

2005

# Annual Report



**SITA**

state information technology agency





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



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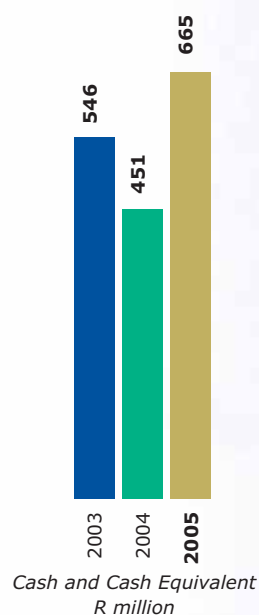
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## Financial Highlights

### **Delivering Results**

Revenue increased by **14.5%**  
Gross Profit increased by **7.8%**  
Stronger Cash Position



# Minister's Foreword



**Ms. Geraldine Fraser-Moleketi:**  
*Minister for Public Service and Administration*

Information and Communication Technology (ICT) is rapidly transforming the world. The common image regarding the speed of change that ICT brings about is that of a revolution: rapid and sweeping. These far-reaching changes also affect how we govern and the relationship between governments and their citizens.

ICT offers different, often easier channels of communication between different actors. This includes better communication and information exchange between different government entities, offering the potential for better integration and seamless interfacing with the population, rather than confronting the people with a maze of government institutions and repetitive information requests. The process of institutionalising ICT in all government operations, if handled astutely, offers great efficiency and effectiveness gains.

ICT also offers improved information exchange between citizens and government, thus affecting democratic quality as well as improving the service delivery experience. It has the potential to aid the processing of participatory inputs that citizens make to government in a variety of forums.

ICT has the potential to generate new tools for service delivery in an ongoing way, improving on innovation in government.

All the potential that ICT carries will, however, come to naught if ICT change and development, as well as maintenance programmes and projects, are not adequately implemented and supported. All the changes on the output side obviously go hand in hand with changes in institutions, structures and operations on the input side. These changes on the input side constitute part of the public service reform project that we are engaged in to ensure that we meet the criteria for modern and effective government machinery.



ICT, however, remains a tool in our hands than an objective in its own right. We therefore are obliged to ensure that ICT initiatives do indeed deliver on the promise of a better government integration and coordination and greater efficiency. It must result in the deepening of the democratic experience without compromising on human rights of individuals, such as the right to privacy of information, or a sense of personal relationship between governor and governed.

Faster and more lasting development must flow from the use of ICT with the emphasis on wiping out disparities and acting as an equalising force, rather an exacerbating existing divides between the powerful and advantaged on the one side, and the disempowered and poor on the other side.

As the main public agency responsible for implementing ICT programmes and projects in Government, State Information Technology Agency (SITA) has to respond to all these challenges. If SITA fails us, the negative effects will be severe and detrimental to the path that this government has chosen to walk.

It is noteworthy that in the past year SITA has made significant strides in supporting Government departments to deliver on their respective mandates. The reduction in time for tender completion, the support to departments in citizen-focused projects that assist departments in improving their service delivery and SITA's contribution to bringing government closer to the people, attest to how

SITA is rising to the challenge to be a leading institution in supporting government's contract with the people of South Africa.

In the full knowledge that much still needs to be done to fully exploit the potential of ICT for development in South Africa, we take pride in tabling this annual report in parliament. This is done as part of our accountability responsibility to the legislature.

**Ms. Geraldine Fraser-Moleketi**

*Minister for Public Service and Administration*

1 August 2005

# Chairperson's Report

## Delivering Value

**Ms. Zodwa Manase:**  
Chairperson  
and non-executive  
Director



*This year's report is a compliment to the board of directors, who completed their three-year tenure as legislated by cabinet.*

Six years ago the Government made a bold decision to adopt a strategy that has with the passage of time enabled us to accelerate the development and use of ICT as an enabler towards Government service delivery. It was perhaps the boldest and most comprehensive Government Information Technology (IT) strategy. This strategy saw the amalgamation of three very different and autonomous

IT units of Government: The Defence Department's Infoplan, the Central Computers Services run by the department of Finance and the Information Management Services section of the South African Police Services.

Right from the beginning, the challenge was to build and consolidate SITA into an organisation that can deliver on its mandate.



The past three years have seen a concerted effort to improve performance, minimise internal deficiencies and set the organisation on course towards quality service delivery.

Today, SITA has used various vehicles, such as procurement for Government, Research and Development, among others, to steadily build the industry into an inclusive one. Our own internal processes are geared towards ensuring the involvement of as many industry players as possible and to drive the ICT industry towards developing products that improve the quality of life of all South African. In doing this we have also built a depth of knowledge and expertise that is as good as you can find anywhere in the country. SITA has also built a respectable track record in the area of training young black ICT professionals, taking into account gender and geographic origin.

We have also managed in the process to provide Government with IT solutions, technical ability, leveraging commercial arrangements that work, providing change management capability and human capital. SITA also continues to undertake cutting edge research and development, which has put new and existing technology at the centre of Government service delivery.

In the past year, as you will read in the CEO's

report, we have successfully piloted several citizen-focussed projects within Government.

We have done this while building a good foundation for self-sustainability, and while turning around a loss-making organisation in its first two years, into a profit-turning position in the years after. This is testimony to the hard work that SITA Management and employees have undertaken to stabilise the organisation.

I am confident that the improvements we have made to our internal processes are irreversible and they will continue to serve the organisation favourably for a long time to come.

We are not there yet and challenges lie ahead still, but we can now approach the future with greater certitude.

Our relationship and communication with stakeholders has improved over the past year. We have recorded some important successes in the building of better relations with our Government stakeholders and there is a refreshing appreciation of what we are doing for Government, as well as renewed confidence in our ability.

We have now begun to look inter-

**“ Right from the beginning, the challenge was to build and consolidate SITA into an organisation that could deliver on it's mandate. ”**





## Chairperson's Report (Cont.)

nationally to build relationships that can benefit the continent, our government and citizens. Through the South-South multi-lateral arrangement that our Government has with Brazil, India and the People's Republic of China, a vibrant exchange of ideas into social development has begun to take place. And we have signed several memoranda of understanding to cement this relationship. In the Commonwealth environment through COMNET IT and the Nepad environment through the e-Commission, there is recognition that our experience can benefit other countries.

To improve transparency and to achieve zero tolerance against corruption and inefficiency, the Ombudsperson has been appointed. This will ensure the integrity of business management at SITA and in the ICT sector. The appointment of the Ombudsperson was long overdue.

Our State President, the Honourable Thabo Mbeki, in his State of the Nation Address has emphasised the need for all organs of state, government agencies and the private sector to collaborate to build capacity for government to deliver. He has also called for all parties to help build efficiency and consistency within our systems of governance as a priority and these challenges were at the heart of our planning and operations in the year under review.

The launch of Project Consolidate within the local Government sphere by the Department

of Provincial and Local Government and my appointment in the advisory committee, has made it imperative for SITA to accelerate its local government focus. We have long held the belief that SITA should participate in service delivery at the local government level and that this is an area that we cannot ignore. I am glad to note that in the past financial year our provincial operations have been strengthened and resources invested to enable regions to assist Government to deliver at local level.

Moving forward, we are going to focus on the development of women in the sector as a priority and to do this we will develop programmes that will enhance the ability of women to play a meaningful role in ICT. In the past year, as you will see in the CEO's report, SITA launched a women's Executive Development Programme that seeks to fast-track the development of our women to qualify for executive positions in the company.

### Acknowledgements

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We have been blessed as a country to have a leadership, led by President Thabo Mbeki, which has moved us towards a better future at a tremendous pace and ensured that we keep pace with the rest of the world. We are grateful for that.

Our shareholder Ms. Geraldine Fraser-Moleketi has continued to lend invaluable support and leadership, even during our most trying







challenges. Through the years, SITA has thrived under her untiring drive and visionary leadership. Her ministry and department have provided the platform on which many programmes have drawn inspiration. Her principle that the people of South Africa should always come first — Batho Pele — has driven us further than we could have gone on our own.

It is fitting to pay tribute to the SITA Board of Directors, who during the year also completed their legislated three-year tenure on 31 March 2005. Through their committed leadership, they led the organisation through its most tumultuous period while patiently building it into an organisation that is increasingly becoming more sensitive to Government's demand for higher responsiveness. I believe the Board acquitted itself admirably in exacting circumstances.

Our appreciation goes to the Members of Parliament, in particular the Portfolio Committee members led by its Chairperson, the Hon John Gomomo, for their support and leadership.

The strongest message that has come through in the last three years is that despite the many challenges, SITA has experienced tremendous achievements and it has matured as an organisation. The work of consolidating scattered resources has been achieved admirably and the future looks the better for it. This is due to the diligence of the SITA Executive team led by CEO Mavuso

Msimang, and SITA employees at all levels. They have served the organisation with pride, and in so doing they have mirrored the best values of our nation. I salute them.

**Ms. Zodwa Manase**

*Chairperson and non-executive Director*

21 July 2005

# Board of Directors



**Ms. Zodwa Manase**

*Chairperson and  
Non-executive Director*

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



**Dr. Sibusiso Sibisi**

*Non-executive  
Director*

BSc (Hons), PHD



**Adv. Lean Gcadasne**

*Non-executive  
Director*

BA.Admin, BA.Law,  
MA, LLB



**Mr. Coen Kruger**

*Non-executive  
Director*

B.Com Hons  
(Economics)



**Mr. Mike Roussos**

*Non-executive  
Director*

BA (Hons), MBA



**Ms. Lucienne Abrahams**

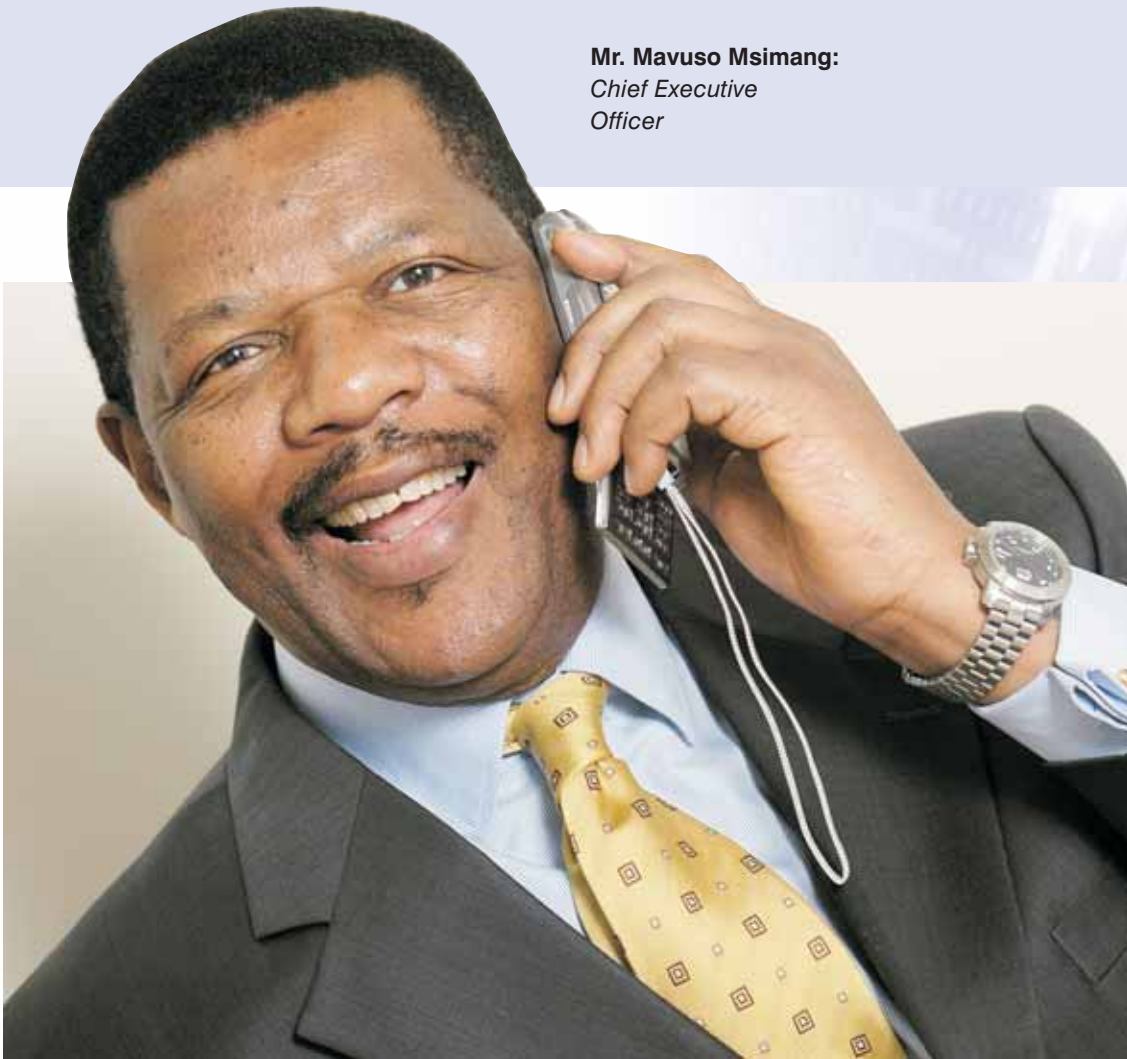
*Non-executive  
Director*

BSc, Post Graduate  
Diploma in Public  
Policy and Development  
Administration



# Chief Executive Officer's Report

**Mr. Mavuso Msimang:**  
*Chief Executive  
Officer*



*This report covers business operations carried out during the first of the organisation's three-year Strategic Plan (2005-2007).*

## 1. Introduction

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A turnaround strategy, premised on the urgent necessity to radically improve the quality and levels of service delivered to the Government, is now in place. To this end, the full complement of the executive leadership has been brought on board to help drive the necessary organisational restructuring.

A business operating model, designed to facilitate the achievement of set objectives,

has been developed and is currently being implemented. Human resource management policies, driven by best-demonstrated practices in people management and leadership, are now in operation.

Internal and external communication, aimed at keeping all stakeholders abreast of developments within the organisation, has been ramped up albeit much more still needs to be done. A costing model to underpin and justify SITA's pricing strategy has been



## Chief Executive Officer's Report (Cont.)

completed and accepted by relevant authorities. Finally, SITA now has a corporate scorecard for use internally, as well as externally - by clients and by the shareholder representative - to measure the performance of the organisation. It is expected that, in the short-term, these changes will result in significant improvements in performance levels in line with the organisation's primary strategic objective, namely, to radically improve service delivery to our clients.

Code-named "Tswelopele", which roughly translates into "progress" in Sesotho, SITA's turnaround programme has begun. With the completion of the organisational restructuring, there are clear signs of employee reassurance and buy-in into the programme of transforming the organisation. Our assessment is that by the end of the three-year Strategic Plan period, the organisation will have achieved performance levels, efficiencies and the cost-effective delivery that will render it a proud ICT agency of the Government.

“  
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”

improvement on the 2003/04 performance. At R2.6 billion, revenue is up 14.5% from the previous year. Higher revenue and stringent cost containment initiatives resulted in a significant increase in operating profit to R72 million.

Net profit before tax at R88.6 million is 71.6% up on the previous year and net profit after tax at R59.3 million is 69% higher than the previous year.

The gross profit margin of 18.3% is slightly lower than the previous year's 19.5%. This is a result of SITA capping prices on one of the transversal systems to provide relief to clients. The cash generated from operating activities is R342.3 million and is 5.6 times that of the previous year. The return on investment (after tax) is 7.68% compared to 4.89%

in 2003/04.

### 2.2 Reaping Scale Benefits

We significantly reduced the cost of processing application systems that are hosted on IBM mainframe technology and in the process, saved Government approximately R200 million. Furthermore, the capping of amounts that are recoverable from Government for the processing of the Basic Accounting System (BAS) application saved Government approximately R170 million.

## 2. Business Highlights

### 2.1 Financial Performance

The 2004/05 financial results represent the first in the organisation's three-year strategic turnaround programme. They show a material



### 2.3 Fast-tracking procurement

The Information Technology Acquisition Centre, SITA's procurement arm, has over the years been rated as one of the organisation's worst performing business centres. Deficiencies in this environment were guaranteed to gravely impair the reputation of the organisation, given the centrality of procurement in the Government's business activities and extreme sensitivities surrounding the function. Imputations of malfeasance readily gain credence, particularly in a sector in which high-value transactions take place.

We are very pleased to report major improvements that have taken place in SITA's Procurement Services. Good leadership, the deployment of a team of committed and highly motivated individuals, the restructuring of the business, as well as the streamlining of evaluation procedures and processes have combined to demonstrably improve performance.

