954</b>	<b>6 360 669</b>	<b>-8,22%</b>
– Agency revenue		1 414 574	19 465	1 434 039	1 168 610	
– Services revenue		4 344 138	59 777	4 403 915	5 192 059	
<b>Cost of sales</b>	<b>b</b>	<b>(4 537 081)</b>	<b>(38 750)</b>	<b>(4 575 831)</b>	<b>(5 034 211)</b>	<b>9,11%</b>
– Agency cost of sales		1 302 670	-	1 302 670	1 108 696	
– Services cost of sales		3 234 411	38 750	3 273 161	3 925 515	
<b>Gross surplus</b>		<b>1 221 631</b>	<b>40 492</b>	<b>1 262 123</b>	<b>1 326 458</b>	
– Agency gross surplus		111 904	19 465	131 369	59 914	
– Services gross surplus		1 109 727	21 027	1 130 754	1 266 544	
Other income	<b>c</b>	32 755	-	32 755	30 961	5,80%
Operating expenses	<b>d</b>	(1 040 302)	8 506	(1 031 796)	(1 218 136)	15,30%
Surplus before income tax		214 084	48 998	263 082	139 283	
Net Finance income	<b>e</b>	96 444	(26 751)	69 693	49 912	39,63%
Surplus before income tax		310 528	22 247	332 775	189 195	75,89%
Income tax		(83 649)	-	(83 649)	(52 975)	57,90%
<b>Surplus for the year attributable to shareholder</b>		<b>226 879</b>	<b>22 247</b>	<b>249 126</b>	<b>136 220</b>	<b>82,88%</b>

- The budget represented above is the approved final budget that has been prepared on the accrual basis for a period of 1 year.
- Notional interest has been excluded for the purpose of the actual vs budget comparison due to the fact that notional interest amount is not budgeted for.

### Notes:

- The variance is mainly due to services revenue that was not realised.
- The variance is mainly due to revenue targets that were not met.
- The variance is mainly due to income received that was not anticipated.
- The variance is mainly as a result of cost saving initiatives that the company undertook during the year.
- The variance is mainly due to the net fair value adjustments on trade receivables and payables with regards to notional interests that are not considered for budgeting purposes.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

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#### 1. Reporting Entity

The State Information Technology Agency SOC Ltd (SITA) is a state-owned company domiciled in South Africa. The company is primarily involved in the provision of information technology, information systems and related services in a maintained systems security environment on behalf of participating government departments, including provincial and local government departments.

#### 2. Basis of preparation

These financial statements are presented in South African Rands (R), which is the company's functional currency. They have been prepared on the historical cost basis except for financial instruments which are recorded at fair value.

##### a) Statement of compliance

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations and directives issued by the Accounting Standards Board (ASB). In terms of these standards (GRAP), in the absence of a standard or pronouncement comprising the GRAP financial reporting frameworks that specifically applies to a transaction, other event or condition, management should apply judgement and may consider the following pronouncements, in descending order of the hierarchy listed below, in developing an accounting policy for such a transaction, event or condition.

- Standards of GRAP (Generally Recognised Accounting Practices) that have been issued, but are not yet effective;
- IPSAS (International Public Sector Accounting Standards); and
- IFRS (International Financial Reporting Standards).

##### b) Use of estimates and judgements

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 associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results thereof 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

#### 3. Significant accounting policies

The principle accounting policies adopted in the preparation of these financial statements are set out below. The accounting policies are consistent with those used to present previous years financial statements, unless specifically stated otherwise.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

#### 3.1 Foreign currency transactions

Transactions in currencies other than in Rand are defined as foreign currency transactions. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Rand at the rate of exchange ruling at the reporting date. Non monetary assets and liabilities that are measured in terms of the historical cost in a foreign currency are translated at the exchange rate ruling at the original transaction date. Any foreign exchange differences are recognised in surplus or deficit in the period in which the difference occurs.

#### 3.2 Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the company has become party to the contractual provisions of the financial instruments.

A financial asset and a financial liability is initially recognised at its fair value plus, in the case of a financial asset or a financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of a financial asset or a financial liability.

After initial recognition, financial assets, including derivative assets, are measured at their fair values, without any transaction costs it may incur on the sale or other disposal, except for the following financial assets:

Loans and receivables are measured at amortised cost using the effective interest method.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities at fair value through surplus or deficit. Financial liabilities at fair value through surplus or deficit, including derivatives that are liabilities, are measured at fair value.

At the end of each reporting period, financial assets measured at amortised cost are assessed irrespective of whether there is any objective evidence of impairment. If objective evidence exists that an impairment loss has been incurred, such loss is recognised in surplus or deficit. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

When a subsequent event causes the amount of an impairment loss to decrease, the decrease in the impairment loss is reversed through surplus or deficit.

A gain or loss on a financial asset or a financial liability classified as at fair value through surplus or deficit, including a derivative asset or liability, is recognised in surplus or deficit.

#### 3.3 Property, plant and equipment

##### a) Recognition and measurement

Items of property, plant and equipment, except land, are measured at cost less accumulated depreciation and accumulated impairment losses. Land is stated at cost and is not depreciated. The cost of items of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

Where an asset is acquired at no cost, or for a nominal amount, its cost is its fair value as at the date of acquisition.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

#### b) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repairs and maintenance costs are not capitalised, they are recognised in surplus or deficit as incurred.

#### c) Depreciation

Depreciation is recognised in the surplus or deficit on a straight-line basis over the estimated useful life of each item of property, plant and equipment. Land is not depreciated. Depreciation begins when the item of property, plant and equipment is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases when the asset is derecognised.

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

	Original useful lives	Revised useful lives
• Buildings	5 - 54 years	6 - 64 years
• Computer equipment	3 - 25 years	3 - 29 years
• Office furniture	3 - 36 years	3 - 41 years
• Vehicles	4 - 19 years	16 - 22 years

Depreciation methods, useful lives and estimated residual values are reviewed at each reporting date. The effect of changes in the depreciation methods, useful lives and estimated residual values are accounted for in accordance with GRAP 3 (Standard on Accounting Policies, Changes in Accounting Estimates and Errors), as a change in estimate.

#### d) Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset at the disposal date and is recognised in surplus or deficit.

### 3.4 Intangible assets

Intangible assets that are acquired by the company are initially measured and recognised at cost. Subsequently they are carried at cost less accumulated amortisation and impairment losses.

Intangible assets with finite useful lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is charged to surplus or deficit on a straight line basis over the estimated useful lives of intangible assets. The amortisation period and the amortisation method is reviewed annually and any changes are accounted for in terms of GRAP 3 (Standard on

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2018

Accounting Policies, Changes in Accounting Estimates and Errors), as a change in accounting estimate.

Subsequent expenditure on an intangible item is recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria.

### Computer software

Computer software is initially recognised at cost. Subsequently it is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over the estimated useful life of the software. Annual license fees on software are expensed in the year of accrual.

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

	Original useful lives	Revised useful lives
• Computer Software	2 - 26 years	3 - 30 years

### Research and development

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

Development costs that have been incurred on internally generated intangible assets are capitalised and recognised as an intangible asset when management can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

## 3.5 Leases

### Lessee

Leases where the company does not retain a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the surplus or deficit on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

There are no items of property, plant and equipment classified as finance leased assets.

### Lessor

Rental income (net of any incentives given to the lessee) from operating leases is recognised on a straight-line basis over the term of the relevant lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

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

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position.

#### a) *Determining whether an arrangement contains a lease*

The company ensures that the following two requirements are met, in order for an arrangement transacted by the company to be classified as a lease in terms of GRAP 13 (Leases):

- Fulfilment of the arrangement is dependent on the use of an asset or assets, and this fact is not necessarily explicitly stated by the contract but rather implied; and
- The arrangement conveys a right to use the asset or assets, if one of the following conditions is met:
  - the purchaser has the ability or right to operate the asset or direct others to operate the asset; or
  - the purchaser has the ability or right to control physical access to the asset; or
  - there is only a remote possibility that parties other than the purchaser will take more than a insignificant amount of the output of the asset, and the price that the purchaser will pay is neither fixed per unit of output nor equal to the current market price at the time of delivery.

The company's assessment of whether an arrangement contains a lease is made at inception of the arrangement, with reassessment occurring in the event of limited changes in circumstances as specified by GRAP 13 (Leases).

