

# **SPECIAL INVESTIGATING UNIT**

# SIU



**DRAFT  
ANNUAL REPORT 2003/2004**

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## 1. INDEX OF ABBREVIATIONS

AG:	Office of the Auditor-General	LAN:	Local Area Network
AFU:	Asset Forfeiture Unit	MEC:	Member of the Executive Council
Agri-Eco:	Free State Agriculture and Development (Pty) Ltd	NPA:	National Prosecuting Authority
CEO:	Chief Executive Officer	PACOFS:	Performing Arts Council of the Free State
DACST:	Department of Arts, Culture, Science and Technology	RDP:	Reconstruction and Development Programme
DCS:	Department of Correctional Services	SA:	South Africa
DLTC:	Driving Licence Testing Centre	SAPS:	South African Police Service
DOJ:	Department of Justice and Constitutional Development	SIU:	Special Investigating Unit
DSO:	Directorate of Special Operations (Scorpions)	SOK:	Sentraal Oos Ko-Operatief
DVLA:	Duncan Village Licencing Authority	TLC:	Transitional Local Council
FSTMB:	Free State Tourism and Marketing Board	TRTC:	Transkei Road Transport Corporation
IT:	Information Technology	UK:	United Kingdom
JACT:	Joint Anti-Corruption Task Team	WAN:	Wide Area Network
KZN:	KwaZulu-Natal	WPP:	Witness Protection Programme
		WPU:	Witness Protection Unit

## 2. INTRODUCTION

The SIU has pleasure in presenting the draft annual report on its activities for the year ending 31 March 2004.

The purpose of this annual report is to give an overview of the SIU's performance, financial status and achievements during the past year.

### MISSION

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

### ROLE OF THE SIU

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

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

Its capacity to do so has been challenged in the Courts and amendments are currently being considered to remove this obstacle. In the interim this very important role has been reduced to that of facilitating and supporting litigation by affected state institutions through the office of the State Attorney, where applicable.

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

### ADVANTAGES OF THE SIU

The SIU plays a role not fulfilled by any other anti-corruption institution. It is the only institution that has the application of civil law as its focus area in order to deal with the effects of corruption or maladministration. The SIU has the capacity to take a matter from the stage where it is a mere allegation, through a full investigation and ultimately litigation to bring the matter to finality.

The SIU's mandate is broader than the other law enforcement agencies such as the DSO and SAPS. It can intervene in instances of irregular administrative misconduct and/or corruption resulting in losses to the state. The SIU's forensic investigative capacity means that (a) it can perform functions of forensic auditing firms, (b) recover losses, (c) ensure savings, (d) facilitate criminal investigations, prosecutions and/or internal departmental inquiries, (e) advise government departments on improving their systems and (f) provide ongoing advice to host departments.

Due to the application of civil law, the SIU has the added advantage that in civil matters arising from its investigations, cases have to be proved only on a balance of probabilities. This is significantly easier than criminal prosecutions where the guilt of an accused person has to be proved beyond reasonable doubt. In criminal prosecutions subjective intent must almost invariably be proved.

In cases dealt with by the SIU, this element does not always feature. A classic example of this can be found if one compares the criminal offence of fraud (where the state has to prove subjective intent) to the position in civil law where a negligent misrepresentation would constitute a cause of action.

### MATTERS WHICH THE SIU CAN INVESTIGATE

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

- Serious maladministration in connection with the affairs of any state institution;
- Improper or unlawful conduct by employees of any state institution;
- Unlawful appropriation or expenditure of public money or property;
- Unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having a bearing on state property;
- Intentional, or negligent loss of public money or damage to public property;
- Corruption in connection with the affairs of any state institution;
- Unlawful or improper conduct by any person which has caused or may cause serious harm to the interests of the public or any category thereof.

### 3. MESSAGE FROM THE HEAD OF THE UNIT

The SIU experienced an exceptional year in its relatively short history. Since the establishment of the Unit in August 2001, we have set the SIU on a course that has so far resulted in:

- the stabilisation of the Unit;
- the development of a strategic plan;
- galvanising the members around the Unit's vision of becoming a world class anti-corruption agency;
- significantly building internal capacity;
- a shift towards greater operational impact and outcomes, and
- building lasting cooperation with other departments and agencies.

The massive increase in workload at the SIU and the increased burden on the Head of the Unit lead to the appointment of Faiek Davids as the Deputy Head to manage the implementation of our strategic initiatives and management. He was previously employed at the Head Office of the Directorate of Special Operations (the "Scorpions") and over the past six months he has certainly made in big impact on our ability to deliver.

As a result of our successful track record in previous investigations, state institutions have increasingly approached the SIU for assistance with forensic investigations. Contrary to popular belief, the investigations conducted by the SIU do not simply fall into our lap. The SIU has been pro-active in identifying departments that can benefit from our intervention, for example by using reports issued by SCOPA and the Auditor-General. These reports have highlighted those areas where there is significant corruption or maladministration in our country.

#### PROJECT PROFILE:

1. During 2003/2004 we have made tremendous impact in major areas, where corruption and maladministration have resulted in debilitating service delivery. Our current project profile reflects this strategic shift of the SIU.
2. Currently some of our major projects include:
  - Department of Correctional Services (DCS) National;
  - Department of Justice and Constitutional Development (DOJ) National;
  - Witness Protection Programme (WPP) National;
  - Department of Transport: Limpopo Province.
3. We envisage that this profile will increase significantly when we commence with a massive investigation with the National Department of Transport into the irregular issuing of drivers' licences and roadworthy certificates, as well as the irregular registration of vehicles.
4. We have also started working with the Eastern Cape Department of Local Government on a large investigation into corruption and maladministration in a number of municipalities.
5. An example of the recoveries made by the SIU, is a settlement of R1 million by a contractor in Gauteng that was involved in irregularities relating to housing subsidies.
6. The SIU has assisted the WPP to investigate and root out large scale mismanagement and corruption in the KwaZulu-Natal office prior to its transfer to the National Prosecuting Authority (NPA).
7. As a result of the SIU investigation with the department and others, DCS has achieved a substantial saving of R370 million in respect of its medical aid fund. This translates to a monthly saving to the medical aid of R31 million.
8. Together with the DCS, we are jointly ridding the department of corrupt officials and improving weak systems and procedures.
9. The SIU was appointed by the DOJ to investigate allegations of fraudulent and corrupt activities at 40 magistrates' offices.
10. In DOJ we have, after nine months, investigated 21 magistrates' courts and at several of these courts exposed systemic gaps. We have made recommendations regarding urgent improvements to the system. Together with the Specialised Commercial Crimes Unit (SCCU) we have identified and investigated at least 49 cases that will be fast-tracked through the criminal justice system to ensure a speedy and successful outcome. In the more serious matters, some of our senior advocates will conduct the prosecution on behalf of the NPA. We are committed to exiting some of these corrupt justice officials and bringing to book the criminal kingpins operating on the outside - 'We cannot allow the DOJ to become a soft target.'
11. In line with the President's State of the Nation address on raising the levels of service delivery at a local level, we have made an impact at municipal level through investigations at various municipalities.
12. At Qaukeni Municipality in the Eastern Cape, the SIU's investigation has involved the examination of the prime document relating to service delivery (the Integrated Development programme), the facilitation of new and existing capital and local economic development projects, the adoption of new human resource policies, the setting aside of contracts totalling R3 million by the Municipality, due to improper procurement practices, and cash recoveries amounting to about R800000.
13. The latter initiative is part of our intervention model of exposing corruption and maladministration, bringing culprits to book and assisting the host municipality with systemic improvements and providing ongoing support. Our shift towards a collaborative, project management approach has yielded high returns.

## **PARTNERSHIPS**

1. By establishing partnerships with DCS and DOJ and other departments we have moved towards a solution based collaborative approach. Our emphasis on forensic investigations ensures that the relevant departments adhere to a culture of good corporate governance.
2. There has been a big shift to departments actively soliciting our assistance and the SIU becoming part of the solution to address their internal problems.
3. Through these partnerships we have expanded our reach into corruption, and developed ongoing partnerships. A number of departments have even assisted the SIU with additional funding to resource these initiatives.
4. In essence, by empowering these departments to deal with their internal problems, we help state institutions to help themselves:
  - a. In the DCS investigation, we have assisted in identifying and improving systemic problems and internal controls in the area of procurement;
  - b. The proposed investigation with the Department of Transport into the irregular issue of drivers' licences which has international repercussions in that it has eroded the respect previously held for South African drivers' licences.

## **RECOVERIES AND SAVINGS TO THE STATE**

The SIU made the following recoveries and savings in the past year:

- Cash recoveries: R 14 019 848
- Prevention of loss: R 373 910 389

## **WORKING TOGETHER TO FIGHT CORRUPTION**

1. Interagency co-operation has improved greatly over the past year. The common values endorsed by the various law enforcement agencies promote integrity, quality and collaboration.
2. Despite our core function being forensic investigation and the recovery or prevention of losses, the SIU works hand-in-hand with other law enforcement agencies.
3. We continue to provide the infrastructure for the Joint Anti-Corruption Task Team (JACT) in the Eastern Cape, which includes the provision of office space, vehicles and administrative support. Several SIU members have been seconded to work full-time on JACT.
4. At present, JACT has a caseload of 340 cases, involving investigations at various departments, which include essential service providing departments such as Health, Education, Public Works and Welfare. In the past year JACT has made 96 arrests.

## **CAPACITY BUILDING**

1. Having regard to our current and projected project profile, our commitment to sustainable capacity building, the SIU has expanded both its staff and skills profile in the past year. We have acquired several skilled auditors, financial analysts, attorneys, former prosecutors and many experienced investigators.
2. Our support services continue to maintain excellent levels of service delivery. Over the past year the HR division alone, comprising of 5 members, has processed 9 140 applications for 59 positions, all of which have been filled.
3. In the area of training, the SIU is in the process of formulating a Performance Development Program, which aims to identify and address the skills and competency gaps at various levels within the organisation, especially in the areas of investigation and management.
4. The SIU has embarked on our own program to develop and train investigators. Previously we have largely recruited from other agencies, which did nothing to increase the pool of investigators at the disposal of the state. In addition, the program is also aimed at enabling the SIU to meet its employment equity targets for the future.
5. The SIU has also embarked on a Potential Leadership Programme aimed at fast tracking the development of employees who have managerial potential. Again this is a vital initiative to develop more managers from designated groups.
6. In the past year, the total staff complement has increased by an impressive 57%, from 121 to 190 members. Given our future projection and our current rate of expansion, we anticipate hitting the 300 mark by the end of the year.
7. We have established an Internal Integrity Division, which ensures that all new and existing members comply with a rigorous vetting process. Members are routinely subjected to Voice Stress Analysis and drug testing, and financial and other checks to ensure that the Unit maintains the highest level of internal integrity.
8. We are on track with improving our equity targets. It is worth noting that of the 59 appointments made during the past year, 49 were from the designated equity groups.