### 2.4 Quick access to desktop electronics

The awarding of the Seat Management Services tender in November 2004 has greatly facilitated the procurement of equipment relevant to the electronic desktop environment within national and provincial Government departments. The attractiveness of this tender is such that several public entities that are not obliged to use the SITA procurement system have made requests for enrolment, and been approved. We are confident that even greater efficiencies will be recorded in future. A more detailed report appears in Section 3.2 of this report.

### 2.5 The IFMS Project: transversals consolidated

Since the establishment of the Public Finance Management Act in 1999, there has been continued pressure for the modernisation of the Government's financial management IT systems to support the implementation of the Act. Following a period of limited progress, the Budget Council on 3 October 2002 agreed that a coherent strategy should be developed for the implementation of a new financial management system. Discussions between the Minister for Public Service and Administration and the Minister of Finance led to the scope of the project being expanded to cover the entire transversal spectrum, namely financial management, payroll, Human Resources and supply chain domains within an integrated system.

To complete the first phase of the project, a joint National Treasury-SITA project structure was established to work, inter alia, on the development of a User Requirement Statement (URS) to specify the Government's business requirements. A Master Systems Plan to propose a suitable technical solution and a business prospectus to outline the commercial and financial implications of the proposals have been developed. SITA is preparing to assume the daunting role of prime systems integrator (PSI) for the project.

### 2.6 Putting ICT at the service of the citizen

The Research and Development division, working in collaboration with organisations such as the Human Sciences Research Council

## Chief Executive Officer's Report (Cont.)



(HSRC), the Council for Scientific and Industrial Research (CSIR), the Centre for Public Service Innovation (CPSI), universities, other institutions and private sector operators developed and successfully piloted many ICT projects that were put at the service of citizens. A few of these projects, which worked mainly on mobile and wireless technologies, were run at the following Government sites:

### **Department of Home Affairs**

Reacting to a scam that involved the forging of South African passports and identity documents, the project entailed the use of a Short Message Service (SMS) based service to enable persons to enquire about their marital status, ID and passport applications, and birth certificate applications. Feedback is provided within 10 seconds.

### **Department of Health**

Dokoza, a cell phone-based system which

provides the health practitioner with an interactive health administration capability with a focus on HIV/AIDS and TB. This can be done any time and anywhere.

### **Department of Social Development**

A data-cleansing project was undertaken for the department, which not only resulted in a substantial improvement on the integrity of the database, but also in the identification and elimination of some 37 000 fraudulent social grant transactions. This saved the department R1.7 billion that would otherwise have been lost through fraud and erroneous data.

### **Department of Provincial and Local Government**

A pilot Integrated Development Plan Nerve Centre was successfully established in the North West for the department and will be rolled out in the new financial year in Mpumalanga, Western Cape and Limpopo provinces.

### **Department of Education**

A project to make the Grade 12 results available on the SABC's Newsbreak 082 152 was concluded successfully in 2004.

## **2.7 The birth of SITA's Master Systems Plan (MSP)**

The appointment of a new Chief Information Officer (CIO), who brings into the service a proud public-sector track record, has resulted in the initiation of a project to set up an Information Management Services unit that focuses on achieving uniformity within SITA's Information Management Systems and





Technology (IMST) environment to professionally manage the business needs of the organisation. IMST activities are organised within the framework of the four levels of SITA: Business Architecture, Information Architecture, Systems Architecture and Technology Architecture.

The most important achievement of the division was the completion of the SITA Master Systems Plan (MSP), which directs the handling of information management services enterprise-wide.

IMST has recorded some notable achievements that include conducting an audit of software being used on SITA equipment. This exercise is being carried out in conjunction with Business Software Alliance, a private sector organisation that represents software suppliers. Software piracy is rampant and the object of the exercise was to ensure that SITA was not abetting, however inadvertently, such piracy. SITA email has also been upgraded through the purchase of 38 sorely needed servers. Not least, IMST successfully concluded an internal Open Source Software (OSS) pilot.

## **2.8 Effective project management**

We have established a Strategic Projects Review Committee which reports to the Executive Committee. Its primary function is to ensure that effective project management is applied to all strategic projects. Among the projects that fell within its scope were: e-Gateway, Integrated Financial Management Systems, CabEnet, Project Khanya, and Parliament's Master Systems Plan implementation.

## **3. Operations**

### **3.1 Procurement Services**

The procurement function in SITA underwent fundamental changes during the last six months of the reporting period. A comprehensive restructuring programme was undertaken that resulted in the introduction of new policies and procedures, a change in management, staff and organisational structure and the streamlining of procurement processes. Some of this is work-in-progress that will be completed in the coming financial year. Briefly the following changes have been brought about:

#### ***Organisational restructuring***

Business processes have been streamlined leading to the consolidation of purchasing units into one unit. An alignment of functions has resulted in focused management of services. Under-performing units were tackled and appropriate management action taken. An e-Procurement system will be installed during the second half of the next financial year that will automate procurement processes, shorten tendering times and improve efficiencies.

#### ***Reduced turnaround times***

The unit worked flat-out to achieve a reduction of over 50 percent in turnaround time in the awarding of tenders and sourcing of ICT goods and services for Government. This has resulted in a significant increase in the number of procurement orders by Government departments.

#### ***Better prices for Government***

Efforts to secure reduced prices for Government



## Chief Executive Officer's Report (Cont.)

were mostly successful, with reductions of up to 40 percent in some of the ICT products. The procurement strategies that have been put in place have been designed to ensure strict adherence to the Government's supply chain management policy, the preferential procurement policy, Black Economic Empowerment, the Code of Good Practice and the ICT Charter.

### **Corporate Governance**

Our procurement business now fully complies with the Code of Good Corporate Governance, and its integrity is bolstered by our compliance with the principles of accountability and transparency. We have also built into our processes a vetting and verification process that all bidders must pass, with penalties being levied on defaulters.

### **3.2 The Seat Management Services (SMS)**

The SMS tender was initiated in the previous financial year and awarded in November 2004. It provides for the outright purchase or lease of desktop and mobile computers, printers, devices, software and services. It includes the maintenance and upgrading of services as well. The late awarding of the tender, worth at least R2.4 billion over a three-year period, would seem to have been ultimately justified by the measures taken to ensure its security.

### **Leveraging economies of scale**

The public sector's dominant position in the South African ICT market was exploited to negotiate best prices for Government. The

supplier-client engagement model that has been built into this tender also greatly simplifies the procurement process and shortens the time. We are currently working on the development of a capability that will enable us to monitor, more effectively, Government ICT spending by product, region and supplier.

### **Fostering Black Economic Empowerment (BEE) and Small Medium and Micro Enterprises (SMME)**

The SMS tender has been designed with the view to encouraging the formation of consortia between established operators, namely, original equipment manufacturers on the one hand and BEE companies and SMME on the other. The big players have been encouraged to give a meaningful role to their BEE and SMME consortium partners and to go beyond the traditionally assigned role of so-called "box droppers". We are keen to see them participate in the supply chain, for instance, in the installation and maintenance environment.

### **3.3 Hosting and Data Centres**

#### **Infrastructure with high levels of performance**

SITA's Hosting Services and Data Centres provide the operational infrastructure for the processing of application systems for national, provincial and local Government. The application systems processed include, among others, such transversal systems as Basic Accounting System (BAS), Personnel and Salary System (PERSAL) and the Logistical System (LOGIS), as well as the Examinations System, Deeds Registry, Social Pensions, Population





Register, Unemployment Insurance Fund System, National Housing Systems and Crime Prevention Systems of the South African Police Service. The service levels required in the processing of these application systems is a system availability of 98% and a response time of less than two seconds. During the 2004/05 financial year all service levels for the processing of these applications were met at all the SITA Data Centres and no penalties were incurred.

#### ***Mainframe consolidation***

The workload on the IBM mainframe technology platforms operated at the Bisho and Ulundi Data Centres was consolidated onto the Pietermaritzburg Data Centre, resulting in a significant reduction in operational costs for SITA, a saving that was passed on to the Government, the ultimate beneficiary of these platforms.

#### ***Servicing the Justice System***

A Disaster Recovery capability was established to accommodate the Justice Deposit Account System, State Attorney System and the Court Policy and Process System. This is processed on UNIX/INFORMIX technology for the Department of Justice at various courts to ensure system recovery within a four-hour time frame. This capability has been successfully tested on a number of occasions.

#### ***Printing: Clients Beyond Borders***

SITA possesses a significant printing capability that has over the years been utilised by, among others, various education departments to print

examination papers. We were, for instance, able to respond at short notice to the request to participate in the printing of the Tanzanian ballot papers. The task was carried out in partnership with a private organisation and was completed on time, to the satisfaction of the Tanzanian Government.

We printed the 2004 Zimbabwe matriculation examination papers. A high-level delegation from the Zimbabwe Department of Education subsequently visited the organisation and commended SITA on the quality of work done as well as the commitment shown by our employees in the execution of the order.

#### ***Saving Government Funds***

Tariffs for the processing of application systems on the IBM mainframe technology environments were reduced significantly, resulting in approximately R200 million savings to Government. In the processing of the BAS application, the amounts recoverable from Government departments were capped, resulting in a saving to government of approximately R170 million.

### **3.4 The Networks**

The Government Common Core Network (GCCN), the 'spinal cord' through which the Government's internet messages are transmitted, experienced a number of congestion problems that slowed down the service considerably, to the understandable frustration of our clients. The problems were mainly due to virus attacks and limited



## Chief Executive Officer's Report (Cont.)



bandwidth availability. Additional core infrastructure has since been acquired and upgrades of software versions done, which will take us a long way towards resolving capacity and stability issues.

### ***Installing Virtual Private Networks***

To date, Virtual Private Networks (VPN) have been designed and implemented for the Departments of Labour, Government Communications, Trade and Industry, Science and Technology and the Integrated Justice System (IJS). Installations have been planned for the Department of Water Affairs, Statistics SA, Provincial and Local Government, KwaZulu Natal Department of Health, KwaZulu Natal Department of Transport, and SITA.

### ***Dealing with the Virus Scourge***

We are in the process of implementing an

Intrusion Detection-and-Intrusion Prevention System (IDS/IPS) on the GCCN. The deployment of this system will increase security on the network to the benefit of all service consumers. The system will identify and "quarantine" any suspicious and virus-infected devices proactively on a 24-hour basis. With the elimination of unwanted traffic, the availability and performance of the GCCN will be enhanced.

### ***Connecting Rural Areas***

The Remote Access Service (RAS) for Government information systems was upgraded to improve on the previous hunt-dial services. The new service, operational since October 2004, was upgraded to enhance the speed and availability of the service. A single national telephone number is used to access this service and is a toll-free number, the telephone costs being borne by SITA.

### ***Fulfilling Service Level Agreements***

Through Network Service Level Agreements, SITA undertook to provide clients with a minimum guaranteed 98% availability on the GCCN core. For the year under review, average availability on the GCCN was 99.7% and the average interconnectivity between nodes, 95.4%.

Internet Services are in the process of being upgraded to virtual first-tier services. This will further enhance service offerings on the GCCN and clients will be afforded Service Level Agreements with metrics and penalties based on performance levels.





### 3.5 The Command Centre

The Command Centre provides Information Technology support to Government organisations through the utilisation of fault-logging and routing services. This facilitates the processing of mission-critical application systems that are essential for the support of specific functions.

#### ***Coordinating other contractors***

In the four months to the end of the year the SITA Command Centre played a pivotal role in improving service delivery to the Department of Justice. This involved, among other things, coordinating services rendered by other organisations in order to resolve outstanding operational issues. The successful operation of the centre contributed to an improved working relationship between SITA and the Department of Justice.

#### ***Communicating in tongues***

The Gateway Call Centre, which services both citizens and business, was created to provide seamless access to information and services provided by the South African Government. It is in operation twenty-four hours a day, seven days a week. The vision of the Gateway Project is to integrate existing Government call centres, in the national and provincial spheres of Government in order to be able to leverage economies of scale. The call centre currently operates in six official languages while a seventh language, Tsonga, is in the process of being integrated. Two other call centres were established for the Department of Social Development, the Grant Customer Care Line and the Fraud Line.

## 4. Strategic Projects

### 4.1 Batho Pele Gateway Project

The first phase of the Batho Pele Gateway project went operational with its launch in Bisho by the Minister for Public Service and Administration. In the coming year it will be enhanced to cater for additional functionalities. The enhancement of the portal is aimed at consolidating and stabilising functions that were part of the first phase.

As part of this project, a number of Multi-Purpose Community Centres (MPCC) and public information terminals access channels were launched in various centres around the country. A formal content committee was established to verify the material loaded onto the portal and to ensure its suitability.

### 4.2 CabEnet Project

CabEnet is the name given to the project designed to facilitate communication of confidential information by Government policy makers in a particularly secure environment. After an unsatisfactory start, the CabEnet project was reconstituted and piloted in two Government departments in Pretoria and Cape Town at the end of January 2005. A full rollout to all the Departments is planned for the next financial year.

### 4.3 Projects with Citizen Focus

The following projects were also carried out by the Research and Development unit within the Professional Services environment:

- The clinical system, which is part of the



## Chief Executive Officer's Report (Cont.)

Department of Defence Health Informatics System, was put into operation;

- A key project from the National Department of Health, the Anti Retroviral Project was launched. In addition the Treatment Monitoring system was rolled out at 17 sites in Kwa-Zulu Natal, Limpopo, Mpumalanga and North West Province;
- A number of consulting and architecture engagements are currently being led by the strategic consulting services teams across several national and provincial departments. These include Parliament, National Treasury, Department of Education, Department of Provincial and Local Government, Department of Foreign Affairs, Department of Minerals & Energy and departments in Kwa-Zulu Natal and the Eastern Cape;
- The Department of Defence has invited the SITA Professional Services division to take a lead role in the revamping of Defence systems. As a result an exercise has been initiated that looks into the next three years in Defence mapping. Major revamps will include the unification of the multiple logistical systems that are utilised in the various arms of service; and
- The Financial Management Systems team, working closely with different service arms within the Department of Defence (DOD) and completed a project that linked existing item codes with the Chart of Accounts as per National Treasury requirements. This allowed DOD to report to National Treasury in the same format as the rest of the Government departments.

#### **4.4 Promoting Open Source Software Use**

SITA strengthened its participation in the OSS research arena. Two distributors, namely, Novell SuSE and IMPi Linux, were engaged as we launched the OSS programme using 20 SITA users. A number of static and dynamic websites were maintained for various clients at national, regional and local Government levels and new websites/applications have been delivered on a continuous basis. There has been excellent cooperation all round with participating Government departments.

## 5. Regional Programme

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#### ***Tswelopele in the Regions***

A primary aim of the Tswelopele Strategy was to focus operations on the organisation's core mandate. This necessitated a review of all activities with a view to scaling back on the non-core activities. The initial assessment suggested that regional operations were both non-core and inefficient. It concluded that the duties performed were inconsequential and cost SITA unjustifiable amounts of money. It turned out that the compilation of information had been erroneous.

This discovery was a relief as it would have been in direct conflict with the second Tswelopele Strategic Imperative which calls on SITA "to prioritise citizen focused projects", the majority of which directly impact municipalities and provincial administrations. Most importantly, perhaps, many Government





stakeholders, especially those who deal with provinces and local Government, had challenged SITA to rethink this strategy. The second phase of Tswelopele thus focused on redesigning the regional operating model and defining processes that would better support the organisation's turnaround programme.

### ***Regional Operating Model***

The new regional operating model attempts to accommodate two structural imperatives. Firstly it mirrors the corporate operating model in terms of structure and processes. Secondly it addresses client processes which are both national and provincial. While national departments tend to have centralised service level agreements with SITA, most of the work has to be carried out provincially. While there is no common operating model for the departments, the role of SITA regional offices under the new operating model is to address the unique requirements of each department and offer tailor-made solutions. This has not been easy to handle because of the diverse nature of departmental operations.

### ***Integration Strategy***

The integration of provincial information and communications (ICT) operations into the SITA infrastructure has been going on for some time, albeit with serious challenges. Some provinces, for example Kwa-Zulu Natal and Limpopo, have bought into the IT House of Values concept and have been utilising the SITA infrastructure to utmost benefit. Others, such as the North West Province, have indicated a desire to get on board while yet more are still at an early

stage of discussions with SITA. There are also those that have gone far down the track to create their own infrastructure. In the few cases where integration has been completed, major savings have been realised by the provincial authorities from economies of scale and elimination of duplication.

