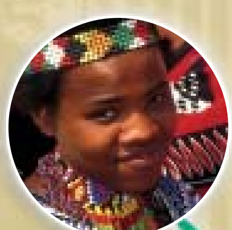
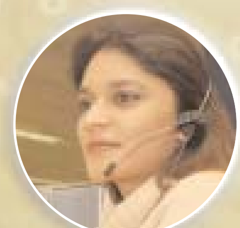
SITA

stateinformationtechnologyagency

Annual report 2004

Serving the nation through technology





stateinformationtechnologyagency Annual report 2004

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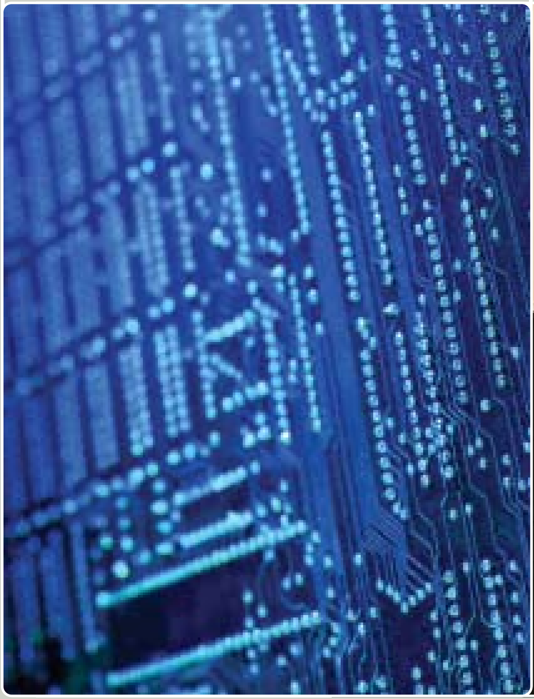
Our mandate is to enable Government to improve service delivery to the public through the provision of information technology, information systems and related services.

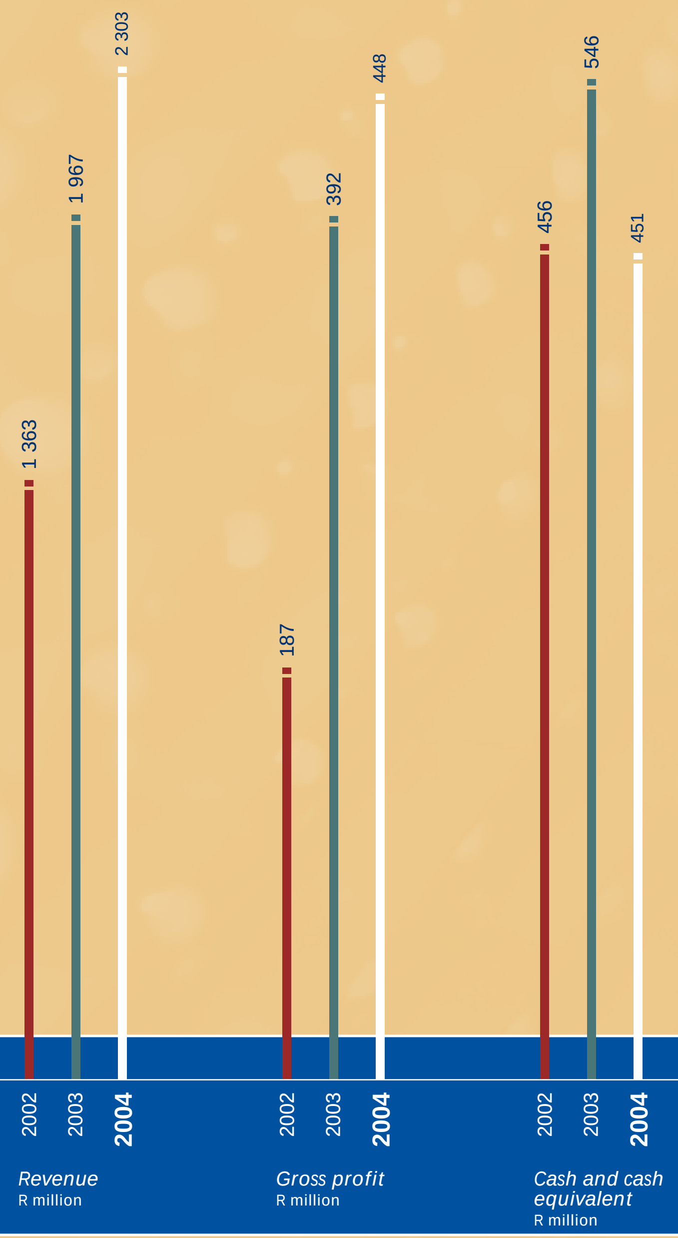


s t a t e i n f o r m a t i o n t e c h n o l o g y a g e n c y

Financial highlights

Delivering results

- *Revenue up 17%*
- *Gross profit increased by 14%*
- *Strong cash position*



Chairperson's report

Delivering the promise

Ms Zodwa Manase

Introduction

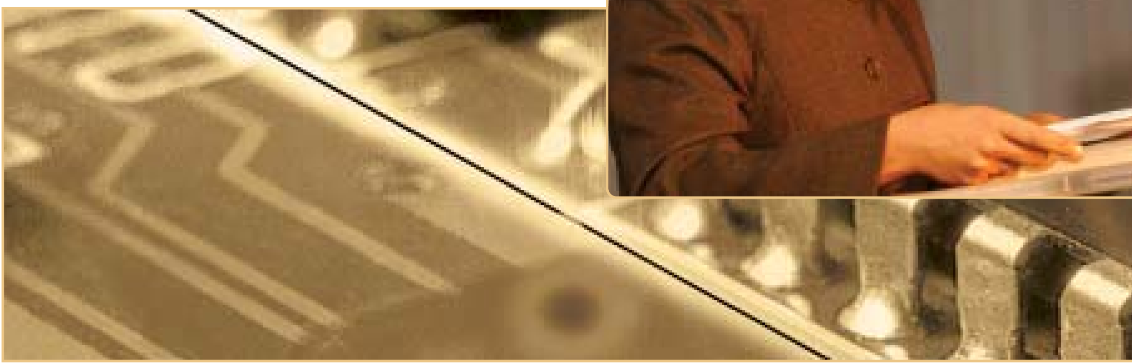
The financial year ending 31 March 2004 marked the fifth year of the existence of the State Information Technology Agency (Pty) Limited (SITA), and ten years of democracy in South Africa. We took full advantage of this fortuitous alignment of birthdays and the prevailing mood of national euphoria to stage our own well-attended celebratory get-togethers in SITA offices across the country. The occasion was used by SITAzens to rededicate themselves to the accomplishment of the organisation's goal of providing quality service to our Government clients.

It was in April 1999 when SITA was formed from the amalgamation of Central Computer Service (CCS), formerly part of the Department of Finance; Infoplan, which used to be administered by the Department of Defence; and the Information Management Systems section of the South African Police Services (ISSAPS).

SITA was founded on an Act of parliament, from which the organisation's mandate derives, which is to provide, cost effectively, relevant ICT products and services to the South African Government, enhancing public service delivery through ICT. The Act also mandates the organisation to certify the quality of goods and services provided to the government whilst ensuring the security of the state's information systems.

Over the past two years, SITA's financial health has improved dramatically. This was evidenced by the positive cash-flows and the turning around of our bottom line from red to black. This was achieved for the first time in 2003.

Of special significance is that the organisation has markedly improved its business systems. This improvement has resulted in the Auditor-General issuing an unqualified audit report on SITA's finances for two consecutive years, starting in 2003.



We are proud of the good work that has been done in the area of youth training in IT through the Youth Internship Programme (YIP). This is a programme that has been going on for three years now, producing some 300 trainees a year. YIP is helping to close the skills shortage gap that exists in the country's IT industry and targets black, female and disabled candidates. I note with satisfaction that the programme also focuses on recruiting young professionals from rural areas.

We applaud the strong partnership in this project, involving the DPSA, the Public Services Sector Training Authority, Umsobomvu Youth Fund and SITA. We salute the Minister of Public Service and Administration, Ms Geraldine Fraser-Moleketi, for her active interest in the programme, which she officially launched during the year.

SITA continued to provide ICT input in the implementation of the Government programme for the renewal of Africa and actively participated in several initiatives, including the new Partnership for Africa's Development (Nepad). Over the past financial year we hosted a number of international delegations from the African continent, sharing experiences and introducing the guests to the SITA working environment. SITA has also acted as the regional hub in the SADC region through which the Commonwealth Network of Information Technology (COMNET-IT) is intensifying its activities in the area of information technology development.

SITA is committed to an ICT industry that recognises the diversity of our society and the need to develop previously disadvantaged people.

Chairperson's report

Our extensive search for a suitable CEO was richly rewarded when we signed up Mavuso Msimang in October 2003. Mr Msimang has built up an impressive track record in public service management, specifically in the area of state-owned enterprises, over the past ten years. There has been very good feedback already from staff and external stakeholders in the form of statements of confidence in his leadership.

The Board also approved the turnaround strategy, which is underpinned by a rigorous programme to turn the organisation around. I am happy to report good progress in SITA management over the last six months of the financial year. Staff motivation has been on the increase.

Much work remains to be done though. Management is already focusing on removing procurement inefficiencies that have for long hobbled the performance of the IT Acquisition Centre, commonly known as ITAC. Already steps have been taken to untangle the multifarious deficiencies of this business unit and improve its service levels.

Future challenges

Highest on the agenda as we go forward is the radical improvement of service delivery. We shall be looking for innovative ways to improve the achievement of our mandate.

Recognising that employees are SITA's best assets, we will support management efforts to create equitable conditions of employment, which will give every staff member a strong sense of belonging. As an agency serving Government departments, SITA will consult closely with stakeholders to engender a climate that is conducive to good business relations.

SITA supports the broad objectives of the Information Communication Technology Black Economic Empowerment Charter. We look forward to the finalisation of the Charter and are committed to playing our part within the public sector environment.

Acknowledgements

My sincere thanks goes to our President, His Excellency Thabo Mbeki for his confidence in women leadership and his unwavering support of all ICT initiatives that are aimed at improving the conditions of the citizens of this country.

It would have been nearly impossible to realise the far-reaching changes that took place at SITA during the year had it not been for the commitment, support and guidance given by Mrs Geraldine Fraser-Moleketi, the Minister of Public Service and Administration. Her intimate knowledge of SITA's mandate is in itself a spur to greater performance levels by those of us on the Board.

My profound thanks also go to my fellow Board members for a job well done. They conducted themselves with distinction and unparalleled commitment, spending long hours at the service of SITA. Working with them has been a privilege for me. Special thanks go to chairpersons and members of committees of the Board. Their tireless efforts in their areas of specialisation have been nothing short of outstanding. To management, thank you very much for coming out on top at the end of a year that was full of challenges. On behalf of the Board, I would like to express my sincere admiration for the remarkable job you have done.

Lastly, we bade farewell to Mr Robinson Ramaite, former Director-General in the Department of Public Service and Administration and Mr Andile Ngcaba, former Director-General in the Department of Communications. Both of them left their public service positions to work in the private sector. The absence of their informed contributions during Board deliberations will be keenly felt. We wish both of them success in their new endeavours.

Zodwa Manase
Chairperson

As an agency serving Government departments, SITA will consult closely with stakeholders to engender a climate that is conducive to good business relations.

Board of directors

Delivering expertise

Ms Zodwa Manase

Chairperson and non-executive director

BCom, BCompt (Hons), CA(SA), HDip Tax

Appointed 1 June 2002

Adv Leah Gcabashe

Non-executive director

BA Admin, BA Law, MA, LLB

Appointed 1 June 2002

Mr Coen Kruger

Non-executive director

BCom (Hons)

Appointed 24 July 2002

Dr Sibusiso Sibisi

Non-executive director

BSc (Hons), PhD

Appointed 1 June 2002

Mr Mike Roussos

Non-executive director

BA (Hons), MBA

Appointed 1 June 2002

Ms Lucienne Abrahams

Non-executive director

BSc, Dip Dev Admin

Appointed 1 June 2002

Chief Executive Officer's report

Delivering ICT services

Mr Mavuso Msimang

1. Introduction

This is the first report I am writing for the State Information Technology Agency (SITA) as its Chief Executive Officer. Notwithstanding the well documented challenges faced by the organisation in the recent past, I am pleased to report that a significant degree of progress has been made, built on what was essentially a solid institutional foundation. This report is a documentation of work-in-progress.

To recapitulate the fairly well known, SITA was set up five years ago to deliver Information Communication Technology (ICT) services to the Government of South Africa, its sole shareholder. The founding legislation is the SITA Act No 88 of 1998, as amended in 2002. It gave SITA a broad mandate, the implementation of which requires a regular review of strategy. Continuous consultations with stakeholders is essential. Most prominent among these are the Department of Public Service and Administration (DPSA), whose Minister is the guardian of Government interests at SITA; and National Treasury, which owns the transversal systems that include personnel, financial and logistical management systems, all of which are hosted by SITA on its mainframes. The Government Information Technology Officers Council (GITOC), representing the Government departments at large, is another important SITA stakeholder.

These consultations notwithstanding, SITA has unambiguous deliverables. Specified Government ICT requirements must be fully met, namely; the efficient and cost-effective management of procurement services; and certification of the quality of goods and services provided. Additionally, the mainframes that support transversal systems must perform to agreed service levels; while requisite training programmes for ICT skills development should be in place. Not least, advisory services must be provided upon request by national and provincial Government departments. To keep abreast of fast changing technological developments, SITA must of necessity undertake research and development,

working mostly in partnership with pertinent research institutions, both public and private.

These pursuits are carried out on the back of a sound balance sheet built largely from self-generated revenue. In short, SITA (Pty) Limited must operate profitably, and indeed did so again for the reporting period.

We successfully implemented a range of pre-approved programmes. This was a notable achievement in the light of the major restructuring that has been going on. A three-year strategic plan was approved by the Board of Directors. It is premised on the implementation of a Turn-Around Strategy (TAS) designed to ensure the delivery of a high-quality service to Government and the ICT industry. The re-structuring resulted in a complete change in the executive leadership. To a large extent staff morale was restored though it was tampered by job uncertainties created by restructuring.