### 3.6 Impairment

The carrying amount of the company's tangible and intangible assets with a finite useful life, other than financial assets and deferred taxation assets, are reviewed at each reporting date to determine if there is any indication of impairment. If such an indication exists, the recoverable amount of the asset is estimated to determine the extent of impairment loss (if any). Where an asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

An impairment loss is recognised in surplus or deficit whenever the carrying amount of an asset exceeds the recoverable amount.

The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset after deducting any costs relating to the realisation of the asset. In assessing the value in use, the expected future cash flows from the asset are discounted to their net present values using a pre-taxation discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates previously used to determine the recoverable amount, to an amount not higher than the carrying amount that would have resulted, net of depreciation and amortisation, had no impairment loss been recognised. A reversal of an impairment loss is recognised as income immediately if the impairment was recognised previously as an expense.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

### 3.7 Employee benefits

#### a) Defined contribution plan

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

#### b) Defined benefit plan

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The post-retirement benefit plan is a defined benefit plan and medical benefits are provided for all permanent employees via three medical funds. All contributions paid are charged to the surplus or deficit in the year to which they relate. The company provides post-retirement health care benefits to a closed group of qualifying employees and retirees. The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age. The expected cost of these benefits are accrued for over the period of employment, using the projected unit credit method. Annual valuations of these obligations are carried out by independent qualified actuaries. Any actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised as an expense in the period in which the plan is amended.

#### c) Termination benefits

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

Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present values.

#### d) Short-term benefits

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

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

### 3.8 Provisions

Provisions are recognised when, as a result of past events, the company has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not made for future operating losses.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

### 3.9 Revenue

Revenue comprises amounts invoiced to customers for goods and services and is recognised at the fair value of the consideration received or receivable, and excludes value added tax.

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- (a) the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- (b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits or service potential 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 shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a 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 or service potential 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.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recoverable recognised.

### 3.10 Finance income

Finance income comprises interest income earned on funds invested, interest accrued on overdue customer accounts and adjustments required in terms of GRAP 104 (Financial Instruments).

Interest is recognised on the time proportion basis using the effective interest method over the period to maturity, when it is determined that such income will accrue to the company.

### 3.11 Finance expenses

Finance expenses comprise interest and penalties payable on overdue accounts and adjustments required in terms of GRAP 104 (Financial Instruments). Interest is calculated and recognised in surplus or deficit using the effective interest method.

### 3.12 Taxation

Income tax comprises current and deferred tax. An income tax expense is recognised in surplus or deficit except to the extent that it relates to items recognised directly in the statement of changes in net assets.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

Current tax comprises tax payable or refundable calculated on the basis of the expected taxable income or taxable loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of the tax payable for previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided for is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The effects of deferred taxation of any changes in tax rates is recognised in the surplus or deficit, except to the extent that it relates to items previously charged and credited directly to the statement of changes in net assets.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

### 3.13 Contingent Liabilities

Contingent liabilities are possible obligations that arose from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity; or a present obligation that arises from past events but is not recognised because:

- (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- (b) the amount of the obligation cannot be measured with sufficient reliability.

### 3.14 Capital Commitments

Capital commitments are disclosed in respect of contracted amounts for which delivery by the contractor is outstanding at the accounting date.

### 3.15 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 are considered to be related parties.

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

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

All related party transactions that are not at arms length are disclosed separately in the financial statements. The objective of the financial statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

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#### **3.16 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 surplus or deficit in the period in which they are incurred.

#### **3.17 Cash and cash equivalents**

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

#### **3.18 Events after reporting date**

Events after the reporting date are those events, both favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue.

Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 4. Property, plant and equipment

Figures in Rand Thousand	Land	Buildings	Computer Equipment	Office furniture	Vehicles	Total
<b>AT 31 MARCH 2018</b>						
<b>COST</b>						
Balance at beginning of year	24 744	260 041	1 098 536	141 413	916	1 525 649
Additions and improvements	-	(52)	78 592	3 255	-	81 795
Disposals/Retirements	-	-	(544)	(17)	-	(561)
<b>Balance at end of year</b>	<b>24 744</b>	<b>259 989</b>	<b>1 176 584</b>	<b>144 651</b>	<b>916</b>	<b>1 606 884</b>
<b>Accumulated depreciation</b>						
Balance at beginning of year	-	(117 739)	(560 268)	(90 235)	(689)	(768 931)
Adjustment	-	534	832	(564)	-	802
Impairment	-	-	(5 592)	(394)	-	(5 986)
Depreciation charge	-	(9 709)	(108 971)	(4 932)	(32)	(123 644)
Disposals/Retirements	-	-	339	14	-	353
<b>Balance at end of year</b>	<b>-</b>	<b>(126 914)</b>	<b>(673 660)</b>	<b>(96 111)</b>	<b>(721)</b>	<b>(897 406)</b>
<b>Net carrying amount</b>	<b>24 744</b>	<b>133 075</b>	<b>502 924</b>	<b>48 540</b>	<b>195</b>	<b>709 478</b>
<b>AT 31 MARCH 2017</b>						
<b>COST</b>						
Balance at beginning of year	24 744	258 787	1 069 015	140 202	916	1 493 664
Additions and improvements	-	1 310	30 304	1 224	-	32 838
Disposals/Retirements	-	(57)	(783)	(12)	-	(852)
<b>Balance at end of year</b>	<b>24 744</b>	<b>260 041</b>	<b>1 098 537</b>	<b>141 414</b>	<b>916</b>	<b>1 525 649</b>
<b>Accumulated depreciation</b>						
Balance at beginning of year	-	(107 489)	(462 521)	(83 831)	(631)	(654 472)
Impairment	-	(5 137)	(11 121)	(3 165)	(25)	(19 448)
Depreciation charge	-	(5 157)	(87 373)	(3 244)	(33)	(95 806)
Disposals/Retirements	-	44	747	5	-	796
<b>Balance at end of year</b>	<b>-</b>	<b>(117 739)</b>	<b>(560 268)</b>	<b>(90 235)</b>	<b>(689)</b>	<b>(768 930)</b>
<b>Net carrying amount</b>	<b>24 744</b>	<b>142 301</b>	<b>538 268</b>	<b>51 179</b>	<b>227</b>	<b>756 719</b>

None of the items of property, plant and equipment are held under finance lease.

A register of land and buildings is available for inspection at the registered office of the company.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 5. Intangible assets

Figures in Rand Thousand	Intangible assets	Internally generated intangible asset	Total
<b>AT 31 MARCH 2018</b>			
<b>COST</b>			
Balance at beginning of year	565 609	450 747	1 016 356
Additions and improvements	5 533	50 647	56 180
Cost adjustment	(15 750)	-	(15 750)
Disposals/Retirements	(2 809)	-	(2 809)
<b>Balance at end of year</b>	<b>552 583</b>	<b>501 394</b>	<b>1 053 977</b>
<b>Accumulated amortisation</b>			
Balance at beginning of year	(191 821)	(310 104)	(501 925)
Amortisation charge	(73 456)	-	(73 456)
Disposals/Retirements	2 444	-	2 444
Impairment	-	(23 242)	(23 242)
Adjustment	(698)	-	(698)
<b>Balance at end of year</b>	<b>(263 531)</b>	<b>(333 346)</b>	<b>(596 877)</b>
<b>Net carrying amount</b>	<b>289 052</b>	<b>168 048</b>	<b>457 100</b>
<b>AT 31 MARCH 2017</b>			
<b>COST</b>			
Balance at beginning of year	349 668	444 493	794 160
Additions and improvements	246 258	6 255	252 513
Disposals/Retirements	(30 317)	-	(30 317)
<b>Balance at end of year</b>	<b>565 609</b>	<b>450 748</b>	<b>1 016 356</b>
<b>Accumulated amortisation</b>			
Balance at beginning of year	(152 065)	(310 101)	(462 166)
Amortisation charge	(64 032)	-	(64 032)
Disposals/Retirements	24 472	-	24 472
Impairment	(197)	(4)	(200)
<b>Balance at end of year</b>	<b>(191 821)</b>	<b>(310 105)</b>	<b>(501 926)</b>
<b>Net carrying amount</b>	<b>373 787</b>	<b>140 643</b>	<b>514 430</b>

Intangible assets comprises of software and licenses.