### ***Local Government Strategy***

Our consultations with stakeholders, both in the public and private sectors, point to an overwhelming need for SITA to play an active role in providing ICT support to local Government. In this regard, meetings have been held with the Department of Provincial and Local Government (DPLG) to devise an effective way of providing support for the department's Integrated Development Strategy under the aegis of Project Consolidate. SITA's Provincial and Local Government Strategy flows out of such consultations and will be a major focus of the organisation over the next five years.

The Municipal Finance and Management Act (MFMA) has determined some basic accounting practices and procedures for municipalities. These cannot, however, be implemented or monitored without a common transversal system for municipalities. Connectivity, sorely needed, is essential to help Provincial Treasuries control or monitor these operations. Currently, there is a duplication of systems across the board and some municipalities spend exorbitant amounts of money on systems that can be better provided by a centralised agency. The new SITA Provincial and Local Government Strategy seeks to address these issues.



## Chief Executive Officer's Report (Cont.)

### ***e-Government Initiatives***

Various processes have been started in support of the Government's initiative to reach out to the people. These processes, which are grouped under 'Electronic Government' have taken the form of the Gateway Project, Walk-in Training Centres, website development for municipalities, etc.

Under the new Local Government Strategy SITA will create the necessary infrastructure to enable e-Government initiatives. An example is the Mogalakwena Community project in Limpopo Province that was initiated with the help of Hewlett Packard. SITA is piloting this private-public telecommunications infra-structure. Using Multi-Purpose Community Centres, it will be possible for citizens to have access to information on Government services. Small entrepreneurs will also have the opportunity to develop their own businesses by tapping into this infrastructure. It is hoped that the project can be replicated throughout the province and indeed the whole country.

## **6. Human Capital**

The Tswelopele programme, in its third Strategic Imperative, commits the organisation to endeavour to "drive to best demonstrated practice in people management and leadership". To this end, the Human Resources Division has spearheaded the adoption of a raft of policies that will ensure that the organisation builds a strong foundation to achieve sustainable transformation.

### ***Organisational Restructuring***

In rightsizing what was clearly an overblown personnel structure, management was faced with the challenge of achieving this objective as humanely as possible, particularly in a tight job market environment and concomitant high levels of unemployment. Through a combination of attrition and the offer of voluntary severance and early retirement packages, it was possible to bring down staff levels by 13%. Throughout the exercise care was taken to ensure the retention of critical skills. Unavoidable retrenchments affected seven people. Currently SITA employs 2345 permanent employees and regularly utilises the services of 907 contractors.

The SITA Turnaround Strategy, included restructuring to reduce what was identified as a bloated personnel structure. One of the earlier recommendations was that the organisation focuses on its core ICT business and considers outsourcing non-core operations like catering, garden services and security services. One of the key considerations in pursuing this route was cost saving. The catering, in particular, has been run at a loss.

The outsourcing proposal was presented to the HR & Remuneration Committee of the Board who, while approving the proposal in principle, counseled caution, particularly in light of the low skills level of the affected employees. Although assurances were given that the outsourcing would be managed in terms of Section 197 of the Labour Relations Act, there was a concern about the stability of future employment.



A subsequent review of the outsourcing strategy resulted in a recommendation by the Executive Committee (EXCO) to the HR & Remuneration Committee for the outsourcing initiative to be suspended. The Committee approved this proposal. Unfortunately, the reversal decision was not communicated to the affected employees in catering and they continued to labour under the impression that they would sooner or later leave the employ of SITA.

When, as part of the restructuring process, management offered employees Voluntary Severance Packages (VSP), many of these employees took up the offer. Upon subsequently learning that their services were no longer being outsourced, a number of employees indicated that they would not have taken the packages had they known about the suspension of the policy. Some also claimed that they had been coerced to take what was supposed to be a voluntary decision. Sworn affidavits were made to support these claims. In light of that development, the CEO invited, all affected employees who so wished, to apply for reinstatement or re-employment. This invitation was extended also to those who claimed to have been coerced, as this would have been against the letter and spirit of the VSP.

A total of 226 employees companywide applied and were granted VSP's, of whom 53 were from internal services. Of the 53 employees who took VSP, 26 were re-employed and 9 reinstated. The total value of the VSP paid out to the re-employed personnel is R1,543,724.

The decision to offer employees the opportunity to reconsider their VSP's was made on moral grounds. The coercion allegation and indeed the non-communication of the decision to suspend the outsourcing plan, constitute matters for investigation. It should be noted also that if management had not acted on these matters, litigation against SITA would have been a distinct possibility.

#### ***Policy Development***

Several policies have been developed or updated to align the Human Resource environment with best practice and the organisation's strategic objectives. These included, but are not limited to:

#### ***Remuneration Philosophy and Policy***

The adoption of such a philosophy places SITA on the cutting edge of Human Resources best practice and forms the foundation on which many other Human Resources policies are built. The philosophy entrenches the principles of performance-based pay, market competitive salary levels and the attraction and retention of highly talented and performing employees.

#### ***Total Cost to Company Remuneration Conversion***

All SITA employees were transferred from a Basic-plus-benefits method of remuneration to a total-cost-to-company method. Besides the fact that this brings SITA in line with remuneration best practice, it also allows the organisation to avoid salary creep and to better manage and report on labour costs.



## Chief Executive Officer's Report (Cont.)

### *Performance Management*

A new Performance Management Policy was approved and successfully implemented for all employees. This brought about a uniformity and consistency in performance contracts, which did not exist previously and had exposed the company to criticism and challenge in terms of fairness. The policy also includes the provision that all salary increases and incentives would be based on performance and the formal assessment of that performance. In line with this each employee's performance was assessed at the end of the financial year.

### *Contractor Policy*

The nature of the business dictates that SITA signs short-term technical-support contracts to complement work done by permanent employees. Many risks related to the manner in which SITA makes use of contract employees were highlighted by the Internal Audit function. In order to mitigate these risks and to govern our use of contract workers, a Contractor Policy was developed.

### *Levels of Work Policy*

A decision was taken to migrate from the JE Manager method of job evaluation to that of Levels of Work, which is based on stratified systems theory. This has involved the flattening of structures as well as the profiling and evaluation of each job in the organisation. Further reinforced in the model is the concept of dual career paths, namely, management and professional/technical.

### *Employment Equity Policy and Strategy*

The organisation's Employment Equity Policy was modified, taking into account all relevant and applicable legislation of the Republic of South Africa. In support of the policy, a strategy was developed and is being rolled-out. The targets agreed to by the Executive Committee are that there be a minimum of 45% female and 60% Black representation in all job categories and at all levels in the organisation.

The current position is as shown in the following table:







## Employment Equity: 31 March 2005

### Permanent Staff: Employment Equity (New Job Levels)

Category	No of Employees	Actual Gender (female) (45%)	Actual Race (black) (60%)
A1 – A3 General Workers	66	45	100
B1 – B2 Operational	106	39	85
B3 – B5 Administration / Advanced Operational	532	52	77
C1 – C2 Technical Specialist	511	51	57
C3 – C5 Senior Supervisory/ Specialist	550	39	34
D1 – D3 Middle Management/ Senior Specialist	449	33	42
D4 – D5 Senior Management / Advanced Specialist	91	18	51
E1 – E2 General Management / Professional	31	32	92
E3 – E5 Executive Management	8	13	86
F1 – F2 CEO	1	0	100
<b>Total</b>	<b>2,345</b>	<b>43</b>	<b>57</b>



## Chief Executive Officer's Report (Cont.)

### ***Training-and-Development and the Gender Agenda***

Training and development continues to be a major focus area both in terms of the development of our own employees and the broader programme of building ICT capacity in the country.

As the year under review involved major restructuring in the organisation, it was thought prudent that we approach training expenditure conservatively pending completion of the process. As a consequence just over R12 million was spent on our own staff and on interns participating in the Youth Internship Programme.

We took the first definitive steps towards redressing the gender imbalance with the launch of the SITA Executive Women's Development programme, which is carried out in partnership with the University of Pretoria's Gordon Institute of Business Science. A mentoring programme for female employees was also launched, which includes, among other activities, networking events that feature inspirational guest speakers, and a

golf development programme.

The development and empowerment of women in the workplace has been made the responsibility of every executive and is included in their performance contracts and in the organisation's Balanced Scorecard.

### ***Employee Well-Being***

Following the approval of our employee assistance programme, an external service provider was contracted to provide a critical service to our employees. These services include a range of interventions such as: clinical counselling for stress, anxiety, HIV/Aids, trauma, marital and relationship hardships, and work-related problems. The service is particularly relevant given the stress that the organisation underwent in the course of restructuring.

### ***SITA Retirement Fund***

The Board of Directors approved the establishment of the SITA Retirement Fund under the Alexander Forbes umbrella fund. This is a defined contribution fund that commenced on 1 April 2005.

## ***7. The Youth Internship Programme***

The Youth Internship Programme, established in 2003 with a 4-year plan that will take it to 2007, had two intakes in the financial year, totalling 124 interns in all. The programme's target is to train some 1000 interns by 2007, focussing on the development of IT skills and workplace skills of young unemployed IT



graduates between the ages of 18 and 35. It is hoped that graduates can be persuaded to go back to their provinces after training to build the capacity of the provincial and local Government structures.

Of the 124 interns trained in the period under review, 86 were female and 38 male, one of whom was disabled.

The Youth Internship Programme (YIP) plans to exceed the target of a minimum of 54% trained female interns by 2007. The percentage of female interns who have profited from the programme to date has reached 55.7%. In all, 86% of the 1000 targeted YIP beneficiaries should be Historically Disadvantaged Individuals.

## 8. Acknowledgements

We have concluded one of the most exciting, if challenging, years in the five-year history of the organisation. At the best of times, fundamental changes to the status quo have an unsettling and sometimes downright demoralising effect on employees. Management is grateful to all the SITAzens who not just endured the challenges attendant to the transformative processes that took place in the past year but actively participated in bringing such changes to fruition. My colleagues on the executive put in exceptionally long hours and displayed the requisite resolve to make Tswelopele work. Chairperson Zodwa Manase and her colleagues on the Board provided the kind of supportive oversight that

guided management through the tough times. Finally, we thank Minister Geraldine Fraser-Moleketi for her support and confidence in our ability to pull the organisation through, especially during our highly publicised trying times. That faith in us has given the organisation the space to make what many consider to be a significant recovery.

**Mr Mavuso Msimang**  
*Chief Executive Officer*  
21 July 2005

# SITA's Executive Management Committee (EXCO)



**Mr. Mavuso Msimang**

*Chief Executive Officer*

BSc-Entomology/Biology  
MBA-Project Management



**Mr. Solomon Ngubane**

*Executive Assistant, CEO's Office*

BA Degree-Physics,  
Computer Science and  
Mathematics



**Mr. Khulekani Buthelezi**

*Executive: Chief Audit*

BCom in Accounting Degree  
Diploma in Accounting (ACCA)



**Ms. Noedine Isaacs-Mpulo**

*Executive: Corporate Services*

BSc Honours - Computer  
Information Systems



**Mr. Fantas Mobu**

*Executive: Procurement*

BTech Degree:  
Public Management  
National Diploma:  
Public Administration



**Mr. Jonas Bogoshi**

*Executive: Client Services*

BSc Computer Science



**Mr. Anthon Meyer**

*Acting Chief  
Financial Officer*

BCompt  
BCompt Honours  
CTA  
CA (SA)



**Ms. Theresa Geldenhuys**

*Company Secretary*

BCompt Honours  
Higher Diploma Tax  
CPA  
FIAC  
FICB  
AGA (SA)



**Mr. Vusi Magagula**

*Chief Information  
Officer*

Diploma: Information  
Technology  
Certification: Level 1+



**Mr. Joe Mazibuko**

*Executive:  
Professional Services*

Master of Science  
Degree: Engineering  
Business Management



**Mr. Philly Motsepe**

*Executive:  
Infrastructure Services*

BSc Computer Science

# 2004/05 Business Performance

## 1. Radically improve service delivery to clients

Performance Objective	Expected performance/ activities	Results
<b>I. The Procurement Environment</b>		
A. Restructured Information Technology Acquisition Centre (ITAC), supply chain management principles implemented and tenders awarded expeditiously to the satisfaction of clients.	<ul style="list-style-type: none"> <li>Procurement management function to be re-organised and new leadership brought in.</li> <li>Procurement procedures and processes to be streamlined and SITA's internal procurement procedures and policy to be developed.</li> <li>Seat Management Services (SMS) tender to be awarded.</li> </ul>	<p><i>Achieved &gt;80%</i></p> <ul style="list-style-type: none"> <li>ITAC reorganised and top-level appointments made; tender evaluation committee, supplier selection board and supplier selection authority reorganised, with the latter being phased out;</li> <li>SITA Regulations drawn up with substantial SITA and Government Information Technology Officers Council (GITOC) input; mandate to award tenders clearly defined as belonging to Accounting Officer; tender backlog substantially cleared and average tender award reduced by more than 50%.</li> <li>SMS tender awarded, although after several delays.</li> </ul>
<b>II. The mainframe infrastructure environment</b>		
A. Maintenance of a data processing capability to meet Government requirements.	<ul style="list-style-type: none"> <li>Assign and manage dedicated resources to meet signed service level agreements.</li> </ul>	<ul style="list-style-type: none"> <li>Availability targets of 98% were met on the entire data processing infrastructure with no penalties incurred during the reporting year. This was achieved despite an increase in the workloads that had not been forecasted by clients.</li> </ul>
B. Operation of a cost-effective data processing operation resulting in reduced costs for Government.	<ul style="list-style-type: none"> <li>Embark on cost-saving strategies through appropriate deployment and pricing strategies.</li> <li>Negotiate software enterprise agreements with suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>The objective was achieved and surpassed with a resultant saving in excess of R200 million. Tariffs levied on the IBM mainframe technology platforms were accordingly reduced.</li> <li>Number of enterprise agreements were concluded for the use of system software and equipment maintenance. A saving of R61 million had been planned for originally.</li> </ul>



Performance Objective	Expected performance/ activities	Results
C. Consolidation of the mainframe infrastructure to achieve economies of scale.	<ul style="list-style-type: none"> <li>Consolidate Bisho mainframe workload together with the Ulundi Data Centre workload onto the mainframe in Pietermaritzburg by March 2005.</li> </ul>	<ul style="list-style-type: none"> <li>The project was completed before the end of December 2004 resulting in significant savings to SITA.</li> </ul>
D. Establishment of a baseline Disaster Recovery infrastructure in support of the State Attorney and Court Policy System, and management of the Justice Deposit Account application systems on behalf of the Department of Justice.	<ul style="list-style-type: none"> <li>Undertake completion by December 2004 of a system for the recovery of the State Attorney Policy system and that of the Justice Deposit Account System within a four-hour framework after the declaration of a disaster.</li> </ul>	<ul style="list-style-type: none"> <li>Disaster Recovery tests were concluded as planned to ensure compliance with the expected results.</li> </ul>
E. SITA's operational infrastructure is effectively maintained.	<ul style="list-style-type: none"> <li>Develop an appropriate strategy focusing on the retention of skills and the training of personnel in the operation of the technology.</li> </ul>	<ul style="list-style-type: none"> <li>Strategy not fully implemented due to restructuring. It is however due for completion in the next financial year. The objective of maintaining requisite service levels throughout the financial year were achieved despite a number of staff taking Voluntary Severance Packages. High uptime availability figures were achieved on the respective application systems.</li> </ul>
F. Expansion of SITA's services to other African countries as part of the NEPAD initiative.	<ul style="list-style-type: none"> <li>Market and promote the capabilities of SITA's printing infrastructure for scale operations.</li> </ul>	<ul style="list-style-type: none"> <li>2004 Matriculation examination papers were printed for the Zimbabwe Government. We also participated in printing Tanzanian ballot papers for their national elections.</li> </ul>