2. Business highlights

2.1 Financial performance

Revenue totalled R2,3 billion compared to R1,9 billion in the last financial year. This was, however, shy of the budgeted R2,5 billion. The R51,7 million, profit before tax is a decrease of 57% over the previous year. The profit was budgeted to decrease by 76%. Although expenditure was up from 16,3% to 18,6% of revenue, the actual operating expense was R46 million less than the budget for the year. The budget reflected a 76% year-on-year reduction in net profits. This is a result of an increase in spending on research and development as well as training coupled with reduction in tariffs.

To keep abreast of fast changing technological developments, SITA must of necessity undertake research and development, working mostly in partnership with pertinent research institutions, both public and private.

Chief Executive Officer's report

2.2 The 2004 – 2007 Strategic Plan and TAS

Easily the most important event during the year was the re-engineering of SITA. The TAS had to be time-bound and mark a radical departure from past performances. The Board called upon management to focus on operations that were core to the business of the organisation and at the same time ensure financial sustainability.

Accountability would be the guiding principle and only demonstrably good performance would be the reward for executives. Procurement irregularities and inefficiencies were to be eliminated in the shortest possible time. A new procurement model would be in place by the second quarter of the 2004/5 financial year, whereafter it would be presented to the DPSA and National Treasury, who would ascertain that it was not in conflict with the Public Finance Management Act. It would also be essential that the directors-general and GITOC accept the model.

The Turnaround Strategy is underpinned by six strategic objectives, to achieve the following:

- Radically improve service delivery
- Focus on the implementation of citizen-centric projects
- Drive to best practice in people management and leadership
- Drastically improve the organisational structure
- Ensure financial sustainability

The urgency of change was encapsulated in the directive given by Ms Geraldine Fraser-Moleketi, the Minister of Public Service and Administration, who stressed that "SITA (had) to reinvent itself".

2.3 Restructuring ITAC

The Information Technology Acquisition Centre (ITAC) was set up to facilitate the procurement of IT goods and services for Government at national and provincial levels. The expectation was that this would be a customer-focused business unit run by professionals, delivering services in an efficient, transparent and fair manner; and that it would support the development of black economic empowerment (BEE) companies and regional suppliers in line with Government guidelines.

Unfortunately, things did not always work out as expected. The service was characterised by slow procurement processes and cumbersome decision-making, leading to a high level of dissatisfaction on the part of Government and suppliers. It has been suggested that the large-scale procurement of ICT supplies outside the ITAC process has been a consequence of its inefficiencies.

Towards the end of the financial year, a team of SITA staff and external procurement professionals and officers from the National Treasury was set up to develop an appropriate ITAC model to remedy identified ITAC shortcomings.

2.4 Seat Management Services (SMS)

Working in close collaboration with GITOC, SITA spearheaded the development of a methodology that should go a long way towards simplifying the procurement of the Government's IT requirements and

simultaneously reduce costs. 'Seat' refers specifically to the electronic office environment for a deskbound and mobile user of computing. Seat Management Services, therefore, apply to the desktop computer, mobile computer, printers, devices, software and services and includes maintenance and upgrading services.

SMS is designed to offer Government departments the choice of an outright purchase or leasing of their IT requirements. A major problem currently revolves around maintenance, upgrading and disposal costs for IT equipment that is purchased by the Government from suppliers. The lease option in the SMS facility provides for full maintenance and guarantees automatic upgrades as new versions of IT hardware and software become available. This will make for effective asset life-cycle management and improve cash flows.

In preparing the SMS tender, SITA had originally indicated that only proposals from Original Equipment Manufacturers (OEM) would be accepted, the rationale being to secure the best base price for the equipment to be purchased. The decision was subsequently changed when it was pointed out that the exclusion of others was both unfair and would not necessarily always achieve the desired results. SITA's willingness to be flexible was appreciated by the affected vendors, mostly SMME and BEE companies. The OEMs were gracious in accommodating the temporary inconvenience that entailed an extension of the tendering process. The outcome of the exercise should see the development of a list of preferred suppliers for each SMS component and for each region. The client department will then select its own supplier. To coordinate all of this, SITA has set up an SMS Transversal Service Centre.

2.5 Master Systems Plan

After extensive research, the SITA Research and Development Business Unit has developed the Master Systems Plan (MSP-in-a-Box). It aims to achieve a Government-wide standardisation of the IT architecture framework.

Chief Executive Officer's report

MSP makes it easier for systems at different departments to 'talk to each other', and helps SITA to improve its complete service delivery cycle, particularly in account management, skills development, programme management and communication. Fifty SITA employees have been trained on the toolset and it has been piloted at six departments (as listed under *Research and Development* elsewhere in this report).

3. Operations

3.1 Hosting services

The capacity on the mainframe infrastructure was increased during the year to more than 7 500 MIPS (Million Instructions Per Second), 1 746 MIPS of which are available for disaster recovery purposes. SITA deploys the latest IBM CMOS technology, offering 64 bit processing capability.

The Foundation Software was also upgraded to afford Government the latest functionality to exploit the capabilities on offer. Currently the latest IBM Z-OS Operating System is deployed on all the large-scale production environments, offering amongst other benefits, web access to mainframe applications and middleware, thus allowing different applications to interrogate data universally.

The hosting of Government enterprise resource applications like BAS, FMS, PERSAL and LOGIS on the mainframe and mid-range platforms was completed. Currently SITA operates the highest-speed digital laser printers available on the market. The printing capacity of the roll feed printer operational at the Bloemfontein Data Centre, for example, has been increased from 900 to 3 300 images per minute.

A high level of commitment is displayed by employees to ensure availability of the applications to end-users, whether this is the public in general or Government. Services are currently guaranteed at the requisite availability figure of 98%, and 99% for the Transversal Systems. This compares favourably with international norms, currently at an availability figure of 98%. SITA consistently exceeds this norm and a 100% month-on-month availability on the operational infrastructure is not uncommon. Thus, for instance:

- More than 1,2 million public servants are being paid on time every month.
- More than three million South Africans receive social grants monthly.
- Service providers to the State receive their payments on time.

- Examination results are published in the media on the date determined by the Minister of Education without fail.

There has been a big increase in the consumption of IT resources by Government. It is not commonly realised that this outstrips cost increments. The perception of vast increases in SITA's computing costs, reflects a communication gap rather than reality.

3.2 Networks

The Government Common Core Network (GCCN) went live on 20 December 2002. This Virtual Private Network (VPN)-enabled infrastructure provides connectivity with multiple virtual private networks via one physical infrastructure. The core infrastructure provides carrier grade technology used by the telecommunications industry. The GCCN supports multimedia traffic, integrating voice, video and data transmission capabilities within a single unified system. The entire Openet infrastructure, as it were, is being carried on the GCCN infrastructure.

3.3 Batho Pele e-Government Gateway to 'South Africa Online'

The e-Government Gateway project was initiated under the leadership of the DPSA. SITA has been assigned the responsibility of providing the IT solution. The vision of the Gateway project is to provide on-line access to Government services, anytime and anywhere, using any device.

Tasks completed to date include the following:

- A single repository of Government services has been established and 60% of all Government-to-Citizen (G2C) and Government-to-Business (G2B) services have already been published. Services in the Portal are arranged according to life events.
- Verification and reorganisation of the content has been completed.
- A feedback mechanism has been installed in the Portal and corrections are being effected on a continuing basis.
- A 1020 toll-free call centre has been established and is resourced with 52 agents who work shifts on a 24-hour rotation.
- The call centre currently provides six official languages.
- Technological connectivity to identified multi-purpose community centres (MPCCs), South African Post Office service points and public information terminals (PITs) has been established.
- Community development workers (CDWs) have been recruited by the Department of Provincial and Local Government and are currently undergoing training.
- The laptops for the CDWs have been acquired and tested and are ready to be distributed.

Chief Executive Officer's report

Other completed deliverables

- Links to existing on-line transactional services of the selected departments have been created.
- Branding and communications for the Gateway project has been initiated.
- Content for the directory of services is being edited for printing.

Stakeholders

The following are the key stakeholders involved in the implementation of the project:

- **GITO (Government Information Technology Officers) Council**
  Government IT officers are best placed to pronounce on co-ordination and consolidation of the Government IT initiatives.
- **CPSI (Centre for Public Service Innovation)**
  Responsible for the access channels strategy and implementation.
- **DoC (Department of Communication)**
  Responsible for policy formulation and legislative reviews that facilitate the implementation of Gateway.
- **DPSA (Department of Public Service and Administration)**
  Oversee the deployment of the Gateway project within the entire Government enterprise.
- **SITA**
  Provide the ICT solutions and implementation of the Gateway programme.
- **GCIS (Government Communication and Information Service)**
  Provide the communication, marketing strategy and branding of the Gateway programme.
- **NIA (National Intelligence Agency)**
  Assist in providing Information Security standards.
- **USA (Universal Service Agency)**
  Assist CPSI with rollout and funding of the access channels.
- **Department of Home Affairs**
  Assist with Access control standards implemented in the country.

4. Regional performance

The development of Master Systems Plan (MSP) projects for Mpumalanga, Gauteng and Eastern Cape has already been confirmed. In the latter two provinces this was made possible by a R17 million grant from the Development Bank of Southern Africa (DBSA).

Based on the joint partnership with the Belgian company CIPAL, SITA has implemented a financial application system in the Thabo Mofutsanyane District Municipality in the Free State that went live in July 2003.

Rural connectivity in the Eastern Cape has been improved through the increased bandwidth of all data lines, resulting in a faster and more reliable service. The Eastern Cape has also taken the lead with video conferencing by establishing 11 video conferencing centres at provincial departments.

Phase one of the rollout of the Management Information Systems (MIS) for all social workers and social security applications was successfully launched. The system shortens the processing time for applications considerably and enables applicants, for the first time, to track their applications electronically.

In the Northern Cape the bandwidth for data lines connecting rural police stations in Niekerkshoop, Marydale, Sutherland and Noupoort has been increased to improve response times and enable easy deployment of fixes and remote monitoring. In addition, the network infrastructure for Kimberley and the adjacent township of Galeshewe has been upgraded, also resulting in improvement of system response times. The printing of examination papers went smoothly. Examination papers were printed for the Northern Cape, North West, Mpumalanga and Free State provinces.

5. Research and development (R&D)

A three-year macro strategy for research and development is now in place and contains several key elements, and will position the R&D business unit as the primary point of contact for ICT decision-making support in Government.

SITA's investment in R&D is also undergoing review and modification. Notwithstanding the need for financial sustainability, it is recognised that in any successful industry there is a positive correlation between investment in marketing, research and development and overall success.

SITA R&D already has in place an implementation and investment model where SITA, industry, academia, statutory research councils and Government departments contribute human, technology and financial resources to conduct research projects. Some of the flagship projects researched and developed under this programme include the following:

Master Systems Plan (MSP)-in-a-Box

5.1 To date, six pilots have been completed at the Department of Public Enterprises, National Department of Transport, National Department of Social Development, and the Eastern Cape Departments of Social Development, Transport and Economic Affairs. These projects have since been handed over to the operational units of SITA where they are offered as a standardised marketable service.

5.2 Another significant project developed by the R&D department deals with *Integrated Data Analysis*. The pilot project combines data matching and mining procedures, as well as forensics. The aim is to improve the database processing and management acumen required to reduce fraud and improve service delivery in Government. The ongoing pilot at the Department of Social Development has revealed that an enormous amount of money has been lost to fraud and error. It is anticipated that once the data is matched with other data from Correctional Services, SAPS, DTI, SARS, Home Affairs and other data sources, the project will identify R1,5 billion per year that may have been lost as a result of fraud and error. This project also piloted a fraud hotline that is now being rolled out at national level.

5.3 The *Telemedicine* pilot project, done in collaboration with the Medical Research Council and the National Department of Health, is proving to be a cost-effective means of deploying telemedicine countrywide, especially in the rural areas. Network connectivity through fixed lines (ISDN), GPRS and Wireless LAN is being investigated. It is expected that this pilot will contribute to the realisation of Government's e-Medicine ambitions. Currently, three clinics in Mpumalanga are connected to a single hospital as part of our first pilot.

Service delivery is of paramount importance to SITA and a high level of commitment is displayed by employees to ensure availability of the applications to end-users.

Chief Executive Officer's report

5.4 The *Open Source Software* (OSS) Project is ongoing. It studies OSS trends worldwide and will, in collaboration with the CSIR, CPSI and GITOC, conduct pilot projects in Government departments. This should help SITA play a pioneering role in the OSS research agenda and lift OSS to a level where it can play a significant role in the procurement and the development of a local ICT industry. Several demonstrator projects have already been conducted, including the development of an OSS-based Corruption Management System for the DPSA.

SITA R&D has been nominated to sit on the ICT sub-committee for South Africa's research and development strategy, together with the CSIR, the Department of Science and Technology and other institutions.

6. The Integrated Financial Management Systems (IFMS)

Work began in earnest on the development of the IFMS by a National Treasury/SITA technical team.

Since the introduction of the Public Finance Management Act (PFMA) on 1 April 2000, there has been pressure to modernise Government's financial management IT systems. This implied that all current transversal systems under the management of National Treasury must be maintained with minimum enhancements until a proper integrated system was put in place.

After initial challenges, work began in earnest between National Treasury and a SITA technical team to draw up a road map for the implementation of this solution. Phase one of the project started in February 2003 with the following deliverables:

1. A detailed User Requirements Specification (URS)
2. A Master Systems Plan to propose a technical solution
3. A Project Prospectus to outline commercial and financial implications.

This phase has now been completed after extensive consultations with the various stakeholders. A process of engagement with the principals (Minister of Finance and Minister of Public Service and Administration) has begun in order to get their approval. The project will then revert to the Budget Council.

7. The ICT BEE Charter

SITA's role in the procurement of goods and services on behalf of the Government obliges the organisation to assume an active role in the advancement of the entrepreneurial and skills development activities of BEE and SMME companies. Going forward, we plan to participate actively in ICT BEE Charter discussions.

8. Human capital – the SITAzens

SITA employees, without question the organisation's most valuable asset, possess a respectable range of skills in IT, administration and management. One of the six imperatives in SITA's Turn-Around Strategy relates to the management of employees according to best practice. This is essential if the planned high levels of service delivery are to be achieved. Accordingly, a comprehensive Human Resources strategy has been developed. The rollout of some of its elements has already begun.