## **DELIVERING A COST EFFECTIVE AND EFFICIENT SERVICE**

1. The SIU is in a unique position to provide an efficient and economic forensic investigation and litigation service to departments who have suffered financial loss due to fraud and/or corruption.
2. Government annually spend millions of rands employing the services of private firms to conduct forensic investigations on their behalf.

3. During the past year, we have set out to concentrate on three things: increase our operational impact, building sustainable internal capacity and reduce government departments' reliance on external private sector auditing firms.
4. In every respect we have exceeded our expectations and emphasized that the SIU is a high return investment to government that merit greater budgetary commitment.
5. The services of the SIU are in demand and Government has recognised this by increasing our budget significantly from R26 million to R37 million. However, our existing budget is insufficient for us to undertake some of the proposed investigations that we are discussing with various departments. These projects aim to continue to assist to enhance corporate governance and address the problems of maladministration and misappropriation of state monies and assets.

### **ESTABLISHING A NATIONAL PRESENCE**

The Head Office of the SIU is currently in East London, but it will be moving to Pretoria during the course of this year to facilitate better cooperation with departments and other law enforcement agencies.

The SIU already has substantial regional offices in Pretoria and Durban, as well as a satellite office in Umtata.

During the past year, the SIU established small satellite offices in Cape Town and Nelspruit to ensure that it delivers a better service to state institutions in those areas.

### **THANKS**

I would like to thank the former Minister of Justice and Constitutional Development, Dr Penuel Maduna for the excellent co-operation we have received from him and the officials in his Department.

I would also like to express my gratitude to the National Director of Public Prosecutions, Mr Bulelani Ngcuka, for his unstinting support over the past year.

A special word of thanks has to go to Faiek Davids, the new Deputy Head, for taking on a massive share of my responsibilities at the Unit.

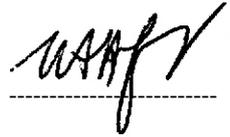
Lastly, a special thank you to the members of the SIU for their continued loyalty, dedication and commitment. Without them, we would not have made the large impact on corruption that we achieved in the past year.

### **CONCLUSION**

The past year has been one in which the SIU has improved on the excellent performance level of the previous year.

*"Corruption will never be entirely eliminated, but it is naïve to believe that nothing can be done about it."*

We believe that the SIU is making a significant contribution to ensure that something is done about it!



HEAD OF UNIT

## **4. YEAR UNDER REVIEW: 2003/2004**

### **4.1 INVESTIGATIONS**

#### **INVESTIGATION PROFILE**

The Special Investigating Unit can be described as a state institution which conducts forensic investigations of allegations of corruption and maladministration affecting state institutions, with the aim of not just providing a report regarding such allegations of maladministration and corruption, but also to facilitate corrective action through litigation, whether such would be of a criminal, civil or disciplinary nature. As such the SIU focuses not only on reactive investigations, but also initiates a number of investigations with the purpose of proactively dealing with problems and acting as a deterrent for would-be transgressors.

The SIU focuses its efforts primarily on bigger, high impact investigations in order to make a meaningful contribution towards the combating of corruption and maladministration. In several instances such investigations involve multi-agency task teams, in which it combines its powers with that of other agencies such as the South African Police Services, the Directorate for Special Operations (Scorpions) and the Asset Forfeiture Unit. Examples of such investigations are the Department of Correctional Services Medical Aid investigation in Gauteng, the Department of Justice investigations at Nkandla Magistrates Court in KwaZulu-Natal, the Agri-Eco investigation in the Free State Province and probably most importantly the Joint Anti-Corruption Task Team operating in the Eastern Cape Province. In maintaining this focus and making a concerted effort to finalize cases and to improve turn around times, the SIU has tightened its project management approach and has committed its staff to working along pre-determined guidelines and deadlines. This includes the implementation of proper project proposals as well as individual work plans for specific investigations. This process is promoted even further by the national office taking direct responsibility for the coordination of the premier projects which span a number of provinces.

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## **ONGOING INVESTIGATIONS**

### **1. Department of Correctional Services (DCS): National**

#### **Background**

Since 2002 the SIU has become actively involved in the Department of Correctional Services Investigation. This investigation stems from the Jali Commission into corruption within the Department of Correctional Services. Following the initial findings of the Jali

Commission, the President decided to refer allegations of fraud, corruption and maladministration to the SIU by way of Proclamation R66 of 2002. During the past year an extension to the proclamation was granted by way of proclamation R56 of 2003 to include matters until date of proclamation, being 19 July 2003.

Due to the decentralisation of the SIU in the past year the investigation has been split into two regions:

The Southern Region runs from the East London office covering the Eastern Cape, Western Cape and KwaZulu-Natal. The Southern Region comprises of a project manager, ten investigators supported by a forensic analyst, two legal members and a project administration assistant;

The Northern Region runs from the Pretoria office covering the Free State, Northern Cape, Gauteng, Mpumalanga, Limpopo Province and the North West. The Northern Region is led by a project manager and comprises of ten investigators supported by three forensic analysts, three legal members and two project administration assistants.

#### **Allegations**

Investigations are currently being conducted into prisons throughout the country. Allegations vary from general statements of fraud and corruption to drug trafficking assault and mismanagement. In addition to the various complaints received at prisons, the SIU is also investigating allegations relating to National procurement within DCS, fraudulent medical aid claims and fraud relating to the First Auto cards.

#### **Action: Southern Region**

As a direct result of the SIU investigation during the past year the following successes have been achieved:

17 matters have been referred to the SAPS to institute criminal action as a result of the findings of the SIU investigations;

The Provincial Commissioner of the Eastern Cape was charged with fraud in respect of fraudulent claims submitted to DCS. Following disciplinary action instituted by the Department, he was dismissed; and

39 matters have been referred to the Department for internal disciplinary action.

#### **Action: Northern Region**

As a result of the SIU's involvement during the past year in investigations the following has been achieved:

The suspension of one DCS official for the loss/theft of R4 and R5 rifles;

Seven DCS officials have been implicated in irregular claims for overtime and are being investigated;

A criminal case of murder was opened as a result of a SIU investigation;

Following the investigation of the theft of state property, a warder was found guilty by an internal disciplinary hearing and dismissed. He is appealing the outcome of the hearing;

The misappropriation of social club funds was investigated by the Department and action was taken against members involved;

A case of the misuse of government transport and subsequent accident that resulted has been finalised and monies are being recovered from a retired DCS official;

Irregularities were identified in prison pharmacies and hospitals. The SIU has recommended that various charges including criminal and disciplinary be brought against those involved as a result of their having neglected their duties;

The establishment of a task team consisting of the SAPS Organised Crime Unit, Correctional Services Anti-corruption Unit and the SIU was established to investigate syndicate activities at Baberton Prison. During February 2004, seven warders, one parolee and two civilians were arrested. Seven corruption charges and one intimidation charge was brought.

#### **Action: National Procurement**

Findings, relating to procurement within the DCS Southern Region, include:

the rotation of service providers to prisons is not rotated or enforced resulting in certain service providers being favoured and the state not receiving value for money;

service providers do not deliver according to contractual conditions;

DCS has no capacity to verify the status of suppliers that are listed on their database;

Previously disadvantaged organisations, selected as suppliers to DCS, do not have the infrastructure to supply the prisons efficiently; and

In a number of instances DCS officials have a direct or indirect interest in service provider companies.

As a result of the SIU investigation during the past year, the following has been achieved:

Recommendation of a Departmental investigation against one DCS official for the misuse of a state vehicle;

Institution of a criminal investigation against two DCS officials for the misuse of state vehicles; and

Following on allegations of splitting of quotations and duplication of payments, the SIU, in collaboration with DCS, could find no evidence of duplication or splitting of quotations.

#### **Boulevard Hotel or DCS Training Academy**

DCS registered a need for accommodation for the Training Academy with the Department of Public Works (DPW). DPW proceeded and procured the Boulevard Hotel as the preferred accommodation. DPW entered into the agreement with the owners of the hotel, Brugail Investments (Pty) Ltd on 15<sup>th</sup> January 2001, approximately two years after the need was registered. When the situation was brought to the attention of the newly appointed Commissioner at the time, Rev. Mbete, he repudiated the agreement but was persuaded by DPW and a legal opinion that was obtained to the effect that DCS should proceed and occupy the building. DCS occupied the building for a period of three weeks but vacated it soon thereafter. A total of R6 636 046.21 has since April 2001 to September 2003 been paid to the landlord.

Affidavits were obtained from the relevant parties and the matter was referred to the SIU's legal team who will make a decision by 30 June 2004.

#### **St Albans Procuring of alleged inferior product Tender No. RT94/200**

Information was received to the effect that a sub-standard, inferior and foreign product (Whey Milk Powder) was procured and fed to the prison inmates, resulting in a revolt and persistent complaints. It was confirmed that the prison authorities had to bring in more supply of fresh milk from the neighbouring prison farms in order to remedy the situation.

The SIU's legal team has instructed that further investigations be conducted and that a criminal case of fraud be opened against the supplier.

#### **Repair and Maintenance Programme**

The Repair and Maintenance Programme (Ramp) was initiated by the DPW in 1999 as a part of the national project to address the maintenance backlog of all state property that have been grossly neglected in the past and to upgrade the fixed assets of the state.

It has since emerged that the DCS (Directorate-Maintenance) is not actively involved in the day-to-day activities of Ramp due to the shortage of personnel and a lack of technical knowledge, and as a result they cannot confirm that they are entirely satisfied with the work done through the programme.

A recent random visit or inspection which they undertook at Heidelberg Prison has unearthed that monies were paid out to the contractor for work purportedly done during a period on which they allegedly never turned up at the site. Of concern to DCS is also the fact that allegations have been circulating to the effect that some contractors were unduly advantaged in the awarding of tenders, fronting is rampant or that the credibility of the procurement process is suspect.

An opinion is being sought from the SIU's legal team as to whether the SIU can investigate these allegations as the whole procurement process is done by DPW, and DCS is only transferring funds to DPW upon receipt of a bill from them.

#### **Private Prison Contracts: Mangaung and Louis Trichardt**

There is an allegation that some members of the DCS's original Asset Procurement and Operating Partnership (APOPS) project team who were involved in the project design, drafting of contracts and the negotiations regarding the building of the two private prisons in Mangaung (Bloemfontein) and Louis Trichardt, were recruited to senior positions in these private prisons.