## 2004/05 Business Performance (Cont.)

Performance Objective	Expected performance/ activities	Results
<b>III. The Networks Environment</b>		
A. Improved network performance on the GCCN as well as improved internet access.	<ul style="list-style-type: none"> <li>Redesign network to input Intrusion Detection Systems and Intrusion Prevention Systems (IDS/IPS).</li> <li>Redesign the network to make it more scalable using multi-protection layer switch (MPLS) technology.</li> <li>Position SITA as a virtual one tier Internet Service Provider (ISP) with guaranteed bandwidth in-country and abroad.</li> </ul>	<p>60% achieved.</p> <ul style="list-style-type: none"> <li>A tender for the IDS/IPS solution, including the incorporation of the MPLS, was awarded and project implementation started as scheduled.</li> <li>It is due for completion by August 2005.</li> <li>The tender for the ISP will be awarded by July 2005.</li> </ul>
<b>IV. The Professional Services Environment</b>		
A. Development and implementation of a Service Management Framework.	<ul style="list-style-type: none"> <li>Consolidate all projects under a single Project Office and enforce SITA-approved project management methodologies and standards.</li> <li>Investigate the adoption of Information Technology Infrastructure Library (ITIL) as a possible service management framework.</li> </ul>	<ul style="list-style-type: none"> <li>About 50% achieved. All projects now registered and managed from Project Management Office.</li> <li>ITIL adopted with implementation due to commence in the middle of the next financial year</li> </ul>
<b>V. The Client Services (CS) Environment</b>		
A. Restructured business unit for effective client interface.	<ul style="list-style-type: none"> <li>Develop and implement a new SITA operating model with CS made point of contact with government departments.</li> <li>Develop a more efficient customer-engagement model with focus on inadequately serviced larger departments.</li> <li>Retrain Account Managers, emphasise service management, sales, etc.</li> </ul>	<p>Overall achievement: 60%</p> <ul style="list-style-type: none"> <li>New model is now in place and will become fully operational in next financial year.</li> <li>New customer engagement model developed in collaboration with the Department of Defence and is due for implementation in next financial year.</li> <li>The training programme will start next year.</li> </ul>





## 2. Prioritise projects that help Government deliver services to citizens

Performance Objective	Expected performance/ activities	Results
<b><i>I. Use wireless and mobile technologies for ICT solutions in the Department of Home Affairs environment</i></b>		
A. Pilot an SMS query and notification project where citizens can check on their marital status.	<ul style="list-style-type: none"> <li>Contract small BEE ICT entrepreneurs and use wireless and mobile technology to achieve results.</li> </ul>	<ul style="list-style-type: none"> <li>Pilot successful. Answer to queries given within 10 seconds.</li> </ul>
B. Carry out a pilot project to enable passport applicants to obtain information on passport readiness. Using Human Language Technology (HTL) facilitate inquiries in citizen's own languages. Facilitate use of voice for the visually impaired.	<ul style="list-style-type: none"> <li>Work in conjunction with small BEE to achieve objective.</li> </ul>	<ul style="list-style-type: none"> <li>Good progress being made. Project to be completed by August 2005.</li> </ul>
<b><i>II. Use wireless and mobile technologies for ICT solutions in the Department of Health environment</i></b>		
A. Carry out a pilot project to enhance the work of health practitioners.	<ul style="list-style-type: none"> <li>Work with BEE company to find solutions that can assist doctors and nurses, through interactive real time transactions, register patients and track their histories; also to obtain blood test results from National Laboratory Services.</li> </ul>	<ul style="list-style-type: none"> <li>Pilot has been successfully done and completed.</li> </ul>
B. Carry out a pilot project to facilitate patient referral between district hospitals and feeder clinics.	<ul style="list-style-type: none"> <li>Work in conjunction with BEE small entrepreneurial company to pilot the project in Brits in the North West Province.</li> </ul>	<ul style="list-style-type: none"> <li>Project is in progress and due for completion by August 2005. It has been very well received by the health professionals who are currently battling to adequately attend to referrals.</li> </ul>

## 2004/05 Business Performance (Cont.)

Performance Objective	Expected performance/ activities	Results
<b>III. Support the Department of Social Development</b>		
A. Federate different data bases in order to reconcile and information contained therein.	<ul style="list-style-type: none"> <li>Put together a project team comprising established private sector operator and BEE partners and use data mining, data federation and related analytical tools to; (Phase 1) interrogate data on the data bases and identify any gaps in the system. Phase 2 to assess and physically cleanse data.</li> </ul>	<ul style="list-style-type: none"> <li>Phase 1 is 95% complete with much progress in the identification of corrupt data in the system; the removal of redundant data and the stabilization of the system.</li> </ul>
<b>IV. Support the Department of Provincial and Local Government</b>		
B. In support of Project Consolidate, develop an Integrated Development Programme Nerve Centre with the view to aligning and obtaining a "helicopter view" development plans in all the spheres of government.	<ul style="list-style-type: none"> <li>Collaborate with CSIR and start pilot work in North West Province and roll programme out to the rest of the country.</li> </ul>	<ul style="list-style-type: none"> <li>After overcoming start-up problems Project Charter and Plan approved, training done, data input done and implementation has commenced in North West Province. Training has been done in Western Cape and Mpumalanga; Project Charter has been approved in Limpopo. The rest of the provinces are still in the first stage at time of reporting.</li> </ul>



### 3. Implement strategies that enhance people management and performance

Performance Objective	Expected performance/ activities	Results
A. The creation of a climate and policies that lead to improved job performance.	<ul style="list-style-type: none"> <li>Carry out a skills audit, grade jobs and prepare a performance management policy.</li> </ul>	<ul style="list-style-type: none"> <li>All the tasks completed and now operational.</li> </ul>
B. Well researched recruitment and placement strategies.	<ul style="list-style-type: none"> <li>Develop and implement progressive strategies for the identification, placement and remuneration of staff.</li> </ul>	<ul style="list-style-type: none"> <li>Strategies approved by the Board and are now operational.</li> </ul>
C. A vibrant training and development programme for employees in the organisation.	<ul style="list-style-type: none"> <li>Engage in internal and external consultative processes to put in place a sound training programme for employees at all levels and to identify growth and development opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Training programmes instituted and maintained for all levels of the company, including two new programmes - the Executive Women's Development Programme, and the Executive Development Programme.</li> </ul>
D. Development and implementation of a gender policy.	<ul style="list-style-type: none"> <li>Canvass views and expert opinion on Gender strategy and policy development and carry out training programmes.</li> </ul>	<p><i>In progress</i></p> <ul style="list-style-type: none"> <li>Policy approved by Board and implemented for all staff. Interim and final processes in place.</li> </ul>



## 2004/05 Business Performance (Cont.)

### 4. Overhaul internal and external communication to improve transparency, visibility and image.

Performance Objective	Expected performance/ activities	Results
<b><i>I. Setting up and implementing a comprehensive internal communication processes</i></b>		
A. Creation of a vibrant communication regime with employees and members of the Board of Directors.	<ul style="list-style-type: none"> <li>Consult employees to identify organisational and management communication issues; organise communications department; develop communication strategies media;</li> <li>Roll out the communication strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Extensive consultations carried out, a communication unit was established and strategies developed and carried out. The department experienced resignations, compromising the strategic objective</li> <li>The intranet was extensively used to communicate organisational policies developed, EXCO resolutions and decisions, CEO communiqués and other announcements of interest. Billboards and intranet used to highlight campaigns such as The Fraud and Ethics Hotlines, HIV/AIDS bulletins and Employee Wellbeing issues; SITA News with editorials, feature columns used as well as readers' letters page published monthly.</li> <li>There was a vast improvement in the quality of Board documentation.</li> <li>Overall great strides made and a successful campaign.</li> </ul>
<b><i>II. Communicating with SITA's Government clients</i></b>		
A. Structured communication with Government departments at national and provincial levels.	<ul style="list-style-type: none"> <li>Develop and implement a programme for regularly communicating with the Minister for Public Service and Administration, other relevant Ministers, senior government officials and the GITOC.</li> </ul>	<ul style="list-style-type: none"> <li>Regular meetings were held with the Minister, the sole shareholder representative. This included a couple of SITA appearances before Governance and Administration Cabinet Committees as well as meetings with selected Ministers and their officials. After a lacklustre start, SITA participated fully in GITOC meetings and invited the latter to its own meetings.</li> </ul>



Performance Objective	Expected performance/ activities	Results
<p>B. Parliamentarians, especially the Portfolio Committees of Public Service and Administration and that of Safety and Security to be fully briefed on developments within and others affecting the organisation.</p>	<ul style="list-style-type: none"> <li>Develop a programme and prepare detailed briefings, including power point presentations for parliamentarians.</li> </ul>	<ul style="list-style-type: none"> <li>Well prepared briefings were provided to parliament.</li> </ul>
<p><b>III. Communicating with the public through the media</b></p>		
<p>A. To keep stakeholders informed about Tswelopele, the turnaround strategy</p>	<ul style="list-style-type: none"> <li>Give regular briefings for, and interviews to, the electronic, broadcast and print media;</li> <li>Write articles for publication and do promotional work.</li> </ul>	<ul style="list-style-type: none"> <li>The media strategy was carried out effectively in the first eight months of the year but it faltered with the resignation of two key staff members. Achievements include wide neutral-favourable media coverage on the organisation's performance. Good front-page coverage in respected national publications achieved. There was also good turnaround exposure in professional ICT-sector journals.</li> <li>A number of golf events were staged to provide face-to-face opportunities with clients.</li> </ul>
<p>B. To have an ICT sector that is well-informed, aligned to, and supportive of, SITA strategic objectives.</p>	<ul style="list-style-type: none"> <li>Brief established and emergent ICT players on the turnaround plans and positioning of SITA with respect to the procurement of products and services and also on its role in advising Government on ICT strategies.</li> </ul>	<ul style="list-style-type: none"> <li>Briefings on and off site were conducted; SITA executives and other staff also addressed numerous BEE workshops and meetings, sometimes giving keynote addresses. Good progress was achieved.</li> </ul>

## 2004/05 Business Performance (Cont.)

Performance Objective	Expected performance/ activities	Results
<b>IV. Communicating with the ICT industry and other sector players</b>		
A. Development and implementation of new operating model for SITA.	<ul style="list-style-type: none"> <li>Operating model developed, approved and implemented across the company.</li> </ul>	<p><i>Achieved</i></p> <ul style="list-style-type: none"> <li>All restructuring finalised and all new structures posted on the intranet.</li> </ul>
B. Promoting an integrated risk management culture within SITA.	<ul style="list-style-type: none"> <li>Create an awareness and promotion of risk management culture within SITA.</li> </ul>	<p><i>Achieved</i></p> <ul style="list-style-type: none"> <li>Risk management awareness presentation held in all SITA regional offices.</li> </ul>
C. Implementation of an Enterprise Risk Management (ERM) Plan and a Risk Profile for SITA.	<ul style="list-style-type: none"> <li>Development of risk management strategy and approval by EXCO.</li> <li>To conduct Risk Management awareness presentations to the entire company.</li> <li>Conduct strategic risk assessment.</li> </ul>	<p><i>Achieved</i></p> <ul style="list-style-type: none"> <li>Risk management strategy has been developed.</li> <li>Risk Management awareness presentations held at the regions.</li> <li>Strategic risk assessment performed and aligned high level risk mitigation strategies.</li> </ul>

## 5. Building an appropriate organisational structure

Performance Objective	Expected performance/ activities	Results
<b>I. Develop a new operating model to bring about efficiencies and cost-effectiveness</b>		
A. The realisation of an organisational structure that is suited to new strategy.	<ul style="list-style-type: none"> <li>Conduct workshops with relevant stakeholders to bring about an appropriate organisational structure.</li> </ul>	<ul style="list-style-type: none"> <li>A new structure that replaced the old divisions of SITA C, D and E was developed. The result was the reorganization of client services, mainframe management and professional services into consolidated units.</li> <li>A new Provincial and Local Government model implemented. Focus and cost-savings are being realised.</li> </ul>



Performance Objective	Expected performance/ activities	Results
<b>II. Remodel Client Services (CS) Environment</b>		
A. Restructured business unit for effective client interface.	<ul style="list-style-type: none"> <li>• Develop and implement a new SITA operating model with CS made point of contact with Government departments.</li> <li>• Develop a more efficient customer-engagement model with focus on inadequately serviced larger departments.</li> <li>• Retrain Account Managers, emphasise service management, sales, etc.</li> </ul>	<p>Overall achievement: 60%</p> <ul style="list-style-type: none"> <li>• New model is now in place and will become fully operational in next financial year.</li> <li>• New customer engagement developed in collaboration with the Department of Defence is due for implementation in next financial year.</li> <li>• The training programme will start next year.</li> </ul>

## 6. Managing operations in a financially sustainable manner

Performance Objective	Expected performance/ activities	Results
A. Achievement of good annual results with respect to gross profit margins, cash flow and debtors' book management and net profitability while delivering quality service to clients.	<ul style="list-style-type: none"> <li>• Institute stringent budget, cost and cash flow management. Ensure timely invoicing to manage debtors.</li> </ul>	<ul style="list-style-type: none"> <li>• Good results achieved as shown in appropriate section of the Annual Report. Achieved 18.3% gross profit margin and profit before tax was R88.6 million.</li> </ul>
B. Development of a costing/pricing and funding model for the organisation. The development of a multi-year Business Plan that incorporates financial viability in line with the 3-year Business Plan.	<ul style="list-style-type: none"> <li>• Set up terms of reference for the exercise, consult with stakeholders and appoint a team to complete the project within the financial year.</li> <li>• Develop a business model for viable business operations.</li> </ul>	<ul style="list-style-type: none"> <li>• The project took a while to get off the ground but the draft was ready for approval by the Board on 21 April 2005. Implementation will take place in the new financial year after consultations with National Treasury and other stakeholders.</li> <li>• A Business model currently under development to guide SITA's business development and implementation strategy.</li> </ul>

# Corporate Governance

## Introduction

---

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

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

Compliance, not only with the letter, but also 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

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

## Shareholder Compact

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In terms of the Treasury Regulations issued in accordance with the PFMA, SITA must, in consultation with its executive authority (the Minister for 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 (Board) and the executive authority.

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







## Governing Bodies

### BOARD OF DIRECTORS

#### Composition of the Board

The details of the directors appear on page 8.

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

The Articles of Association of SITA provide that the shareholder shall, after consultation with the Board, appoint the chairman, chief executive and non-executive directors of the company. The executive directors are appointed by the Board, after consultation with the shareholder.

Cabinet has approved the appointment of two additional non-executive directors and the appointment of the chief executive as managing director and the chief financial officer as an executive director. These appointments become effective on registration by the Registrar of Companies.

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 at board meetings is reflected below:

Members	Attendance
ZP Manase (Chairperson)	6
LA Abrahams	4
R Barjaktarevic <sup>1</sup>	2
P Els <sup>1</sup>	4
L Gcabashe	4
CCW Kruger	6
R Levin <sup>1</sup>	1
M Msimang <sup>1</sup>	5
M Roussos	5
SP Sibisi	5
<b>(Meetings held: 6)</b>	
	<i>1 – By invitation</i>

#### 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;



## Corporate Governance (Cont.)

- 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; and
- Approving transactions beyond the authority of management.

### ***Delegation of authority***

The Board retains full and effective control over the operations of the organisation. This responsibility is facilitated by a well developed governance structure comprising various Board committees and a Delegation of Authority Framework. The delegation framework assists in the control of the 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 contribution to the Board and the committees on which they serve. The shareholder determines fees after consultation with National Treasury who determines the rate. Non-executive directors are also reimbursed for out-of-pocket expenses incurred on the company's behalf.

Further information on directors' remuneration appears on pages 100 to 103.

### ***Company Secretarial Function***

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

The company secretary, together with other assurance functions, 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. All the committees, except for the Executive Management Committee (EXCO), comprise non-executive directors and independent members.

**Audit and Risk Committee**

The Audit and Risk Committee comprises a non-executive director and three external members, one of whom is the chairperson 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.

The committee also reviews the adequacy and overall effectiveness of the company's risk management strategy, policy and procedures,

function of risk management and the implementation by management of internal risk control and risk recommendations, and confirms that appropriate actions have been taken.

Four committee meetings were held during the financial year. These were attended by the external auditors, Chief Executive Officer, 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 was as follows:

<b>Members</b>	<b>Attendance</b>
Y Kwinana (Chairperson)	3
J Grundling	3
B Kgomo	3
CCW Kruger	3
<b>(Meetings held: 4)</b>	

## Corporate Governance (Cont.)

### **Chairpersons' Committee**

The Chairpersons' Committee comprises three 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 follows up on decisions and actions from Board meetings.

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

<b>Members</b>	<b>Attendance</b>
ZP Manase (Chairperson)	2
L Gcabashe	2
CCW Kruger	2
Y Kwinana	1
L Mthembu	1
<b>(Meetings held: 2)</b>	

### **Finance and Capex Committee**

The Finance and Capex Committee comprises two non-executive directors, one of whom is the chairperson of the committee, and two external members.

The committee reviews the business plans and budgets of the company and monitors compliance thereof. It is responsible for monitoring the extent of compliance with gearing and lending ratios and makes recommendations to the Board regarding SITA's investment strategy. It evaluates and approves business cases for new ventures or projects, monitors and oversees the managing of capital expenditure and approves criteria and guidelines for investments and has the authority to approve investments within its delegated authority.

The committee considers other topics as determined by the Board and reviews costing and pricing models and applicable accounting procedures and systems.