Internally generated intangible assets relate to the solution developments.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 6. Capital and Operational commitments

Figures in Rand Thousand

Note

2018

2017

Budgeted and contracted for:

• Operational commitments	5 290 052	5 188 752
• Capital commitments	46 318	292 145
– Buildings	396	9 448
– Computer Equipment	34 110	46 458
– Intangible assets	11 812	236 239
	<b>5 336 370</b>	<b>5 480 897</b>

The capital and operational commitments are funded through the company's operational activities.

All operating lease commitments are disclosed separately on the Annual Financial Statements under note 25.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 7. Deferred tax asset/(liability)

Figures in Rand Thousand

2018

### RECONCILIATION BETWEEN OPENING AND CLOSING BALANCE

Deferred tax asset at beginning of year	35 857
Statement of financial performance movement	(34 766)
- current year	(34 766)
<b>Deferred tax asset at end of year</b>	<b>1 091</b>

Deferred tax assets are attributable to the following temporary differences:

Figures in Rand Thousand

2018

Movement in impairment on trade receivables	17 028
Movement in intangible asset impairment	93 337
Accrual for leave pay benefits	19 438
Post-retirement medical benefits	27 349
Notional interest adjustment	(294)
Leases	728
Prepayments	(6 805)
Section 24C allowance	1 318
Depreciation/amortisation	(151 008)
	<b>1 091</b>

Figures in Rand Thousand

2017

Movement in impairment on trade receivables	20 263
Movement in intangible asset impairment	86 829
Accrual for leave pay benefits	23 438
Post-retirement medical benefits	32 004
Income received in advance	63 293
Notional interest adjustment	(301)
Leases	(726)
Prepayments	(100)
Section 24C allowance	(63 293)
Depreciation/amortisation	(125 550)
	<b>35 857</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 8. Cash and cash equivalents

Figures in Rand Thousand

2018

2017

### Cash with Banks

1 605 114

1 183 329

- Current account balance
- Interest Accrual
- Call account balance
- Payroll account
- CPD account
- Cash float

29 859

4 328

321

213

14 603

38 266

36

15

1 560 284

1 140 496

11

11

### Ring-fenced cash

(243 524)

(218 647)

- Cash Float SITA Cafeterias
- IFMS Project
- Income received in advance
- Unidentified receipts
- Legal Disputes

11

11

62 307

62 307

171 433

153 571

-

2 758

9 773

-

### Available Cash

1 361 590

964 682

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

The company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

The average rate of interest on the cash balances was 7.33% (2017: 7.36%)

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 9. Trade and other receivables

Figures in Rand Thousand	2018	2017
Trade receivables	1 221 275	1 169 165
Less: Impairment of trade receivables	(92 436)	(92 697)
	1 128 839	1 076 468
Other receivables	30 115	32 378
	<b>1 158 954</b>	<b>1 108 846</b>

The company's exposure to credit and currency risk and impairment losses related to trade and other receivables are disclosed in Note 23.

### 10. Prepayments

Figures in Rand Thousand	2018	2017
Non-current portion:	41 050	70 254
Current portion	64 966	67 651
<b>Total Prepayments</b>	<b>106 016</b>	<b>137 905</b>

### 11. Share Capital

Figures in Rand	2018	2017
<b>Authorised and issued</b>		
One ordinary share at R1.00 each	1	1

### 12. Reserves

Figures in Rand Thousand	2018	2017
Opening balance	627 335	627 335
Movement	-	-
<b>Closing balance</b>	<b>627 335</b>	<b>627 335</b>

The State Information Technology Agency Act, 1998 (Act no.88 of 1998)(as amended by Act no.38 of 2002) resulted in the reduction of the company's share capital from R627 334 547 to R1. Approval was granted by National Treasury to transfer the difference to reserves.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 13. Post-retirement employee benefits

Figures in Rand Thousand

Present value of unfunded obligations

2018

2017

97 677

114 302

97 677

114 302

Movement in the present value of the defined benefit liability

Balance at beginning of year

114 302

122 628

Statement of financial performance movement

(16 625)

(8 326)

Current service cost

3 537

4 079

Interest cost

12 412

14 060

Contributions paid

(922)

(802)

Realised actuarial (gain)

(31 652)

(25 663)

Balance at end of year

97 677

114 302

Employee benefit expense:

Current service cost

3 537

4 079

Interest cost

12 412

14 060

Net actuarial gains recognised in surplus or deficit

(31 652)

(25 663)

**TOTAL EMPLOYEE BENEFIT EXPENSE**

**(15 703)**

**(7 524)**

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

#### Principal actuarial assumptions

Discount Rate	10.00% p.a.	10.90% p.a.
CPI inflation	7.00% p.a.	8.10% p.a.
Healthcare Cost Inflation	9.00% p.a.	10.10% p.a.
Real discount rate	1.00% p.a.	0.80% p.a.
Increase in Rand Cap	9.00% p.a.	10.10% p.a.
Mortality Rates: Pre-retirement	SA85-90 L	SA85-90 L
Post-retirement	PA(90) rated down 2 year(s) plus 1% future improvement 2006	PA(90) rated down 2 year(s) plus 1% future improvement 2006
Withdrawal assumptions	0% to 15% from ages 20 to 45	0% to 15% from ages 20 to 45
Expected retirement ages	65 for Ex Infoplan employees; 60 for other	65 for Ex Infoplan employees; 60 for other
Percentage of members discontinuing medical aid at retirement	0%	0%
Percentage of in-service members married at retirement	90%	90%
Husband and wife age difference	4 years	4 years

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

- (a) Ex-Infoplan employees who transferred to the company on 1 April 1999 and who remain members of SITA approved medical aids;
- (b) Ex-SAPS employees who transferred to the company on 1 April 1999; and
- (c) Other former public sector employees who transferred to the company on or after 1 April 1999 and who remain members of SITA approved medical aids.

The amounts due in respect of the company's liability regarding the post-retirement medical benefit has been determined by independent actuaries as at 31 March 2018 using the projected unit credit method.

It is anticipated that the contributions to be paid in 2018/19 will amount to R985 000.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

#### Sensitivity analysis relating to the assumed medical cost trend rates:

	Increase of 1%	Base	Decrease of 1%
Change in Liability in Rand Thousand	120 843	97 677	79 896
Change in Liability as a %	23,7%		-18,2%
Service cost and Interest cost in Rand	19 951	15 949	12 901

	2018	2017	2016	2015	2014
Experience adjustments	(17 649)	(18 145)	(14 027)	(12 050)	(24 098)
Present value of defined benefit obligation	97 677	114 302	122 628	127 446	109 267

### 13.1 Employee benefits

All permanent employees are members of the following independent funds:

#### Denel Retirement Fund:

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

#### Government Employees Pension Fund:

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund. However, as the company's responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made on behalf of its employees, this fund is classified as a defined contribution fund from the company's perspective. 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.

The contributions charged against income for the above mentioned pension funds amounted to R99.6 million (2017: R100.5 million).

#### 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 R97.7 million (2017: R96.3 million). The company's financial obligation is limited to the current company contributions.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 14. Trade and other payables

Figures in Rand Thousand	2018	2017
Trade payables	727 594	686 288
Leave pay accrual	69 423	83 708
Non-trade payables	59 276	71 700
	<b>856 293</b>	<b>841 696</b>

The company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

### 15. Income received in advance

Figures in Rand Thousand	2018	2017
Unearned Revenue	-	10 167
Ring fenced cash (Refer to note 8)	233 740	215 878
– Income received in advance	171 433	153 571
– IFMS	62 307	62 307
	<b>233 740</b>	<b>226 045</b>

- Income received in advance represents monies received from customers to be utilised for specific projects in future periods.
- Unearned Revenue represents amounts that have been billed as per the contract with the customer, but relate to future activity of the contract.