This allegation, coupled with findings of the Multi-Departmental Task Team that no prior projects were negotiated, led to a further allegation questioning the integrity of the procurement process in this regard.

The SIU has requested that DCS assist by making all files/correspondence pertaining to this transaction available for perusal and extraction of copies deemed to be relevant to this investigation. Investigations will continue.

**Action: Medical Aid Fraud**

During the past year the SIU has uncovered the following fraud pertaining to medical aid claims by doctors on behalf of DCS officials:

DCS officials in conjunction with ten medical practitioners were submitting false claims to defraud medical aid schemes. The arrest of these doctors is imminent; and

A DCS official provided names and details to a dentist to submit false claims for consultations and work that was never done.

As a result of the SIU investigation, a saving has been achieved in the Medical Aid Investigation, which was verified by the medical aids themselves, of R370 million which equates to a monthly saving to medical aids of R31 million.

The SIU is working closely with the DSO, PricewaterhouseCoopers and Ernst & Young to investigate these matters jointly.

**Successes**

Since inception of the investigation the following successes have been achieved:

Matters referred to SAPS as a result of SIU investigations: 46

Matters referred for disciplinary action as a result of SIU investigations: 113

Value of AOD's entered into as a result of SIU investigations: R 14 340 047.66

Cash recoveries: R 7 974 273

Savings as a result of SIU investigations: R492 883 780.99

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## **2. Department of Justice and Constitutional Development (DOJ): National**

**Background**

On 25 July 2003 the SIU received a presidential proclamation to investigate allegations of fraudulent activities in 40 magistrates' courts and regional offices on a national basis.

In terms of the proclamation the SIU has been mandated to investigate:

Serious maladministration in connection with the affairs of the Department

Improper or unlawful conduct by officials of the Department

Unlawful appropriation or expenditure of public money or property

Unlawful, irregular or unapproved acquisitive act, transaction, measure or practice having a bearing upon State property

Intentional or negligent loss of public money or damage to public property

Corruption in connection with the affairs of the Department

Unlawful or improper conduct by any person that has caused or may cause serious harm to the interests of the public or any category thereof during the proclamation period being 1 January 1996 to 25 July 2003

This investigation has been sub-divided into four regions: KwaZulu-Natal, Eastern Cape, Western Cape and Gauteng, to allow for easier project management of the investigation process.

**KwaZulu-Natal**

Five courts are being investigated in KwaZulu-Natal. These courts are:

kandla;

Impendle;

Madadeni;

Chatsworth; and

Ntuzuma.

During the past six months various meetings have been held with the National Prosecuting Authority, the Justice Compliance Unit and the Justice Inspectorate. A decision has been taken to prioritize and act on known cases and to recover money.

Nkandla Magistrate Court was given priority and investigations are at a preliminary stage. Allegations at this court involve estate fraud, welfare cheque fraud, witness fee fraud and warrant voucher fraud/theft.

The SIU is working closely with the Scorpions, the SAPS and the Department of Justice to ensure criminal and civil prosecution as well as disciplinary action.

The investigation is concentrating on the following areas:

**Estates Fraud** - investigations at the Nkandla Magistrate Offices has revealed nine cases involving R587 000. At Npendle Magistrates Offices one matter has been identified to the value of R246 000. It is expected that recoveries will be made during the next financial year. It is also evident that there is syndicate involvement in these matters.

**Welfare Fraud** - ten cheque fraud cases have been identified and are being investigated. It is evident that there is syndicate operation in these matters.

**Witness Fee Fraud** - nine cases of witness fee fraud have been identified and are being investigated.

**Warrant Voucher Fraud** - three matters are currently under investigation. The total amount involved is approximately R9 590 000.

The SIU is also investigating allegations relating to warrant vouchers used for renovations at various Magistrates' Courts as well as being used for tribal levies.

#### **Eastern Cape**

The Eastern Cape team is responsible for the investigation of five Magistrates Courts in the Free State and five Magistrates Courts in the Eastern Cape. Investigations commenced on 15 September 2003. To date three of the courts have been completed and investigations are currently underway at a further two courts.

The potential loss to DOJ is R1, 642,653.99. This was identified at the five Magistrates Courts investigated to date, namely:

- Port Elizabeth
- New Brighton
- Galvendale
- Wepener
- Libode

As a result of the investigation at the above Courts, 10 disciplinary cases are being prepared against DOJ officials. 149 civil cases are being investigated and the SIU is working closely with SAPS and JACT on four criminal cases.

The cases identified are isolated cases and are not indicative of a systemic or syndicated problem in the Magistrates Courts investigated so far.

#### **Western Cape**

The Western Cape team has been tasked with investigating the following five Magistrates Courts: Mitchells Plain, Simonstown, Somerset West, Clanwilliam and Porterville. There are also five sub-courts that fall under the jurisdiction of the above Magistrates Courts and these sub-courts are included in the investigation on the basis that these sub-courts share the Trust Account of their main court and therefore, any investigation into the main court, by rights, has to include the associated sub-court.

The sub-courts are:

- Khayelitsha, which falls under Mitchells Plain
- Citrusdal, Lamberts Bay and Graafwater which fall under Clanwilliam
- Muizenberg which falls under Simonstown

#### **Gauteng**

The Gauteng team is responsible for investigation of courts in the North West area. These consist of 15 courts and 14 satellite courts totalling 29 courts. The court being Ganyeza and Giyani which are approximately 450 km away and the nearest being Odi which is 60 km from the SIU.

The regional and national offices are also included where inquiries are conducted in respect of matters incidental to the investigations at the various courts within our jurisdiction.

The main focus areas of the investigations are as follows:

Estates, maintenance, overtime claims and fines

The secondary focus areas are:

Bail, leave, subsistence and travel claims, irregular petrol card transactions and farmer grants.

Investigations have been initiated in the following courts thus far and the irregularities identified are listed below:

#### Brits Magistrates Court

- Maintenance
- Fines
- Withdrawal of dockets at court
- Shortages of the float
- Excessive overtime claims
- Illegal use of government motor vehicles
- Non-compliance of internal regulations
- Non-compliance with the PFMA

#### Odi Magistrates Court

- Maintenance
- Estate fraud

#### Benoni Magistrates Court

- Estate fraud

#### Johannesburg Magistrates Court

- Irregularities in respect of float worth R1.2 million

Currently the following investigations are continuing:  
Lehurutse

#### Maintenance

- Non payment
- Late payment

#### Bail

- Alterations in bail register
- SARS

#### Divorce

- Revenue stamps

#### Ganyesa

Farmers grant

#### Randburg

Shortage R1.6 million

#### Odi

Maintenance  
Estate fraud

#### Brits

Overtime

#### JHB

Orlando Magistrates Court - admission of guilt fines

Benoni

Investigations are being conducted into the various focus areas in terms of the generic work plan

A total of five arrests have been made thus far and 19 are still pending. There are four cases at the A-G's office awaiting a decision and the A-G has decided to prosecute in two other cases for which warrants are still outstanding. Two matters have been referred for disciplinary action. A total amount of R12 861,52 has since been recovered and a total amount of R3 796 505,40 in potential recoveries is still outstanding. 36 reconciliations have been completed, 138 people have been interviewed and their statements taken.

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### **3. Witness Protection Programme: National**

#### **Background**

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

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

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

This indicated a possible conflict of interest.

Other allegations included:

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

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

#### **Action**

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

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

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

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

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

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

#### **Findings**

The SIU has made the following findings:

The lack of administration and financial control measures has shown that supporting documentation amounting to R1 411 019 was not attached to any vouchers;

Advances shown as allocated to witnesses to the value of R29306 have not been recovered;

It was established that loans of R35 640 had been made to witnesses to purchase property. The housing company used for these transactions does not exist and the witnesses did not receive any property;

Certain lease agreements were found to be defective in that they were not properly signed either by the lessee or by the lessor;

Certain of the agreements did not contain the address of the property or indicate whether the property being let was furnished or not; and

Procedures in obtaining quotes from suppliers and service providers were not adhered to.

Other findings show that, from the review of correspondence to hospitals, hotels and doctors, it became apparent that disclosure of witness information was a common practice. It was also found that a witness was moved from one safe house to another without the authority or knowledge of the KZN WPU office. It has further been established that certain of the "agents" dealt directly with the witnesses. From affidavits obtained it has become apparent that the witnesses, placed under protection, only saw the KZN WPU officials on a monthly basis when the witnesses' allowances were paid.

Current investigations have revealed that the identity of certain of the properties from documentation or lease agreements of the KZN WPU cannot be relied upon. As a direct result of this situation the SIU undertook to identify the agents and properties involved to establish the validity of the rentals paid by the Department of Justice. Due to the findings, as listed, it became apparent that the entire investigation could not be completed within the current year.

A total of 151 properties have been identified as having been leased to the Department of Justice; Of these properties, 59 were identified as being rented to the department by six agents; A total of 18 agents have been identified; and Six of these agents have been targeted during the first phase of this part of the investigation into the rental of property to the department.

Due to this, the SIU split the investigation into three different focus areas due to the complexity of, and change in, modus operandi relating to the acquisition of places of safety. The remaining 12 identified agents are targeted for the second phase of the investigation.

This has led to considerable progress being made in the investigation where the SIU, working with the SAPS and the Department of Justice have arrested eight individuals.

#### **Criminal Prosecution**

During the past year six agents and two previous employees of the KZN WPU were arrested with the total value of alleged fraudulent transactions being R4 252 637. These transactions took place between November 1997 and late 2001. Total bail of R1 035 000 was granted in this matter.

These findings are a direct result of the original focus breach of security and two fraud charges previously envisaged.

#### **Disciplinary Hearings**

A report has been handed to the SAPS to assist with the disciplinary hearing of one of their members.

#### **Inter-agency co-operation**

The SIU is presently working closely with the Department of Justice, SAPS Commercial Crime Unit, AFU and the National Office of the Witness Protection Unit.

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## **4. Housing Subsidies: KwaZulu-Natal**

#### **Background**

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

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

During 1999, the consulting auditors from the Department and the SIU concentrated on compiling a database of all financial transactions between the Department and the firms of conveyancing attorneys. This was done in order to check the reconciliations.

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

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

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

#### ***1. T R Mfeka***

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

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

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

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

#### **Criminal Prosecution**

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

The case was remanded on 22 April 2003 to 2 October 2003 in the Durban Regional Court for a pre-trial conference. The SIU is presently awaiting a trial date to be set.

#### ***2. T Mvelase***

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

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

In order to do this, title deeds, application forms, deeds

of sale and deeds of grant were forged by a syndicate operating closely with the attorney. It is suspected that the Department of Housing subsidy funds were then split amongst the attorney and syndicate members.