One committee meeting was held during the financial year. This was attended by the Chief Executive Officer, the Executive: Finance and Administration, the Chief Audit Executive and other relevant corporate officials. The attendance of members at committee meetings was as follows:

<b>Members</b>	<b>Attendance</b>
CCW Kruger (Chairperson)	1
C Gassiep <sup>1</sup>	1
F Jakoet <sup>1X</sup>	0
M Roussos <sup>1</sup>	1
<b>(Meetings held: 1)</b>	
<i>1 – Appointed 15 July 2004</i>	
<i>X – Resigned October 2004</i>	



**Human Resources and Remuneration Committee**

The Human Resources and Remuneration Committee comprises three non-executive directors, two external members and the Chief Executive Officer. It is chaired by an independent non-executive 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; and
- recommends to the Board specific remuneration packages for executive management.

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

<b>Members</b>	<b>Attendance</b>
L Gcabashe (Chairperson)	4
LA Abrahams	3
ZP Manase	3
L Mbete	2
T Orleyn	2
<b>(Meetings held: 4)</b>	

**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 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 procurement are complied with and that procurement benefits Government and improves service delivery. This is achieved through:

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

It is underpinned by:

- IT Security;
- the elimination of duplication;

## Corporate Governance (Cont.)

- 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.

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

Members	Attendance
L Mthembu (Chairperson)	35
N Malamla <sup>1</sup>	41
I Mamoojee <sup>1</sup>	30
P Monyeki <sup>1</sup>	18
S Sakawuli <sup>1</sup>	44
<b>(Meetings held: 47)</b> 1 - Contract extended to 30 June 2005	

### 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 Officer and all Executives and corporate officials attend the meetings.

The committee is responsible for guiding and leading the strategic direction of SITA and the

implementation thereof. Its role is to:

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

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

Members	Attendance
ZP Manase (Chairperson)	2
LA Abrahams <sup>1</sup>	2
M Roussos	2
SP Sibisi <sup>1</sup>	1
CCW Kruger <sup>1</sup>	1
L Gcabashe <sup>1</sup>	0
<b>(Meetings held: 2)</b> 1 - By invitation	

### Executive Management Committee (EXCO)

EXCO 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 EXCO members appears on pages 26 to 27.

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



Twelve committee meetings were held during the financial year. A strategic planning workshop was held from 27 February to 1 March 2005. The attendance of members at these meetings is reflected below:

<b>Members</b>	<b>Attendance</b>
M Msimang (Chairperson)	<b>12</b>
J Bogoshi <sup>1</sup>	<b>7</b>
K Buthelezi	<b>10</b>
P Els	<b>10</b>
T Geldenhuys <sup>2</sup>	<b>10</b>
N Isaacs-Mpulo	<b>12</b>
V Magagula <sup>3</sup>	<b>9</b>
H Fouche <sup>4</sup>	<b>4</b>
J Mazibuko <sup>5</sup>	<b>9</b>
F Mobu <sup>6</sup>	<b>9</b>
M Mojapelo <sup>7</sup>	<b>6</b>
P Motsepe <sup>8</sup>	<b>8</b>
S Ngubane	<b>12</b>
D Ramahotswa <sup>9</sup>	<b>0</b>
Z Serepo <sup>10</sup>	<b>2</b>

**(Meetings held: 12)**

- 1 – Appointed 1 August 2004
- 2 – Appointed 1 April 2004
- 3 – Appointed 1 July 2004
- 4 – Withdrawn from EXCO 16 July 2004
- 5 – Appointed 1 July 2004
- 6 – Appointed 1 July 2004
- 7 – Resigned 15 July 2004
- 8 – Appointed 1 August 2004
- 9 – Resigned 30 June 2004
- 10 – Resigned 31 May 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.



## Corporate Governance (Cont.)

### 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, structures 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 and Risk Committee and management with the assurance that the internal controls are appropriate and effective. This is achieved by means of an independent objective appraisal and evaluation of the risk management processes, internal controls and governance processes as well as by identifying corrective actions and suggested enhancements to the controls and processes. The risk based audit plan is based on the major risks emanating from SITA's internal risk

management process. The audit plan is responsive to changes in SITA's profile.

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

The 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

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

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

### Reporting to Stakeholders

---

In order to present a balanced and understandable assessment of its position, SITA is continuously striving to ensure that reporting and disclosure to stakeholders are relevant, clear and effective. It places great







emphasis on addressing both positive and negative aspects in order to demonstrate the long-term sustainability of the organisation. The King II Report is used in compiling the annual report.

## Stakeholder Relations

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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 is ongoing during the year and are addressed through various channels depending on the different needs of the various stakeholders.

# Materiality and Significance Framework

The framework of acceptable levels of materiality and significance applied during the financial year, that has been accurate with the Executive Authority is as follows:

## Public Finance Management Act (PFMA)

SECTION	REQUIREMENT	MATERIAL
Section 50(1)	<p>the accounting authority for a public entity must –</p> <p>(c) on request, disclose to the executive authority responsible for that public entity or the legislature to which the public entity is accountable, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the executive authority or that legislature.</p>	<p>SITA reports formally on a quarterly basis to the executive authority where in any incident of non-compliance with the provisions of the PFMA, the SITA Act, the Treasury Regulations, GAAP, King II and any other applicable legislation are reported.</p> <p>All deviations which are considered material by the external auditors are disclosed in terms of section 50 (1) (c).</p>
Section 54(2)	<p>Before a public entity concludes any of the following transactions, the accounting authority for the public entity must promptly and in writing inform the relevant treasury of the transaction and submit relevant particulars of the transaction to its executive authority for approval of the transaction :</p> <p>(a) establishment or participation in the establishment of a company;</p> <p>(b) participation in a significant partnership, trust, unincorporated joint venture or similar arrangement;</p> <p>(c) acquisition or disposal of a significant shareholding in a company;</p>	<p>The significance of transactions covered by Section 54(2) are determined by reference to SITA's Delegation of Authority approved by SITA's Board of Directors.</p> <p>(a) All similar transactions will be subjected to the provisions of section 54(2).</p> <p>(b) Any transaction in excess of R20m shall be considered material and subjected to section 54(2).</p> <p>(c) All similar transactions will be subjected to the provisions of section 54(2).</p>



<b>SECTION</b>	<b>REQUIREMENT</b>	<b>MATERIAL</b>
Section 54(2) (cont.)	<p>(d) acquisition or disposal of a significant asset;</p> <p>(e) commencement or cessation of a significant business activity; and</p> <p>(f) a significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement.</p>	<p>(d) Any acquisition or disposal of an asset in excess of R20m shall be considered material and subjected to section 54(2).</p> <p>(e) All similar transactions will be subjected to the provisions of section 54(2).</p> <p>(f) Any transaction in excess of R20m shall be considered material and subjected to section 54(2).</p>
Section 55(2)	<p>The annual report and financial statements referred to in subsection 55(1)(d) must –</p> <p>(b) include particulars of –</p> <p>(i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year;</p> <p>(ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure;</p> <p>(iii) any losses recovered or written off;</p> <p>(iv) any financial assistance received from the state and commitments made by the state on its behalf; and</p>	<p>(i) All losses arising from criminal conduct are considered to be material and are reported in accordance with section 55(2).</p> <p>(ii) Any loss in excess of R2.6m (0.1% of revenue) arising from irregular, fruitless and wasteful expenditure is considered to be material and reported in accordance with section 55(2).</p> <p>(iii) Refer (i) above.</p> <p>(iv) Are disclosed as prescribed.</p>

## Materiality and Significance Framework (Cont.)

<b>SECTION</b>	<b>REQUIREMENT</b>	<b>MATERIAL</b>
Section 55(2) (cont.)	(v) any other matters that may be prescribed (c) include the financial statements of any subsidiaries.	(v) Are disclosed as prescribed. (c) All subsidiaries are consolidated.
Section 66(1)(a)	An institution to which the PFMA applies may not borrow money or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind that institution or the Revenue Fund to any future financial commitment, unless such borrowing, guarantee, indemnity, security or other transaction is authorised by the PFMA.	SITA complies with this section
Section 66(3)(c)	The public entity may only borrow money, or issue a guarantee, indemnity or security, or enter into any other transaction that binds or may bind the public entity to any future financial commitment, through the Minister, or in the case of the issue of a guarantee, indemnity or security, the Cabinet member who is the executive authority responsible for that public entity, acting with the concurrence of the Minister in terms of section 70.	SITA complies with this section

# Annual Financial Statements

for the financial year ended 31 March 2005



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<b>State Information Technology Agency (Proprietary) Limited</b>	



# Report of the Audit Committee

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

The Audit and Risk Committee reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter 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 and Risk 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; and
- The independence and objectivity of the external auditors.

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 and Risk Committee, still require further attention, as reported by SITA Group Audit Services and which were also emphasised by the external auditors:

- Information Security Systems Management;
- Procurement processes and procedures;
- Contracting houses and contractors; and
- Management of service level agreements.

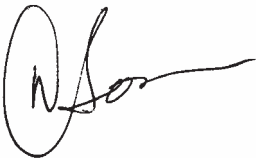
The Audit and Risk Committee has evaluated the annual financial statements of SITA (Pty) Ltd for the year ended 31 March 2005 and based on the information provided to the Audit and Risk Committee, considers that it complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended and the Public Finance Management Act, 1 of 1999, as amended and the SITA Act, 1998

The Audit and Risk Committee is of the opinion,



# Certificate by Company Secretary

(Act No 88 of 1998), as amended and the South African Statements of Generally Accepted Accounting Practice. The Audit and Risk Committee concurs that the adoption of the going concern premise in the preparation of the annual financial statements is appropriate. At its meeting held on 20 July 2005, the Audit and Risk Committee recommended the adoption of the annual financial statements by the Board of Directors.



**Ms Y KWINANA**

*Chairperson*

20 July 2005

**AUDIT COMMITTEE MEMBERS:**

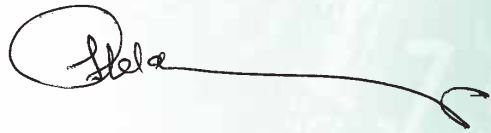
Ms Y Kwinana (Chairperson)

Mr CCW Kruger

Mr B Kgomo

Mr J Grundling

I, Theresa Victoria Geldenhuys, in my capacity as Company Secretary of SITA (Pty) Ltd, hereby certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies all such returns as are required of it in terms of the Companies Act, 61 of 1973, and all such returns are true, correct and up to date.



**Ms Theresa Victoria Geldenhuys**

*SITA Company Secretary*

31 March 2005



# Statement of Responsibility by the Board of Directors

The Directors of the company are responsible for the preparation of the annual financial statements of the company, to maintain a sound system of internal control and to safeguard the shareholder's investment and the company's assets. 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 2006, 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 55. Against this background, the Directors of the company accept responsibility for the annual financial statements, which were approved by the Board of Directors on 21 July 2005 and are signed on its behalf by:

**Ms Zodwa Manase**

*Chairperson: SITA Board of Directors*

**Mr M Msimang**

*Chief Executive Officer*





# Report of the Auditor-General to Parliament



A U D I T O R - G E N E R A L

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE STATE INFORMATION TECHNOLOGY AGENCY (PROPRIETARY) LIMITED (SITA) FOR THE YEAR ENDED 31 MARCH 2005

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 57 to 103, for the year ended 31 March 2005, 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 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 16(9) of the State Information Technology Agency Act, 1998 (Act No. 88 of 1998) and the Companies Act of South Africa, 1973 (Act No. 61 of 1973). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. 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.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005. 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 2005 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 of South Africa, 1973 and the Public Finance Management Act, 1999 (Act No. 1 of 1999).

### 4. EMPHASIS OF MATTER

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

# Report of the Auditor-General to Parliament (Cont.)



AUDITOR - GENERAL

## **4.1 Fixed Assets and related costs**

Although the transfer of the Numerus and Beta properties has not been finalised, SITA has recorded the properties in the accounting records and fixed asset register. SITA has signed transfer agreements with the National Department of Public Works for the transfer of the properties into SITA's name. The book values of the properties at year end amounted to R21.4 million. Further particulars of this matter are disclosed in note 2.2 to the financial statements and in the Directors' report.

## **4.2 Irregular, Fruitless and Wasteful expenditure**

SITA has reported irregular, fruitless and wasteful expenditure, some of which was incurred in prior years. The particulars of the irregular expenditure amounting to R 130.2 million (2004: R40 million) and fruitless and wasteful expenditure of R 22.9 million (2004: R nil) is reported in note 21 of the annual financial statements. These expenditure items were due to a combination of non-compliance with SITA procurement policies and procedures, and inadequate project management processes. Disciplinary measures have been initiated and/or are in the process of being initiated against SITA employees implicated in all the irregular, fruitless and wasteful expenditure reported on in note 21 of the annual financial statements.

## **4.3 Internal Controls**

With reference to the Directors' report, the audit for the year under review confirmed internal control weaknesses in certain areas.

Although these deficiencies in internal controls do not affect the fair presentation of the financial statements, they need to be improved in order to reduce the risk and improve efficiencies. These deficiencies were reported to management and the Audit and Risk Committee for corrective action in the following areas:

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

## **4.4. Performance Audit**

As indicated during the hearing of the Standing Committee on Public Accounts (SCOPA) held on 8 March 2005, I intend carrying out a performance audit on service level agreements between SITA and its stakeholders. The outcome of the audit will be reported on.

## **5. APPRECIATION**

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

*S. A. Fake*

Auditor-General  
Pretoria  
31 July 2005



AUDITOR - GENERAL

# Directors Report

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the State Information Technology Agency (Pty) Ltd (SITA) for the year ended 31 March 2005. This report and the audited annual financial statements comply with the requirement 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 acts 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 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 HDI's 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. 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



## Directors Report (Cont.)

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's Mission and Objectives

#### **Mission**

SITA is committed to equipping the South African government with the IT means to effectively fulfill 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 (6) 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; and
- Be an advanced user of Information Technology.

To deliver on these objectives SITA has, as part of its turn around strategy embarked upon 6 strategic imperatives:

- Radically improve service delivery to our clients;
- Prioritise citizen-focused projects and engage clients to build and execute a SITA value proposition;
- Drive 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; and
- Maintain financial sustainability.





## 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 9 to 25.

The financial results of the company are set out on pages 72 to 103. The results for the year ended 31 March 2005 are highlighted below:

<b><i>Income statement for the year ended 31 March</i></b>	<b>2005 R</b>	<b>2004 R</b>
Revenue	2,636,756,614	2,303,610,125
Profit from Operations	72,483,085	29,239,182
Net interest received	16,149,660	22,421,622
Net profit after taxation	59,303,482	35,085,690

<b><i>Balance Sheet as at 31 March</i></b>	<b>2005 R</b>	<b>2004 R</b>
<b>Assets</b>		
Property and equipment	403,719,795	427,944,234
Current and other	1,415,024,062	997,468,972
<b>Total Assets</b>	<b>1,818,743,857</b>	<b>1,425,413,206</b>
<b>Equity and Liabilities</b>		
Share capital and reserves	751,200,472	691,896,990
Long-term & current liabilities	1,067,543,385	733,516,216
<b>Total Equity and Liabilities</b>	<b>1,818,743,857</b>	<b>1,425,413,206</b>

<b>ADDITIONAL FINANCIAL INFORMATION</b>	<b>2005 R</b>	<b>2004 R</b>
<i>The following key figures are extracted from the financial statements</i>		
Total Revenue	2,636,756,614	2,303,610,125
Total direct operating costs	2,153,643,807	1,855,194,341
Total indirect operating costs	413,240,335	428,090,808
Total capital expenditure	123,964,169	151,283,498
Total training and research costs	30,371,186	61,223,637



## Directors Report (Cont.)

*The following key ratios are derived from the Financial Statements:*

	2005	2004
Return on total Shareholder's interest (after tax)	7.9%	5.1%
Return on total Shareholder's interest excluding depreciation (after tax)	21.3%	17.5%
Return on total assets	3.3%	2.5%
Return on total assets excluding depreciation	8.8%	8.5%
Current ratio	1.4:1	1.5:1
Revenue per employee	R1,124,416	R942,557
Debt: Equity ratio	0.13:1	0.16:1
Net profit % (after tax)	2.3%	1.5%
Gross Profit %	18.3%	19.5%
Expense to Revenue %	15.7%	18.6%

### Fixed Assets

#### **Beta, Centurion & Numerus Properties**

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 property to be transferred to SITA is as follows:

#### **Centurion Property**

SITA received notification from the Office of the State Attorney that on 19 January 2005 the transfer of the Centurion property was registered in the Pretoria Deeds Office. SITA is still awaiting copies of the Title Deeds and

will assume payment of the operational costs of the premises as soon as the associated administrative processes have been completed.