### 16. Revenue

Figures in Rand Thousand	2018	2017
Agency Revenue	1 414 574	1 483 253
Services Revenue	4 344 138	4 197 540
	<b>5 758 712</b>	<b>5 680 793</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 17. Cost of sales

Figures in Rand Thousand	2018	2017
Agency Cost of Sales	1 302 670	1 454 738
Services Cost of Sales	3 234 411	3 207 144
	<b>4 537 081</b>	<b>4 661 882</b>

### 18. Other income

Figures in Rand Thousand	2018	2017
Profit on disposal of assets	1	-
Rental income	9 836	12 246
Income from GovTech conference	-	21 351
Sundry income	22 918	4 748
	<b>32 755</b>	<b>38 345</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 19. Operating expenses

The following separately disclosable items are included in operating expenses:

Figures in Rand Thousand	2018	2017
<b>Auditor's remuneration</b>		
– Audit fees	11 888	13 409
<b>Amortisation</b>		
Total amortisation	73 456	64 032
Included in Cost of sales	(51 503)	(59 823)
Non-recoverable amortisation	<b>21 953</b>	<b>4 209</b>
<b>Depreciation</b>		
Total depreciation	123 645	95 806
Included in cost of sales	(114 735)	(83 501)
Non-recoverable depreciation	<b>8 910</b>	<b>12 305</b>
<b>Impairment movement</b>		
– Trade and other receivables	229	6 538
– Impairment of Property, Plant and Equipment	5 986	19 448
– Impairment of Intangible assets	23 242	200
<b>Bad debt written-off</b>	269	2 709
<b>Net Loss on disposal of assets</b>	572	5 901
<b>Operating lease expense</b>	29 326	32 199
<b>Staff costs</b>	<b>462 293</b>	<b>514 812</b>

Refer to Annexure A for Director's remuneration

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 20. Finance income

Figures in Rand Thousand	2018	2017
Notional Interest earned	81 598	90 572
Foreign exchange gain	1 201	2 325
Interest on cash balances	62 727	69 628
Interest on Provisional tax overpayment	6 254	4 460
Interest received - other	-	25 288
	<b>151 780</b>	<b>192 273</b>

### 21. Finance expenses

Figures in Rand Thousand	2018	2017
Notional Interest incurred	54 847	48 865
Interest paid	472	678
Foreign exchange loss	17	134
	<b>55 336</b>	<b>49 678</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 22. Income tax expense

Figures in Rand Thousand

	2018	2017
<b>Current tax expense</b>		
Income tax charge	48 883	55 189
Prior year under provision	-	-
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	34 766	28 982
<b>Total income tax expense</b>	<b>83 649</b>	<b>84 172</b>
<b>Reconciliation of effective tax rate</b>		
Surplus/(Deficit) for the period	226 879	160 840
Total income tax expense	(83 649)	(84 172)
<b>Surplus/(Deficit) excluding income tax</b>	<b>310 528</b>	<b>245 012</b>

	2018		2017	
	%	R	%	R
Income tax using the company's domestic tax rate	28,00%	86 947	28,00%	68 603
Non-deductible expenses	-1,06%	(3 298)	6,35%	15 569
<b>Effective income tax</b>	<b>26,94%</b>	<b>83 649</b>	<b>34,35%</b>	<b>84 172</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 23. Financial instruments

### a) Credit risk

Credit risk is the risk of financial loss to the company when the customer or counterparty to the financial instrument fails to meet its contractual obligations and arises principally from the company's receivables from customers.

The company limits its counterparty exposure arising from money market instruments by dealing only with well-established financial institutions of high credit standing. Exposure relating to trade and other receivables, which mainly consist of national and provincial government departments as well as local government, is managed by entering into contractual agreements that indicate payment terms of the services rendered. These customers fall within the ambit of the Public Finance Management Act, 1999 (Act No. 1 of 1999) and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). These legislations prescribe that suppliers of products and services be paid within 30 days or as stipulated by agreements entered into.

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

Figures in Rand Thousand	Note	Carrying amount	
		2018	2017
Trade Receivables	9	1 128 839	1 076 468
Other receivables	9	30 115	32 378
Cash and cash equivalents	8	1 605 114	1 183 329
		<b>2 764 068</b>	<b>2 292 175</b>

### Impairment losses

The aging of trade receivables net of the impairment loss at the reporting date was:

Figures in Rand Thousand	Note	2018	2017
Not past due		819 294	712 482
Past due 0 - 30 days		172 547	184 679
Past due 31 - 90 days		38 554	40 444
Past due 91 - 360 days		62 396	111 429
Past due - more than 360 days		36 048	27 434
		<b>1 128 839</b>	<b>1 076 468</b>

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

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### Credit quality of financial assets

#### Trade receivables

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings, except for the credit quality of individual government debt that cannot be determined individually as government as a whole is assessed by international rating agencies in total. Management does not deem it appropriate to assign a national rating to specific debtors.

Figures in Rand Thousand	2018	2017
<b>Cash at bank</b>		
Zero risk (CPD)	1 560 286	1 140 496
Fitch BB+	44 497	42 609
Cash on hand	331	224
	<b>1 605 114</b>	<b>1 183 329</b>

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

Figures in Rand Thousand	2018	2017
Balance at beginning of year	92 697	85 244
Impairment loss recognised	(261)	7 453
Balance at end of year	<b>92 436</b>	<b>92 697</b>

The impairment loss is based on history on invoices over 360 days and specifically identified invoices that are considered doubtful based on information in the company's possession. Each debtor is analysed individually and a decision to impair is made.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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### b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach in managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. 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.

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

#### 31 MARCH 2018

Figures in Rand Thousand	Carrying amounts	Contractual cash flow	6 months or less	6 - 12 months	1 - 2 years
Trade and other payables	856 293	856 293	856 293	-	-
	<b>856 293</b>	<b>856 293</b>	<b>856 293</b>	-	-

#### 31 MARCH 2017

in Figures in Rand Thousand	Carrying amounts	Contractual cash flow	6 months or less	6 - 12 months	1 - 2 years
Trade and other payables	841 696	841 696	841 696	-	-
	<b>841 696</b>	<b>841 696</b>	<b>841 696</b>	-	-

### c) Currency risk

Currency risk arises from exposure to foreign currencies when the value of the rand changes in relation to these currencies. The company primarily transacts in US dollar when dealing with foreign transactions.

The company's exposure to foreign currency risk was minimal.

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#### d) Interest rate risk

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

Figures in Rand Thousand	Carrying amount	
	2018	2017

##### Fixed interest rate

The company does not hold any fixed interest rate financial instruments.

##### Fair value sensitivity analysis for fixed rate instruments

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

##### Variable interest rate

Cash and cash equivalents	1 605 114	1 183 329
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##### Fair value sensitivity analysis for variable interest rate instruments

The sensitivity analysis below has been determined based on the exposure to interest rates at reporting date and the stipulated change taking place at the beginning of the financial year and held constant in the case of variable rate borrowings. A 100 basis point increase or decrease has been used, as this represents management's assessment of the possible change in the interest rates.

If interest rates had been 100 basis points higher/lower and all other variables held constant, the company's cash and cash equivalent would increase/decrease by:	16 051	11 833
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#### e) Categories of financial instruments

##### Financial instruments at amortised cost:

Cash and cash equivalents	1 605 114	1 183 329
Trade and other receivables	1 158 954	1 108 846
Trade and other payables	856 293	841 696

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#### 24. Related parties

##### Transactions with government

The company is 100% owned by the government of South Africa represented by the Minister of Telecommunications and Postal Services.

The company is a schedule 3A National Public Entity in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

Related parties of the company consist of government departments, state-owned enterprises and other public entities in the national sphere of government and key management personnel of the company and close family members of related parties. All transactions entered into with related parties are at arm's length. This entails that all transactions occur in the normal course of operations and are at the same terms and conditions as available to all customers and suppliers alike.

##### Transactions with key management personnel

The key management personnel are directors and executive managers of the company for the year ended 31 March 2018.

Transactions with key management personnel are disclosed in Annexure A.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

## 25. Operating leases

### Operating lease expense

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

Figures in Rand Thousand	2018	2017
Less than 1 year	29 326	15 224
Between 1 and 5 years	43 663	10 581
More than 5 years	-	-
	<b>72 989</b>	<b>25 805</b>

### Operating lease income

The company entered into non-cancellable operating lease agreements with tenants. At reporting date, the future minimum lease payments receivable under these lease agreements were as follows:

Figures in Rand Thousand	2018	2017
Less than 1 year	55	97
Between 1 and 5 years	203	221
More than 5 years	166	157
	<b>424</b>	<b>475</b>

The average period for operating lease agreements is 5 years.