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

During the investigations it was found that Victor Mdunge was an "agent" for both T Mvelase and HVB Makhanya. He was part of 41 transactions that involved the buying and selling of properties on behalf of applicants as well as the fabrication of false documents used in these transactions.

Mr Mdunge signed an AOD to the value of R605 000. This amount represents the amount of subsidy money paid to him for the 41 fraudulent transactions. It is intended to use him as a state witness against the other conveyancing attorneys in the criminal cases.

#### **Criminal Prosecution**

A criminal case has been opened with the Director of Public Prosecutions in Durban and attorney Mrs T Mvelase and two syndicate members D Ndlovu and L Mthembu were arrested. A case of theft, alternatively fraud, is on the roll at the Durban Regional Court. A pre-trial conference was set for 24 November 2003. A trial date was scheduled for 3 to 31 May 2004.

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

The matter has been referred to the State Attorney in this regard who has approached the AFU for assistance. A report on this matter from the State Attorney is still awaited.

#### ***3. Mlaba Makhaya***

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

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

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

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

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

#### ***4. HVB Makhanya***

This case involves the transfer of 264 properties. A forensic audit is being carried out from data of payment certificates issued by the Department to the conveyancing attorney.

To date 153 application forms have been received from the Department. The remaining 111 cannot be traced by the Department, however they are still trying to locate the missing forms.

A list of relevant site numbers, area, beneficiary names and identification numbers were sent to the Registrar of Deeds Office in Pietermaritzburg for current and historical deed searches. Results have indicated that 34 properties were transferred into the name of the beneficiary while 230 transfers never took place.

To date 41 property owners, 12 beneficiaries and five sellers have been traced. A total of 58 affidavits have been obtained. The investigation is continuing.

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### **5. Housing Subsidies: Gauteng Province**

#### **Background**

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

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

- project linked subsidies;
- individual subsidies;
- conveyances; and
- general complaints received by the SIU.

#### **Action**

During the year under review the SIU investigated 30 projects, of which 24 have been completed. The investigation included the inspection of 29 978 sites.

The information obtained during the site inspection assists in verifying the following information:

- Amount of top structures completed by the developer;
- Amount of erven surveyed and serviced.

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

The SIU is continuing the investigation.

### **Findings**

During 2003/04, the SIU reached Acknowledgement of Debt agreements in the following investigations:

Unitas Park Ext. 3, settlement with the developer to repay the Gauteng housing department the amount of R 1 207 450, 00. The developer claimed payment for individuals who did not qualify for housing subsidies.

Sebokeng Ext. 24, settlement with the developer to repay R 228 580, 00. To date payment for R 100 000, 00 was received. The developer claimed payment for individuals who did not qualify for housing subsidies.

Beverly Hills payment was received to the amount of R 26 000, 00. The developer received payment for 11 top structures that were not developed.

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

It has been established that 421 stands were serviced and 292 top structures were erected;

Of the 292 top structures, 166 are occupied by non-qualified beneficiaries;

It was found that the Department wrongfully made 164 payments of R9 500 for progress payments that were not due to a contractor. The result was an overpayment to the developer of R1 567 507;

The investigation further revealed that 72 qualified beneficiaries, for which the developer received payment of R9 500 each per beneficiary, only qualified for R5 000. The net result was total overpayment by the department of R324 000;

Following consultation with all the relevant role players and after conducting asset verifications, the SIU reached a settlement agreement with a contractor for R1 million.

The full amount has been paid to the department and the matter is finalised.

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## **6. Fraudulent Reduction of Tare Weight Department of Transport: KwaZulu-Natal**

### **Background**

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

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

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

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

A total of 156 companies/individuals are under investigation.

### **Findings**

During December 2002, the Department of Transport in KwaZulu Natal handed over a further 26 folios of documents relating to alleged fraudulent/irregular reduction of motor vehicle tare weights which are alleged to have occurred at the Verulam Motor Licencing Bureau. The total amount involved is R140 644.

The Verulam Motor Licencing Bureau investigation was the second leg of the investigation into the KZN Department of Transport matter and this occurred between November 2001 and May 2002. The allegations were not limited to the 26 referred as the department was still continuing with its audit.

In the identified alleged fraudulent transactions, the owners of the vehicles with outstanding licence fees would submit affidavits (reflecting reasons for the tare weight decreases) and weighbridge certificates (reflecting the reduced tare weight) at the Verulam Licencing Bureau which would be transmitted to the "Help Desk". In some instances no weighbridge certificates were submitted.

The owner of the vehicles would then pay outstanding licence fees and penalties on the reduced tare weight resulting in considerable financial savings for the owner but considerable loss of revenue to the Department of Transport.

The tare weights were later adjusted to a higher tare weight shortly after the tare weight was re-adjusted at bureaus other than Verulam. In some instances the procedure was followed where a vehicle was sold with the tare weight being increased again on its registration by the new owner.

During 2003 and 2004, notices issued in terms of Section 5(2)(b) and (c) of the Special Investigating Units and Special Tribunals Act (Act 74 of 1996) were served on identified individuals regarding fraudulent reduction of tare weights of vehicles. Acknowledgements of Debt and settlement agreements have been signed by various individuals.

As a result of the ongoing audit a further 18 alleged fraudulent transactions were identified pertaining to Springfield Omnibus Services. The alleged transactions have resulted in a loss to the department of R299 000.

This matter will be investigated as the third leg of the project.

Total recoveries to date amount to R786 000 in this matter.

#### **Action**

In one case the State Attorney in Durban has issued a Letter of Demand to Crossmoor Carries CC for a total outstanding fee of R372 000. The SIU has referred two further cases to the State Attorney, namely Virannas Express (Pty) Ltd owing R103 000 and Babs Transport owing R7 623, for civil recovery.

The internal audit team of the Department of Transport is busy compiling the relevant supporting documentation for all the fraudulent transactions. Meetings have been set with the department to set dates and plan hearings.

This investigation will be ongoing until all outstanding licence/tare weight fees have been recovered.

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## **7. Department of Transport: Limpopo Province**

#### **Background**

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

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

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

#### **Allegations Under Investigation**

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

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

#### **Findings**

In perusing the DLTC's in the past year, the SIU has found that a large number of learners and drivers licences have been issued contrary to legislation and stipulations in the Road Traffic Act. Investigations into these licences are complete and irregularities include:

- Eye tests not done;
- Eye tests completed incorrectly;
- Time allocated for yard test not recorded;
- Time allocated for yard test exceeds the maximum requirement of 20 minutes;
- Time allocated for road test is less than the minimum requirement of 20 minutes;
- Yard test failed - penalty points accumulated exceed the maximum penalty points allowed;
- Road test failed - penalty points accumulated exceed the maximum penalty points allowed;
- Yard test failed - mark indicated in a space where no value is allocated;
- Signaling errors;
- Tested for wrong code;
- Test sheet not signed by the applicant;
- Declaration not signed by the applicant;
- Incorrect calculation of penalty points for yard test;
- Incorrect calculation of penalty points for yard and road test;
- Time allocated for road test exceeds the maximum requirement of 45 minutes;
- Incorrect test sheet used;
- Incorrect calculation of penalty points for road test;
- Penalty points allowed not recorded;
- Penalty points accumulated not recorded;
- No indication whether applicant passed or failed;
- Applicant failed learners licence but issued with driving licence; and
- Date of test is before the date of appointment for drivers test.

#### **Action**

During the past year the project team completed perusing documents from 13 DLTC's.

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

This investigation has now been finalised and criminal, civil and disciplinary action has, and is continuing, to be instituted.

As a result of the findings of the SIU investigation and as a direct result of its recommendations, the Department of Transport in Limpopo Province instituted disciplinary action against 41 traffic examiners.

The disciplinary hearings started on 15 September 2003 and are ongoing. A number of traffic examiners have been found guilty of the contravention of the Road Traffic Act and were given sanctions ranging from dismissal to suspension without pay.

Further to this, the SIU is working closely with law enforcement agencies to institute criminal action against certain traffic examiners.

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## **8. Transkei Road Transport Corporation (TRTC)/Umanyano Transport: Eastern Cape Province**

### **Background**

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

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

### **Findings**

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

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

Further investigations during the past six months have revealed the following:

The Eastern Cape Department of Transport entered into an agreement with Siyabulele Bus Company for the sale of assets and leasing of properties;

Former TRTC employees had formed various groups with the purpose of purchasing and running the function previously performed by TRTC;

These former employees were given permission by the MEC to operate from former TRTC properties;

Umanyano made offers to the Department;

Umanyano also opened offices on the premises of the former TRTC in Umtata and Mount Frere;

From this, allegations were made that assets and vehicles have been stolen or irregularly registered in the name of Umanyano Transport Services.

### **Action**

In the last year the SIU has secured lease agreements for the former TRTC premises being occupied by Umanyano and this is being paid to the SIU. As at 30 September 2003 the SIU had received R30 000 in collected rent.

In addition to this signed offers to purchase have been received for the premises totalled at R590 000. These have been forwarded to the provincial government for consideration.

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## INVESTIGATIONS IN PRELIMINARY PHASE

### 9. Uthungulu District Municipality KwaZulu-Natal Province

#### **Background**

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

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

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

#### **Action**

During 2003/04 members of the SIU held meetings with the following persons:

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

A number of documents were received from the municipality and various banking institutions. These were analysed and a report was compiled and handed to the SIU's legal section for consideration and decision on whether or not to pursue civil litigation.

On the face of it, there were very few grounds for civil litigation. However the SIU's legal section did compile a report that was forwarded to the municipal manager. This report highlighted certain irregular practices and made recommendations on what action the municipal manager should take to rectify the situation.

The SIU is still busy with its investigation and hopes to have it completed by June 2004.

### 10. Free State Marketing and Tourism Board: Free State Province

#### **Background**

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

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

The matter was proclaimed on 2 February 2004.

The SIU has been mandated to investigate the following:

- Board members claims** - the SIU will review claims by board members;
- Contracts** - the SIU will determine the correctness of the contracts entered into between the board, the CEO and third parties;
- Bursaries and loans** - the SIU will investigate the lawfulness of bursaries and loans given to board officials. The amount involved is approximately R300 000;
- Salaries** - the SIU is to investigate allegations of inflated salaries;
- Credit Cards** - allegations of the misuse of company credit cards will be investigated;
- The loss, theft and misappropriation of board assets** - reports and management letters of the Auditor-General indicate theft and misappropriation of company assets. This will be investigated; and
- The misuse of cell phones** the non-payment of private calls by employees will be investigated. The amount involved is approximately R100 000.

#### **Investigation**

Investigations in these matters are at a preliminary stage. It is envisaged that substantial progress will be made during the next financial year.