8.1 Training and development

In the year under focus SITA spent R26,5 million on staff training and development. This included external courses as well as structured on-the-job training. The Leadership Development Programme (LDP) and Management Development Programme (MDP) were launched in partnership with the Gordon Institute of Business. These initiatives have helped to equip some of our employees with the necessary business and leadership skills.

8.2 Outsourcing of internal services

The Board of Directors approved a plan to outsource certain internal services that are not core to our business. A consultative process with affected employees and relevant trade unions was started to explore available options. This is in line with legislative requirements and is aimed at mitigating any possible negative impact on the employees.

8.3 SITA Retirement Fund

Various models are being investigated for a SITA Retirement Fund. The establishment of such a fund will take place after Board approval has been obtained; this is likely to be during the 2004 – 2005 financial year. There is an Interim Management Committee for the rollout of the Sita Retirement Fund.

8.4 Post-retirement medical aid

We have made provision for the post-retirement medical aid liability amounting to R71,2 million (see notes 9.3 in the notes to financial statements).

8.5 Employee well-being

To mitigate the impact of stress levels that characterise contemporary work environments, SITA has established an employee well-being unit. It includes an HIV/Aids Programme which was launched on 1 December 2003.

SITA employees, without question the organisation's most valuable asset, possess a respectable range of skills in IT, administration and management.

Chief Executive Officer's report

Employment equity

		Current status					
Category	Total	White		Black		Target (%) versus achieved %	
						Female	Black
10 – 35 operational (semi-skilled)	301	10%		90%		(45%)	(60%)
		Male 65%	Female 35%	Male 56%	Female 44%	43%	90%
40 – 45 operational (skilled)	655	29%		71%		(45%)	(60%)
		Male 24%	Female 76%	Male 50%	Female 50%	58%	71%
50 – 55 specialist	960	58%		42%		(45%)	(60%)
		Male 56%	Female 44%	Male 65%	Female 35%	40%	42%
60 – 65 middle management and advanced specialised	461	54%		46%		(45%)	(60%)
		Male 72%	Female 28%	Male 66%	Female 34%	31%	46%
70 + top management and masters of technology (MOT)	68	34%		66%		(45%)	(60%)
		Male 93%	Female 7%	Male 73%	Female 27%	21%	66%

Of the nearly 2 500 permanent SITA employees, 63% are black and 38% female.

9. Building capacity among the country's youth

SITA is committed to the transformation of our society and the development of its economy. We have thus embarked on a programme to build ICT capacity in the country through the Youth Internship Programme (YIP). The programme is undertaken in conjunction with DPSA, Public Sector Education and Training Authority (PSETA) and Umsobomvu Youth Fund (UYF). It will shortly be aligned with the requirements of the South African Qualifications Authority and National Qualifications Framework.

10. Acknowledgements

Our sincere appreciation goes to the Minister of Public Service and Administration, Ms Geraldine Fraser-Moleketi, for her political support and guidance during what was undoubtedly a testing period. We also thank Mr Alvin Rapea, acting Director-General at the DPSA, whose support we could always count on.

Ms Zodwa Manase, our Chairperson, gave management her unwavering support while demanding high-level service delivery. We also acknowledge with thanks the constructively critical and supportive guidance provided by the Board members and all its committees.

Finally, my special tribute goes to staff and management. What successes we have achieved to date would have been unthinkable without the support they gave and confidence in our leadership.

Mavuso Msimang
Chief Executive Officer

31 March 2004

SITA Executive Management Committee (EXCO)

Providing leadership

Mr Mavuso Msimang

Chief Executive Officer

BSc (Entomology/Biology)

MBA

Mr Khulekani Buthelezi

Chief Audit Executive

BCom (Accounting)

Mr Pieter Els

Chief Financial Officer

BAcc (Hons), CA(SA)

HDip Tax

Ms Noedine Isaacs-Mpulo

Executive: Corporate Services

BSc (Hons) (Computer

Information Systems)

Mr Zeph Serepo

Chief Executive

SITA C

BSc (Hons)

Ms Heila Fouche

Acting Chief Executive

SITA D

BCom

Ms Makano Mojapelo

Acting Chief Executive

SITA E

BCom (Computer Science), UED

Mr Solomon Ngubane

Executive assistant in the CEO's office

BA (Physics, Computer Science and Maths)

2003/2004 business performance

The implementation of SITA Amendment Act of 2002 began in earnest in this financial year. In developing this plan we need to reflect on the performance of the organisation to date. This has to be viewed against the vision of SITA as outlined in the Act. The performance review for this financial year is measured against the balance scorecard.

This year's business plan identified the following focus areas:

- Implementing the new business model, ie an effective and value adding information technology acquisition centre;
- Providing "cradle to grave" services across government, citizens and business;
- Focus on strengthening service delivery capability of the organisation;
- The stabilisation of and strengthening of provincial operations; and
- Human resource development.

Focus and grow the business

Performance objective	Annual expected performance	Annual results
■ Service level agreements (SLAs) concluded for all customers and projects	Signed SLAs in place prior to the commencement of services	**Not achieved** Some projects and services were however not conducted with service level agreements or signed project charters eg Gateway, ITAC services, etc
■ All services delivered according to agreed service level agreements (SLA)	Compliance to all service level agreements	**Achieved** All services were rendered according to the signed service level agreements where these were in place
■ Grow the revenues by at least 25% year on year	25% annual growth	**Not achieved** The overall revenue growth for the organisation is 17% year-on-year
■ Fully manage one key transversal application	Fully manage a government enterprise resource	**Not achieved** Integrated financial management system (IFMS) adopted as the strategy to address the transversal applications, hence no other existing transversal systems have been transferred to SITA

Performance objective	Annual expected performance	Annual results
■ Provide/maintain a private telephone network for government	Voice-over internet protocol piloted and rolled out. Six virtual private networks deployed across departments	**In progress** Voice-over internet protocol piloted. Readiness assessments for four departments concluded, ie justice, agriculture, labour, and trade and industry
■ Outsourcing of non-core businesses	Develop and implement strategy for corporate facilities	**Achieved** Strategy completed and approved. Implementation and rollout is now under way
■ Facilitate e-Government implementation	Phase one of the government gateway implemented	**Achieved** Phase one of the gateway ready to be launched and rolled out at the end of July 2004
■ Focus ITAC to deliver on the intents of the house of IT values, namely cost reduction, increase in productivity and convenience to users	Implementation of ITAC review and enhancement, focusing on key contracts benefit, policies and procedures and e-procurement	**In progress** Enterprise agreements concluded in previous year delivered cost savings in the current year

Service delivery management

Performance objective	Annual expected performance	Annual results
■ Implementation of the service delivery model and develop project management model	Ensuring that every programme and project are delivered in line with the service delivery model	**Partially achieved** Project management methodology was developed and implemented The SITAway project was initiated, and halted in favour of restructuring the organisation, which will bring about a more comprehensive service delivery model

2003/2004 balanced scorecard

Performance objective	Annual expected performance	Annual results
Increasing productivity and efficiency	Increase of the revenue per employee year-on-year	**Achieved** Due to the negotiation of contracts, operational efficiencies in SITA D and SITA C and improvements in efficiencies. Revenue per employee from R861 463 per annum in 2003 to R942 557 per annum in 2004 equals 9,4% productivity increase
Ensure customer satisfaction ranking and feedback	Implementation of two customer surveys per annum	**In progress** Although the tender to conduct the customer satisfaction survey was concluded, implementation was not initiated

Partner with industry

Performance objective	Annual expected performance	Annual results
Partnership agreements to capacitate SITA and government	In line with the specialised skills priority project, implemented government-wide skills contracting tender	**Achieved** Partnered with industry in the areas of research and development, ITAC immediate implementation
Focus on core business and objectives	Adherence to principles as contained in the Amendment Act focusing primarily on mandatory services right skills mix to business plan	**In progress** Mandatory services at 50% of SITA business. Specific focus and confirmation of strategic mandatory services and associated skills
Innovate and fast-track the e-government concept	Phase one implementation of the government gateway achieved in partnership with departments and industry	**Achieved** Reverse engineering of applications and the MSP in a box programme

Attract, retain and develop critical skills

Performance objective	Annual expected performance	Annual results
■ Staff training and development	5% of salary bill spent on training, with at least 30% spent on the structured SITA on the job training	**Not achieved** R26,5 million spent on staff development
■ Reward programme for staff	Implementation of an output based incentive and reward scheme across the whole organisation	**Not achieved** Remuneration and reward philosophy approved by the Board on 15 July 2004
■ Implement performance management system	Ensure high quality individual and team performance measurement to minimise non-performance through effective performance management	**Partially achieved** 90% of employees have signed performance contracts. Performance management system in process of being aligned to turn around strategy and remuneration philosophy
■ Leadership development and alignment	Implementation and sustainability of the defined leadership programme and training	**Achieved** A management development programme (MDP) and leadership development programme (LDP) have been developed in partnership with the Gordon Institute of Business. Several employees have attended these programmes

2003/2004 balanced scorecard

Change the culture and demographics of the organisation through

Performance objective	Annual expected performance	Annual results
■ Accelerated on the job training	Implementation of mentor and coaching programme	**Partially achieved** Coaching and mentoring programme under implementation
■ Strategy for advancing provincial and local authority procurement	Implemented provincial and local authority strategy. Minimum 40% set aside for provinces. Local authority from 30%	**Partially achieved** Local authority strategy completed with several MSP projects completed. This strategy will be reviewed in line with the SITA Turn around Strategy
■ Advancing historically disadvantaged individuals (HDIs) • Procurement • Leadership • Employee wellness	More focus on women development. Wellness programme implemented across the organisation	**In progress** Progress has been made in the achievement of this goal. Further focus will be placed on the advancement of women in the most senior levels in the company. An Employee Wellness function has been formed under Human Resources and an HIV/Aids strategy launched

Become the benchmark for ICT excellence

Performance objective	Annual expected performance	Annual results
■ Researching and developing public sector specific solutions	Research programmes conducted to enhance service delivery including monitoring. Introduction of one public sector specific solution	**Achieved** Programmes running include Human Language Technologies, Open Source Standard, eMedicine, MSP in a box
■ Becoming a pilot site for IT project and project delivery by growing partnerships with Government departments, industry, science councils, universities and relevant international bodies to pursue a productive research programme	Projects/solutions piloted at SITA for public service implementation	**Achieved** Six MSPs completed. The SOCPEN reverse engineering successfully piloted to enhance interoperability. Participation in and proving of OSS as an underlying technology to all solutions

2003/2004 balanced scorecard

Financial performance

Performance objective	Annual expected performance	Annual results
■ Increase gross revenue through new business and transfer of transversals to SITA	Increase transversal revenue by minimum 15% from current	**Achieved** Although the transfer of transversals has not taken place, the current transversal income increased by more than 15%
■ Maintain the net profit margin percentage of 7% before R&D and training	Achieve margin of 7%	**Not achieved** Achieved a margin of 4,5%
■ Ratio of actual operational cost to budget	Actual operating expenses below budget	**Achieved** Operational expenses were below budget. The original budget was R402 million whilst actual operational expenditure (excluding research and development and training) amounted to R357 million
■ Net profit	Improve net profit by 10% year-on-year	**Not achieved** The approved budget for 2003/4 indicated a 76% year-on-year reduction in net profit. Actual 2003/4 profits were 58% lower than the previous year
■ Improve cash management by minimum 10%	Improve cash collections by reducing outstanding debtors from 28% to 20% of revenue	**Not achieved** Whilst there has been a marked improvement against the previous year, cash collections are 21,6% of revenue

Risk

Performance objective	Annual expected performance	Annual results
■ PFMA compliance	Anti-corruption and fraud policies and strategies to be developed for the organisation	**Achieved** Action plan developed for immediate implementation to mitigate risks as identified by previous audit conducted in quarter one. Anti-corruption and fraud policy approved by the Board of Directors
■ Measurement and reporting through a risk management system	Annual audits on risk management in the group Quarterly Risk Assessment throughout the group with action plans to take corrective actions	**Achieved** SITA Group Audit Services (S-GAS) conducted a comprehensive Audit of SITA risk management processes. An independent assurance in relation to management's assertions surrounding the effectiveness of Risk Management and Internal Control was evaluated. Key risk areas were identified which require executive management's attention to mitigate. These were reported to the Audit Committee and are being monitored as part of S-GAS Operational Plan

Overall productivity and efficiency increased due to the negotiation of contracts and operational efficiencies in SITA D and SITA C.

Corporate governance

Introduction

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

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

Compliance, not only with the letter, but also with the spirit of relevant governance codes remains a priority for the organisation. As a state-owned enterprise, SITA is guided by the principles of the Code of Corporate Practices and Conduct contained in the King II Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. Furthermore, the statutory duties, responsibilities and liabilities imposed on the directors of SITA by the Companies Act 61 of 1973, as amended, are augmented by those contained in the Public Finance Management Act, 1 of 1999, as amended by Act 29 of 1999 (PFMA).

Shareholding

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

Shareholder compact

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

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

Governing bodies

Board of Directors

Composition of the Board

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

SITA has a unitary board structure currently comprising six non-executive directors appointed by the Minister of Public Services and Administration. The SITA Act 88 of 1998, as amended, allows for the appointment of executive directors.

The executive directors are appointed by the Board, after consultation with the shareholder.

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

Dates of meetings are scheduled annually in advance. Additional meetings are convened as and when material issues arise, requiring decisions by the Board. Six Board meetings were held in the financial year under review. The attendance of members at Board meetings is reflected on page 31:

Members	May	Jul	Sep	Oct	Jan	Mar
ZP Manase (Chairperson)	√	√	√	√	√	√
LA Abrahams	√	√	√	√	A	A
L Gcabashe	√	√	√	√	√	√
CCW Kruger	√	√	√	√	√	√
A Ngcaba	A	A	√	√	X	X
R Ramaite	A	A	√	A	X	X
M Roussos	A	√	√	√	√	√
SP Sibisi	A	√	√	A	√	√

√ *Present*
A *Absent with apologies*
X *Resigned 17 September 2003*

Role and function of the Board

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

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

The role of the Board embraces the following activities:

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

Delegation of authority

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

Directors' remuneration

Non-executive directors, who are not employed by government receive fees for their contributions to the board and the committees on which they serve. The shareholder determines fees after consultation with national treasury who determines the rate. Non-executive directors are also reimbursed for out-of-pocket expenses inncurred on the company's behalf

Further information on directors' remuneration appears on pages 74 to 75.

