CONSTITUTIONAL COURT OF SOUTH AFRICA

Case CCT 48/17

In the matter between:

SOUTH AFRICAN SOCIAL SECURITY AGENCY	First Applicant
CHIEF EXECUTIVE OFFICER OF THE SOUTH AFRICAN SOCIAL SECURITY AGENCY	Second Applicant
and	
MINISTER OF SOCIAL DEVELOPMENT	First Respondent
BLACK SASH TRUST	Second Respondent
MINISTER OF FINANCE	Third Respondent
NATIONAL TREASURY	Fourth Respondent
CASH PAYMASTER SERVICES (PTY) LIMITED	Fifth Respondent
INFORMATION REGULATOR	Sixth Respondent
SOUTH AFRICAN POST OFFICE SOC LIMITED	Seventh Respondent
FREEDOM UNDER LAW	Eight Respondent
and	
CORRUPTION WATCH (NPC) RF	First Amicus Curiae

FILING SHEET

Documents filed pursuant to the Constitutional Court's order dated 23 March 2018:

1. Independent Auditors Report by Mazars dated 8 November 2018

SIGNED and **DATED** at **JOHANNESBURG** on this the 8th day of **NOVEMBER 2018**.

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MAZARS

Independent Auditor's Report to the Directors of Cash Paymaster Services Proprietary Limited

Opinion

We have audited the statement of the expenses incurred, the income received and the net profit earned under the South African Social Security Agency ("SASSA") contract dated 3 February 2012 ("the Contract") for the 12 month period beginning 01 April 2017 and ending 31 March 2018 and the 6 month period beginning 01 April 2018 and ending 30 September 2018, and accompanying notes (together "the Statement").

In our opinion, the Statement has been prepared in all material respects, in accordance with the basis of preparation set out in the notes to the Statement.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Statement* section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of preparation and Restriction on Use

We draw attention to the notes to the Statement, which describe the basis of preparation. The Statement has been prepared to assist the Company to provide information to the Constitutional Court as required in terms of the Constitutional Court judgement handed down on 17 March 2017 in the case of *Black Sash Trust v Minister of Social Development and Others [2017] ZACC 8* and on 23 March 2018 in the case of *South African Social Security Agency and others v Minister of Social Development and others [2018] ZACC.* The Statement may not be suitable for another purpose. These are not the Company's statutory financial statements which are prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. Our report is intended solely for the Company and Constitutional Court and should not be used by parties other than the Company or the Constitutional Court. Our opinion is not modified in respect of this matter.

Responsibilities of the Directors for the Statement

The directors are responsible for the preparation of the Statement in accordance with the basis of preparation set out in the notes to the Statement. This includes determining that the basis of accounting is an acceptable basis for the preparation of the statement in the circumstances, and for such internal control as the directors determine is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

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Auditor's Responsibilities for the Audit of the Statement

Our objectives are to obtain reasonable assurance about whether the Statement is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Statement.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Mazars

Mazars
Partner: Shaun Vorster
Registered Auditor
08 November 2018
Johannesburg

SASSA Tender 01/11/BS

Audited Statements of Expenses Incurred, the Income Received and the Net Profit Earned under the Contract Extensions

	For the year ended 31 March 2018	For the six months ended 30 September 2018
Income received	1,869,153,180	131,019,867
Expenses incurred		
Operational cost	1,548,499,741	626,167,428
Administration cost	175,844,634	61,845,062
	1,724,344,375	688,012,490
Net profit before tax	144,808,805	(556,992,623)
Taxation	40,548,514	-
Net profit after tax	104,260,291	(556,992,623)

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Notes to the Audited Statements of the Expenses Incurred, the Income Received and the Net Profit Earned under the Contract for the year ended 31 March 2018 and six months ended 30 September 2018 ("Statements")

1. ***Purpose of the Statements***
These Statements have been prepared to provide information to the Constitutional Court as required in terms of the orders handed down on 17 March 2017 and 23 March 2018 which require audited statements of the expenses incurred, the income received and the net profit earned under the contract extensions for the payment of social grants entered into by and between the South African Social Security Agency (SASSA) and Cash Paymaster Services Proprietary Limited (CPS). These are not the CPS statutory financial statements which are prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa.

2. ***Basis of Preparation of the Statements***
The Statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards applicable to the preparation of the Statements and the requirements of the contract for the payment of social grants entered into by and between SASSA and CPS. The Statements are prepared on the historical cost basis.

The presentation and functional currency is South African Rand (R) and amounts are rounded to the nearest R1.

The accounting policies were selected and applied consistently for similar transactions and are consistent with those used for the preparation of the Statement for the five years ended 31 March 2017.

The directors have selected and applied the following significant accounting policies in the preparation of the Statements. The directors have interpreted the words "under the contract" as relating directly to the SASSA contract and therefore income and expenses incidental to but not arising from the contract have been excluded from the Statements.