## **11. Lydenburg Municipality: Mpumalanga Province**

### **Background**

In 2004, by way of Proclamation R8 of 2004, the President referred this matter to the SIU for investigation. It involves the allegedly irregular investment of funds of the Lydenburg TLC with SA Corporate Brokers CC.

### **Findings**

The investigation has determined that the funds for the SACB investment came from the sale of certain policies held by the Council in 1995. The proceeds were invested, terminated and re-invested on several occasions. This resulted in various amounts for brokerage and commissions being paid by the TLC.

These actions were contrary to the Local Government Policy regarding investments by TLC's.

### **Action**

During the past few months the SIU has conducted extensive interviews and enquiries.

It is envisaged that this investigation will be completed by June 2004 when the SIU will contemplate both criminal and civil action.

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## **12. South African Housing Trust: National**

### **Background**

A member of the Standing Committee on Public Accounts at National Parliament approached the Head of the Unit with allegations relating to the operation of the South African Housing Trust.

The allegations received show that the previous government created the South African Housing Trust (SAHT) to accommodate the needs of lower income earning communities. R445 million was provided as an interest free loan for SAHT to establish itself and meet its objectives.

Guarantees to the value of R890 million were also provided for the Trust to raise funds from the private sector.

As a result of this, wholly-owned subsidiary companies called Khayelethu Home Loans (Pty) Ltd and Nu-Way Housing Developments (Pty) Ltd were established.

In 1998 the two businesses were sold as "going concerns".

### **Allegations**

The allegations in this matter are that:

The transactions for selling the two businesses did not conform to the fair tender process in accordance with the principles laid down in the Constitution;

Only one valuation was done on the properties belonging to Nu-Way Housing (Pty) Ltd;

Although these properties were valued at R82 million, the company was allegedly sold for R27 million a shortfall of R55 million;

The valuation was not a true reflection of the property; and

Former directors of Khayelethu Home Loans and Nu-Way Housing are also directors of the companies who "bought out" the two subsidiaries from SAHT.

### **Action**

An affidavit was prepared for the complainant to peruse and sign. In addition to this a motivation for a proclamation was prepared.

The prepared affidavit has been forwarded to the complainant on three occasions for his perusal and signature. The SIU is still awaiting the return of this affidavit so it can attach it to the motivation for a proclamation and forward it to the Department of Justice for consideration.

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## **13. KwaZulu-Natal Investments**

### **Background**

On 2 February 2004 the SIU received a presidential proclamation to investigate allegations of mismanagement and fraud relating to the investment of funds of various municipalities in KwaZulu-Natal. It is alleged that these investments were in contravention of the relevant provisions of the Local Government Transition Act.

Municipalities under investigation include:

Umzinyathi Regional Council (Newcastle);

Uthungulu District Municipality (Richards Bay);  
and

Umtshezi Local Municipality (Escourt).

### **Action**

The Provincial Government have appointed an attorney to act on their behalf with the view to recovering the monies lost in the alleged prohibited investments.

As the SIU only received the proclamation in February 2004, investigations are at a preliminary stage.

## **14. Extension to the Northern Cape Housing Project: Northern Cape Province**

### **Background**

The SIU has been investigating allegations of irregularities in this matter since 1998 as contained in Proclamation R20 of 1998.

Primary allegations indicted that developers were paid and did not deliver on their contracts.

As a result of investigations conducted to date, the SIU has proposed an extension to this investigation to include a number of further developments.

### **Action**

During the past year the following has been completed:

Postmasburg/Warrenton - the complainant has indicated that he/she is happy with the progress in this development and the matter has been removed from the request for an extension;

Barcelona (De Aar) and Colesburg - investigations revealed that progress is being made and that 200 of the 300 houses have been finalised in De Aar. The 192 houses being built in Colesburg would be finished by December 2004; and

Benede Oranje - this project started in May 2000 and the contractor received R9 million to build 352 houses. The contractor is currently under investigation by the Scorpions.

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## **15. Cederberg Municipality: Western Cape Province**

### **Background**

This matter involves irregular land transactions and non-payment of rates in the Cederberg Municipal area.

### **Action**

Even though this matter is not proclaimed the SIU has managed to obtain the co-operation of all the parties involved in order to resolve the matter.

During the past year the SIU has been involved in discussions with the various parties and it is anticipated that a substantial recovery will be made in the near future.

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## **16. Managing Tourism Information Centre: Free State Province**

### **Background**

The SIU received information from a member of the public regarding alleged irregularities in the Managing Tourism Information Centre.

### **Action**

The SIU is still busy with a preliminary investigation, however indications are that there is no prima facie evidence in this matter. The SIU is awaiting a report from the Auditor-General before making a final decision on whether to proceed with a motivation for a proclamation or not.

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## **17. Monyakeng Taxi Route : Free State Province**

### **Background**

The SIU has received allegations from Nala Municipality regarding the reconstruction of the Manyakeng Taxi Route. These allegations are against the engineers and the contractor who were contracted by the municipality to do the work.

### **Action**

The SIU perused documentation received from the municipality during the past year. It was decided to apply for a proclamation in this matter and a motivation for a proclamation was forwarded to the Department of Justice. The SIU will commence with investigations once a Presidential Proclamation is received.

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## **18. Misuse of Legislature Credit Cards : Free State Province**

### **Background**

The SIU received allegations from the Directorate of Special Operations (DSO) regarding the misuse of official credit cards by two members of the Free State Provincial Legislature.

### **Action**

Preliminary investigations showed no misuse of credit cards given that the Free State Provincial Legislature policies stipulated that MPL's are allowed to make private purchases on official credit cards.

As this was a procedure/policy issue, the SIU referred the matter to the Secretary of the Legislature who then informed the SIU that both MPL's have undertaken to repay the monies.

As at 30 September 2003 one of the MPL's had repaid the debt while the other had made arrangements to pay off the debt.

A similar allegation against the MEC for Arts and Culture will be considered once the SIU has received the necessary documents from the Auditor-General.

## **INVESTIGATIONS FINALISED/REFERRED**

### **19. Motheo District Municipality: Free State Province**

#### **Background**

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

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

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

As a direct result no further investigation was possible.

#### **Action**

During the past year the SIU was unable to apply for a proclamation as it was not receiving the necessary co-operation or documentation that was needed from the municipality. As a result the matter was closed with no investigation or action being taken.

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### **20. Matjhabeng Municipality: Free State Province**

#### **Background**

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

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

Further allegations include:

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

#### **Action**

During the past year the SIU received all the necessary files and documentation to be in a position to evaluate this matter.

These files and documents were perused by the SIU's legal section who gave an opinion on the issue of a possible motivation for a Proclamation.

As no evidence of irregularities was found during the preliminary investigation, the SIU's legal section was of the opinion that there was no need to apply for a proclamation. However, the SIU legal section did compile a detailed legal opinion on certain aspects of the allegations reported to the SIU. This opinion was sent to the Speaker of the Municipality for information and possible action.

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### **21. Performing Arts Council of the Free State (PACOFs): Free State Province**

#### **Background**

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

The OFS Performing Arts Institute Trust was established on 7 March 1994. It subsequently changed its name to the International Performing Arts Institute Trust with six trustees. According to the findings, the main objective of this trust is to "promote and develop euro-centric performing arts". This trust is also the beneficiary of a further two trusts established by PACOFs.

The PACOFs Early Retirement Trust was established on 12 May 1995 by PACOFs with a donation of R2 million in cash and a claim of R680 000 against the Lily Lakewood Trust. The objective of this trust was to compensate PACOFs employees on early retirement (or retrenchment). All income from this trust was paid into the International Performing Arts Institute Trust. The capital was utilized to pay the retrenchment packages at the rate of twelve months salary per person. This fund has now been dissolved.

The Lily Lakewood Trust was established on 25 March 1994. It acquired fixed property from PACOFs to the value of R680 000. This loan account was subsequently donated to the Early Retirement Trust. The current beneficiary of the Trust is the International Performing Arts Institute Trust. Its current trustees are the same as those of the International Performing Arts Institute Trust.

### **Findings**

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

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

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

The role played by PACOFS in establishing the International Performing Arts Institute Trust with assets from a state owned company known as "Die Vrystaat Teater Vernodskap";

The role played by the old Board of Directors in establishing the Lily Lakewood Trust, resulting in the alienation of PACOFS fixed property to a trust controlled by them and for which they are not accountable;

The role played by the old Board of Directors in establishing the PACOFS Early Retirement Trust, investing R2 million of public funds for a purpose for which it was not intended;

The role of Coopers & Lybrand (now PricewaterhouseCoopers) in the establishment of these trusts;

The reason why the new Board did not bring this matter to the attention of the DACST; and

Whether these actions were within the mandates of the persons involved.

Legal opinion compiled during the past year shows that there is no likelihood of civil recovery as a court of law will draw the inference that the conduct of PACOFS had elected to affirm the above as donations.

A further obstacle would be that the transactions in question took place eight or more years ago and any claims flowing from these transactions, particularly the right to cancel the contracts concerned and the correlative liability of the trusts flowing from such cancellation, have become prescribed. Similarly, any claim against the then directors of PACOFS based on their breach of duty, has become prescribed.

### **Action**

As the SIU has no reasonable prospect of success in pursuing any civil claims against the trusts or former directors, there is no reason to continue the investigation as the costs would not be justified. However the SIU did afford PACOFS the opportunity to make representations before a final decision was taken to close the matter.

As at February 2004 no representations were received from PACOFS and as such the SIU closed this case.

## **22. The Department of Social Development: Free State Province**

### **Background**

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

### **Investigation**

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

### **Findings**

During the investigation a number of discrepancies were found. The misuse of the credit card amounted to R44 000 and irregular motor vehicle claims amounted to R186 000.

While investigating the allegations relating to irregular claims and credit card misuse, the SIU also found an irregular sale of a truck by the MEC to a project under the jurisdiction of the Department. As a direct result of the investigation and intervention by the SIU a settlement was reached and R26 000 was recovered.

### **Action**

During the past year an amount of R230 084 was recovered from the former MEC for Social Development. In addition to this the registration papers for the truck, valued at R26 000, were handed over to the Head of Department.

This matter is now closed.

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## **23. Agri -Eco: Free State Province**

### **Background**

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

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

#### ***1. Directors Remuneration***

### **Background**

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

### **Investigation**

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

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

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

### **Findings**

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

### **Action**

During the past year this case was been closed due to prescription.

## ***2. Sentraal Oos Ko-Operatief (SOK)***

### **Background**

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

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

### **Investigation**

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

### **Action**

During the past year this case was been closed due to prescription.

## ***3. Diyatalawa Apple Project***

### **Background**

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

### **Findings**

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

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

### **Action**

During the past year this case was been closed due to prescription.