## 26. Contingent liabilities

### Litigations and claims:

There are various claims between SITA and suppliers estimated at approximately R46m. Based on legal advice, the probability is not determinable at this point as more information is coming to light given the current investigations that are in progress. Furthermore, it is not possible at this stage to estimate the exact potential damages and legal costs involved as it will have to be proved by the plaintiffs/defendants. The estimated legal costs amount to R7m.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

#### 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	Applicable to SITA
GRAP 20	Related Party Disclosures	YES
GRAP 32	Service concession arrangements	N/A
GRAP 108	Statutory Receivables	N/A
GRAP 109	Accounting by Principals and Agents	N/A

With regards to GRAP 20, an assessment of the impact of its application has been made and it has been determined that this standards will only have a impact on the company's disclosure in the annual financial statements. No effective date has been determined by the Minister of Finance and no early adoption of the standard has been made by SITA.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 28 a) Irregular Expenditure

Figures in Rand Thousand

	2018	2017
Opening Balance	554 215	113 497
Add: Irregular Expenditure - detected in prior years continuing in current year	28 898	-
Add: Irregular Expenditure - detected in the current financial year	351 649	449 985
– Amount relating to prior financial years	249 732	363 324
– Amount relating to current financial year	101 916	86 661
Less: Amounts condoned	(138 803)	(2 184)
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	(68 167)	(7 356)
Closing Balance	727 792	553 942
Add/(Less): Prior year adjustment	-	273
<b>Irregular expenditure awaiting condonation</b>	<b>727 792</b>	<b>554 215</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	380 547	449 985
Amounts condoned	(138 803)	(2 184)
Amounts not recoverable (not condoned)	(68 167)	(7 356)
Prior years	554 215	113 770
<b>TOTAL</b>	<b>727 792</b>	<b>554 215</b>

### 28 b) Fruitless and Wasteful Expenditure

Figures in Rand Thousand

	2018	2017
Opening Balance	12 074	11 664
Add: Fruitless and Wasteful expenditure - detected in the current financial year	2 887	410
– Amount relating to prior financial years	-	-
– Amount relating to current financial year	2 887	410
Less : Amounts written off	(1 502)	-
Less: Amounts not recoverable (not condoned)	-	-
<b>Fruitless and wasteful expenditure awaiting write-off</b>	<b>13 459</b>	<b>12 074</b>
<b>Analysis of expenditure awaiting write-off per age classification</b>		
Current year	1 850	410
Prior years	11 609	11 664
<b>TOTAL</b>	<b>13 459</b>	<b>12 074</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 MARCH 2018

#### Details of Fruitless and Wasteful Expenditure

##### Prior Years

The prior years fruitless and Wasteful expenditure is made up of **R8,530,842** resulting from compounded interest accumulated over the previous 4 years in respect of back billing for the period March 2011 to March 2014, **R450,000** paid in respect of contract termination with a supplier, **R1,232,452** interest charged for late payments and **R1,861,517** that relates to a matter under criminal investigation by the Serious Commercial Crime Unit (SCCU). The matter was finalised and ruled in favour of SITA.

##### Current year

An amount of **R1,844,050** represents fruitless and wasteful expenditure resulting from interest charged on long outstanding disputed invoices where the court ruled in favour of the supplier. **R1,036,728** was incurred when a contract was unlawfully terminated and avoidable litigation was entered into resulting in fruitless and wasteful expenditure and an amount of **R5,734** relates to fruitless and wasteful expenditure incurred when an employee left the organisation on the 15th of the month but was paid their full salary at the end of the month.

Management has established the Loss Control Committee to ensure effective management of incidents of financial misconduct. Formal investigations relating to irregular expenditure and fruitless and wasteful expenditure have been initiated and disciplinary action has been instituted in respect of the majority of the cases.

An investigation with regards to the deployment of software licenses is currently in progress that indicates that fruitless and wasteful expenditure has been incurred. This amount could not be quantified at the date of submission of the financial statements.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 1. Details of Irregular Expenditure - Detected and/or incurred during the current year

	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
1	<b>IE00111</b> Irregular expenditure due to continued procurement of services after the contract expired. This is in respect of provision of microfilm and archiving services to the Department of Defence. The tender was cancelled at a point where the existing contract was due to expire.	1 946	-	-	-	1 946
2	<b>IE00113-IE00119</b> Irregular expenditure due to continued procurement of services after the contract expired. This is in respect of provision of access link & bandwidth for various sites.	22 813	38	58	96	22 909
3	<b>IE00120</b> Irregular expenditure due to broad band upgrades that were not properly approved by the delegated authority. This was due to inadequate contract management.	4 139	-	-	-	4 139
4	<b>IE00124</b> Irregular expenditure resulting from continued procurement of security services after the contract expiry on 31 January 2017 due to inadequate contract management (SITA Limpopo).	-	122	378	500	500



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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
5	<b>IE00125</b> Irregular expenditure resulting from continued procurement of access links after expiry of contract on 31 October 2016 due to inadequate contract management (SITA KZN).	-	715	866	1 581	1 581
6	<b>IE00126</b> Irregular expenditure resulting from the installation of a business intelligence tool. This was due to the recommendation of a service provider to the Department of Defence by a SITA employee that did not have delegation to make such recommendation.	-	292	-	292	292
7	<b>IE00127</b> Irregular expenditure due to appointment of physical security service provider without following the required SCM processes. This was due to the fact that the appointment was based on Treasury Regulation 16A6.6, which was incorrectly applied.	-	17 536	-	17 536	17 536
8	<b>IE00128</b> Irregular expenditure resulting from the continued occupation of office accommodation at SITA Potchefstroom after the expiry of the contracts. A single source deviation was applied for and a new contract for one year is in place from 02 August 2017.	-	-	109	109	109

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
9	<b>IE00129</b> Irregular expenditure resulting from the continued occupation of office accommodation at SITA Rustenburg from 01 October 2017 to 31 December 2017 after the expiry of the contract.	-	-	73	73	73
10	<b>IE00130</b> Irregular expenditure resulting from the continued occupation of office accommodation at SITA Mahikeng from 01 October 2017 to 18 January 2018 after the expiry of the contract.	-	-	226	226	226
11	<b>IE00131</b> Irregular expenditure resulting from non-compliance with the procurement procedures resulting in the award of a tender and therefore all related expenditure being irregular.	-	192 660	-	192 660	192 660
12	<b>IE00132</b> Irregular expenditure resulting from the continued use of hygiene services after the expiry of the contract on 31 March 2016.	-	191	-	191	191
13	<b>IE00133</b> Irregular expenditure due to SITA employees and client attending a conference without adhering to Treasury instruction Note 3. HoD approved without delegation to do so.	-	-	34	34	34

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
14	<b>IE00137</b> Irregular expenditure arising from the continued use of vending machine services within the contract period but over the agreed contract value.	-	-	724	724	724
15	<b>IE00138</b> Irregular expenditure resulting from the continued use of support and maintenance services from 01 March 2017 to 31 October 2017 before obtaining the approval to renew the contract which expired on 28 February 2017.	-	215	1 507	1 722	1 722
16	<b>IE00139</b> Irregular expenditure arising from the continued use of network support services from 01 September 2017 to 30 November 2017 on behalf of Buffalo City Municipality without a valid contract with the supplier in place.	-	-	1 590	1 590	1 590
17	<b>IE00140</b> Irregular expenditure arising from the continued infrastructure maintenance and support services within the contract period but over the agreed contract value.	-	-	496	496	496
18	<b>IE00141</b> Irregular expenditure arising from the scope expansion of a contract increasing the contract value by more than 15% that was not approved by National Treasury. This was for forensic audit investigations.	-	12 194	-	12 194	12 194

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
19	<b>IE00143</b> Irregular expenditure with regard to the scope expansion of a contract without obtaining the required approval and amending the MOA.	-	3 376	-	3 376	3 376
20	<b>IE00145</b> Irregular expenditure due to use of dataline and access links services not included in the contract with the supplier for the period 01 October 2017 to 31 March 2018.	-	119	203	322	322
21	<b>IE00146</b> Irregular expenditure incurred from 01 July 2017 to 31 December 2017 in respect of licence maintenance support without a valid contract in place.	-	-	2 327	2 327	2 327
22	<b>IE00147</b> Irregular expenditure incurred from 01 October 2016 to 31 March 2018 in respect of annual licence fees and maintenance of point of sale equipment without a valid contract in place.	-	8	15	23	23
23	<b>IE00148</b> Irregular expenditure incurred within the contract period but exceeding the contract value for the period 01 October 2017 to 31 March 2018 in respect of access lines and bandwidth for various sites.	-	-	720	720	720