Company secretarial function

Directors have unrestricted access to the advice and services of the company secretary as well as the Secretariat Department. The

Corporate governance

directors are entitled to obtain independent professional advice at SITA's expense should they deem this necessary.

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

Board committees

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

Audit Committee

The Audit Committee comprises a non-executive director and three external members, one of which is the chairman of the committee.

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

Four committee meetings were held during the financial year. These were attended by the external auditors, the Chief Executive, the Executive Finance and Administration, the Chief Audit Executive and other relevant corporate officials. The Chief Audit Executive and the external auditors have unrestricted access to the chairperson of the committee and to the chairperson of SITA. The attendance of members at committee meetings is as follows:

Members	May	Jul	Oct	Feb
Y Kwinana (Chairperson)	√	√	√	√
J Grundling	A	√	A	A
B Kgomo	√	√	√	√
CCW Kruger †			√	√

√ *Present*
A *Absent with apologies*
† *Appointed October 2003*

Chairpersons' Committee

The Chairpersons' Committee comprises four non-executive directors, two external members and is chaired by the Chairperson of the Board.

The role of the committee is to prepare recommendations for the Board which are not dealt with by the other Board committees. It ensures, on behalf of the Board, that resolutions taken are properly and timeously implemented and makes follow-up on decisions and actions from board meetings.

Five committee meetings were held during the financial year. These were attended by the Chief Executive and other relevant corporate officials. The attendance of members at committee meetings is as follows:

Members	Apr	Jul	Sep	Oct	Mar
ZP Manase (Chairperson)	√	√	√	√	√
LA Abrahams	√	√	√	X	X
L Gcabashe	√	√	√	√	A
CCW Kruger †					√
Y Kwinana	√	√	A	A	A
L Mthembu	√	√	√	√	√
M Roussos	A	A	A	A	A

√ *Present*
A *Absent with apologies*
X *Resigned*
† *Appointed October 2003*

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprises three non-executive directors, two external members and the Chief Executive. It is chaired by an independent non-executive member of the Board.

The committee:

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

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

Members	May	Jul	Sep	Oct	Nov	Jan	Mar
L Gcabashe (Chairperson)	√	√	√	√	√	√	√
LA Abrahams	√	√	A	A	√	√	√
ZP Manase	√	√	√	√	√	√	√
L Mbete	A	√	√	√	A	√	√
T Orleyn	A	√	√	A	√	√	√

√ *Present*
A *Absent with apologies*

Supplier Selection Authority (SSA)

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

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

The SSA was constituted in order for SITA to render the mandated services, to ensure that

Corporate governance

all procurement for SITA and on behalf of its clients are transparent, impartial and fair, and to ensure that all legislation is adhered to, both by SITA employees and industry tendering for SITA business.

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

- cost reduction;
- an increase in productivity;
- convenience to departments and Government overall;

and is underpinned by:

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

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

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

Members	Apr	May		Jun		Jul			Aug		Sep			Oct					Nov		Dec				Jan			Feb				Mar			
L Mthembu (Chair)	√	√	√	√	A	√	A	√	√	√	√	√	√	√	√	√	√	√	√	√	A	√	√	√	√	√	√	√	√	√	√	√	A	√	√
N Malamla †																					√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
I Mamoojee	√	A	A	√	√	√	√	√	A	A	√	√	√	√	A	A	√	√	√	√	√	√	A	A	A	A	A	√	A	A	A	√	√	A	A
P Monyeki †																					√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
S Sakawuli †																					A	A	√	A	A	A	A	A	A	A	A	A	A	√	A

√ *Present*
A *Absent with apologies*
X *Resigned*
† *Appointed 6 November 2003*

Strategic Committee

The Strategic Committee comprises two non-executive directors and is chaired by the Chairperson of the Board. All Board members may attend the meetings by invitation. The Chief Executive, Executive Finance and Administration, Executive Human Resources, other relevant executives and corporate officials attend the meetings.

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

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

Three committee meetings were held during the financial year. A strategic planning workshop was held from 12 to 13 January 2004. The attendance of members at these meetings is reflected below:

Members	Aug	Sep	Jan		Mar
ZP Manase (Chairperson)	√	√	√	√	√
AA Ngcaba	A	A	X	X	X
M Ramaite	A	A	X	X	X
LA Abrahams †	√	√	√	√	√
M Roussos	√	√	A	A	√
SP Sibisi †			A	A	√
CCW Kruger †			√	√	
L Gcabashe †			√	√	
L Mbete †			√	√	

√ *Present*
A *Absent with apologies*
X *Resigned*
† *By invitation*

Executive Management Committee (Excom)

Excom is chaired by the Chief Executive and comprises the executives of SITA's various divisions and is attended by other relevant corporate officials. Details of the Excom members appears on pages 20 to 21.

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

Twelve committee meetings were held during the financial year. A strategic planning workshop was held from 12 to 13 January 2004. The attendance of members at these meetings is reflected on the next page:

Compliance, not only with the letter, but also with the spirit of relevant governance codes remains a priority for the organisation.

Corporate governance

Members	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
M Msimang (Chairperson)[1]						√	√	√	√	√	√	A
K Modise (Chairperson)[2]	√	√	√	√	√	X	X	X	X	X	X	X
K Buthelezi[3]			√	√	A	√	√	√	√	√	√	√
P Els	√	√	√	√	A	√	√	√	√	√	√	√
H Fouche	√	√	√	√	√	√	√	√	√	√	√	√
P Gumede[4]	√	√	√	√	√	√	√	√	X	X	X	X
N Isaacs-Mpulo[5]									√	√	√	√
B Maripe[6]							√	√	√	√	X	X
M Mojapelo	√	√	√	√	√	A	A	√	√	√	√	√
M Moseki[7]	√	√	A	√	A	√	√					
T Netsianda[8]	√	√	√	√	√	√	√	√				
S Ngubane[9]									√	√	√	√
M Radebe	√	√	A	√	A	A	A	A	√	√	√	A
D Ramahotswa[10]								√	√	√	A	√
Z Serepo	√	√	√	√	√	√	√	√	√	√	√	√
D Setshedi[11]	√	√										
J Tshabalala[12]	√	√	√	√	A	√	√	√				

√ Present
A Absent with apologies
X Resigned
1 Appointed 1 October 2003
2 Resigned 30 November 2003
3 Appointed 1 July 2003
4 Resigned 31 December 2003
5 Appointed 1 January 2004
6 Resigned 31 March 2003
7 Resigned 20 December 2003
8 Withdrawn from EXCOM 1 January 2004
9 Appointed 1 January 2004
10 Appointed 24 November 2003
11 Resigned 31 December 2003
12 Resigned 22 January 2004

Public Finance Management Act (PFMA)

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

- economic, efficient, effective and transparent systems of financial and risk management, and internal controls are in place;
- a system is maintained for properly evaluating all major capital projects prior to a final decision on each project;
- the implementation of appropriate and effective measures to prevent unauthorised, irregular or fruitless and wasteful expenditure, expenditure not complying with legislation, or losses from criminal conduct;

- all revenues due to SITA are collected;
- the economic and efficient management of available working capital; and
- the definition of objectives and the allocation of resources in an economic, efficient, effective and transparent manner.

Internal control

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

Audit

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

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

The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with the Statements of South African Auditing Standards.

Forensic investigations

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

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

Reporting to stakeholders

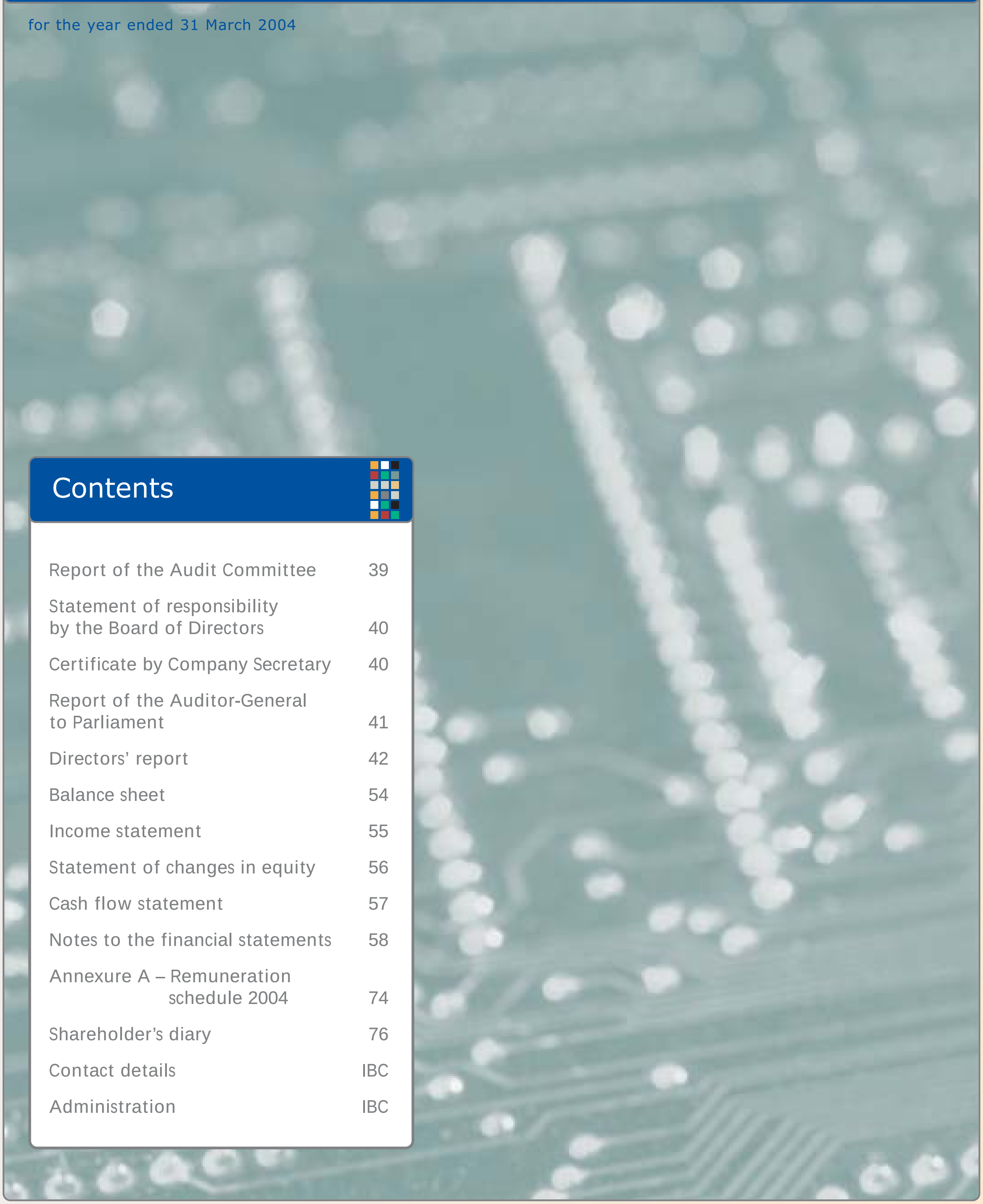
In order to present a balanced and understandable assessment of its position, SITA is continually striving to ensure that reporting and disclosure to stakeholders are relevant, clear and effective. It places great emphasis on addressing both positive and negative aspects in order to demonstrate the long-term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

Stakeholder relations

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

Annual financial statements

for the year ended 31 March 2004



Contents

SITA

Report of the Audit Committee

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

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

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

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

The Audit Committee is of the opinion, based on the information and explanations given by management and SITA Group Audit Services and discussions with the independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Where important matters relating to weaknesses in the control environment have been identified by SITA Group Audit Services during the year under review, these matters have been reported to management for appropriate remedial action.

Notwithstanding the above, the following areas, in the opinion of the Audit Committee, require further attention:

- Information Security Systems Management.
- The Information Technology Acquisition Centre (processes and procedures).
- Contracting Houses and Contractors.

The Audit Committee has evaluated the annual financial statements of SITA (Pty) Limited for the year ended 31 March 2004 and, based on the information provided to the Audit Committee, considers that it complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and the Public Finance Management Act, 1 of 1999, as amended and the SITA Act, 1998 (Act No 88 of 1998), as amended, and the South African Statements of Generally Accepted Accounting Practice. The Audit Committee concurs that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. At its meeting held on 2 July 2004, the Audit Committee recommended the adoption of the annual financial statements by the Board of Directors.

Ms Y Kwinana
Chairperson

Statement of responsibility by the Board of Directors

for the year ended 31 March 2004

The directors of the company are responsible for the preparation of the annual financial statements of the company, to maintain a sound system of internal control and to safeguard the shareholder's investment and the company's assets. In presenting the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice and applicable accounting policies have been used, while prudent judgements and estimates have been made. In order for the directors to discharge their responsibilities, management has developed and continues to maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The directors meet periodically, primarily through the Audit Committee, with the external and internal auditors and executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The company's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the external auditors. The Auditor-General is responsible for reporting on the financial statements. Both external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee. The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management and internal auditors, and on comment by the external auditors on the results of their audit conducted for the purpose of expressing their opinion, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities. As the directors have reviewed the company's financial budgets for the period to 31 March 2005, and in the light of the current financial position, they consider it appropriate that the annual financial statements be prepared on the going-concern basis. The Auditor-General has audited the annual financial statements of the company and his report appears on page 41. Against this background, the directors of the company accept responsibility for the annual financial statements, which were approved by the Board of Directors on 15 July 2004 and are signed on its behalf by:

Ms Zodwa Manase
Chairperson
SITA Board of Directors

Adv L Gcabashe
SITA Board Member

Certificate by Company Secretary

for the year ended 31 March 2004

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

Ms Theresa Victoria Geldenhuys
SITA Company Secretary

Report of the Auditor-General to Parliament

on the financial statements of the State Information Technology Agency (Pty) Limited
for the year ended 31 March 2004

AUDITOR–GENERAL

1. Audit assignment

The financial statements as set out on pages 42 to 75, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995), section 16(9) of the State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and the Companies Act, 1973 (Act No. 61 of 1973). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. Nature and scope

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

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

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

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

3. Audit opinion

In my opinion, the financial statements fairly present, in all material respects, the financial position of SITA at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973 and the Public Finance Management Act, 1973.