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## **24. Mabopane TLC: North West Province**

### **Background**

The SIU has been investigating allegations involving the sale of a site to a private company where the money was never paid to the TLC.

### **Findings**

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

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

### **Action**

As at 30 September 2003 the settlement agreement between the petrol company and the TLC had been signed. The SIU is now awaiting the transfer of the property before it is in a position to close its case.

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## **25. Labour Only Contracts: KwaZulu-Natal**

### **Background**

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

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

### Allegations

The allegations in these matters are as follows:

The Senior Artisan Superintendent of Merryville Depot and a building contractor wrongfully, unlawfully and intentionally misrepresented to the department that labour supplied had performed in terms of the written agreements and that the contractor was entitled to the payment. These representations were false in that no work was done or the work was incomplete.

In addition to this, both parties falsely represented to the department that three contractors had concluded agreements with the department to supply labour in various projects and that they were entitled to receive payments. These representations were false in that no labour was supplied by the contractors.

### Findings

A total of 21 Labour Only Contracts were investigated and found to be invalid in terms of the allegations made.

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

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

The case files were handed to the Director of Public Prosecutions in the 2002/03 year and a charge sheet was drawn up. Both the contractor and the departmental official were charged with 21 counts of fraud.

### Action

During the past year the matter was postponed in the Regional Court in Pietermaritzburg to 5 November 2004.

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## **26. Idube Raceway: KwaZulu-Natal**

### Background

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

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

### Allegations

The allegations in this matter include the following:

During 1997 construction, earthmoving and plant equipment, hired on behalf of the department by a senior engineer was being utilized irregularly at Idube Raceway, a private concern.

Building and construction material, purchased at government expense was delivered to Idube Raceway where it was used for the erection of various buildings.

Labour and artisans, from legitimate government approved projects, were channelled to Idube Raceway on instructions of the senior engineer and used in the erecting of the various buildings. It was found that this engineer had personal interests in the raceway.

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

### Findings

The allegations were confirmed during the investigation in 2002/03. However, the SIU was not in a position to institute litigation because of legislative problems. As a result, the office of the Director of Public Prosecutions in Pietermaritzburg was approached to assist with the criminal investigation and prosecution.

In 2002/03 the senior engineer was arrested and formally charged with fraud. On 7 March 2003 he successfully applied for a stay of prosecution in the Pietermaritzburg Regional Court. He based his application on the fact that his constitutional rights had been affected due to the lengthy delay in his prosecution and that he was on the verge of immigrating to Australia when he was arrested.

### Action

The SIU's legal section is of the opinion that there is very little chance of success in this matter. As a result the SIU has closed this case. However, the legal representatives of the accused intend bringing an application for a stay of permanent prosecution. This will have no bearing on the closure of this matter by the SIU.

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## **27. Irregular Computer Hardware Procurement: Mpumalanga Province**

### Background

During 2001 the SIU received information regarding the alleged irregular procurement of computer hardware by the IT Department, Finance Section of the Mpumalanga Government.

It was alleged that a false tender number was used which resulted in R7 million fraud.

In addition to this allegations were also received that hardware that was ordered was not supplied but substituted with inferior quality components.

### **Action**

As a result of the urgency of this matter the SIU approached the Internal Audit Team of the Mpumalanga Premier's Office to assist.

It was determined that Treasury had given authorisation for the extension of the use of the tender number.

With regard to the supply of inferior computer components, the SIU is still busy compiling a report on this matter. Indications are that the SIU will not be able to proceed with action.

A criminal docket was also opened with the SAPS Commercial Branch in Nelspruit but was closed on recommendation from the Public Prosecutor.

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## **28. Moqhaka Municipality: Free State Province**

### **Background**

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

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

### **Action**

Preliminary investigations during the past year revealed no irregularities. As a result the SIU did not apply for a proclamation.

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## 4.2 REGIONAL REPORTS

### 1. REGIONAL OFFICE: EAST LONDON

This last year saw the creation of a regional office in East London. The Eastern Cape has been the historical home of the Special Investigating Unit and until recently, the vast majority of SIU members operated from the Eastern Cape. The strategic vision of creating a national presence has, however, led to the creation of a number of offices in other areas. Until now the head office of the SIU has been operating from East London, but it is envisaged that the head office will move to Pretoria by the end of 2004. This will of course have a major impact on the East London office. Not only will a number of senior members of the organisation relocate to Pretoria, but in addition it will see a major change in its structure. The East London office will no longer be seat of both the head office and the East London regional office but will in future only be the seat of a regional office.

The East London office is also looking forward to the appointment of its own regional head. This position has already been advertised but has as yet not been filled. The current position is that the projects director, in addition to his normal functions, also acts as Head of the East London regional office. The East London Regional office is responsible for investigations in the Eastern Cape province and is also the reporting point for the satellite office that was opened in Cape Town in 2003. The present position is that the East London regional office is also responsible for some investigations in the Free State province as well as the Northern Cape province, in which provinces the SIU currently does not have offices.

In addition to its exposure to the large national projects in which the SIU is involved, the East London regional office is very excited about the prospect of concluding a partnership with the local Department of Local Government and Housing. Since January 2004, the SIU has been working with the said Department on investigations at Qaukeni Municipality and is looking forward to an extended relationship with this Department in order to address maladministration and corruption. It is anticipated that a meaningful impact can be made at this very important tier of Government and the regional office is chomping at the bit to do its part.

### 2. REGIONAL OFFICE : GAUTENG

During 1998 a small satellite office was created in Midrand in Gauteng to facilitate the investigation of cases in the following provinces: Gauteng, Limpopo, Mpumalanga and the North West. At that stage members were travelling from the head office in East London to the various provinces on a regular basis. This office served as a base for the operations of the SIU.

Due to the increase in volume of work in the regions and the good working relationship between the SIU and the various provincial administrations, it was decided to establish a permanent office in Pretoria.

In February 2003 a regional office was opened in Pretoria to serve Gauteng, North West, Mpumalanga and Limpopo. A regional head was appointed with a staff compliment of 24 SIU members consisting of three lawyers, one legal secretary, two project managers, two administrative officers, one office administrator, two analysts, twelve investigators and three temporary data capturers. The staff compliment increased to 29.

In August 2003 the SIU started a training program for investigators and the first eight recruits commenced with their training under a mentor.

The following projects are currently under investigation in this region:

- The Department of Correctional Services
- The Department of Justice-Magistrates Courts
- The Gauteng Low Cost Housing Subsidy Scheme

### 3. MPUMALANGA- NELSPRUIT OFFICE

The Mpumalanga satellite office was opened in Nelspruit towards the end of 2003. The need for a satellite office was identified and is currently staffed by four members headed by a project manager. This office falls under the Gauteng regional office.

The satellite office is involved in two projects being the Department of Correctional Services (Mpumalanga) and the Lydenburg Municipality.

It is anticipated that this office will grow within the next year.

### 4. REGIONAL OFFICE: KWAZULU-NATAL

The KwaZulu-Natal Regional Office has grown considerably over the past year and now has a staff compliment of 39 members. The structural breakdown is as follows:

- 1 Regional Head
- 1 Regional Office Administrator
- 2 Project Managers
- 4 Chief Forensic Investigators
- 2 Legal Representatives
- 4 Forensic Investigators
- 1 Senior Forensic Analyst
- 1 Assistant Forensic Analyst
- 2 Administrative Officers
- 1 Contract Forensic Investigator
- 2 Seconded Detectives
- 1 Temporary Legal Secretary
- 1 Temporary Receptionist
- 1 Contract Data Capturer
- 1 Contract Cleaner

The following projects are currently being investigated in KwaZulu-Natal:

KZN Department of Transport Weighbridge Case (reduction of Tare Weights);  
KZN Department of Housing, Housing Subsidy Scheme;  
Department of Correctional Services (KZN section)  
Witness Protection Programme (KZN)  
Department of Justice (KZN section)  
KZN Investments; and  
Labour-Only contracts

## 5. REGIONAL OFFICE: WESTERN CAPE

The Cape Town office commenced with its operations as from September 2003 from the CBD of Cape Town.

The opening of this office in the Western Cape allowed the SIU to provide a better and more efficient service to its clients. Although the initial focus is on the Department of Correctional Services and the Department of Justice projects, it is envisaged that the Cape Town office will start to handle regional projects and will generate regional work in close consultation with the Provincial Administrations and the Regional offices of Departments.

The office is staffed by:

1 x Project Manager  
3 x Chief Forensic Investigators  
1 x Senior Forensic Analyst  
2 x Forensic Investigators  
1 x Assistant Analyst  
1 x Administration Assistant

In respect of the Department of Correctional Services project, there are 28 prisons situated within the province, which have now been transferred to the Cape Town office. In addition to 'Prison Visit Work' the office is also responsible for dealing with the 'First Auto', 'Medical Aid' and 'Pharmacies' aspects of the investigation at prisons within the Western Cape Region.

In respect of the Department of Justice project, the Western Cape has a total of 10 Courts, five of which are 'sub-courts' listed in the proclamation relevant to this matter. Work in relation to one court is now approximately 95% complete.

## 4.3 LEGAL

### Role of Legal Section

The primary role of the SIU's legal section is the institution of civil proceedings in the Special Tribunal to prevent or recover damages or losses to state institutions as a result of serious maladministration, and wrongful and unlawful conduct including fraud, theft and corruption, uncovered in investigations conducted by the SIU.

### Report for 2003/04

Litigation in the Special Tribunal is still on hold as a result of decisions by the President of the former Special Tribunal and the Full Court of the High Court of the Eastern Cape during 2000 (as reported in the 2002/3 Annual Report of the SIU).

Amendments to Act No. 74 of 1996 were formulated and forwarded to the Department of Justice for processing before the year under review, but have to-date still not been effected. It is hoped that these will be tabled during the second parliamentary session of 2004. In the interim, the Special Tribunal is being approached for relief only in operational matters, such as applications for Warrants of Entry to search for and to seize books, documents and/or objects required for investigations in process.

Members of the legal section have however been actively involved in the activities of the SIU in a number of areas, *inter alia*:

- Questioning witnesses under oath or affirmation in terms of section 5(2)(c) of Act No. 74 of 1996 in order to advance investigations or bring them to a head.
- Assisting the conducting of SIU investigations as part of multi-disciplinary project teams.
- The formulation, motivation and submission of matters to the Department of Justice for the issuing of proclamations referring such matters to the SIU for investigation.
- Furnishing legal advice and opinions on a range of domestic matters, as well as to assist in investigations and the formulation of reports and recommendations arising there from.
- The settlement of contracts and other legal documents associated with the SIU's activities.
- The referral of claims for recoveries to the State Attorney or client state institutions for action.
- Interaction with the Asset Forfeiture Unit and the National Prosecuting Authority regarding evidence of criminal conduct uncovered in SIU investigations.