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
24	<b>IE00155</b> Irregular expenditure incurred due to exceeding the contract value for the period 01 Oct 2017 to 31 March 2018 in respect of access lines and bandwidth for various sites. This was due to upgrades not included in the scope of the contract.	-	-	556	556	556
25	<b>IE00157</b> Irregular expenditure amounting due to the continued rental of a generator for the SITA Centurion Datacentre in March 2018 after the contract expired on 28 February 2018.	-	-	222	222	222
26	<b>IE00162</b> Irregular expenditure incurred due to exceeding the contract value for the period 01 Oct 2017 to 31 March 2018 in respect of access lines and bandwidth for various sites. This was due to upgrades not included in the scope of the contract.	-	-	267	267	267
27	<b>IE00163</b> Irregular expenditure incurred due to exceeding the contract value for the period 01 Oct 2017 to 31 March 2018 in respect of access lines and bandwidth for various sites. This was due to upgrades not included in the scope of the contract.	-	-	5	5	5

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
28	<b>IE00164</b> Irregular expenditure incurred due to exceeding the contract value for the period 01 Oct 2017 to 31 March 2018 in respect of access lines and bandwidth for various sites. This was due to upgrades not included in the scope of the contract.	-	-	30	30	30
29	<b>IE00168</b> National Treasury approval was not obtained in respect of a deviation from inviting competitive bids for the provision of ICT equipment. This resulted in the award of the tender being irregular.	-	-	22 885	22 885	22 885
30	<b>IE00169</b> Irregular expenditure incurred as a result of the rental of a vehicle that was not cost effective due to the method that was selected to procure the service.	-	61	631	692	692
31	<b>IE00170</b> Irregular expenditure incurred as a result of an award in a closed bid to a supplier of SOPHOS licences that did not meet the requirements that led to the deviation from SCM processes.	-	-	1 275	1 275	1 275
32	<b>IE00171</b> Irregular expenditure incurred as a result of an award to a consultancy firm that should have been disqualified and further extension of the contract which was in contravention of the security vetting policy.	-	3 219	13 879	17 098	17 098

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
33	<b>IE00172</b> Irregular expenditure incurred as a result of an award to a consultancy firm for the provision of procurement consultancy services that should have been disqualified as they did not comply with bid requirements.		7 086	11 273	18 359	18 359
34	<b>IE00173</b> Irregular expenditure incurred as a result of an award to a consultancy firm for the provision of architectural consultancy services that should have been disqualified as incorrect information provided by the supplier resulted in unfair evaluation.		5 292	22 358	27 650	27 650
35	<b>IE00174</b> Irregular expenditure incurred as a result of a contract awarded based on invalid deviation to shorten the advertising period for a bid.			1 345	1 345	1 345
36	<b>IE00175</b> Irregular expenditure incurred as a result of an appointment of an employee without complying with the requirements of relevant legislation and extending the contract of the employee without appropriate approval.			1 578	1 578	1 578

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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
37	<b>IE00176</b> Irregular expenditure due to the award of a contract to a supplier that was not tax compliant at the time of the award for the use of dataline and access links services.			5 096	5 096	5 096
38	<b>IE00177</b> Irregular expenditure due to the award of a contract to a supplier that did not meet the requirement for local content for the provision of power infrastructure support, critical repairs and maintenance services on an electrical plant.			1 058	1 058	1 058
39	<b>IE00178</b> Irregular expenditure due to the award of a contract to a supplier that did not meet the requirement for local content for the provision of medium voltage support, critical repairs and maintenance services on an electrical plant.			1 356	1 356	1 356
40	<b>IE00179</b> Irregular expenditure due to the award of a contract to a supplier that did not meet the requirement for local content for the provision of modular UPS units and battery systems.		6 608	7 912	14 520	14 520
41	<b>IE00180</b> Irregular expenditure incurred as a result of a single source deviation that should have been avoided had proper planning been done in respect of a lease of office accomodation.			319	319	319



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	In Rand Thousand	Prior Year	Current Year			Total Current and Prior Year
Item No.	Incident	Detected in prior years incurred in current year	Detected in current year incurred in prior years	Detected in current year incurred in current year	Current Year Total	Total Irregular expenditure incurred
42	<b>IE00181</b> Irregular expenditure incurred as a result of a single source deviation that should have been avoided had proper planning been done in respect IT business solutions.			476	476	476
43	<b>IE00182</b> Irregular expenditure incurred as a result of the award to a supplier for repairs on backup generators without the required approval to obtain less than 3 quotations.			68	68	68
	<b>TOTALS</b>	<b>28 898</b>	<b>249 732</b>	<b>101 916</b>	<b>351 649</b>	<b>380 547</b>

As part of a clean-up exercise possible irregular expenditure was identified by external investigators appointed by management relating to supplier contracts for the VA/Amis systems. This investigation is at the finalisation stage.

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### 2(a) Details of Irregular Expenditure Condoned

In Rand Thousand			
Item No.	Incident	Condoned by (condoning authority)	Amount
1	<b>IE00121</b> Irregular expenditure arising from procurement of financial modelling services without following the competitive bidding process due to inadequate planning.	Board of Directors	900
2	<b>IE00122</b> Irregular expenditure arising from procurement of consulting services without following the competitive bidding process due to inadequate planning.	Board of Directors	12 281
3	<b>IE00102</b> Exceeding of the contract amount in respect of Provision of Business Analysis services due to inadequate contract management.	Board of Directors	1 838
4	<b>IE00086</b> Irregular expenditure that occurred in a case where a tender was awarded to Telkom but the RFQ and PO's were issued to Vodacom.	Board of Directors	295
5	<b>IE00097</b> Emergency procurement process incorrectly utilised in respect of acquisition of diesel for DATA centres generators due to lack of proper planning.	Board of Directors	166
6	<b>IE00101</b> Continued occupation of office premises after expiry of the lease contract due to inadequate contract management.	Board of Directors	774
7	<b>IE00119</b> Irregular expenditure due to continued procurement of services after the contract expired. This is in respect of Provision of Access Link & Bandwidth for Various Sites.	Board of Directors	121 325
8	<b>IE00108</b> Irregular expenditure due to deviation from the normal SITA SCM procurement process without the required approval (Emergency Procurement relating to upgrade of Data and Switching Centre for WC).	Board of Directors	1 224
	<b>TOTALS</b>		<b>138 803</b>

Note: For the condoned irregular expenditure, value for money was received as service was received, the non-compliance was due to circumstances that were not within the control of management and therefore no official could be held responsible for the irregular expenditure.

### 2(b) Details of prior year adjustments

The amount in respect of the prior year adjustment relates to irregular expenditure in respect of one case that was understated in the notes to the annual financial statements for the 2016/2017 financial year due to a typing error.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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## 2(c) Details of Irregular Expenditure not recoverable and not condoned

In Rand Thousand			
Item No.	Incident	Written off by (condoning authority)	Amount
1	<b>IE00127</b> Irregular expenditure due to appointment of physical security service provider without following the required SCM processes. This was due to the fact that the appointment was based on Treasury Regulation 16A6.6, which was incorrectly applied.	Board of Directors	17 536
2	<b>IE00076</b> Continued procurement of repairs and maintenance services after expiry of the contract due to inadequate contract management.	Board of Directors	20
3	<b>IE00078</b> Continued procurement of repairs and maintenance services after expiry of the contract due to inadequate contract management.	Board of Directors	23
4	<b>IE00080</b> Continued procurement of software services after expiry of the contract due to inadequate contract management.	Board of Directors	487
5	<b>IE00033</b> Procurement of software maintenance services after expiry of the contract due to inadequate contract management.	Board of Directors	70
6	<b>IE00042</b> Continued procurement of security services after expiry of the contract due to inadequate contract management.	Board of Directors	192
7	<b>IE00074</b> Continued procurement of office cleaning services, after expiry of contract on 30 September 2013 due to inadequate contract management.	Board of Directors	64
8	<b>IE00065</b> Continued procurement of repairs and maintenance services after expiry of contract on 30 September 2013 due to inadequate contract management.	Board of Directors	7
9	<b>IE00068</b> Continued procurement of security services after expiry of contract on 30 September 2013 due to inadequate contract management.	Board of Directors	116
10	<b>IE00044</b> Continued procurement of services from a supplier after the expiry of the initial contract due to inadequate contract management.	Board of Directors	4