4. Emphasis of matter

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

4.1 Fixed property and related costs

Although the transfer of the Centurion, Numerus and Beta properties has not been finalised, SITA has recorded the properties in the accounting records and fixed asset register. A memorandum of agreement between SITA and the National Department of Public Works has been signed for transfer of the Centurion property and management continues to pursue the transfer of all the properties into SITA's name. The memorandums of agreement for the other two properties are in the process of being drawn up. The book value of the properties at year-end amounted R131 154 950. Further particulars of this matter are disclosed in note 2.2 of the financial statements and in the Directors' report.

4.2 Gateway project

With reference to the paragraph in the Directors' report relating to the Gateway Project, the internal audit component of SITA instituted a forensic investigation into alleged irregularities on the project. At the time of compiling this report the investigation was still ongoing.

5. Appreciation

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

SA Fakie
Auditor-General

Pretoria
16 July 2004

SITA

Directors' report

on the financial statements of the State Information Technology Agency (Pty) Limited for the year ended 31 March 2004

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the State Information Technology Agency (Pty) Limited ("SITA") for the year ended 31 March 2004. This report and the audited annual financial statements comply with the requirements of the Public Finance Management Act No 1 of 1999, the SITA Act No 88 of 1998, as amended by Act 38 of 2002, and the Companies Act No 61 of 1973. The Board of Directors act as accounting authority in terms of the PFMA.

General

Nature of business

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

SITA is specifically mandated to focus on and ensure that, through effective co-ordination and consolidation mechanisms, Government IT systems:

1) can communicate (interoperable or compatible IT);
2) operate in secure environments (IT security);
3) eliminate unnecessary IT duplications;
4) exploit economies of scale; and
5) introduce HDIs into the ICT industry.

This complies with chapter six of the Presidential Review Commission Report instituted by former President Nelson Mandela in March 1998.

Function of the business

In accordance with section 7 of the SITA Act, as amended, the prescribed functions of SITA are to:

1) provide or maintain a private telecommunication network or a value-added network service;
2) provide or maintain transversal information systems;
3) provide data processing or associated services for transversal information systems;
4) provide training in information technology or information systems;
5) develop application software;
6) provide maintenance services for information technology software or infrastructure;
7) provide data processing or associated services for departmentally specific information technology applications or systems;
8) provide technical, functional or business advice or support, or research, regarding information technology; and
9) provide management services for information technology or information systems.

SITA must set standards regarding:

1) the interoperability of information systems between departments;
2) comprehensive information systems security environment for departments; and
3) every acquisition of any information technology goods or services by a Government department in compliance with these standards.

In the performance of its duties and exercising of its powers, SITA must:

1) eliminate unnecessary duplication of IT goods or services;
2) leverage economies of scale to provide cost-effective services; and
3) comply with Government policies on information management and information technology.

SITA

Directors' report

SITA's mission and objectives

Mission

SITA is committed to equipping the South African Government with the IT means to effectively fulfil its responsibility to South African citizens and residents by cost effectively enhancing public service delivery through ICT.

Objectives

SITA can achieve its objectives by focusing on six core performance areas:

• deliver value for money in IT/IS and related services to Government.
• ensure SITA's revenue stream is adequate to support the business.
• provide relevant products and services to the Government cost effectively.
• complete the restructuring of SITA.
• be an employer of choice.
• be an advanced user of information technology.

Financial results for the year

Reports on the activities and performance of the company are contained in the Chief Executive Officer's report set out on pages 08 to 19.

The financial results of the company are set out on page 55. The results for the year ended 31 March 2004 are highlighted below:

Income statement for the year ended 31 March

	2004 R	2003 R
Revenue	**2 303 610 125**	1 967 580 976
Profit from operations	**29 239 182**	91 372 574
Net interest received	**22 421 622**	28 498 444
Net profit after taxation	**35 085 690**	82 836 910

Balance sheet as at 31 March

	2004 R	2003 R
Assets		
Property and equipment	**427 944 234**	400 684 640
Current and other	**997 468 972**	1 016 516 666
Total assets	**1 425 413 206**	1 417 201 306
Equity and liabilities		
Share capital and reserves	**691 896 990**	656 811 299
Long-term and current liabilities	**733 516 216**	760 390 007
Total equity and liabilities	**1 425 413 206**	1 417 201 306

Directors' report

Additional financial information

The following key figures are extracted from the financial statements:

	2004 R	2003 R
Total revenue	**2 303 610 125**	1 967 580 976
Total direct operating costs	**1 855 194 341**	1 574 872 791
Total indirect operating costs	**428 090 808**	320 802 558
Total capital expenditure	**151 283 498**	148 137 582
Total training and research costs	**61 223 637**	20 711 616

The following key ratios are derived from the financial statements:

	2004	2003
Return on total shareholder's interest (after tax) (%)	**5,1**	12,6
Return on total shareholder's interest excluding depreciation (after tax) (%)	**22,6**	23,9
Return on total assets (%)	**2,46**	5,8
Return on total assets excluding depreciation (%)	**10,97**	11,0
Current ratio	**1,53:1**	1,48:1
Revenue per employee	**R942 557**	R861 463
Debt-equity ratio	**0,16:1**	0,16:1
Net profit % (after tax)	**1,5**	4,2
Gross profit (%)	**19,5**	20
Expense to revenue (%)	**18,6**	16,3

Fixed assets

Bureau Beta, Centurion and Numerus buildings

Since its inception on 1 April 1999 SITA has expended considerable effort in getting the three abovementioned properties, identified in terms of paragraph 3A(b) of the SITA Act, transferred into the name of the company. This has taken more time than anticipated due to the complexity of the process of transferring assets. These assets are, however, included in the records of SITA.

The current status of each building to be transferred over to SITA is as follows:

A memorandum of agreement is presently held for the transfer of the Centurion property. In terms of the memorandum, the Department of Public Works is liable until the date of transfer for the property taxes, municipal services and certain other maintenance costs. The company is at present arranging for a memorandum of agreement to be drawn up for the other two properties. In the interim the Department of Public Works continues to bear similar relevant costs.

Bureau Beta and Numerus properties

The requisite conditions for registering the abovementioned properties have been met by SITA.

SITA has provided the Department of Public Works, ("DPW"), with all the necessary documentation and authorities to effect transfer. The matter is now with DPW for finalisation, which is still awaiting final clearance by City of Tshwane, ("Tshwane"). Once DPW has received clearance from Tshwane, transfer will be effected.

Directors' report

Centurion property

The transfer documentation has been signed off by SITA and, we are awaiting transfer of the property by the state attorneys. There are no matters outstanding that could delay this transfer.

Capital expenditure

Asset category

	2004 R	2003 R
Mainframe, computer and network equipment	**145 063 721**	146 806 819
Office furniture	**6 036 337**	786 123
Buildings and infrastructure	**183 440**	245 295
Vehicles	**0**	299 345
Total	**151 283 498**	148 137 582

Dividends

No dividends have been proposed or paid for the year ended 31 March 2004.

PFMA requirement: materiality and significant framework

A materiality and significant framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA that requires ministerial approval. The framework was finalised and approved by Excom members at a meeting held on 31 March 2004, being part of the "Strategic risk assessment and strategic internal audit plan." The framework details amounts for materiality and sets out the framework. The way forward from here will be to get approval from the external auditors, the Board of Directors and the Department of Public Service and Administration (ie executive authority). This process is under the control and guidance of the Internal Audit Executive.

Public/private partnerships

During the year under review SITA (Pty) Limited did not enter into any public/private partnerships.

Judicial proceedings

The directors are not aware of any material judicial proceedings instituted against the company.

PFMA requirement: material losses – irregular, fruitless and wasteful expenditure

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

During the current year there were three instances where employees of the company approved orders for goods or services to a combined value of R3 142 532 that exceeded their delegated limits. In all cases the proper requisite approval was obtained prior to the affected vendors being paid. SITA did not suffer any financial loss from these events. The relevant required disclosure of these instances can be found in note 19 of the financial statements.

Directors' report

During the year under review there was a single case of financial misconduct perpetrated by a junior employee of SITA. An amount of R340 645 was inappropriately acquired from SITA through fraudulent means. The matter was investigated and after the required disciplinary steps being taken, the employee concerned was dismissed. The incident of financial misconduct has been reported to the South African Police Services. The company is fully insured for this kind of financial loss via our Fidelity cover in our insurance portfolio. Hence there is no financial loss to SITA in this regard. Notwithstanding that, as at April 2004, the full amount has been recovered.

PFMA compliance

Various sections of the PFMA places responsibility on the Board to ensure SITA complies with all the relevant legislation that are applicable to the company. A formal system to monitor and ensure SITA's compliance to all applicable legislation, has not been implemented for the year under review, which resulted in some instances of non-compliance with applicable legislation. It is envisaged that a specific section in the Finance and Administration department will be formed to formally identify and report any non-compliance with legislation. Their findings will be reported on a quarterly basis to both Excom and the SITA Board of Directors. Furthermore formal training will be given to management and employees in respect of the PFMA and Treasury Regulations compliance requirements.

Events subsequent to balance sheet date

The directors are not aware of any matters or circumstances arising since the end of the financial year, not otherwise dealt with in the annual financial statements, which significantly affect the financial position of the company or the results of its operations.

Turnaround strategy

Due to the historically poor performance of SITA, we are in the process of transformation which will build an effective organisation that delivers high levels of service to its customers and is regarded by its employees as a preferred employer.

In order to achieve these objectives, SITA will execute the following six key strategic imperatives:

- Radically improve service delivery to our clients
- Prioritise citizen-focused projects and engage clients to build and execute a SITA value proposition
- Strive to best demonstrated practices in people management and leadership
- Overhaul internal and external communications to improve transparency, visibility and image
- Build an appropriate organisation structure and team to achieve our strategic objectives
- Maintain financial sustainability.

Gateway project

The Gateway Project is a South African citizen centric project initiated by the Department of Public Service and Administration. The project covers a period of several years and SITA was selected to rollout this project. During the year under review operating and capital expenses of approximately R77 million was incurred. Of this amount R18 million was recovered. The possible recovery of the remainder of the funds is currently the subject matter of negotiations with the Department of Public Service and Administration.

Directors' report

Authorised share capital

The authorised share capital for the 2003/2004 period amounts to one share at a nominal value of R1,00.

Issued share capital	2004 R	2003 R
Ordinary shares of R1,00 each	**1**	1 000 000 000
Less: Transfer to NDR	**–**	625 333 737
Less: Adjustments	**–**	374 666 262
Total	**1**	1

Section 17 of the SITA Amendment Act 38 of 2002 stipulates that SITA's authorised and issued share capital amounts to R1,00. The value of the reduction of the share capital was transferred to a non-distributable reserve during the previous year.

The adjustment of R374 666 262 in the previous year was made as a result of the share capital documentation that was lodged with the Registrar of Companies erroneously in 1998, indicating the issued share capital is R1 billion. The issued share capital per SITA's records amounts to R625 333 737. This represents shares issued, being the net balance between all assets and liabilities transferred to SITA on 1 April 1999 in accordance with the SITA Act.

Internal audit

In terms of the PFMA the company must establish an internal audit discipline with sufficient resources to ensure its effective and efficient operation.

On 1 July 2003 SITA appointed a head of Internal Audit who reports administratively to the CEO and functionally to the Audit Committee, which is in line with good corporate governance practice. The Internal Audit function is currently outsourced to Sizwe Ntsaluba while SITA is building its own capacity in this area.

The Audit Committee approved an annual audit plan and a rolling three-year strategic internal audit plan, based on key areas of risk identified.

Internal Audit's responsibilities include, but are not limited to, reviewing and appraising the following:

- Adequacy of the system of internal control aimed at managing the risks associated with the business.
- Reliability and integrity of financial and operating information and the means used to identify, measure, classify and report information.
- Systems established to ensure compliance with those policies, plans, procedures, laws and regulations that have a significant impact on operations and reports.
- Systems of prevention and assisting in the detection and investigation of fraud.
- Operations or programmes to ascertain whether or not results are consistent with established objectives and goals and whether or not the operations are being carried out as planned.
- Means of safeguarding assets and, where appropriate, verifying the existence of such assets.

Directors' report

Human capital

Employee statistics

The general staff statistics as at 31 March 2004 can be summarised as follows:

Category	Headcount 2004	2003
Permanent		
Executive and senior management	**70**	65
Information technology staff	**1 237**	1 226
General staff *	**1 137**	993
Total permanent	**2 444**	2 284
Contractors	**857**	759
Total	**3 301**	3 043

** Included in general staff are: e-Services staff, client interface, project and programme managers, consultants, business analysts and system administrators.*

Details	Africans	Coloureds	Indians	Whites	Total
Females:					
Executive and senior management	11	1	0	2	14
Information technology staff	139	34	14	232	419
General staff	315	42	21	237	615
Contractors	57	5	3	212	277
Total females	**522**	**82**	**38**	**683**	**1 325**
Males:					
Executive and senior management	30	1	4	21	56
Information technology staff	305	61	71	381	818
General staff	287	33	28	174	522
Contractors	84	27	23	446	580
Total males	**706**	**122**	**126**	**1 022**	**1 976**
Employees:					
Executive and senior management	41	2	4	23	70
Information technology staff	444	95	85	613	1 237
General staff	602	75	49	411	1 137
Contractors	141	32	26	658	857
Total employees	**1 228**	**204**	**164**	**1 705**	**3 301**

Directors' report

Employment equity

SITA is committed to creating and maintaining an environment that provides equal opportunities to all its employees, with special consideration for historically disadvantaged groups.

The racial balance of SITA's staff complement of 3 301 employees at the end of March 2004, reflected a historically disadvantaged individual ("HDI") to white ratio of 48:52. This indicates an improvement from the previous year's HDI/ white ratio of 46:54 within a workforce of 3 043 people for that year.

The company has a comprehensive Employment Equity Policy and Procedure that serves to guide management in reaching the overall employment equity target of 60% HDIs. Special focus is being given to the employment of females, particularly at senior and management levels. The employment equity targets set for this year were successfully met, despite the challenges posed by the employee profiles of staff integrated from various Government departments.