#### **Beta and Numerus**

Until the transfer of the properties has been concluded, separate memoranda of Agreement are held between SITA and the Department of Public Works (DPW) for each building, which regulate the responsibilities of the two parties pending the actual transfer.

The DPW remains liable for property taxes and municipal costs until the actual date of the transfer.

Regarding the Beta property, the DPW has complied with all the terms and conditions in terms of the consolidation and subdivision of the properties and the only outstanding issue before registering the transfer at the Deeds



Office, is the required approval by the Local Authority, being the City Of Tshwane Metropolitan Municipality (CTMM). The DPW continues to facilitate this process.

The transfer of the Numerus property is somewhat more complex in that it requires the installation of separate sewerage and electrical connections in order to separate the SITA component from the remainder of the property, which is still occupied by the Department of Agriculture. This process requires intensive involvement by the CTMM, which must also approve the processes, after which the DPW can register the transfer at the Deeds Office.

All the requisite conditions for registering the Beta and Numerus properties have been met by SITA.

There has been no change in the use of the fixed assets and in the accounting policy relating to fixed assets.

## Capital Expenditure

ASSET CATEGORY	2005 R	2004 R
Mainframe, Computer and Network Equipment	105,738,066	145,063,721
Office Furniture	6,758,314	6,036,337
Buildings & Infrastructure	11,467,789	183,440
<b>TOTAL</b>	<b>123,964,169</b>	<b>151,283,498</b>

The capital expenditure of R123,964,169 is less than the budget of R271,073,721. The under expenditure of R147,109,552 can be attributed to the under expenditure in the Mainframe (R61 million), Networks (R39 million) and Buildings & Infrastructure (R46 million) asset categories.

The under expenditure in the mainframe and networks environments is due to the cash flow constraints and the procurement process. Service delivery was however not adversely impacted by the under expenditure. Building and Infrastructure projects were also delayed resulting in the under expenditure.

## Dividends

No dividends have been proposed or paid for the year ended 31 March 2005.

## Internal Controls

During the year under review, SITA offered voluntary severance packages to staff members. SITA also embarked on the implementation of an ERP system named Project Khanya. This project forms part of the broader Tswelopele project and involves the complete replacement of the back office systems.

The combination of these factors lead to internal controls in certain areas not being applied consistently throughout the year.



## Directors Report (Cont.)

The affected areas were:

- Information systems;
- Payroll;
- Fixed Assets;
- Accruals;
- Procurement policies and procedures; and
- Service Level Agreements (not concluded in a timely manner and some have not been concluded in this financial year).

### PFMA Requirement: Materiality and Significance Framework

A materiality and significance framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA that requires ministerial approval.

The framework was finalised and approved by EXCO members at a meeting held on 31 March 2004, being part of the "Strategic Risk assessment and Strategic Internal Audit Plan." Board of Director approval and the Department of Public Service and Administration approval (i.e. Executive Authority) has been obtained. Refer to section 8 of the Annual Report for the Materiality and Significance Framework.

### Public Private Partnerships (PPP)

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

### Judicial Proceedings

The directors are not aware of any 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 in the annual report particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.

During the current year there were a number of instances of irregular, fruitless and wasteful expenditure. The relevant required disclosure of these instances can be found in Note 21 of the financial statements.

### 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 Compliance section in the Finance and Administration department has been formed to formally identify and report on any non-compliance with legislation. Their findings are reported on a quarterly basis to both EXCO and the SITA Board of Directors. Furthermore formal training was given to management and employees in respect of the PFMA and Treasury Regulations.







## VAT Status

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Various amendments to the VAT Act, which were introduced in the Revenue Laws Amendment Acts No 45 of 2003 and 32 of 2004 came into operation on 1 April 2005.

The changes have a major impact on the VAT treatment of government departments, as well as national and provincial public entities and constitutional institutions listed in Schedules 1, 3A and 3C of the PFMA. In terms of the amendments these departments, entities and institutions are not liable to register for VAT unless they are specifically notified to do so in accordance with a decision by the Minister of Finance.

As a result of these amendments, SITA's status as a VAT vendor is being reviewed. However, based on a directive from the South African Revenue Services (SARS), our current VAT status will remain effective until we are notified of any change thereto by SARS.

## Events Subsequent to Balance Sheet Date

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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.

## Project Khanya

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Project Khanya will in the next financial year deliver the implementation of the Oracle Enterprise Resource Planning (ERP) transactional system which will improve operational effectiveness, administrative efficiency and information management.

The scope of Project Khanya will include and impact the listed functional domains:

- Financial management;
- Human resource management (incl. Payroll);
- Supply chain management;
- Project management; and
- Service management.

To date the following milestones have been reached:

- Blue print phase (Scope and high level business process definition and/or confirmation) has been completed;
- Business processes and procedures have been documented;
- User acceptance testing (UAT) has commenced;
- The Core of the HR module has been implemented; and
- Training material is in the process of being developed.

## Authorised Share Capital

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The authorised share capital for the 2004/05 period amounts to one share at R1.00.



## Directors Report (Cont.)

<b>ISSUED SHARE CAPITAL</b>	<b>2005</b>	<b>2004</b>
	<b>R</b>	<b>R</b>
Ordinary shares of R1.00 each	1	1
<b>Total</b>	<b>1</b>	<b>1</b>

### 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.

The Head of Internal Audit 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 fully capacitated except for the "Financial and Compliance Audits" and "Forensic Investigations" which are outsourced.

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; and
- Means of safeguarding assets and, where appropriate, verifying the existence of such assets.

### Human Capital

#### Employee statistics

The general staff statistics as at 31 March 2005 can be summarised as follows:

<b>Category</b>	<b>Headcount</b>	
	<b>2005</b>	<b>2004</b>
<b>Permanent</b>		
Executive & Senior Management	45	70
Information Technology Staff	1,606	1,237
General Staff	694	1,137
<b>Total Permanent</b>	<b>2,345</b>	<b>2,444</b>
<b>Contractors</b>	<b>907</b>	<b>857</b>
<b>Total</b>	<b>3,252</b>	<b>3,301</b>





<b>DETAILS</b>	<b>AFRICANS</b>	<b>COLOURED</b>	<b>INDIANS</b>	<b>WHITES</b>	<b>TOTAL</b>
Executive & Senior Management	7	2	0	2	11
Information Technology Staff	209	44	20	333	606
General Staff	221	29	12	119	381
Contractors	85	3	5	191	284
<b>Total Females</b>	<b>522</b>	<b>78</b>	<b>37</b>	<b>645</b>	<b>1,282</b>
Executive & Senior Management	26	0	2	6	34
Information Technology Staff	376	72	81	471	1,000
General Staff	198	19	15	81	313
Contractors	135	16	39	433	623
<b>Total Males</b>	<b>735</b>	<b>107</b>	<b>137</b>	<b>991</b>	<b>1,970</b>
Executive & Senior Management	33	2	2	8	45
Information Technology Staff	585	116	101	804	1,606
General Staff	419	48	27	200	694
Contractors	220	19	44	624	907
<b>Total Employees</b>	<b>1,257</b>	<b>185</b>	<b>174</b>	<b>1,636</b>	<b>3,252</b>

## 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 3,252 employees at the end of March 2005, reflected a Historically Disadvantaged Individual ("HDI") to White ratio of 50:50. This indicates an improvement from the previous year's HDI to White ratio of 48:52 within a workforce of 3301 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% HDI's. Special focus is being given to the employment of females, particularly at senior and management levels. To this end an Executive Women's Development Program was launched to redress the imbalance. 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. Special attention will be given in addressing the demographic composition of our contracts in this financial year.



## Directors Report (Cont.)

### Post-Retirement Benefits

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#### **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 21 of 1996. In terms of the General Pensions 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) Ltd, 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

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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.

Following the investigation by SITA EXCO and report back to the Board of Directors on SITA's future Retirement Funding alternatives, the Board approved the participation in a multi employer fund (umbrella fund) to be administered by Alexander Forbes.

The SITA Retirement Fund is as of 1 May 2005 a participating employer in the Alexander Forbes Retirement Fund and all the affected employees have been duly transferred.





The SITA Retirement Fund is in the process of addressing the application for transfer in terms of the Section 14 of the Pension Fund Act.

## Treasury Management

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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

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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 rands) 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 rands) 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.

## Going Concern

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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 statement 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.



## Directors Report (Cont.)

### 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 and Risk Committee	Four
Tender Board/SSA	Forty-seven
Chairpersons' Committee	Two
HR and Remuneration Committee	Four
Finance and Capex Committee	One
Strategic Committee	Two

The directors' remuneration is disclosed in Note 15 to the financial statements.

The non-executive director's contracts were for the period 1 June 2002 to 31 May 2005. The Minister has subsequently extended their contracts to 31 July 2005 while the process of appointing new non-executive directors is being finalised.

The various sub-committees of the Board are:

#### **Audit & Risk Committee**

**Chairperson:** Ms. Y Kwinana  
(Appointed 29 January 2003)

#### **Objective:**

Primarily to provide assistance to the Board, in fulfilling 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.

#### **Tender Board Committee/Supplier Selection Authority (SSA)**

**Chairperson:** Ms. Londiwe 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; and
- Compliance with purchasing/supply policy and procedures.

#### **Chairpersons' Committee**

**Chairperson:** Ms. Z Manase  
(Appointed 1 June 2002)





**Objective:**

The purpose of the Chairpersons Committee is to ensure that SITA is governed in a way that is efficient, responsible, accountable, transparent and demonstrating probity.

**HR and Remuneration Committee**

**Chairperson:** Adv. L Gcabashe  
(Appointed 1 June 2002)

**Objective:**

The functions of the HR 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.

**Finance & Capex Committee**

**Chairperson:** Mr. C C W Kruger  
(Appointed 1 September 2002)

**Objective:**

The objectives of the Finance and Capex Committee are to ensure that economic, efficient, effective and transparent systems of financial management are in place. To prevent unauthorised, irregular, fruitless and wasteful

expenditure, losses from criminal conduct and expenditure not complying with legislation. To ensure the economic and efficient management of available working capital. Ensure increased effectiveness of financial management of SITA by exercising sound budgeting and budgetary control practices. Improve the budgeting process by setting appropriate revenue, cost and expense targets. Establish a commercially defensible return on capital framework. Monitor the financial tracking measures of the Turnaround Strategy (TAS) and implement corrective action where necessary. Support the key strategic imperatives of the Turnaround Strategy to deliver high levels of service to customers. Ensure that financial internal control systems meet the minimum statutory and regulatory requirements. Ensure that financial drivers are in place to focus on the enhancement of value. Provide strategic financial direction to SITA to ensure long-term financial viability. Ensure that financial control is established, interactively communicated and exercised. Ensure compliance with relevant financial laws, rules and regulations.

**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, develop and manage the strategic capability and management of the business needs.

## Directors Report (Cont.)

### List of Non-Executive Directors

NAME	QUALIFICATION	POSITION	DATE APPOINTED
Ms. Z Manase,	BCom, BCompt (Hons) HDip Tax, CA(SA)	Chairperson	01 June 2002
Ms. L Abrahams	BSc, Post Graduate Diploma in Public Policy and Develop- ment Administration		01 June 2002
Adv. L Gcabashe	BA.Admin, BA.Law, MA, LLB		01 June 2002
Mr. C Kruger	B.Com Hons (Economics)		01 June 2002
Mr. M Roussos	BA (Hons), MBA		01 June 2002
Dr. S Sibisi (Resigned 30 June 2005)	BSc (Hons), PHD		01 June 2002

### Company Secretary

NAME	QUALIFICATION	DATE APPOINTED
Ms. T V Geldenhuys	BCompt (Hons), H Dip Tax, AGA(SA), FIAC, CPA, FICB, MDP	01 April 2004

### List of Executive Committee Members

NAME	QUALIFICATIONS	POSITION	DATE APPOINTED
Mr. M Msimang	BSc (Entomology/Biology) University of Zambia; MBA (Project Management) – US International University	Chief Executive Officer	01 October 2003
Mr. J P Bogoshi	BSc Computer Science Non-Degree Courses – Economics I and Business Economics I, Certificate in Professional Management, Certificate in Investment Management, Diploma in Investment Management	Executive Client Services	01 August 2004
Mr. F K Buthelezi	BCom Accounting, Diploma in Accounting (ACCA)	Chief Audit Executive	01 July 2003
Mr. P Els (Resigned 31 July 2005)	B Acc (Hons), HDip.Tax, CA(SA)	Chief Financial Officer	01 June 2002





### List of Executive Committee Members (Cont.)

NAME	QUALIFICATIONS	POSITION	DATE APPOINTED
Ms. H Fouche (Withdrawn from EXCO 16 July 2004)	BCom Certificate O & W	Acting Chief Executive (Former Sita D)	01 December 1981
Ms. N Isaacs-Mpulo	BSc (Hon)-Computer Information Systems	Executive Corporate Services	01 January 2004
Mr. V Magagula	Diploma: Information Technology Certification: Level 1+	Executive Information Management Services	01 July 2004
Mr. M J Mazibuko	MSc, Telecommunication Electrician Certificate, National Diploma: Electrical Engineering – Light Current, MDP – General Management, Engineering Business Management	Executive Professional Services	01 July 2004
Mr. B M F Mobu	National Diploma: Public Administration, National Higher Diploma Public Administration, BTech Degree Public Administration	Executive Procurement	01 July 2004
Mr. P Motsepe	MBA - Current Studies, Effective Business Writing and Leadership, Participative Management / Leadership, Coaching Course, Principles of Project Management, Management Program, Business Administration Technology Leadership Program, Sales and Marketing Strategy	Executive Infrastructure Services	01 August 2004
Mr. S Ngubane	BA Physics, Computer Science and Mathematics	Executive: Manager Strategic Implementation	01 January 2004
Mr. D Ramahotswa (Resigned 30 June 2004)			30 June 2004
Ms. M Mojapelo (Resigned 15 July 2004)	BCom Computer Science University Education Diploma	Acting Chief Executive (Former Sita E)	15 July 2004
Mr. Z Serepo (Resigned 31 May 2004)	BSc (Hons)	Chief Executive (Former Sita C)	31 May 2004

# Balance Sheet

as at 31 March 2005



	Note	2005 R	2004 R
<b>ASSETS</b>			
NON-CURRENT ASSETS		442,292,856	467,634,100
Property and equipment	2	403,719,795	427,944,234
Deferred taxation	3	38,573,061	39,689,866
CURRENT ASSETS		1,376,451,001	957,779,106
Taxation		21,681,914	26,133,332
Trade and other receivables	4	689,876,891	480,642,911
Cash and cash equivalents	5	664,892,196	451,002,863
<b>TOTAL ASSETS</b>		<b>1,818,743,857</b>	<b>1,425,413,206</b>
<b>EQUITY AND LIABILITIES</b>			
CAPITAL AND RESERVES		751,200,472	691,896,990
Share capital	6	1	1
Non-distributable reserves	7	625,333,736	625,333,736
Retained income		125,866,735	66,563,253
NON-CURRENT LIABILITIES		100,965,170	107,557,571
Interest-bearing borrowings	8	31,200,490	36,400,571
Post-retirement medical benefits	9.3	69,764,680	71,157,000
CURRENT LIABILITIES		966,578,215	625,958,645
Trade and other payables	10	509,001,648	350,691,949
Income received in advance		346,520,832	199,109,916
Provisions	11	111,055,735	76,156,780
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,818,743,857</b>	<b>1,425,413,206</b>



# Income Statement

for the year ended 31 March 2005

	Note	2005 R	2004 R
Revenue	12	2,636,756,614	2,303,610,125
Cost of sales		2,153,643,807	1,855,194,341
Gross profit		483,112,807	448,415,784
Other income	13	2,610,613	8,914,206
Operating expenses	14	413,240,335	428,090,808
Operating Profit	15	72,483,085	29,239,182
Net financing income	16	16,149,660	22,421,622
Profit before taxation		88,632,745	51,660,804
Taxation	17	29,329,263	16,575,114
<b>Net profit for the year</b>		<b>59,303,482</b>	<b>35,085,690</b>



# Statement of Changes in Equity

*for the year ended 31 March 2005*

	Share capital R	Non- distributable reserve R	Retained income R	Total R
<b>Balance as at 1 April 2003</b>	1	625,333,736	31,477,563	656,811,300
Net profit for the year	-	-	35,085,690	35,085,690
<b>Balance as at 31 March 2004</b>	1	625,333,736	66,563,253	691,896,990
Net profit for the year	-	-	59,303,482	59,303,482
<b>Balance as at 31 March 2005</b>	1	625,333,736	125,866,735	751,200,472

# Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 R	2004 R
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Net profit before taxation		342,273,896	61,056,578
Adjustments for non-cash flow items:			
• Depreciation		88,632,745	51,660,804
• Increase/(decrease) in provision for doubtful debts		141,474,358	121,237,232
• Loss on disposal or scrapping of property and equipment		6,405,935	(27,005,534)
• (Decrease)/increase in provision for post-retirement medical benefits		5,934,565	2,786,671
• Interest paid		(1,392,320)	10,291,000
• Interest received		5,823,108	4,375,688
• Increase in provisions		(21,972,768)	(26,797,310)
		34,898,955	27,370,090
Operating profit before working capital changes		259,804,578	163,918,641
Working capital changes		90,080,700	(104,972,201)
Increase in trade and other receivables	24.1	(215,639,915)	(45,637,400)
Increase/(decrease) in trade and other payables		158,309,699	(40,677,503)
Increase/(decrease) in income received in advance		147,410,916	(18,657,298)
Cash generated from operations		349,885,278	58,946,440
Normal taxation	24.2	(23,761,042)	(20,311,484)
Interest paid		(5,823,108)	(4,375,688)
Interest received		21,972,768	26,797,310
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>			
Purchase of equipment		(123,184,483)	(151,283,498)
Proceeds from disposals of assets		(123,964,169)	(151,283,498)
		779,686	-
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>			
Non-current interest-bearing borrowings repaid		(5,200,080)	(5,200,080)
<b>Net increase/(decrease) in cash and cash equivalents</b>		213,889,333	(95,427,000)
Cash and cash equivalents at beginning of year		451,002,863	546,429,863
<b>Cash and cash equivalents at end of year</b>	5	664,892,196	451,002,863



# Notes to the Annual Financial Statements

*for the year ended 31 March 2005*

## 1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and in a manner required by the Companies Act of South Africa and the Public Finance Management Act. The financial statements have been prepared on the historical cost basis except for financial assets and liabilities which are carried at fair value. 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 was 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 for buildings & 6 years for infrastructure
Vehicles	4 - 5 years
Office furniture	3 - 6 years
Computer equipment and software	2 - 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.