Revenue
Revenue from the rendering of services is recognised when the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow; the stage of completion of the transaction at the reporting date can be measured reliably and the cost incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods has transferred to the buyer; neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold are retained; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

Under the Constitutional Court order of 23 March 2018, related to the extension of the SASSA contract to 30 September 2018 in respect of the recipients paid at cash pay points, CPS were granted permission to approach National Treasury to request revised pricing of the contract. National Treasury provided a recommendation to the Constitutional Court in compliance with their order at a price per recipient of R51.00 (VAT inclusive) per month for

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those recipients paid at cash points. Although CPS offered to accept this amount in respect of the three months ended 30 June 2018 when the number of recipients paid approximated two million per month, CPS has asked the Constitutional Court to reconsider the pricing for the last three months of the contract. Neither the National Treasury recommendation nor the CPS proposal has been approved by the Constitutional Court to date and as a result in these Statements revenue has been recognised at the rate set forth in the original contract, being R16.44 (VAT inclusive). Given the material nature of the differential between the recommended and historical amounts, a final set of Statements can only be provided once the Constitutional Court provides its determination on this matter.

Depreciation
The depreciable amount of an asset is allocated on a systematic basis, using the straight line method, over its useful life as a depreciation charge to expenses. The depreciable amount is the cost of an asset less its residual value.

The cost of an asset comprises its purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

The residual value of an asset is the estimated net amount that would currently be obtained from disposal of the asset as if the asset were already of the age and condition expected at the end of its useful life. The useful life of an asset is the period over which an asset is expected to be available for use or the number of units expected to be obtained from the asset. Each part of an asset with a cost that is significant in relation to the total cost of the item is depreciated separately.

Provisions and contingent liabilities
A provision is recognised when there is a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the present value of the expenditure is used to recognise the provision.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity or a present obligation that arises from past events that is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount cannot be measured with sufficient reliability.

The Statements do not record contingent liabilities, but disclosed below are the facts and circumstances around a dispute.

Contingent liability: Challenge to payment by SASSA of additional implementation costs
In June 2014, CPS received R277 million, excluding VAT, from SASSA, related to the recovery of additional implementation costs incurred during the beneficiary re-registration process in fiscal 2012 and 2013. After the award of the tender, SASSA requested that CPS biometrically register all social grant beneficiaries (including child grant beneficiaries) and collect additional information for each child grant recipient. CPS agreed to SASSA's

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request and, as a result, performed approximately 11.0 million additional registrations beyond those that CPS tendered for at the quoted service fee. Accordingly, CPS sought reimbursement from SASSA, supported by a factual findings certificate from an independent auditing firm. SASSA agreed to pay CPS the R277 million as full settlement of the additional costs incurred.

In March 2015, Corruption Watch, a South African non-profit civil society organisation, commenced legal proceedings in the High Court of South Africa seeking an order by the Pretoria High Court to review and set aside the decision of SASSA's Chief Executive Officer to approve the payment to CPS and directing CPS to repay the aforesaid amount, plus interest. Corruption Watch claimed that there was no lawful basis to make the payment, and that the decision was unreasonable and irrational and did not comply with South African legislation. CPS was named as a respondent in this legal proceeding.

In March 2018 the High Court ordered that the 2012 variation agreement between SASSA and CPS be reviewed and set aside. CPS was ordered to refund the R277 million to SASSA, plus interest from June 2014 to date of payment. The interest on this amount up until 30 September 2018 has been calculated as R138 million. The income of R277 million was recorded in the Statements for the five year period ended 31 March 2017.

On May 2018, CPS delivered its petition seeking leave to appeal the whole order and judgment of the High Court with the Supreme Court of Appeal, which has granted the leave to appeal. The matter is expected to be heard during the first half of calendar 2019. CPS cannot predict how the Supreme Court will rule on the matter.

Leases
Operating leases are recognised by the lessee as an expense.

Operating lease expenses are recognised on a straight-line basis over the lease term.

Employee benefits
Short-term employee benefits paid in exchange for services rendered by employees during a reporting period are recognised as an expense.

The cost of unused leave that has accumulated at the reporting date is recognised as an expense.

When there is a present legal or constructive obligation to make a bonus payment as a result of a past event and a reliable estimate of the obligation can be made, it is recognised as an expense.

When there is a present legal or constructive obligation and a demonstrable commitment to terminate the employment of employees before retirement, the expected cost of termination benefits is recognised as an expense.

Short-term employee benefits are recognised at the undiscounted amount.

Inventories and cost of sales
Inventories are measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned by using the weighted average cost formula.

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After recognition, inventory is carried at its carrying amount, which is the lower of cost and net realisable value.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from the increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Foreign currency transactions
A foreign currency transaction is recorded by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Income tax
A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit or taxable profit.

CPS has incurred a substantial tax loss for the six month reporting period ended 30 September 2018. The directors have considered the potential for future taxable income and have determined that it is not probable that sufficient taxable profit will be available to allow the company to recover part or all of any associated deferred tax asset. Therefore the directors concluded that it is not reasonable to raise a deferred tax asset.

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted.

Current and deferred tax are recognised as income or an expense and included in profit and loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or different period, outside profit or loss, to other comprehensive income, directly to equity or arises from a business combination. These are recognised in other comprehensive income, directly in equity and goodwill, respectively.

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