Post-retirement benefits

Post-retirement pension benefits

Current contributions on behalf of former State employees to the Government Employees Pension Fund (GEPF), a defined benefit plan, and the Denel Retirement Fund (Denret), a defined contribution fund, are reflected in SITA's expenses. No provision is made for any possible pension-related post-retirement benefits for former state employees, as this is the responsibility of the Government of the Republic of South Africa.

SITA's responsibility regarding the funding of the possible shortfall of the GEPF is limited to the current contributions made on behalf of its employees. The Government, as their former employer, is responsible for any shortfall.

The Act governing the Government Employees Pension Fund, is the General Pensions Act (Act No 29 of 1979) and the Rationalisation of Pension Fund and Benefits: Modification of Laws Act. In terms of the General Pensions Fund Act (amended in part by the Rationalisation of Pension Fund and Benefits: Modification of Laws Act, 21 of 1996) the Government is responsible for the post-retirement benefits through the Stabilisation Fund. The employer is responsible for current contributions. All other contributions vest with the Government (this would include the Stabilisation Fund).

Post-retirement medical benefits

SITA has, in terms of section 15(b) of the SITA Act, as amended, acknowledged the liability related to the post-retirement medical benefits of employees who were transferred to the agency on establishment. All new SITA staff members do not qualify for post-retirement medical aid benefits.

5th Quadrant Actuaries & Consultants (Pty) Limited, a firm of actuaries, perform an actuarial valuation on this liability annually to establish and value SITA's current obligation to provide for post-retirement medical aid benefits for its affected employees (ex-SAPS, ex-CCS and ex-Infoplan). These obligations, as quantified, have been accounted for and are disclosed in note 9.3 to the financial statements.

SITA Retirement Fund arrangements

The SITA Act, as amended, requires that SITA's own retirement funding arrangements be established. A tender was awarded to 5th Quadrant to assist SITA in establishing a SITA retirement fund.

At a Board of Directors meeting held on 22 May 2003, a decision was passed which confirms the mandate of SITA Exco to investigate and report back on SITA's future retirement funding alternatives. This will include considerations in respect of:

- cost arrangements for both employer and employee;
- own retirement fund as a possible arrangement;

Directors' report

- participating in a multi-employer fund (umbrella fund); and
- benefit structures (death and disability).

With 5th Quadrant's proposals in hand, SITA Exco appointed an Interim Management Committee (IMC) with the aim of it executing the Board's mandate.

During the year under review the IMC produced various detailed reports and alternatives for consideration by both Exco and the Human Resource and Remuneration Committee. This included:

- SITA Retirement Fund: Pros and cons for setting up an own fund
- Road map for establishing the SITA Retirement Fund
- Strategy for establishing the SITA Retirement Fund
- Senior council legal opinions of transferring employees to a new fund
- Report on outcomes of meetings held with representatives from both GEPF and the Denel Retirement Fund
- Results of tender evaluation process to consider service providers to SITA's Retirement Fund
- Re-consideration of possibility of using an umbrella fund for SITA's retirement funding arrangements
- Results of tender evaluation process to consider a suitable umbrella fund
- Proposal from IMC as its opinion of the way forward via using an umbrella fund for SITA's own retirement funding arrangements.

The IMC and the Chairperson of the Human Resources and Remuneration Committee met with a similar sized Government IT organisation in order to gain from their experiences in setting up its own funding arrangements.

The target date of the implementation of the new retirement funding arrangement is 1 March 2005.

Treasury management

SITA's Treasury Department performs a supporting function and has the responsibility for the management of the treasury financial risks, including liquidity risk and interest rate risk. In addition Treasury is tasked with ensuring that SITA is earning a maximum real return on its cash assets while maintaining a low risk profile. The above activities are carried out in a professional manner by applying sound business principles.

Bi-weekly cash flow projections are prepared and monitored on a daily basis to identify possible cash flow shortages or the availability of funds for investment purposes.

Donor funding

No donor funding was received for the year under review. An amount of R1 884 536 (one million eight hundred and eighty four thousand five hundred and thirty six rand) has still not been utilised out of the total funds of R8 603 595 (eight million six hundred and three thousand five hundred and ninety five rand) received in previous years from the Department of Public Service and Administration. The usage of these funds is subject to a separate audit commissioned by the Department of Public Service and Administration.

Directors' report

Going concern

The directors are of the opinion, based on enquiries made and their knowledge of the organisation, that adequate resources exist to support SITA as a going concern. The company's financial statements have therefore been prepared on a going-concern basis.

Company law requires the directors to prepare financial statements for each financial year that truly and fairly reflects the state of affairs of the company at the end of the financial year and the results of its operations for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimate that which is reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going-concern basis unless it is inappropriate to presume that the company will continue to do business.

The directors are responsible for keeping proper accounting records of the company.

Board of Directors

The following information relates to SITA's Board of Directors ("Board") and its committees for the period under review:

Meetings (description)	Number of meetings
Main Board	Six
Annual general meeting	One
Audit Committee	Four
Tender Board/SSA	Thirty-five
Chairperson's Committee	Five
Human Resources and Remuneration Committee	Five
Strategic Committee	Two

The directors' remuneration is disclosed in Note 14 to the financial statements.

The various committees of the Board are:

Audit Committee

Chairperson: Ms Y Kwinana (appointed 29 January 2003)

Objective: Primarily to provide assistance to the Board, in fulfiling its responsibilities for the integrity of the company's financial reporting process, system of internal controls over financial reporting, audit process and monitoring compliance with applicable laws and regulations. The Committee provides an open avenue of communication between financial management, internal auditors, external auditors and the Board. The Board has ultimate responsibility for the system of internal financial and operational control.

Directors' report

Tender Board Committee/Supplier Selection Authority (SSA)

Chairperson: Ms L Mthembu (appointed 1 October 1999)

Objective: The function of the Tender Board/SSA is to ensure that Government benefits from improved service delivery in the following areas:

- IT synergy in departments and organs of State
- Interoperability of IT products and services
- Consolidation and leveraging of SITA's buying power
- Applying world-class purchasing strategies, methods and tools
- Developing the procurement functions for executive directors/managers and Government departments
- Negotiation processes, methods and tools
- Applying ethical purchasing procedures
- Compliance with purchasing/supply policy and procedures.

Chairperson's Committee

Chairperson: Ms Z Manase (appointed 1 June 2002)

Objective: The purpose of the Chairperson's Committee is to ensure that SITA is governed in a way that is efficient, responsible, accountable, transparent and demonstrating probity.

Human Resources and Remuneration Committee

Chairperson: Adv L Gcabashe (appointed 1 June 2002)

Objective: The functions of the Human Resources and Remuneration Committee, according to the Corporate Governance Manual, are executive remuneration and executive incentive schemes. The committee considers the quantity, equity and quality of human resources and the value that it adds to the business. It also ensures, for all stakeholders in the business, that the remuneration of senior executive members of the company is set by a committee of Board members who have no personal interest in the outcome of their decisions, and who will give due regard to the interest of the shareholder, and to the financial and commercial health of the company.

Strategic Committee

Chairperson: Ms Z Manase (appointed 1 June 2002)

Objective: The purpose of the Strategic Committee is to define SITA's strategy in line with its mandate, guide and lead the implementation of that strategy, development and management of the strategy capability needs and management of business needs.

SITA

Directors' report

List of non-executive directors

Name	Qualification	Date appointed	Date resigned
Ms ZP Manase			
Chairperson	BCom, BCompt (Hons) CA(SA), HDip Tax	1 June 2002	
Ms L Abrahams	BSc, Post-graduate Diploma in Public Policy and Development Administration	1 June 2002	
Adv L Gcabashe	BA (Admin), BA (Law), MA, LLB	1 June 2002	
Mr C Kruger	BCom (Hons) (Economics)	1 June 2002	
Dr AA Ngcaba	MCom, Management Diplomas	17 April 1999	17 September 2003
Mr M Ramaite	BProc, LLB, MA	12 November 1999	17 September 2003
Mr M Roussos	BA (Hons), MBA	1 June 2002	
Dr S Sibisi	BSc (Hons), PhD	1 June 2002	

Company Secretariat

Name	Qualification	Date appointed
Ms TV Geldenhuys	BCompt (Hons), HDip Tax, AGA(SA), FIAC, CFA, FICB	1 April 2004
Mr K Mathole	Grad ICSA	Acting from 10 May 2003 to 31 March 2004

List of Executive Committee members

Name	Qualification	Position
Mr M Msimang	BSc (Entomology/Biology) (University of Zambia), MBA (Project Management) – US International University	Chief Executive Officer
Mr K Buthelezi	BCom (Accounting), Diploma in Accounting (ACCA)	Chief Audit Executive
Mr P Els	BAcc (Hons) CA(SA), HDip Tax	Chief Financial Officer
Ms H Fouche	BCom, Certificate O&W	Acting Chief Executive Sita D
Ms N Isaacs-Mpulo	BSc (Hons) Computer Information Systems	Executive: Corporate Services
Ms M Mojapelo	BCom Computer Science, University Education Diploma	Acting Chief Executive Sita E
Mr S Ngubane	BA Physics, Computer Science and Mathematics	Executive assistant in the CEO's office
Mr Z Serepo	BSc (Hons)	Chief Executive Sita C

SITA

Balance sheet

as at 31 March 2004

	Notes	2004 R	2003 R
Assets			
Non-current assets		**467 634 100**	439 197 348
Property and equipment	2	**427 944 234**	400 684 640
Deferred taxation	3	**39 689 866**	38 512 708
Current assets		**957 779 106**	978 003 958
Cash and cash equivalents	4	**451 002 863**	546 429 863
Trade and other receivables	5	**480 642 911**	407 999 977
Taxation		**26 133 332**	23 574 118
Total assets		**1 425 413 206**	1 417 201 306
Equity and liabilities			
Capital and reserves		**691 896 990**	656 811 299
Share capital	6	**1**	1
Non-distributable reserves	7	**625 333 736**	625 333 736
Retained income		**66 563 253**	31 477 562
Non-current liabilities		**107 557 571**	102 466 651
Interest-bearing borrowings	8	**36 400 571**	41 600 651
Post-retirement medical benefits	9.3	**71 157 000**	60 866 000
Current liabilities		**625 958 645**	657 923 356
Trade and other payables	10	**350 691 949**	391 369 452
Income received in advance		**199 109 916**	217 767 214
Provisions	11	**76 156 780**	48 786 690
Total equity and liabilities		**1 425 413 206**	1 417 201 306

Income statement

for the year ended 31 March 2004

	Notes	2004 R	2003 R
Revenue		**2 303 610 125**	1 967 580 976
Cost of sales		**1 855 194 341**	1 574 872 791
Gross profit		**448 415 784**	392 708 185
Other income	12	**8 914 206**	19 466 947
Operating expenses	13	**428 090 808**	320 802 558
Profit from operations	14	**29 239 182**	91 372 574
Net financing income	15	**22 421 622**	28 498 444
Profit before taxation		**51 660 804**	119 871 018
Taxation	16	**16 575 114**	37 034 108
Net profit for the year		**35 085 690**	82 836 910

Statement of changes in equity

for the year ended 31 March 2004

	Share capital R	Non-distributable reserves [1] R	Retained income R	Total R
Balance at 31 March 2002	625 333 737	–	(51 359 348)	573 974 389
Legislated adjustment	(625 333 736)	625 333 736	–	–
Net profit for the year			82 836 910	82 836 910
Balance at 31 March 2003	1	625 333 736	31 477 563	656 811 299
Net profit for the year			35 085 690	35 085 690
Balance at 31 March 2004	**1**	**625 333 736**	**66 563 253**	**691 896 989**

(1) The non-distributable reserve was created based on a legislated adjustment. Refer to the directors' report.

Cash flow statement

for the year ended 31 March 2004

	Notes	2004 R	2003 R
Net cash inflow from operating activities		**61 056 578**	243 690 804
Net profit before taxation		**51 660 804**	119 871 018
Adjustments for non-cash flow items:			
– Depreciation		**121 237 232**	74 247 007
– (Decrease)/increase in provision for doubtful debts		**(27 005 534)**	11 080 520
– Loss on disposal or scrapping of property and equipment		**2 786 671**	21 151
– Increase in provision for post-retirement medical benefits		**10 291 000**	12 693 000
Interest paid		**4 375 688**	9 823 067
Interest received		**(26 797 310)**	(38 321 511)
Increase in provisions		**27 370 090**	19 166 914
Operating profit before working capital changes		**163 918 641**	208 581 167
Working capital changes		**(104 972 201)**	18 858 652
Increase in trade and other receivables	21.1	**(45 637 400)**	(117 699 161)
(Decrease)/increase in trade and other payables		**(40 677 503)**	142 388 658
Decrease in income received in advance		**(18 657 298)**	(5 830 845)
Cash generated from operations		**58 946 440**	227 439 819
Normal taxation		**(20 311 484)**	(12 247 459)
Interest paid		**(4 375 688)**	(9 823 067)
Interest received		**26 797 310**	38 321 511
Net cash outflow from investing activities		**(151 283 498)**	(148 023 319)
Purchase of equipment		**(151 283 498)**	(148 137 582)
Proceeds from insurance claims		**–**	89 516
Disposal of assets		**–**	24 747
Net cash outflow from financing activities		**(5 200 080)**	(5 200 080)
Non-current interest-bearing borrowings repaid		**(5 200 080)**	(5 200 080)
Net (decrease)/increase in cash and cash equivalents		**(95 427 000)**	90 467 406
Cash and cash equivalents at beginning of year		**546 429 863**	455 962 457
Cash and cash equivalents at end of year	4	**451 002 863**	546 429 863

Notes to the financial statements

for the year ended 31 March 2004

1. Accounting policies

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice on the historical cost basis. The principal accounting policies are set out below and are consistent with those applied in the previous period.

1.1 Property and equipment

Land is stated at its original cost price and is not depreciated. Buildings and all other equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Property and equipment transferred from participating departments were originally recorded at a revalued amount at 1 April 1999.

Depreciation is charged on the straight-line basis over the estimated useful lives of the assets.

The estimated maximum useful lives of property and equipment are:

– Buildings and infrastructure	50 years
– Vehicles	5 years
– Office furniture	3 – 6 years
– Computer equipment	3 – 6 years

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

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised.