Gains and losses 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.



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 Leased Assets**

Lease 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.

### **1.4 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.

### **1.5 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 tax 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 tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.



## Notes to the Annual Financial Statements (Cont.)

### **1.6 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.

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 principle payments and amortisations.

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

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

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.

### **1.7 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.

### **1.8 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.







## **1.9 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.

### **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.

### **Termination benefits**

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

The company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed, formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits fall due more than 12 months after balance sheet date, they are discounted to present value.

### **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 health care benefits to a closed group of qualifying employees and retirees. The entitlement to post-retirement health care benefits is based on the qualifying employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using



## Notes to the Annual Financial Statements (Cont.)

the projected unit credit method. Annual valuations of these obligations are carried out by independent qualified actuaries. Unrecognised actuarial gains or losses are accounted for over the remaining working life of the active employees.

### **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.

### **1.10 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.

### **1.11 Revenue recognition Revenue**

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

*Labour income:* revenue is recognised based on usage by the customer which is billed at

pre-determined tariffs which are approved by National Treasury.

*Mainframe income:* revenue is recognised based on usage by the customer which is billed at pre-determined tariffs which are approved by National Treasury. Depending on the technology, revenue may be recognised based on fixed monthly tariffs.

*Network and internet income:* revenue is recognised based on usage by the customer which is billed at pre-determined tariffs which are approved by National Treasury.

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

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

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

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

### **Interest income**

Interest is recognised on a time proportion basis, taking 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 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.

#### **1.12 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.

#### **1.13 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.

#### **1.14 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 Management Finance 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.

#### **1.15 Comparative Information**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. No adjustment was necessary for this financial year.

## **2. PROPERTY AND EQUIPMENT**

### **2.1 Land and buildings**

Erf number 262, 263, 264, 677 and Portion 1 of Erf 492 Erasmuskloof extension 3 (23,730m<sup>2</sup>) and CCS (Centurion) Portion 50 of the farm Brakfontein 390JR, Centurion consisting of land and buildings, was acquired in April 1999 at a combined cost of R169,5 million.

### **2.2 Other land and buildings**

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 Annual Financial Statements (Cont.)

	2005 R	2004 R
<b>2.3 Land</b>		
Net carrying value at beginning of year	22,742,785	22,742,785
Additions	-	-
Disposals	-	-
Carrying value at end of year	22,742,785	22,742,785
<b>2.4 Buildings and infrastructure</b>		
Net carrying value at beginning of year	154,138,642	157,543,121
Additions	11,467,789	183,440
Reclassification	109,150	
Disposals - net book value	(160,367)	-
Disposals - cost	453,675	-
Disposals - accumulated depreciation	(293,308)	-
Depreciation charge	(4,277,462)	(3,587,919)
Carrying value at end of year	161,277,752	154,138,642
Cost	182,840,219	171,716,953
Accumulated depreciation and impairment losses	(21,562,467)	(17,578,311)
	161,277,752	154,138,642
<b>2.5 Computer equipment</b>		
Net carrying value at beginning of year	243,858,222	214,933,959
Additions	105,738,066	145,063,721
Reclassification	(5,204,953)	
Disposals - net book value	(6,409,469)	(2,786,671)
Disposals - cost	72,321,840	26,214,143
Disposals - accumulated depreciation	(65,912,371)	(23,427,472)
Depreciation charge	(130,252,692)	(113,352,787)
Carrying value at end of year	207,729,174	243,858,222
Cost	683,790,015	655,578,742
Accumulated depreciation and impairment losses	(476,060,841)	(411,720,520)
	207,729,174	243,858,222



	2005 R	2004 R
<b>2.6 Office furniture</b>		
Net carrying value at beginning of year	6,777,990	4,866,974
Additions	6,758,314	6,036,337
Reclassification	5,210,483	-
Disposals - net book value	(131,863)	-
Disposals - cost	1,347,972	698
Disposals - accumulated depreciation	(1,216,109)	(698)
Depreciation charge	(6,768,530)	(4,125,321)
Carrying value at end of year	11,846,394	6,777,990
Cost	28,600,578	17,979,752
Accumulated depreciation and impairment losses	(16,754,183)	(11,201,762)
	11,846,394	6,777,990
<b>2.7 Vehicles</b>		
Net carrying value at beginning of year	426,595	597,800
Additions	-	-
Reclassification	(127,232)	-
Disposals - net book value	-	-
Disposals - cost	508,429	78,919
Disposals - accumulated depreciation	(508,429)	(78,919)
Depreciation	(175,674)	(171,205)
Carrying value at end of year	123,689	426,595
Cost	2,543,478	3,179,138
Accumulated depreciation and impairment losses	(2,419,789)	(2,752,543)
	123,689	426,595
<b>NET CARRYING AMOUNT AT END OF YEAR</b>	403,719,795	427,944,234
Cost	920,517,075	871,197,370
Accumulated depreciation and impairment losses	(516,797,280)	(443,253,136)

The Erasmuskloof fixed property, with a book value of R42,77million (2004: R43,75million), is bonded to Denel (Pty) Ltd as disclosed in note 8. All other assets are freehold and have not been pledged as security for liabilities.

## Notes to the Annual Financial Statements (Cont.)

	<b>* Charged / (credited) to Income Statement R</b>	<b>2005 R</b>	<b>2004 R</b>
<b>3. DEFERRED TAXATION</b>			
Provision for doubtful debts	(1,171,673)	(5,498,822)	(4,327,149)
Provision for leave pay benefits and bonuses	(142,323)	(12,163,541)	(12,021,218)
Post-retirement medical benefits	1,115,343	(20,231,757)	(21,347,100)
Income received in advance	(40,758,066)	(100,491,041)	(59,732,975)
Deferred taxation asset	(40,956,719)	(138,385,161)	(97,428,442)
Prepayments made	269,532	311,736	42,204
Section 24C allowance	41,803,992	99,500,364	57,696,372
	1,116,805	(38,573,061)	(39,689,866)
<b>Reconciliation between opening and closing balance</b>			
Deferred taxation asset at beginning of year		(39,689,866)	(38,512,708)
Income statement movement for the year		1,116,805	(1,177,158)
Deferred taxation asset at end of year		(38,573,061)	(39,689,866)

The deferred taxation 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 taxation amounts that were expensed (charged) or that benefited (credited) the income statement.*



	2005 R	2004 R
<b>4. TRADE AND OTHER RECEIVABLES</b>		
Trade debtors	703,620,572	491,653,801
Less: Provision	(25,281,940)	(19,231,775)
	678,338,632	472,422,026
Prepayments	4,748,093	529,332
Other	6,790,166	7,691,553
	689,876,891	480,642,911
Debtor's days	95 days	76 days
There has been an increase in the debtor's days from 2004 to 2005. The majority of our customers are Government.		
<b>5. CASH AND CASH EQUIVALENTS</b>		
Cash in current bank accounts	663,007,661	449,118,328
Cash received from donor funding (Refer to the directors report)	1,884,535	1,884,535
	664,892,196	451,002,863
<b>Effective Interest rate</b>	6 - 8%	8 - 10%
<b>6. SHARE CAPITAL</b>		
<b>Authorised and Issued</b>		
One (1) ordinary share of R1.00 each	1	1
<b>7. NON DISTRIBUTABLE RESERVES</b>		
The non distributable reserve was created based on a legislated adjustment.	625,333,736	625,333,736
<b>8. INTEREST-BEARING BORROWINGS</b>		
Long-term loan from Denel (Pty) Ltd	31,200,490	36,400,571
This amount represents the long term loan from Denel (Pty) Ltd in accordance with the business transfer agreement between Denel (Pty) Ltd and SITA (Pty) Ltd.		

## Notes to the Annual Financial Statements (Cont.)

	2005 R	2004 R
<p>This loan is secured by a first mortgage bond of R52,000,811 against land and buildings with a book value of R42,77 million (2004: R43,75 million) (Refer to note 2).</p> <p>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.</p> <p>Maturity of non-current borrowings:</p>		
Up to 2 years	15,600,240	15,600,240
Between 2 and 5 years	15,600,240	15,600,240
Over 5 years	5,200,090	10,400,170
Total non-current borrowings	36,400,570	41,600,650
Less: Current portion included in trade and other payables (refer note 10.)	(5,200,080)	(5,200,080)
	31,200,490	36,400,570





## 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 unit projected 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. The results of the latest public actuarial valuation as at 31 March 2002 are as follows:

Shortfall	R5,960 million
Funding level	97.9%

- Including pension increments

An actuarial valuation as at 31 March 2004 was performed. This valuation has however, at the date of these financials, not been signed off and submitted to Parliament by the interim Trustee (the Minister of Finance). The valuation has therefore not yet been released to the public domain.

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; and
  - Dividends to grow at 11% per annum.

The financial health of the Fund is measured by reference to its ability to generate enough income



## Notes to the Annual Financial Statements (Cont.)

through future investment returns and contributions to pay for the benefits of the members as and when they fall due.

independent actuaries at 31 March 2005 utilising the projected unit credit method as set out on the next page.

### **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 R57,28 million. (2004: R45,39 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; and
- Other former public sector employees who transferred to SITA on or after 1 April 1999 and remain members of their medical aid.

The number of qualifying employees are as follows:

- Ex-Infoplan employee's - 361; and
- Ex-Public Service (incl SAPS) - 803.

These benefits are provided by 3 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



	2005 R	2004 R
Present value of unfunded obligations	65,592,000	70,433,000
Unrealised actuarial gains	4,172,680	724,000
	69,764,680	71,157,000
Provision for post retirement medical benefits		
Balance at beginning of the year	71,157,000	60,866,000
Other expenses included in staff costs	(1,392,320)	10,291,000
Current service costs	3,474,073	3,872,000
Overprovision adjustment from previous year *	(10,567,000)	-
Interest on liability	5,700,607	6,419,000
	69,764,680	71,157,000
Post retirement obligations	69,764,680	71,157,000
<p>* <i>The overprovision in the previous year is as a result of ex-SAPS employees not being entitled to benefits in line with the SITA scale but rather benefits in line with the subsidy policy as set out in the Public Service Commission Bargaining Council (PSCBC) Resolution No 3 of 4 February 1999.</i></p>		
<p>The principal actuarial assumptions used for the actuarial valuation purposes were:</p>		
	%	%
Long term discount rate before tax	8.5	9.0
Long term medical aid inflation	6.5	7.0
Normal retirement age	60 years	60 years
<b>10. TRADE AND OTHER PAYABLES</b>		
Trade creditors	428,751,458	330,758,891
Current portion of interest-bearing borrowings	5,200,080	5,200,080
Other payables	75,050,110	14,732,978
	509,001,648	350,691,949

## Notes to the Annual Financial Statements (Cont.)

	VSP Provision	Leave pay benefits	Bonuses	Total
<b>11. PROVISIONS</b>				
<b>Balance as at 31 March 2003</b>		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)
<b>Balance as at 31 March 2004</b>	-	45,115,281	31,041,499	76,156,780
Additional provisions during the year	34,000,000	42,156,424	75,134,983	151,291,407
Utilised during the year	(9,771,853)	(40,283,906)	(66,336,693)	(116,392,452)
<b>Balance as at 31 March 2005</b>	24,228,147	46,987,799	39,839,789	111,055,735

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 qualifying employees are entitled to in terms of their contracts which is expected to be paid in the next 12 months.

VSP's - With regard to SITA's restructuring programme (Tswelopele), voluntary severance packages were offered to employees. Included above is the estimated cost of this exercise.



	Note	2005 R	2004 R
<b>12. REVENUE</b>			
Labour income		955,968,666	854,033,535
Mainframe income		517,150,910	551,021,309
Network and internet income		440,240,340	437,308,640
Software licences and maintenance income		355,543,826	188,812,165
Printing income		45,394,584	48,013,811
Computer equipment and maintenance income		238,758,611	117,728,009
Site preparation		50,355,978	74,803,240
Sundry income		33,343,699	31,889,416
		2,636,756,614	2,303,610,125
<b>13. OTHER INCOME</b>			
Other income	1.11	2,610,613	8,914,206
<b>14. OPERATING EXPENSES</b>			
Marketing expenses		9,825,304	6,728,066
Non recoverable indirect operating expenses	15	403,415,031	421,362,742
		413,240,335	428,090,808
<b>15. OPERATING PROFIT/(LOSS)</b>			
The following items have been charged in arriving at operating profit:			
• Net foreign exchange (loss)/gain		(2,472,525)	3,332,111
Depreciation		141,474,358	121,237,232
• Buildings and infrastructure		4,277,462	3,587,919
• Computer equipment		130,252,692	113,352,787
• Office furniture		6,768,530	4,125,321
• Vehicles		175,674	171,205
Non-recoverable depreciation included above		10,510,238	11,587,489
Loss on disposal or scrapping of property and equipment		5,934,565	2,786,671
Auditor's remuneration		2,937,961	2,863,329
• Audit fees		1,666,976	1,480,000
• Other expenses		21,200	20,000
• Under provision prior year		115,717	115,999
• Transversal audits		1,134,068	1,247,330

Auditors' remuneration for other services comprises mainly of computer audit costs.

## Notes to the Annual Financial Statements (Cont.)

	Note	2005 R	2004 R
Research costs		18,078,010	34,641,829
Directors' remuneration			
Non-executive directors			
• Services as director		461,890	223,863
• Other		3,797	7,436
		465,688	231,299
Refer to remuneration schedule - Annexure A			
Staff costs		946,844,560	935,258,979
• Salaries and employee costs		596,982,168	578,752,053
• Pension contributions		44,450,578	40,610,884
• Post-retirement medical benefits		(1,392,320)	10,291,000
• Contractors	9.3	306,804,134	305,605,042
Non-recoverable indirect staff costs included above		216,630,623	265,666,186
The pension fund contributions relate to the following funds:			
• Private pension fund		60,546	57,164
• Denel retirement fund		27,856,402	24,524,912
• Government employee's pension fund		16,533,630	16,028,808
		44,450,578	40,610,884
The salary cost to contractors can be broken down as follows:			
• Professionals		168,742,274	168,082,773
• Technicians		128,857,736	128,354,118
• Clerical		9,204,124	9,168,151
		306,804,134	305,605,042
Number of persons employed by SITA as at year end.			
• Permanent		2,345	2,444
• Contractors		907	857
		3,252	3,301



	Note	2005 R	2004 R
<b>16. NET FINANCING INCOME</b>			
Interest income		21,972,768	26,797,310
Interest expense			
• Borrowings	8	(3,522,757)	(4,006,018)
• Other		(2,300,351)	(369,670)
		16,149,660	22,421,622
No finance costs have been capitalised.			
<b>17. TAXATION</b>			
South African normal taxation			
Current taxation		28,212,458	17,752,272
Current charge		28,329,053	17,752,272
Over-provision in previous year		(116,595)	-
Deferred taxation		1,116,805	(1,177,158)
Current charge		(217,319)	(1,177,158)
Adjustment due to change in taxation rate**		1,334,124	-
		29,329,263	16,575,114
<b>Taxation reconciliation</b>			
Profit before taxation		88,632,745	51,660,804
Taxation calculated at a rate of 30%		26,589,824	15,498,241
Permanent differences		1,288,720	1,076,873
Depreciation of buildings and infrastructure (R4,277,462 x 30%)		1,283,239	1,076,376
Fines (R18,270 x 30%)		5,481	497
Over-provision in previous year		116,595	-
Change in tax rate (30% - 29%)**		1,334,124	-
Effective taxation charge		29,329,263	16,575,114

\*\* relates to a change in the taxation rate from 30% to 29% which is applicable to the 2005/06 financial year.