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In Rand Thousand			
Item No.	Incident	Written off by (condoning authority)	Amount
11	<b>IE00092</b> Continued leasing of Desktops and Laptops after expiry of the contract extension on 31 March 2015 due to inadequate contract management.	Board of Directors	6 040
12	<b>IE00045</b> Scope extension to include additional MTN voice/Data/LCR on the existing contract 606.	Board of Directors	16 461
13	<b>IE00040</b> Deviation from SITA procurement process with regards to engaging a legal representative for the CCMA Arbitration.	Board of Directors	305
14	<b>IE00032</b> Senior official exceeded his delegation of authority by unilaterally entering into an agreement with a supplier without Board approval.	Board of Directors	1 764
15	<b>IE00043</b> Deviation from SITA procurement process with regards to engaging a legal representative for the CCMA Arbitration.	Board of Directors	76
16	<b>IE00059</b> Deviation from SITA procurement process with regards to procurement of staff augmentation services without a contract.	Board of Directors	1 360
17	<b>IE00052</b> Continued procurement, without a contract, of maintenance and support services for the networking equipment hosted at various switching centres throughout the country.	Board of Directors	4 025
18	<b>IE00055</b> Continued procurement of courier services after expiry of the contract on 30 November 2012 due to inadequate contract management.	Board of Directors	84
19	<b>IE00072</b> Procurement of maintenance and support services expiry of contract on 31 December 2013 due to inadequate contract management.	Board of Directors	4 780
20	<b>IE00077</b> Procurement of software maintenance services after contract expiry on 31 December 2013 due to inadequate contract management.	Board of Directors	12
21	<b>IE00039</b> Continued procurement of services after expiry of contract due to inadequate contract management.	Board of Directors	34

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

In Rand Thousand			
Item No.	Incident	Written off by (condoning authority)	Amount
22	<b>IE00041</b> Continued rental of office accommodation after expiry of contract on 30 April 2010 due to inadequate contract management.	Board of Directors	39
23	<b>IE00029</b> Deviation from SITA procurement process with regards to procurement of computer equipment.	Board of Directors	169
24	<b>IE00036</b> Continued procurement of office rental after expiry of contract on 31 March 2009 due to inadequate contract management.	Board of Directors	290
25	<b>IE00095</b> Continued procurement of security services, after expiry of the initial contract extension on 30 June 2015 due to inadequate contract management.	Board of Directors	95
26	<b>IE00030</b> Deviation from SITA procurement process with regards to additional change management services within IT projects (extension of the scope) for the Department of Correctional Services (DCS).	Board of Directors	526
27	<b>IE00050</b> Procurement of software maintenance services after expiry of contract due to inadequate contract management.	Board of Directors	2 161
28	<b>IE00104</b> Quotation publication period shortened by more than specified in terms of SCM policy.	Board of Directors	13
29	<b>IE00105</b> The specifications for the request for quotation that was published to prospective suppliers was unclear, resulting in some bidders being irregularly disqualified.	Board of Directors	156
30	<b>IE00106</b> Price adjustment on the extension of the original contract being more than the allowable threshold due to inadequate contract management.	Board of Directors	2 215
31	<b>IE00110</b> Irregular Expenditure due to continued procurement of services after the contract expired (This is in respect of provision of support of the South African Air Force's Integrated Command and Control system).	Board of Directors	9 044
	<b>TOTALS</b>		<b>68 168</b>

The basis for the write offs was that value for money was received, preventative measures have been put in place to prevent recurrence, the officials responsible for the irregular expenditure are no longer within the employ of the entity and therefore disciplinary action was not possible.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

### 3. Details of Fruitless and Wasteful Expenditure written off

In Rand Thousand			
Item No.	Incident	Condoned by (condoning authority)	Amount
1	<b>FWE00001</b> Interest charged on late payment of invoices for electricity to City of Tshwane.	Board of Directors	15
2	<b>FWE00003</b> Settlement amount paid in respect of the cancellation of work awarded to the supplier (RFB 1075/2013) without notifying the supplier of the cancellation.	Board of Directors	450
3	<b>FWE00004</b> Contract with Nationwide Security Services was unlawfully terminated and avoidable litigation was entered into resulting in fruitless and wasteful expenditure.	Board of Directors	1 037
	<b>TOTALS</b>		<b>1 502</b>

The basis for the write offs was that preventative measures have been put in place to prevent recurrence, the officials responsible for the irregular expenditure are no longer within the employ of the entity and therefore disciplinary action was not possible.

## 29. Cash flow notes

### 29.1 Normal tax (received)/paid

Figures in Rand Thousand	2018	2017
Opening balance	(179 444)	(322 622)
Current year normal tax charge	48 883	55 189
Interest accrual on provisional tax over payment	(6 254)	(4 461)
Closing balance	111 325	179 444
	<b>(25 490)</b>	<b>(92 450)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## 29.2 Reconciliation of net cash flows from operating activities

Figures in Rand Thousand

2018

2017

### NET CASH INFLOW FROM OPERATING ACTIVITIES

Surplus/(Deficit) before taxation	310 528	245 012
Adjustments for non-cash flow items:	-	-
– Depreciation/Amortisation/Adjustments	197 102	159 838
– Increase in provision for impairment intangible assets	23 242	200
– Increase/(Decrease) in provision for impairment debtors	(229)	6 538
– Bad debt writtenoff	269	2 709
– Increase in provision for Impairment of Property, Plant and Equipment	5 986	19 448
– Loss on disposal or scrapping of property, plant and equipment	572	5 901
– Profit on disposal or scrapping of property, plant and equipment	(1)	-
– (Decrease) in provision for postretirement employee benefits	(15 703)	(8 326)
– Other non cash items	2 357	-
– Finance Expense	55 336	48 865
– Finance income	(151 780)	(95 033)
<b>Operating profit before working capital changes</b>	<b>427 679</b>	<b>385 152</b>
Working capital changes:		
– (Increase)/Decrease in trade and other receivables	(49 847)	(80 820)
– (Increase)/Decrease in allowance for impairments	-	915
– Decrease/(Increase) in prepayments made	31 888	(95 047)
– (Decrease)/Increase in trade and other payables	14 596	(113 503)
– Increase in income received in advance	7 696	3 883
<b>Cash generated in operations</b>	<b>432 013</b>	<b>100 580</b>
Normal taxation	25 491	92 450
Finance costs paid	(521)	(48 865)
Finance income received	63 927	90 572
	<b>520 910</b>	<b>234 737</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## Annexure A - 2018

## IN RAND - 31 MARCH 2018

POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
<b>NON-EXECUTIVE DIRECTORS</b>									
<b>Chairperson</b>									
Mr Z Nomvete	12 months	31-Mar-18	541 585	-	-	3 064	-	-	544 649
<b>BOARD MEMBERS</b>									
Ms S Chaba	12 months	31-Mar-18	406 581	-	-	14 982	-	-	421 563
Ms N N Ehrens	12 months	31-Mar-18	473 654	-	-	13 827	-	-	487 481
Ms N Magubane	12 months	31-Mar-18	218 430	-	-	2 244	-	-	220 674
Adv N Mhlangu	12 months	31-Mar-18	387 531	-	-	12 342	-	-	399 873
Dr V Mahlati	12 months	31-Mar-18	215 512,00	-	-	3 367,00	-	-	218 879
Ms P Matlala	12 months	31-Mar-18	371 374	-	-	12 903	-	-	384 277
Mr MT Sadik	12 months	31-Mar-18	285 818	-	-	10 940	-	-	296 758
Mr G Victor	12 months	31-Mar-18	485 093	-	-	23 120	-	-	508 213
			<b>3 385 578</b>	<b>-</b>	<b>-</b>	<b>96 789</b>	<b>-</b>	<b>-</b>	<b>3 482 367</b>



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IN RAND - 31 MARCH 2018									
POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
<b>EXECUTIVE DIRECTORS</b>									
Dr S Mohapi (Chief Executive Officer)	12 months 31-Mar-18	-	-	3 832 107	-	-	25 200	267 636	4 124 944
Ms R Rasikhinya (Chief Financial Officer)	12 months 31-Mar-18	-	-	2 575 644	-	-	25 200	346 745	2 947 589
Mr M Ndlangisa (Deputy Chief Executive Officer)	2 months 31-May-17	-	-	377 941	130 398	40 000	4 200	5 701	558 240
		-	-	<b>6 785 693</b>	<b>130 398</b>	<b>40 000</b>	<b>54 600</b>	<b>620 082</b>	<b>7 630 773</b>

\*State employees that serve on the Board of directors do not receive compensation from the company.