Maintenance and repairs which neither materially add to the value of the assets nor appreciably prolong their useful lives are charged against income.

Directly attributable costs associated with the acquisition and installation of software are capitalised. Such assets are depreciated using the amortisation methods and periods applicable to computer equipment.

Surpluses and deficits on the disposal of property and equipment are taken to income.

1.2 Impairment of assets

The carrying amounts of assets mentioned in the accounting policy notes are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use.

In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

Notes to the financial statements

for the year ended 31 March 2004

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

1.3 Research and development costs

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

Development costs are generally expensed in the period in which they are incurred. Development costs that relate to an identifiable product or process that is demonstrated to be technically or commercially feasible which the company has sufficient resources to bring to market and which is expected to result in future economic benefits, are recognised as assets. The expenditure capitalised includes the cost of material, direct labour and an appropriate portion of overheads. Capitalised development expenditure is shown at cost less accumulated amortisation and accumulated impairment losses.

1.4 Income taxation

Income taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current taxation comprises tax payable calculated on the basis of the expected taxable income for the period, using the tax rates expected at the balance sheet date, and any adjustments of the tax payable for the previous year.

Deferred taxation

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to goodwill not deductible for taxation purposes and the initial recognition of assets or liabilities which affect neither accounting nor taxable profit or loss.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

Deferred taxation is calculated using taxation rates that have been enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

1.5 Financial instruments

In assessing the fair value of financial instruments, the company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt.

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

Notes to the financial statements

for the year ended 31 March 2004

Financial instruments are initially recognised using the trade date accounting method.

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

- Trade and other receivables originated by the company are stated at cost less provision for doubtful debts. Bad debts are written off during the year in which they are approved for write-off.
- Trade and other payables are stated at a nominal value.
- Cash and cash equivalents are measured at fair value.
- Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations, except for derivatives which are subsequently measured at fair value.
- Derivative instruments are measured at fair value. Fair values are obtained from the quoted market prices and option pricing models as appropriate.

Where a legally enforceable right to offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

1.6 Cash and cash equivalents

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

1.7 Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories comprises all cost of purchase, conversion and other costs incurred in bringing the inventories to their present location and condition less any trade discounts, rebates and other similar items, and is determined using the first in first out method.

Writedowns to net realisable value and inventory losses are expensed in the period in which the writedowns or losses occur.

1.8 Employee benefits

Post-employment benefits

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

Defined contribution plans

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

Notes to the financial statements

for the year ended 31 March 2004

Defined benefit plans

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

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, calculated using the projected unit credit method, as adjusted for unrecognised actuarial gains and losses, unrecognised past service costs and reduced by the fair value of plan assets. The amount of any surplus recognised is limited to unrecognised actuarial losses and past service costs plus the present value of available refunds and reductions in future contributions to the plan. To the extent that there is uncertainty as to the entitlement of the surplus, no asset is recognised.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions, and amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees except in the case of retired employees, when such amounts are recognised immediately.

Past service costs are recognised immediately to the extent that the benefits are vested, otherwise they are recognised on a straight-line basis over the average period that the benefits become vested.

Medical benefits

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

Short-term benefits

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

1.9 Provisions

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

Employee entitlements to annual leave pay benefits and bonuses are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and bonuses as a result of services rendered by employees up to the balance sheet date.

Notes to the financial statements

for the year ended 31 March 2004

1.10 Revenue recognition

Revenue

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

Revenue arising from services rendered is recognised on the performance of services based on the stage of completion determined by reference to the physical amount of work performed in relation to the total project or service level agreement. Where the company acts in the capacity of procurement agent for Government departments and organs of state, such revenue and related costs is not accounted for in the records of the company as revenue nor costs. Revenue on the sale of goods includes sales of licences and software. Sales of goods are recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future economic benefits is probable.

Interest income

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

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

Other income

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

1.11 Foreign currencies

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses on translation are credited to or charged against income.

1.12 Government grants

Government grants are recognised as income over the periods necessary to match them with the related cost which they are intended to compensate, on a systematic basis. Government grants are not credited to shareholder's equity.

Notes to the financial statements

for the year ended 31 March 2004

1.13 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of or not in accordance with a requirement of any applicable legislation, including:

– The Public Finance Management Act

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

All irregular, fruitless and wasteful expenditure are charged against income in the period in which they are incurred.

1.14 Comparative information

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

1.15 Leased assets

Leases of assets to the company under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

2. Property and equipment

2.1 Land and buildings

Erf number 262, 263, 264, 677 and 1 of 492 Erasmuskloof Extension 3 (23 730 m^2) consisting of land and buildings, was acquired in April 1999 at a cost of R50,017 million.

2.2 Other land and buildings

CCS (Centurion) portion 50 of the farm Brakfontein 390JR, Centurion, CCS (Beta) portion 3 of Erf 147, Pretoria and SAPS (Numerus) remainder of the farm Prinshof, 349JR land and buildings are in the process of being transferred from the Department of Public Works to SITA (Pty) Limited. The values, as agreed with National Treasury, of these buildings are included in the financial statements (refer to Directors' report).

Notes to the financial statements

for the year ended 31 March 2004

		2004 R	2003 R
2.	**Property and equipment (continued)**		
2.3	**Land**		
	Net carrying value at beginning of year	**22 742 785**	22 742 785
	Additions	**–**	–
	Disposals	**–**	–
	Net carrying value at end of year	**22 742 785**	22 742 785
2.4	**Buildings and infrastructure**		
	Net carrying value at beginning of year	**157 543 121**	160 873 612
	Additions	**183 440**	245 295
	Disposals	**–**	–
	Depreciation charge	**(3 587 919)**	(3 575 786)
	Net carrying value at end of year	**154 138 642**	157 543 121
	Cost	**171 716 953**	171 533 514
	Accumulated depreciation and impairment losses	**(17 578 311)**	(13 990 393)
		154 138 642	157 543 121
2.5	**Computer equipment**		
	Net carrying value at beginning of year	**214 933 959**	136 208 582
	Additions	**145 063 721**	146 806 819
	Disposals	**(2 786 671)**	(135 417)
	Depreciation charge	**(113 352 787)**	(67 946 025)
	Net carrying value at end of year	**243 858 222**	214 933 959
	Cost	**655 578 742**	536 729 163
	Accumulated depreciation and impairment losses	**(411 720 520)**	(321 795 204)
		243 858 222	214 933 959
2.6	**Office furniture**		
	Net carrying value at beginning of year	**4 866 974**	6 478 880
	Additions	**6 036 337**	786 123
	Disposals	**–**	–
	Depreciation charge	**(4 125 321)**	(2 398 029)
	Net carrying value at end of year	**6 777 990**	4 866 974
	Cost	**17 979 752**	11 944 113
	Accumulated depreciation and impairment losses	**(11 201 762)**	(7 077 139)
		6 777 990	4 866 974

Notes to the financial statements

for the year ended 31 March 2004

	2004 R	2003 R
2. Property and equipment (continued)		
2.7 Vehicles		
Net carrying value at beginning of year	**597 800**	625 622
Additions	**–**	299 345
Disposals	**–**	–
Depreciation	**(171 205)**	(327 167)
Net carrying value at end of year	**426 595**	597 800
Cost	**3 179 138**	3 258 057
Accumulated depreciation and impairment losses	**(2 752 543)**	(2 660 257)
	426 595	597 800
Net carrying amount at end of year	**427 944 234**	400 684 640

The Erasmuskloof fixed property, with a book value of R43,75 million (2003: R46,45 million), is bonded to Denel (Pty) Limited as disclosed in note 8. All other assets are freehold and have not been pledged as security for liabilities.

	Charged/ (credited) to income statement* R	2004 R	2003 R
3. Deferred taxation			
Provision for doubtful debts	7 620 407	**(4 327 149)**	(11 947 556)
Wear and tear allowance	–	**–**	–
Provision for leave pay benefits and bonuses	(5 193 635)	**(12 021 218)**	(6 827 583)
Post-retirement medical benefits	(3 087 300)	**(21 347 100)**	(18 259 800)
Income received in advance	5 597 189	**(59 732 975)**	(65 330 164)
Deferred taxation asset	4 936 661	**(97 428 442)**	(102 365 103)
Prepayments made	41 787	**42 204**	417
Section 24C allowance	(6 155 606)	**57 696 372**	63 851 978
	(1 177 158)	**(39 689 866)**	(38 512 708)
Reconciliation between opening and closing balance			
Deferred taxation asset at beginning of year		**(38 512 708)**	(42 987 871)
Income statement movement for the year		**(1 177 158)**	4 475 163
Deferred taxation asset at end of year		**(39 689 866)**	(38 512 708)

The deferred tax assets arise from leave pay benefits provisions, post-retirement medical benefits and income received in advance as indicated above. At balance sheet date the company had no unutilised tax losses available for offset against future taxable income.

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

SITA

Notes to the financial statements

for the year ended 31 March 2004

		2004 R	2003 R
4.	**Cash and cash equivalents**		
	Cash in current bank accounts	**449 118 328**	543 671 939
	Cash on hand	**–**	89 872
	Cash received from donor funding (refer to the directors' report)	**1 884 535**	2 668 052
		451 002 863	546 429 863
	Effective interest rate	**8 – 10%**	8 – 10%
5.	**Trade and other receivables**		
	Trade debtors	**491 653 801**	457 530 003
	Less: Provision for doubtful debts	**(19 231 775)**	(53 100 250)
		472 422 026	404 429 753
	Prepayments	**529 332**	1 391
	Other	**7 691 553**	3 568 833
		480 642 911	407 999 977
6.	**Share capital**		
	Authorised and issued		
	One (1) ordinary share of R1,00 each	**1**	1
7.	**Non-distributable reserves**	**625 333 736**	625 333 736
8.	**Interest-bearing borrowings**		
	Long-term loan from Denel (Pty) Limited	**36 400 571**	41 600 651
	This amount represents the long-term loan from Denel (Pty) Limited in accordance with the business transfer agreement between Denel (Pty) Limited and SITA (Pty) Limited.		
	This loan is secured by a first mortgage bond of R52 000 811 against land and buildings with a book value of R43,75 million (2003: R46,45 million) (refer to note 2).		
	The interest rate is fixed at 9% per annum until 31 March 2009 whereafter the rate will change to the coupon rate per annum of the Government R186 Bond. The loan is repayable in annual instalments of R5 200 080 as from 1 April 2002 until 31 March 2012.		
	Maturity of non-current borrowings:		
	Between one and two years	**15 600 240**	15 600 240
	Between two and five years	**15 600 240**	15 600 240
	Over five years	**10 400 171**	15 600 251
	Total non-current borrowings	**41 600 651**	46 800 731
	Less: Current portion included in trade and other payables (refer note 10)	**(5 200 080)**	(5 200 080)
		36 400 571	41 600 651

Notes to the financial statements

for the year ended 31 March 2004

9. Employee benefits

9.1 Retirement funds

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of the financial year the following funds were in existence.

Denel Pension Fund

The Denel Pension Fund is a closed defined benefit fund, and is governed by a board of trustees in terms of the Pension Funds Act of 1956 (Act No 24 of 1956). There is one (1) employee on this fund. The company does not have any liability in respect of this fund. The fund is actuarially valued at intervals of three years or as deemed necessary by the board of trustees using the projected unit credit method. The most recent valuation was done on 31 December 2001 per the pension fund report and is in a sound financial position. No extraordinary events that could have impaired the solvency of the fund has taken place since this valuation.

Denel Retirement Fund

The Denel Retirement Fund is a defined contribution fund, managed by a Board of Trustees in terms of the Pension Funds Act of 1956 (Act No 24 of 1956).

Government Employees Pension Fund

Retirement benefits are provided by membership of the Government Employees Pension Fund which is a defined benefit fund. SITA's responsibility regarding the funding of the shortfall of the pension fund is limited to the current contributions made to the pension fund on behalf of its employees.

According to rule 4.9 of the fund, the entire fund is subject to an actuarial valuation once every three years. However, due to the frequent changes in liability and asset values, it has been decided to carry out annual actuarial valuations and the next valuation would be carried out as at 31 March 2002. At the date of these financial statements this valuation has not yet been finalised.

NBC Employees Benefits (Pty) Limited were commissioned by the Minister of Finance, in his capacity as a member of the interim Board of Trustees, to perform an actuarial valuation of the fund as at 31 March 2001. Alexander Forbes Financial Services SA was appointed as the actuary of the fund as from 1 January 2003.

The results, as per the actuarial valuation at 31 March 2001, were as follows:

Fair value of planned assets	R216,9 billion
Shortfall	R4,1 billion
– Including pension increments	
Funding level	98,10%
– Including pension increments	
Actuarial present value of planned assets	R216,9 billion

Actuarial assumptions:

(1) Reasonable demographic assumptions regarding resignation, mortality, ill-health and retirement.

(2) Financial assumptions regarding future salary increases until retirement, and pension increases after retirement; namely

- A long-term rate of 10% per annum.
- A long-term salary inflation rate of 11% per annum. This is in addition to a promotional scale.
- Pension increases are provided for at a rate of 7,5% per annum.
- Rate of interest on 14% per annum to discount the assets and liabilities.
- Dividends to grow at 11% per annum.

The financial health of the fund is measured by reference to its ability to generate enough income through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

Notes to the financial statements

for the year ended 31 March 2004

9. Employee benefits (continued)

9.2 Current medical benefits

The company contributes to three medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R45,39 million (2003: R35,20 million).

9.3 Post-retirement medical benefits

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

- Ex-Infoplan employees who transferred to SITA on 1 April 1999 and are still members of the U-Med medical aid fund.
- Ex-SAPS employees that transferred to SITA on 1 April 1999.
- Other former public sector employees who transferred to SITA on or after 1 April 1999 and remain members of their medical aid fund.

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

The amounts due in respect of post-retirement medical benefits have been determined by independent actuaries at 31 March 2004 utilising the projected unit credit method as set out below.