## Notes to the Annual Financial Statements (Cont.)

	2005 %	2004 %
<b>Taxation rate reconciliation</b>		
Standard taxation rate	30.00	30.00
Taxation effect of permanent differences		
• Depreciation on buildings and infrastructure	1.45	2.08
• Overprovision in previous year	0.13	-
• Change in taxation rate**	1.51	-
Effective taxation rate	33.09	32.08

### 18. FINANCIAL INSTRUMENTS

#### **Financial risk management**

The management of financial risk forms part of the total risk management model of the company. The Audit and Risk Management Committee 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.

#### **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 30 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.

SITA primarily transacts in US Dollar when dealing with foreign transactions. At balance sheet date SITA has an uncovered liability of US\$3 450 368 (R21,510,284) (2004: US\$ 2,769,570 (R17,503,682). A rate of R6.23 was used in the translation of the uncovered liability.





		Carrying Values R	Fair Value R
<b>Financial assets</b>			
Accounts Receivables	2004	480,642,911	480,642,911
	2005	689,876,891	689,876,891
Cash and cash equivalents	2004	451,002,863	451,002,863
	2005	664,892,196	664,892,196
<b>Financial liabilities</b>			
Accounts Payables	2004	350,691,949	350,691,949
	2005	509,001,648	509,001,648
Interest-bearing borrowings	2004	36,400,570	36,400,570
	2005	31,200,490	31,200,490

The maturity profiles of the financial assets and liabilities as at 31 March 2005 as reflected above are within 0-12 months except the interest-bearing borrowing, (refer note 8).

#### **Fair value of financial instruments**

At 31 March 2005 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.

## **19. RELATED PARTY TRANSACTIONS**

### **19.1 Major shareholder**

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

### **19.2 Directors**

The directors named in the directors report each held office as a director of SITA during the year ended 31 March 2005. Transactions with directors are disclosed in Annexure A.

## Notes to the Annual Financial Statements (Cont.)

	2005 R	2004 R
<b>20. MATERIAL LOSSES THROUGH CRIMINAL CONDUCT</b>		
Material losses through criminal conduct	-	340,645

In the previous financial year 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 full amount was recovered from the employee in April 2004.

### 21. IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

Section 51(1)(a)(i) of the PFMA requires an accounting authority for a public entity to ensure that the public entity has and maintains effective, efficient and transparent systems of financial and risk management and internal controls. 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 were identified and classified as such during this financial year.

As a result of procurement policies and procedures not being complied with, project milestones were not met, scope changes were not properly documented and/or approved and the approved budgets were exceeded.

In some instances, SITA has ended up being unable to recover these amounts from the participating departments and organs of state.

As disclosed in the previous year's Annual Report, the first phases of the investigations that were commenced last year into alleged irregularities on the Gateway and internal projects, were concluded in the current financial year. During the current financial year internal investigations were instituted in relation to CabEnet, consulting services and the Youth Internship Program. The results of these investigations were that the following expenditure was classified as irregular in the current financial year even though they may have been incurred in previous financial years:



	2005 R	2004 R
<b>21.1 Irregular expenditure</b>		
During the course of the financial year, the following expenditure items have been classified as irregular in terms of the provisions of the PFMA:		
	130,249,531	40,043,332
Gateway	50,706,332	
CabEnet	43,856,426	-
Turnaround Strategy***	15,372,169	-
Youth Internship Program	12,399,092	-
Establishment of the Office of the Ombudsman	6,279,612	-
Other	1,635,900	40,043,332

\*\*\* The R15,3 million in respect of the turnaround strategy was actually incurred in the current financial year. The other amounts that make up the R130.2 million were incurred prior to the 2005 financial year.

There were six instances of non-compliance with SITA Procurement Policies and Procedures (SPPP) in relation to the selection of various suppliers of equipment and service providers to a combined value of R130.2 million. These expenditures constitute irregular expenditure in terms of the PFMA.

The R40 million with regard to 2004 relates to three (3) instances where employees exceeded their delegation of authority when orders were approved (R3.1 million) and procedural non-compliance with the SITA Procurement Policies and Procedures in relation to the procurement of services from six (6) service providers (R36.9 million).

## Notes to the Annual Financial Statements (Cont.)

	2005 R	2004 R
<b>21.2 Fruitless and wasteful expenditure</b>		
The following expense items, which are included in the irregular expenses, have been identified as fruitless and wasteful in terms of the PFMA:		
	22,974,375	-
• Gateway	21,647,110	-
• Other	1,327,265	-

Expenditure amounting to R21.6 million of the total amount of R22.9 million which was incurred on the Gateway project constitutes fruitless and wasteful expenditure in terms of the PFMA as:

- Benefits of the services provided by the Strategic and Legal advisors were not realised due to the failure of the project team to communicate and make use of the input provided by the advisors;
- Additional software over and above what was required in terms of the tender specifications was purchased;
- The call centre for the Gateway project was expanded to 70 seats that were not budgeted for even though Phase I of the project required only 15 seats. The expenditure should have been deferred until demand for the call centre necessitated additional agents; and
- Equipment and software procured for the project was overcharged by the suppliers.

The balance of R1.3 million relates to sundry amounts spent on various projects each of which amounts to less than R500,000.

Disciplinary measures have been initiated and/or in the process of being initiated against the SITA employees implicated in all the above irregular and fruitless and wasteful expenditure. In addition, where applicable, civil and criminal action is currently being considered.

### 22. CAPITAL COMMITMENTS

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

At year-end the company has an amount of R202,6 million that has been approved for capital acquisitions that has not yet been contracted for.



	2005 R	2004 R
<b>23. OPERATING LEASES</b>		
At balance sheet date SITA had operating leases which relate to the premises that it occupies in the regions. The operating leases relate to the buildings and the parking on these premises. The future minimum lease payments under these non-cancellable operating lease agreements are as follows:		
Payable within 1 year	20,980,353	20,709,118
Payable between 1 and 5 years	43,967,139	64,301,802
Payable over 5 years	42,178	687,867
	64,989,670	85,698,787
<b>24. NOTES TO THE CASH FLOW STATEMENT</b>		
<b>24.1 Increase in trade and other receivables</b>		
Opening trade and other receivables	480,642,911	407,999,977
Trade and other receivables as per balance sheet	(689,876,891)	(480,642,911)
(Increase)/decrease in provision for doubtful debts	(6,405,935)	27,005,534
	(215,639,915)	(45,637,400)
<b>24.2 Normal taxation paid</b>		
Opening taxation balance	26,133,332	23,574,116
Current year normal taxation charge	(28,212,458)	(17,752,272)
Closing taxation balance	(21,681,916)	(26,133,332)
Normal taxation paid	(23,761,042)	(20,311,484)

# Annexure A - Remuneration Schedule 2005

<b>Non Executive Directors</b>	<b>Designation</b>	<b>Duration</b>	<b>Fees as Director</b>	<b>Other Services</b>
<b><i>Current Board Members</i></b>				
Ms. Z Manase	Chairperson	12 months ending 31 March 2005	195,724	245
Ms. L Abrahams	Board Member	12 months ending 31 March 2005	30,843	1,086
Adv. L Gcabashe	Board Member	12 months ending 31 March 2005	36,611	1,224
Mr. M Roussos	Board Member	12 months ending 31 March 2005	22,393	1,243
Mr. C Kruger	Board Member	12 months ending 31 March 2005	0	0
Dr. S Sibisi	Board Member	12 months ending 31 March 2005	0	0
			<b>285,571</b>	<b>3,798</b>
<b><i>Executive Members</i></b>				
Mr. M Msimang	CEO	12 months ending 31 March 2005		
Mr. K Buthelezi	Member	12 months ending 31 March 2005		
Mr. P Els	CFO	12 months ending 31 March 2005		
Ms. H Fouche	Member	3.5 months ending 16 July 2004		
Mr. J Bogoshi	Member	8 months ending 31 March 2005		
Ms. N Isaacs-Mpulo	Member	12 months ending 31 March 2005		
Ms. T Geldenhuys	Company Secretary	12 months ending 31 March 2005		
Ms. M Mojapelo	Member	3.5 months ending 15 July 2004		
Mr. V Magagula	CIO	9 months ending 31 March 2005		
Mr. J Mazibuko	Member	9 months ending 31 March 2005		
Mr. S Ngubane	Member	12 months ending 31 March 2005		
Mr. F Mobu	Member	9 months ending 31 March 2005		
Mr. P Motsepe	Member	8 months ending 31 March 2005		
Mr. D Ramahotswa	Member	3 months ending 30 June 2004		
Mr. Z Serepo	Member	2 months ending 31 May 2004		



Basic Salary	Annual Payment: Bonus & leave	Expense Allowances	Petrol Card	Contributions to pension, medical or insurance funds	Other - Performance Bonus	Total
0	0	176,319	0	0	0	372,288
0	0	0	0	0	0	31,929
0	0	0	0	0	0	37,835
0	0	0	0	0	0	23,635
0	0	0	0	0	0	0
0	0	0	0	0	0	0
<b>0</b>	<b>0</b>	<b>176,319</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>465,688</b>
755,560	59,555	351,448	7,345		571,400	1,745,308
518,602	39,880	214,996	10,500	2,289	234,504	1,020,771
629,922		230,378	9,000	1,962		871,262
127,925		70,014	5,565		51,586	255,090
408,271	10,975	110,048		981	261,294	791,569
607,243		87,963	7,081	4,670	269,890	976,847
530,982	27,147	167,650	7,339	2,471	136,704	872,293
183,555		71,456	5,250	817		261,078
317,885	8,510	139,055		2,907	211,721	680,078
398,428	14,612	179,392		296	238,386	831,114
687,401	30,584	215,260	10,500	518	265,042	1,209,305
376,485	12,942	136,490		1,308	232,260	759,485
368,087	3,764	180,579		715	256,430	809,575
124,500	476,243	87,337	4,500	1,548		694,128
100,505	41,872	36,251	3,000			181,628
<b>6,135,351</b>	<b>726,084</b>	<b>2,278,317</b>	<b>70,080</b>	<b>20,482</b>	<b>2,729,217</b>	<b>11,959,531</b>

# Annexure A - Remuneration Schedule 2004

<b>Non Executive Directors</b>	<b>Fees as Director</b>	<b>Other Services</b>	<b>Basic Salary</b>	<b>Annual Payment: Bonus &amp; leave</b>	<b>Expense Allowances</b>
<b>Current Board Members</b>					
Ms. Z Manase	102,585	3,060	0	0	0
Ms. L Abrahams	53,620	2,027	0	0	0
Adv. L Gcabashe	67,658	2,349	0	0	0
Mr. C Kruger	0	0	0	0	0
Dr. A Ngcaba	0	0	0	0	0
Mr. R Ramaite	0	0	0	0	0
Mr. M Roussos	0	0	0	0	0
Dr. S Sibisi	0	0	0	0	0
Mr. J Grundling	0	0	0	0	0
Mr. B Kgomo	0	0	0	0	0
Ms. L Orleyn	0	0	0	0	0
Mr. L Mbete	0	0	0	0	0
Ms. L Mthembu	0	0	0	0	0
Mr. N Malamla	0	0	0	0	0
Mr. I Mamoojee	0	0	0	0	0
Mr. P Monkeki	0	0	0	0	0
Mr. S Sakawuli	0	0	0	0	0
	<b>223,863</b>	<b>7,436</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Executive Members</b>					
Mr. M Msimang	0	0	357,330	9,926	143,023
Mr. K Modise	0	0	507,667	409,810	307,619
Mr. K Buthelezi	0	0	297,840	12,663	119,860
Mr. P Els	0	0	586,340	0	222,448
Ms. H Fouche	0	0	409,920	34,160	217,163
Ms.P Gumede	0	0	312,120	64,410	126,651
Ms. N Isaacs-Mpulo	0	0	125,970	0	49,082
Adv. B Maripe	0	0	410,355	34,196	172,859
Ms. M Mojapelo	0	0	588,100	0	305,253
Mr. M Moseki	0	0	342,767	116,555	129,982
Mr. T Netsianda	0	0	387,900	32,325	159,514
Mr. S Ngubane	0	0	147,000	12,250	58,801
Mr. M Radebe	0	0	469,901	18,537	192,126
Mr. D Ramahotswa	0	0	175,686	14,640	125,526
Mr. Z Serepo	0	0	603,038	0	220,508
Mr. D Sethsedi	0	0	540,000	600,443	115,758
Mr. J Tshabalala	0	0	252,793	79,243	108,735
	<b>0</b>	<b>0</b>	<b>6,514,727</b>	<b>1,439,158</b>	<b>2,774,908</b>







<b>Petrol Card</b>	<b>Contributions to pension, medical or insurance funds</b>	<b>Commissions or Profit sharing</b>	<b>Share options</b>	<b>Other - Performance Bonus</b>	<b>Total</b>
0	0	0	0	0	105,645
0	0	0	0	0	55,647
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	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
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>231,299</b>
9,000	70,643	0	0	660,000	1,249,922
12,000	83,686	0	0	500,000	1,820,782
13,500	70,824	0	0	141,965	656,652
18,000	112,252	0	0	651,487	1,590,527
18,000	56,843	0	0	134,709	870,795
12,000	68,553	0	0	93,636	677,370
4,500	24,948	0	0	45,179	249,679
18,000	0	0	0	0	635,410
18,000	109,634	0	0	736,754	1,757,741
13,500	48,713	0	0	0	651,517
18,000	87,353	0	0	17,507	702,599
4,500	32,435	0	0	88,200	343,186
18,000	62,654	0	0	30,649	791,867
6,000	34,823	0	0	132,300	488,975
18,000	125,162	0	0	0	966,708
13,500	32,382	0	0	120,000	1,422,083
15,000	58,871	0	0	0	514,642
<b>229,500</b>	<b>1,079,776</b>	<b>0</b>	<b>0</b>	<b>3,352,386</b>	<b>15,390,455</b>

# Shareholder's Diary

<b>Shareholder's Diary</b>	<b>Date</b>
Sixth Annual General Meeting	August 2005
Submission to the Minister	31 August 2005
Submission to Parliament	16 September 2005
End of new financial year	31 March 2006
<b>Business Plan: 2006/2007</b>	
Approval by the Board of Directors	February 2006
Submission to Department of Public Service and Administration	March 2006
Submission to National Treasury	March 2006
<b>Strategic Plan: 2006/2007 to 2008/2009</b>	
Approval by the Board of Directors	September 2005
Submission to Department of Public Service and Administration	October 2005
Submission to National Treasury	October 2005
<b>Quarterly Reports</b>	
Submission to Department of Public Service and Administration	30 days after end of each quarter
<b>Tariff Increases</b>	
Submission to Department of Public Service and Administration	July 2005
<b>Directorate at 31 March 2005</b>	
Ms. Z P Manase (Chairman)	
Ms. L A Abrahams	
Adv. L Gcabashe	
Mr. C C W Kruger	
Mr. M Roussos	
Dr. S P Sibisi	
<b>Directorate at 4 August 2005</b>	
Ms. T P C Chikane (Chairman)	
Mr. R J Barjaktarevic	
Ms. N Dhevcharran	
Ms. N C Isaacs-Mpulo	
Mr. L Jones	
Mr. C C W Kruger	
Ms. Z P Manase	
Prof. T Marwala	
Ms. N Moerane	
Mr. M Msimang	
Mr. P Pedlar	
<b>Company Secretary</b>	
Ms T V Geldenhuys	
<b>Address</b>	
P O Box 26100, Monument Park, Pretoria 0105	
459 Tsitsa Street, Erasmuskloof, Pretoria 0001	
<b>Auditors</b>	
Auditor-General	
271 Veale Street (New Building)	
New Muckleneuk, Pretoria	
<b>Bankers</b>	
Standard Bank of South Africa Limited	



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## **Company Secretariat:**

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