\*\* These are alternate directors of the company.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IN RAND - 31 MARCH 2018									
POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
EXECUTIVE COMMITTEE MEMBERS									
Mr T Mongwe (Company Secretary)	8 months	31-Mar-18	-	-	970 933	-	135 000	10 800	1 277 584
Mr S Senti (Executive: Multi-Stakeholder Management)	12 months	31-Mar-18	-	-	2 340 683	220 564	-	14 400	2 600 839
Ms Jabulile Tlhalako (Executive: Supply Chain Management)	12 months	31-Mar-18	-	-	1 872 749	-	-	14 400	2 034 531
Ms M Le Roux (Executive: Risk Management)	12 months	31-Mar-18	-	-	1 786 423	-	-	14 400	1 872 288
Ms M Mkhwanazi (Executive: Human Capital Management)	3 months	31-Mar-18	-	-	510 510	-	-	3 600	571 588
Ms J Shibambu (Acting Executive: National Consulting & Provincial & Local Consulting)	12 months	31-Mar-18	-	130 585	1 456 926	-	-	25 200	1 835 876
Ms S Kgope (Acting: Company Secretary)	3 months	30-Jun-17	-	20 286	184 342	-	-	2 850	230 867
Mr P Coertze (Acting Executive: Operations)	8 months	30-Nov-17	-	34 002	1 946 027	-	24 000	14 400	2 316 578

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IN RAND - 31 MARCH 2018										
POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total	
Mr W Needham (Acting Executive: Products, Services and Solutions)	8 months	30-Nov-17	-	29 539	1 372 059	-	44 362	14 400	309 666	1 770 027
Mr L Mochalibane (Acting Executive: Human Capital Management)	8 months	30-Nov-17	-	22 243	1 208 317	-	-	14 400	189 558	1 434 518
Mr P Munyai (Chief Technology Officer)	3 months	30-Jun-17	-	-	569 844	134 206	90 000	6 300	47 350	847 700
Mr S Makola (Executive: Internal Audit)	5 months	30-Oct-17	-	-	707 040	101 229	29 613	6 650	70 292	914 823
			-	236 656	14 925 854	455 999	322 975	141 800	1 623 934	17 707 219

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

## Annexure A - 2017

## IN RAND - 31 MARCH 2017

POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
<b>NON-EXECUTIVE DIRECTORS</b>									
<b>Chairman</b>									
Mr Z Nomvete	12 months	746 289	-	-	-	21 600	733	-	768 622
<b>BOARD MEMBERS</b>									
Ms R Mokoena**	6 months	158 058	-	-	-	4 686	-	-	162 744
Ms S Chaba	9 months	415 718	-	-	-	13 431	235	-	429 384
Mr Z Malele	9 months	489 186	-	-	-	13 992	-	-	503 178
Adv N Mhlangu	3 months	75 661	-	-	-	1 815	-	-	77 476
Mr MT Sadik	3 months	65 161	-	-	-	1 452	-	-	66 613
DR VF Mahlati	3 months	67 019	-	-	-	759	-	-	67 778
Mr G Ncanywa**	6 months	171 830	-	-	-	5 082	-	-	176 912
Ms N Magubane	3 months	69 364	-	-	-	660	-	-	70 024
Ms N N Ehrens	3 months	97 895	-	-	-	3 630	-	-	101 525
Ms P Matlala	3 months	84 384	-	-	-	2 541	-	-	86 925
Adv J De Lange**	5 months	59 344	-	-	-	-	-	-	59 344
Mr G Victor	12 months	543 711	-	-	-	16 038	-	-	559 749
Ms M Williams	9 months	214 353	-	-	-	4 653	-	-	219 006

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IN RAND - 31 MARCH 2017									
POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
		3 257 973	-	-	-	90 339	968	-	3 349 280
<b>EXECUTIVE DIRECTORS</b>									
Dr S Mohapi (Chief Executive Officer)	12 months 31-Mar-17	-	-	3 721 904	-	-	25 200	257 791	4 004 895
Mr M Ndlangisa (Deputy Chief Executive Officer)	12 months 31-Mar-17	-	-	2 102 447	-	220 000	23 100	24 420	2 369 967
Ms R Rasikhinya (Chief Financial Officer)	12 months 31-Mar-17	-	-	2 481 912	-	-	25 200	328 260	2 835 372
		-	-	8 306 263	-	220 000	73 500	610 471	9 210 234

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

IN RAND - 31 MARCH 2017									
POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
Mr S Senti (Executive: Multi-Stakeholder Management) Mr Lucky Mochalibane (Acting Executive: Corporate Services) Mr D Boucher (Acting Chief Audit Executive) Mr S Tshibubudze (Chief Procurement Officer) Ms Jabulile Tlhako (Chief Procurement Officer) Mr M Dondolo (Acting Chief Risk Officer) Ms M Le Roux (Chief Risk Officer)	12 months	31-Mar-17	-	-	2 281 916	-	14 400	24 604	2 320 920
	12 months	31-Mar-17	-	69 597	1 174 528	-	14 400	179 691	1 438 216
	12 months	31-Mar-17	-	119 600	1 422 769	-	14 400	258 760	1 815 529
	1 months	30-Apr-16	-	-	174 784	-	25 000	2 100	20 579
	11 months	31-Mar-17	-	80 938	1 534 996	-	13 200	121 791	1 750 925
	11 months	28-Feb-17	-	62 955	946 618	-	12 000	125 240	1 146 813
	1 months	31-Mar-17	-	-	148 949	-	1 200	5 875	156 024

State employees that serve on the Board of directors do not receive compensation from the company.

These are alternate directors of the company.

EXECUTIVE COMMITTEE MEMBERS

\*State employees that serve on the Board of directors do not receive compensation from the company.

\*\* These are alternate directors of the company.

## EXECUTIVE COMMITTEE MEMBERS

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

**IN RAND - 31 MARCH 2017**

POSITION	Duration	Fees as Director	Acting Allowance	Basic Salary	Ad-hoc payment	Travel Allowances	Other allowances	Contributions to pension, medical or insurance funds	Total
Mr P Coertze (Acting Executive: Operations)	12 months 31-Mar-17	-	149 726	1 897 203	-	24 000	14 400	281 665	2 366 994
Mr P Munyai (Chief Technology Officer)	12 months 31-Mar-17	-	-	2 299 254	-	360 000	25 200	184 230	2 868 685
Mr A Pama (Acting Executive: Customer Relations)	5 months 31-Aug-16	-	67 371	659 601	-	40 000	6 000	82 108	855 079
Ms J Shibambu (Acting Executive: Customer Relations)	7 months 31-Mar-17	-	34 294	882 924	-	-	14 700	126 200	1 058 119
Mr W Needham (Acting Executive: PSCS)	12 months 31-Mar-17	-	92 736	1 324 055	-	44 362	13 150	291 997	1 766 299
Mr M Mzaidume (Company Secretary)	6 months 30-Jun-16	-	-	304 161	-	11 400	6 300	56 527	378 388
Ms S Kgope (Acting: Company Secretary)	6 months 31-Mar-17	-	44 126	595 996	-	-	8 550	69 695	718 366
		-	721 343	15 647 754	-	504 762	160 000	1 828 962	18 862 821

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## NOTES

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## This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There is a small grey dot at the top center, possibly indicating a hole punch or a mark. The paper appears to be part of a notebook or a set of loose-leaf papers.

## NOTES

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state information technology agency

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