	2004 R	2003 R
Present value of unfunded obligations	**70 433 000**	60 320 000
Unrealised actuarial gains	**724 000**	546 000
	71 157 000	60 866 000
Provision for post-retirement medical benefits		
Balance at beginning of the year	**60 866 000**	48 173 000
Other expenses included in staff costs	**10 291 000**	12 693 000
Current service costs	**3 872 000**	6 431 000
Interest on liability	**6 419 000**	6 262 000
Post-retirement obligations	**71 157 000**	60 866 000
The principal actuarial assumptions used for the actuarial valuation purposes were:	**%**	%
Long-term discount rate before tax	**9,0**	10,0
Long-term medical aid inflation	**7,0**	8,0
Normal retirement age	**60 years**	60 years

10. Trade and other payables

	2004 R	2003 R
Trade creditors	**330 758 891**	376 660 433
Current portion of interest-bearing borrowings	**5 200 080**	5 200 080
Other payables	**14 732 978**	9 508 939
	350 691 949	391 369 452

Notes to the financial statements

for the year ended 31 March 2004

	Leave pay benefits R	Bonuses R	Total R
11. Provisions			
At 31 March 2002	25 842 835	3 776 941	29 619 776
Additional provisions during the year	33 642 652	36 482 533	70 125 185
Utilised during the year	(31 682 321)	(19 275 950)	(50 958 271)
At 31 March 2003	27 803 166	20 983 524	48 786 690
Additional provisions during the year	53 373 528	64 769 336	118 142 864
Utilised during the year	(36 061 413)	(54 711 361)	(90 772 774)
At 31 March 2004	**45 115 281**	**31 041 499**	**76 156 780**

Leave pay benefits – In terms of company policy, employees are entitled to accumulate vested leave benefits not taken during a leave cycle. The obligation is renewed annually.

Bonuses – In terms of company policy, employees are entitled to a 13th cheque which they may elect to receive monthly or annually. Also included in bonuses is the performance bonus that some employees are entitled to in terms of their contracts which is expected to be paid in the next 12 months.

	Notes	2004 R	2003 R
12. Other income			
Other income	1.10	**8 914 206**	19 466 947
13. Operating expenses			
Distribution costs		**6 728 066**	10 602 372
Non-recoverable indirect operating expenses	14	**421 362 742**	310 200 186
		428 090 808	320 802 558
14. Operating profit/(loss)			
The following items have been charged in arriving at operating profit/(loss):			
– Net foreign exchange gain		**3 332 111**	5 752 557
Depreciation		**121 237 232**	74 247 007
– Buildings and infrastructure		**3 587 919**	3 575 786
– Computer equipment		**113 352 787**	67 946 025
– Office furniture		**4 125 321**	2 398 029
– Vehicles		**171 205**	327 167
Non-recoverable depreciation included above		**11 587 489**	11 451 142
Loss on disposal or scrapping of property and equipment		**2 786 672**	21 151
Auditors' remuneration		**2 863 329**	3 787 696
– Audit fees		**1 480 000**	1 125 505
– Other expenses		**20 000**	20 000
– Under provision prior year		**115 999**	112 775
– Other services		**1 247 330**	2 529 416

Notes to the financial statements

for the year ended 31 March 2004

	Notes	2004 R	2003 R
14. Operating profit/(loss) (continued)			
Auditors' remuneration for other services comprises mainly of computer audit costs.			
Research costs		**34 641 829**	14 622 820
Directors' remuneration			
Executive directors			
– Salaries		**–**	905 188
– Pension fund contributions		**–**	26 608
		–	931 796
Non-executive directors			
– Services as director		**223 863**	159 386
– Other		**7 436**	414 596
Refer to remuneration schedule – Annexure A		**231 299**	1 505 778
Staff costs			
– Salaries and employee costs		**578 752 053**	427 274 874
– Pension contributions		**40 610 884**	32 902 794
– Post-retirement medical benefits	9.3	**10 291 000**	12 693 000
– Contractors		**305 605 042**	144 009 936
Non-recoverable indirect staff costs included above		**265 666 186**	166 525 829
Number of persons employed by SITA as at year-end.			
– Permanent		**2 444**	2 284
– Contractors		**857**	759
		3 301	3 043

SITA

Notes to the financial statements

for the year ended 31 March 2004

		Notes	2004 R	2003 R
15.	**Net financing income**			
	Interest income		**26 797 310**	38 321 511
	Interest expense			
	– Borrowings	8	**(4 006 018)**	(4 466 156)
	– Other		**(369 670)**	(5 356 911)
			22 421 622	28 498 444
	No finance costs have been capitalised.			
16.	**Taxation**			
	South African normal taxation			
	Current – current period		**17 752 272**	32 558 945
	Deferred – current period		**(1 177 158)**	4 475 163
			16 575 114	37 034 108
	Tax rate reconciliation			
	Profit before taxation		**51 660 804**	119 871 018
	Taxation calculated at a rate of 30%		**15 498 241**	35 961 305
	Permanent differences		**1 076 873**	1 072 803
	Depreciation of buildings and infrastructure (R3 587 919 x 30%)		**1 076 376**	1 072 736
	Fines (R1 661 x 30%)		**497**	67
	Effective taxation charge		**16 575 114**	37 034 108
			2004 %	2003 %
	Tax rate reconciliation			
	Standard tax rate		**30,00**	30,00
	Tax effect of permanent differences			
	– Depreciation on buildings and infrastructure		**2,08**	0,89
	Effective tax rate		**32,08**	30,89

17. Financial instruments

Financial risk management

The management of financial risk forms part of the total risk management model of the company. The audit subcommittee of the Board reviews this risk management model on a periodic basis. The following is a summary of the pertinent financial risks as well as how they are managed.

Liquidity risk management

The company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Cash flow forecasts are done on a daily, weekly and monthly basis in order to accurately predict funding needs. To ensure liquidity, a very favourable interest rate on the current account was negotiated with SITA's bankers.

Notes to the financial statements

for the year ended 31 March 2004

17. Financial instruments (continued)

Credit risk management

Credit risk relates to potential exposure on cash and cash equivalents and trade and other receivables. The company limits its counterparty exposure arising from money market instruments by only dealing with well-established financial institutions of high credit standing. Trade debtors mainly consist of national and provincial government departments with which SITA have entered into contractual agreements that indicate the payment terms of the services that are rendered. In addition, these clients fall within the ambit of the Public Finance Management Act that prescribes that suppliers of products and services should be paid within thirty days.

Foreign currency risk management

Where material transactions are concluded that are subject to foreign currency fluctuations, SITA will either take foreign exchange forward cover on the transaction or ensure that the supplier takes cover on import transactions.

At balance sheet date SITA has an uncovered liability of US$2 769 570 (R17 503 682).

		Carrying values R	Fair value R
Financial assets			
Accounts receivable	2003	407 999 976	407 999 976
	2004	480 642 911	480 642 911
Cash and cash equivalents	2003	546 429 863	546 429 863
	2004	451 002 863	451 002 863
Financial liabilities			
Accounts payable	2003	391 369 452	391 369 452
	2004	350 691 949	350 691 949
Interest-bearing borrowings	2003	41 600 651	41 600 651
	2004	36 400 571	36 400 571

The maturity profiles of the financial assets and liabilities as at 31 March 2004 as reflected above are within 0 – 12 months except the interest-bearing borrowing (refer note 8).

Fair value of financial instruments

At 31 March 2004 the carrying amounts of cash, trade receivables, trade payables and accrued expenses approximated their fair values due to the short-term maturities of these assets and liabilities.

Notes to the financial statements

for the year ended 31 March 2004

18. Related party transactions

18.1 Major shareholder

The shareholder of SITA is the Government of South Africa represented by the Department of Public Service and Administration.

18.2 Directors

The directors named in the directors report each held office as a director of SITA during the year ended 31 March 2004.

Directors' remuneration is disclosed in Annexure A.

19. Irregular expenditure

Section 55(2)(b)(i) of the PFMA requires that SITA include particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. During the current year there were three instances of irregular expenditure where employees of the company approved orders for goods or services to a combined value of R3 142 532 that exceeded their delegated limits. In all cases the proper requisite approval was obtained prior to the affected vendors being paid. SITA did not suffer any financial loss from these events.

Procedural non-compliance with SITA procurement policies occurred in relation to the procurement of services from six service providers. An amount of R36,9 million has been paid to these service providers and is considered to be irregular expenditure in terms of the PFMA.

Appropriate disciplinary action has been taken in this regard and steps have been taken to strengthen the internal processes to prevent similar occurrences.

During the year under review there was a single case of financial misconduct perpetrated by a junior employee of SITA. An amount of R340 645 was inappropriately acquired from SITA through fraudulent means. The matter was investigated and after the required disciplinary steps being taken, the employee concerned was dismissed. The incident of financial misconduct has been reported to the South African Police Services. The company is fully insured for this kind of financial loss via our fidelity cover in our insurance portfolio. Hence there is no financial loss to SITA in this regard. Notwithstanding that, as at April 2004, the full amount has been recovered.

20. Capital commitments

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

	2004 R	2003 R
21. Notes to the cash flow statement		
21.1 Increase in trade and other receivables		
Opening trade and other receivables	**407 999 977**	301 381 336
Trade and other receivables as per balance sheet	**(480 642 911)**	(407 999 977)
Decrease/(increase): provision for doubtful debts	**27 005 534**	(11 080 520)
	(45 637 400)	(117 699 161)

Annexure A – Remuneration schedule 2004

Non-executive directors	Designation	Duration	Fees as director	Other services
Current Board members				
Z Manase	Chairperson of the Board	12 months ending 31 March 2004	102 585	3 060
L Abrahams	Board member	12 months ending 31 March 2004	53 620	2 027
L Gcabashe	Board member	12 months ending 31 March 2004	67 658	2 349
C Kruger	Board member	12 months ending 31 March 2004	0	0
Dr A Ngcaba	Board member	5 months ending 17 September 2003	0	0
R Ramaite	Board member	5 months ending 17 September 2003	0	0
M Roussos	Board member	12 months ending 31 March 2004	0	0
Dr S Sibisi	Board member	12 months ending 31 March 2004	0	0
			223 863	7 436
Executive members*				
M Msimang	CEO	6 months ending 31 March 2004	0	0
K Modise	COO	8 months ending 30 November 2004	0	0
K Buthelezi	Member	9 months ending 31 March 2004	0	0
P Els	CFO	12 months ending 31 March 2004	0	0
H Fouche	Member	12 months ending 31 March 2004	0	0
P Gumede	Member	9 months ending 31 December 2004	0	0
N Isaacs-Mpulo	Member	3 months ending 31 March 2004	0	0
B Maripe	Member	12 months ending 31 March 2004	0	0
M Mojapelo	Member	12 months ending 31 March 2004	0	0
M Moseki	Member	9 months ending 20 December 2004	0	0
T Netsianda	Member	12 months ending 31 March 2004	0	0
S Ngubane	Member	3 months ending 31 March 2004	0	0
M Radebe	Member	12 months ending 31 March 2004	0	0
D Ramahotswa	Member	4 months ending 31 March 2004	0	0
Z Serepo	Member	12 months ending 31 March 2004	0	0
D Sethsedi	Member	9 months ending 31 December 2004	0	0
J Tshabalala	Member	10 months ending 22 January 2004	0	0
			0	0

* *Defined as any executive that reported to the Chief Executive Officer during the year under review.*

Basic salary	Annual payment bonus and leave	Expense allowances	Petrol card	Contributions to pension, medical or insurance funds	Commissions or profit sharing	Share options	Other performance bonus	Total
0	0	0	0	0	0	0	0	105 645
0	0	0	0	0	0	0	0	55 647
0	0	0	0	0	0	0	0	70 007
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	231 299

Basic salary	Annual payment bonus and leave	Expense allowances	Petrol card	Contributions to pension, medical or insurance funds	Commissions or profit sharing	Share options	Other performance bonus	Total
357 330	9 926	143 023	9 000	70 643	0	0	537 609	1 127 531
507 667	409 810	307 619	12 000	83 686	0	0	500 000	1 820 782
297 840	12 663	119 860	13 500	70 824	0	0	31 366	546 053
586 340	0	222 448	18 000	112 252	0	0	651 487	1 590 527
409 920	34 160	217 163	18 000	56 843	0	0	134 709	870 795
312 120	64 410	126 651	12 000	68 553	0	0	93 636	677 370
125 970	0	49 082	4 500	24 948	0	0	45 179	249 679
410 355	34 196	172 859	18 000	0	0	0	0	635 410
588 100	0	305 253	18 000	109 634	0	0	736 754	1 757 741
342 767	116 555	129 982	13 500	48 713	0	0	0	651 517
387 900	32 325	159 514	18 000	87 353	0	0	17 507	702 599
147 000	12 250	58 801	4 500	32 435	0	0	102 900	357 886
469 901	18 537	192 126	18 000	62 654	0	0	30 649	791 867
175 686	14 640	125 526	6 000	34 823	0	0	137 200	493 875
603 038	0	220 508	18 000	125 162	0	0	0	966 708
540 000	600 443	115 758	13 500	32 382	0	0	120 000	1 422 083
252 793	79 243	108 735	15 000	58 871	0	0	0	514 642
6 514 727	1 439 158	2 774 908	229 500	1 079 776	0	0	3 138 996	15 177 065

SITA

Shareholder's diary

Shareholder's diary	
Fifth annual general meeting	13 August 2004
Submission to the Minister	31 August 2004
Submission to Parliament	16 September 2004
End of new financial year	31 March 2005
Business plan: 2004/2006	
Approval by the Board of Directors	January 2005
Submission to Department of Public Service and Administration	February 2005
Submission to National Treasury	February 2005
Strategic plan: 2006/2007 to 2008/2009	
Approval by the Board of Directors	September 2005
Submission to Department of Public Service and Administration	October 2005
Submission to National Treasury	October 2005
Quarterly reports	
Submission to Department of Public Service and Administration	30 days after end of each quarter
Tariff increases	
Submission to Department of Public Service and Administration	July 2005

Contact details

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Administration

Directorate
Ms ZP Manase (Chairperson)
Ms LA Abrahams
Adv L Gcabashe
Mr CCW Kruger
Mr M Roussos
Dr SP Sibisi

Company Secretary
Ms TV Geldenhuys (Appointed 1 April 2004)
Mr K Mathole (Acting 1 April 2003 to 31 March 2004)

Registered address
PO Box 26100, Monument Park, Pretoria 0105
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Auditor-General
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New Muckleneuk, Pretoria

Bankers
Standard Bank of South Africa Limited

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SITA

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