The questioning of witnesses has resulted in the making of written acknowledgements of debt in substantial sums in the Department of Correctional Services, "Weighless" (under recovery of licence fees due to unlawful tare weight reduction), the KwaZulu-Natal Housing (Conveyances) investigations and others. In some cases, they have resulted in arrests being made, for example in the Witness Protection Programme-investigation.

A key action led to members of the legal section of the Gauteng Office assisting the Limpopo Department of Transport in the preparation of charge sheets and evidence in the Limpopo Department of Transport investigation into the irregular issuing of drivers licences. The legal section also worked closely with the National Prosecuting Authority in this matter. Several officials have been dismissed or disciplined as a result.

Civil claims referred to the State Attorney's Office or client departments for action include claims against three entities for the recovery of underpaid licence fees, against two persons for the recovery of the value of scrap metal stolen, against one person for the recovery of payments taken from members of the public to find them jobs in a department, and against one conveyancer for the recovery of public money misappropriated.

Altogether seven proclamations were issued by the President during the year under review, referring matters to the SIU for investigation. They were:

- Extension to North Cape Housing;
- Lydenburg Transitional Local Council;
- Free State Marketing Board;
- Investments by three KwaZulu-Natal Local Authorities;
- Extension to Gauteng Housing;
- Extension of Proclamation Irregular increase/reduction of vehicle tare weights: KwaZulu-Natal; and
- Department of Justice (Magistrate's Offices): National.

As at 31 March 2004 several motivations for proclamations were either in preparation for submission to, or had already been submitted to the Department of Justice for consideration, including:

- Eastern Cape Departments;
- Eastern Cape Municipalities;
- SA Housing Trust;
- National/Provincial Housing;
- Qaukeni Municipality; and
- National Department of Transport (including State institutions at provincial and local level).

## 4.4 ADMINISTRATION

### HUMAN RESOURCES

Due to the SIU's rapid growth during the past year the Human Resources Department has been kept on its toes as far as the recruitment drive is concerned. This resulted in the employment of a number of new members for different components.

#### Appointments

The SIU placed a number of adverts during the year and this resulted in 59 positions being filled. Of these 23 were contract appointments.

These appointments were as follows:

#### Permanent Members

1 Deputy Head  
2 Managers : Investigations  
1 HR Officer  
4 Legal Representatives.  
18 Forensic Investigators  
5 Chief Forensic Investigators  
3 Assistant Analysts  
1 Admin. Officer  
1 Database Administrator

#### Contract Workers

1 Forensic Investigator  
8 Trainee Investigators  
1 Mentor for Trainee Investigators  
1 Consultant  
4 Tracers  
2 Admin. Officers  
6 Data Capturers

The SIU is a multi-disciplinary organisation and has a highly skilled employee base ranging from administration clerks and legal secretaries to senior advocates, attorneys, auditors, financial analysts and experienced investigators.

New and existing members are subjected to internal integrity testing and a member of the SIU is specially designated to deal with this aspect.

An annual performance appraisal system together with competitive salary structures result in high staff retention.

#### Promotions

During 2003/04, ten members were promoted.

Two were promoted to Regional Legal Managers for Pretoria and East London, one to Chief Forensic Investigator, one to Bookings Officer / Secretary, one to Manager Investigations and five to Assistant Analysts. Of the ten members promoted one was an internal temporary worker and one a contract worker.

#### Transfers

The establishment of the Cape Town and Nelspruit offices resulted in seven transfers, four and three respectively. One member requested a transfer from Pretoria to East London during the past year.

#### Terminations

Three terminations have been registered during the year ending 31 March 2004, two permanent members and one contract worker.

#### Employment Equity

The SIU is showing progress in terms of addressing the past imbalances and has set targets as per the SIU Employment Equity Plan.

The Employment Equity Forum is functioning well in terms of participating in interviews and in terms of being a watchdog in the adherence of employment procedures. During the course of the year the forum and senior management agreed that succession planning should be introduced. This is an aim for the 2004/05 year.

It is important to note that of the 59 members employed during the year, 49 were from employment equity groups. This is indicative of the fact that the SIU is serious about addressing its employment equity numbers.

In order to speed up the process of closing the employment equity gaps, a recommendation will be submitted to senior management for specific positions to be identified as employment equity positions.

As at 31 March 2004 the SIU had a staff complement of 183, including contract workers.

#### Training and Development

The conducting of training courses has been running according to the schedule for the period.

Between April 2003 and March 2004 a total of 38 training courses were conducted by different facilitators, both internal and external. Members attended 11 external courses and 27 internal courses. This excludes the workshops attended during the training week and the team building that took place in Pretoria.

Currently 30 members are furthering their careers in terms of studying towards different courses and degrees.

#### Labour mood

During this fiscal year the labour mood has been proved to be very stable as no industrial action has taken place.

### **Strategic Development**

In October 2003, through the generous support of the United Kingdom's Foreign and Commonwealth Office's Global Support Fund for emerging markets, the SIU secured the services of an internationally experienced anti-corruption expert to advise on strategic development. In addition to the provision of advice and mentoring in relation to the ongoing investigation project work and investigation techniques of the SIU, the expert has also provided input to the SIU's long term objectives of establishing a nationwide presence and increasing capacity at its existing regional and satellite offices.

The expert has also designed two new initiatives which the SIU regards as vital to its long term sustainability and development. These are the Performance Development and Potential Leaders programmes. Both programs have been aimed initially at the SIU's investigation and analysts cadres but are to be extended to all disciplines in the near future.

The Performance Development Programme identifies the skills and competencies required to perform at the various levels within the organisation. Actual skill levels are then determined and where deficiencies exist, training needs are identified. These can then be met by specifically designed training and/or mentoring aimed at those who need it, not those who do not.

The Potential Leaders Programme is aimed at identifying employees who have the potential to take up management positions within an accelerated time frame. Using professional assistance the selection process is now underway. Once identified, the employees will be subjected to an assessment and development process aimed at identifying their specific leadership skill needs which will then be met both through formal training and on-the-job mentoring by the expert.

## **4.5 INFORMATION TECHNOLOGY**

### **IT Department**

During the past financial year the IT Department has focused primarily on the continued influx of new members at the SIU and the subsequent expansion of IT infrastructure in order to accommodate them.

The establishment of the new Nelspruit and Cape Town offices as well as the planned relocation of the Pretoria office to larger premises, has resulted in the acquisition and installation of new computer equipment, including desktops, notebooks and servers, and the networking of these offices for linking to the WAN.

The receipt of donor funding has enabled the IT Department to proceed with various projects, such as a new communications system - Central Management System (CMS) - which is in the process of being installed throughout the SIU. This will enable all offices to communicate more effectively and at the same time reduce overall communication costs. The IT Department has taken an active role in this installation in order to be able to provide on-site support for members.

Development of the SIU's website as well as an internal intranet site have made access to information easier for the general public as well as members of the SIU. The website includes an online application form which allows prospective employees to apply for available positions within the SIU. Considering the many posts being advertised and the vast amount of applications received, this addition has been of great benefit.

The need to consolidate information and resources within the SIU has resulted in the evaluation of various Enterprise Resource Planning (ERP) software products with the intention of re-development and customisation to suit the Unit's requirements. One of these products, namely SalesLogix, was selected for further testing and possible implementation. Funding for this project is still sought.

## **5 DRAFT ANNUAL FINANCIAL STATEMENTS**

### **SPECIAL INVESTIGATING UNIT**

#### **DRAFT ANNUAL FINANCIAL STATEMENTS** for the year ended 31 March 2004

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## SPECIAL INVESTIGATING UNIT

### DRAFT BALANCE SHEET

at 31 March 2004

	Notes	2004 R	2003 R
<b>ASSETS</b>			
NON-CURRENT ASSETS			
Moveable property and equipment	1	<u>2 724 941</u>	<u>2 829 072</u>
CURRENT ASSETS			
Inventories	2	5 050 322	4 448 905
Trade and other receivables		25 677	21 789
Prepayments		1 504 448	1 866 599
Cash and cash equivalents		14 390	61 079
Bank balances - recoveries	4	497 953	188 246
		<u>3 007 854</u>	<u>2 311 192</u>
<b>TOTAL ASSETS</b>		<u><u>7 775 263</u></u>	<u><u>7 277 977</u></u>
<b>EQUITY AND LIABILITIES</b>			
EQUITY AND RESERVES			
Capital reserve		1 436 666	2 470 802
Accumulated deficit		<u>2 724 941</u>	<u>2 829 072</u>
		<u>(1 288 275)</u>	<u>(358 270)</u>
CURRENT LIABILITIES			
Trade and other payables	3	6 338 597	4 807 175
Payables - recoveries	4	<u>3 330 743</u>	<u>2 495 983</u>
		<u>3 007 854</u>	<u>2 311 192</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>7 775 263</u></u>	<u><u>7 277 977</u></u>

## SPECIAL INVESTIGATING UNIT

### DRAFT INCOME STATEMENT

for the year ended 31 March 2004

	Notes	2004 R	2003 R
REVENUE	7	38 459 319	22 958 000
OPERATING EXPENSES		42 023 151	27 173 443
Staff expenses	8	29 451 740	17 335 503
Travel and accommodation		3 293 699	2 636 119
Depreciation		1 782 822	1 804 269
Other expenses	9	7 494 890	5 397 552
OPERATING LOSS		(3 563 832)	(4 215 443)
OTHER OPERATING INCOME	10	2 193 871	46 612
OPERATING LOSS before interest		(1 369 961)	(4 168 831)
INTEREST RECEIVED	11	335 825	458 462
LOSS for the year		(1 034 136)	(3 710 369)

**SPECIAL INVESTIGATING UNIT**

**DRAFT STATEMENT OF CHANGES IN ACCUMULATED FUNDS**

for the year ended 31 March 2004

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	<b>Capital Reserve and accumulated surplus/(shortfall)</b>
	<b>R</b>
<b>Balance at 31 March 2002</b>	6 181 171
Loss for the year	(3 710 369)
<b>Balance at 31 March 2003</b>	2 470 802
Loss for the year	(1 034 136)
<b>Balance at 31 March 2004</b>	1 436 666

**SPECIAL INVESTIGATING UNIT****DRAFT CASH FLOW STATEMENT**

for the year ended 31 March 2004

	Notes	2004 R	2003 R
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		1 934 942	( 1 867 670 )
Cash received from departments		38 821 470	21 572 870
Cash paid to suppliers and employees		(37 222 353)	( 23 899 002 )
Cash generated from/(utilised in) operations	13.1	1 599 117	( 2 326 132 )
Interest received		335 825	458 462
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		(1 625 235)	( 1 711 558 )
<b>Investment to maintain operations</b>			
Proceeds from sale of moveable property and equipment		64 702	141 290
<b>Investment to expand operations</b>			
Purchase of moveable property and equipment		(1 689 937)	( 1 852 848 )
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		309 707	( 3 579 228 )
<b>CASH AND CASH EQUIVALENTS</b> at the beginning of year		188 246	3 767 474
<b>CASH AND CASH EQUIVALENTS</b> at end of year	13.2	497 953	188 246

## **SPECIAL INVESTIGATING UNIT**

### **SUMMARIES OF ACCOUNTING POLICIES**

for the year ended 31 March 2004

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The following are the principal accounting policies of the SIU which are consistent in all material respects with those applied in the previous year, except as otherwise indicated.

#### **Basis of preparation**

The financial statements have been prepared on the historical cost basis in accordance with South African Statements of Generally Accepted Accounting Practice.

#### **Moveable property and equipment**

Moveable property and equipment are stated at historical cost less depreciation. Depreciation is calculated on a straight - line method to write off the cost of each asset over its estimated useful life as follows:

Office furniture and equipment	5 years
Computer equipment	3 years
Books and law reports	5 years
Motor vehicles	4 years
Computer software	2 years

#### **Rented assets**

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

#### **Revenue**

Revenue comprises the annual grant received from the Department: Justice and Constitutional Development and income from other government departments in terms of contracts for specific projects. Incidental income is accounted for on a cash basis.

#### **Interest received**

Interest received is recognized on a time proportion basis.

#### **Inventory**

Consumable stores are valued at average cost.

#### **Cash flows**

For purpose of cash flow statement, cash includes cash on hand, deposits held on call with banks, investments held in money market instruments and bank overdrafts.

#### **Capital reserve**

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

#### **Post-employment benefit costs**

The Unit's contributions to the defined contribution provident plan are charged to the income statement in the year to which they relate.

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2004

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	2004 R	2003 R
<b>1. MOVEABLE PROPERTY AND EQUIPMENT</b>		
<b>1.1 Books and law reports</b>		
Opening net carrying amount	36 594	5 289
- Gross carrying amount	90 003	48 914
- Accumulated depreciation	( 53 409 )	( 43 625 )
Additions	-	41 089
Depreciation	( 8 467 )	( 9 784 )
Closing net carrying amount	28 127	36 594
- Gross carrying amount	90 003	90 003
- Accumulated depreciation	( 61 876 )	( 53 409 )
<b>1.2 Computer software and equipment</b>		
Opening net carrying amount	2 195 963	1 877 664
- Gross carrying amount	5 972 665	4 729 033
- Accumulated depreciation	( 3 776 702 )	( 2 851 369 )
Additions	1 061 735	1 502 032
Disposals	( 11 245 )	( 102 108 )
Depreciation	( 1 415 027 )	( 1 081 625 )
Closing net carrying amount	1 831 426	2 195 963
- Gross carrying amount	6 990 681	5 972 665
- Accumulated depreciation	( 5 159 255 )	( 3 776 702 )

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>1. MOVEABLE PROPERTY AND EQUIPMENT</b> (continued)		
<b>1.3 Office furniture and equipment</b>		
Opening net carrying amount	589 908	627 982
- Gross carrying amount	2 032 233	1 729 190
- Accumulated depreciation	( 1 442 325)	( 1 101 208 )
Additions	368 210	303 043
Depreciation	( 318 467)	( 341 117 )
Carrying value at the end of the year	639 651	589 908
- Gross carrying value	2 400 443	2 032 233
- Accumulated depreciation	( 1 760 792)	( 1 442 325 )
<b>Motor vehicles</b>		
<b>1.4</b>		
- Gross carrying value	6 607	371 666
- Accumulated depreciation	1 986 775	1 980 091
	( 1 980 168)	( 1 608 425 )
Additions	259 992	6 684
Disposals (carrying amount)	( )	-
Depreciation	( 40 861)	( 371 743 )
	225 737	6 607
- Gross carrying amount	2 171 910	1 986 775
- Accumulated depreciation	( 1 946 173)	( 1 980 168 )
<b>TOTAL MOVEABLE PROPERTY AND EQUIPMENT</b>	<u>2 724 941</u>	<u>2 829 072</u>
<b>INVENTORY</b>		
<b>2.</b>		
Stationery and toner	<u>25 677</u>	<u>21 789</u>
<b>TRADE AND OTHER PAYABLES</b>		
<b>3.</b>		
Provision for leave pay	1 098 028	656 696
Staff expenses - deductions	717 693	566 589
Provision for audit fees	195 427	184 442
Other payables	1 319 595	1 088 256
	<u>3 330 743</u>	<u>2 495 983</u>

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENT (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>4. PAYABLES - RECOVERIES/BANK BALANCES</b>		
4.1 Payables - Recoveries	2 874 990	1 789 710
Accrued interest refundable to National Treasury		
	<u>132 864</u>	<u>521 482</u>
	<u>3 007 854</u>	<u>2 311 192</u>
Amount reflected is owed to third parties and was obtained through either signed admission of guilt or through Court Orders issued by Special Tribunal. Amounts are held and paid over to relevant third parties on completion of each case.		
4.2 Bank balances	<u>3 007 854</u>	<u>2 311 192</u>
<b>5. COMMITMENTS</b>		
Rental commitment in respect of properties and equipment.	<u>2 597 416</u>	<u>2 996 537</u>
Payable within 1 year	<u>1 302 715</u>	<u>1 295 814</u>
Payable thereafter	<u>1 294 701</u>	<u>1 700 723</u>
The above commitments are in respect of 21 rental agreements for periods ranging from 12 to 60 months. The average monthly rental is R128 062.		

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>6. TAXATION</b>		
<p>The Unit is not a registered vendor for VAT purposes as no taxable supplies are delivered. No provision for normal income tax is made as the Unit is a public enterprise and funded with Government grants</p>		
<b>7. REVENUE</b>		
7.1 Grant received from Department: Justice and Constitutional Development	25 535 000	22 958 000
7.2 Income received from other departments	12 350 000	-
Department of Transport (Limpopo)	300 000	-
Department of Correctional Services	5 000 000	-
Department of Justice and Constitutional Development	5 000 000	-
Department of Housing (KZN)	1 000 000	-
Department of Housing (National)	1 000 000	-
Department of Public Service and Administration	50 000	-
7.3 British High Commission	574 319	
	<u>38 459 319</u>	<u>22 958 000</u>
<b>8. STAFF EXPENSES</b>		
8.1 Total expenses include:		
Salaries and wages	22 419 433	11 971 513
Provident and funeral fund contributions	2 302 779	1 661 432
Travel, subsistence and entertainment allowances	3 581 681	2 813 574
Computer and telephone allowances	213 900	251 500
Medical aid contributions	439 018	325 997
Leave provision	494 929	311 487
	<u>29 451 740</u>	<u>17 335 503</u>
8.2 Remuneration to Senior Management included above	<u>3 126 485</u>	<u>2 176 689</u>

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>9. OTHER EXPENSES</b>		
Annual report	16 567	29 623
Auditors remuneration	245 913	240 572
Bad debts	3 100	4 386
Bank charges	36 257	31 531
Books and publications	140 249	85 518
Car hire and taxi expenses	253 675	177 602
Conferences and seminars	8 026	110 883
Consultancy fees	149 841	496 960
Consumables	119 769	75 565
Courier services	85 129	69 382
Entertainment	20 841	7 348
Insurance	391 242	326 618
Internal audit fees	(34 388)	102 978
Internal integrity expenses	80 348	-
Legal fees	21 067	143 255
Media and promotions	154 026	76 206
Motor vehicle expenses	693 541	385 034
Office expenditure	123 078	-
Professional membership fees	2 536	12 734
Revenue stamps	20	40
Relocation and recruitment costs	969 390	645 842
Rent paid - properties	1 069 019	461 422
Rental - equipment	832 297	797 850
Repairs and maintenance	61 379	28 180
Security	7 388	14 141
Software licences	54 606	128 952
Stationery and printing	494 841	353 052
Telephone, fax and posting expenses	1 252 984	558 976
Training and development	229 709	32 902
Transcription fees	12 440	-
	<u>7 494 890</u>	<u>5 397 552</u>

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>10. OTHER OPERATING INCOME</b>		
Computer expenses recovered from staff	186 766	-
Surplus on disposal of moveable property and equipment	53 456	39 182
Loss on foreign currencies	(10 612)	(14 200)
Sundry income	6 526	21 630
JACT - rental	600 000	-
JACT - use of vehicles	581 719	-
JACT - secondment of staff	776 016	-
	<u>2 193 871</u>	<u>46 612</u>
<b>11. INTEREST RECEIVED</b>		
Call account	214 575	325 653
Current accounts	121 250	132 809
	<u>335 825</u>	<u>458 462</u>

### 12. CONTINGENCIES - ACCUMULATED SURPLUSES

In terms of section 53(3) of the Public Finance Management Act, 1999, prior written approval should be sought from National Treasury to retain accumulated surplus funds. The Unit has sought the relevant approval but no approval has been granted yet.

If approval is not granted to retain all of the Unit's prior year surpluses, surplus funds or a portion thereof, they will need to be surrendered to the National Revenue fund as determined by National Treasury.

## SPECIAL INVESTIGATING UNIT

### NOTES TO THE DRAFT ANNUAL FINANCIAL STATEMENTS (continued) for the year ended 31 March 2004

	2004 R	2003 R
<b>13. NOTES TO THE CASH FLOW STATEMENT</b>		
<b>13.1 Cash generated from/(utilized in) operations</b>		
Operating loss	( 1 034 136)	( 3 710 369)
Adjustments for:		
Depreciation	1 782 822	1 804 269
Interest received	( 335 825)	( 458 462)
Surplus on sale of moveable property and equipment	( 53 456)	( 39 182)
Operating profit/(loss) before working capital changes	<u>359 405</u>	<u>( 2 403 744)</u>
(increase)/decrease in inventory	( 3 888 )	7 661
Decrease/(increase) in trade receivables	362 151	( 1 385 130 )
Decrease/(increase) in prepayments	46 689	134 285
Increase in trade payables	<u>834 760</u>	<u>1 320 796</u>
	<u>1 239 712</u>	<u>77 612</u>
Cash generated from/(utilized in) operations	<u><u>1 599 117</u></u>	<u><u>( 2 326 132 )</u></u>
<b>13.2 Cash and cash equivalents</b>		
Bank balances	<u><u>497 953</u></u>	<u><u>188 246</u></u>