



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Communications

9 November 2021

OUR MISSION AND VISION



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognized by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

Mandate for AGSA and Portfolio Committees

AGSA Mandate

Constitution Section 188

AGSA must audit and report on the accounts, financial statements and financial management of government institutions.

PAA Section 20(2)

- AGSA must prepare an audit report containing an opinion/ conclusion on the:
 - Fair presentation of the financial statements;
 - Compliance with applicable legislation; and
 - Reported performance against predetermined objectives.
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- The Auditor General has the power to:
 - Take an appropriate remedial action; and
 - issue a certificate of debt, as prescribed, where an accounting officer/ authority has failed to comply with remedial action.

Portfolio Committees

Rule 227 of the National Assembly Rules

Portfolio committees may amongst other things perform the following functions:

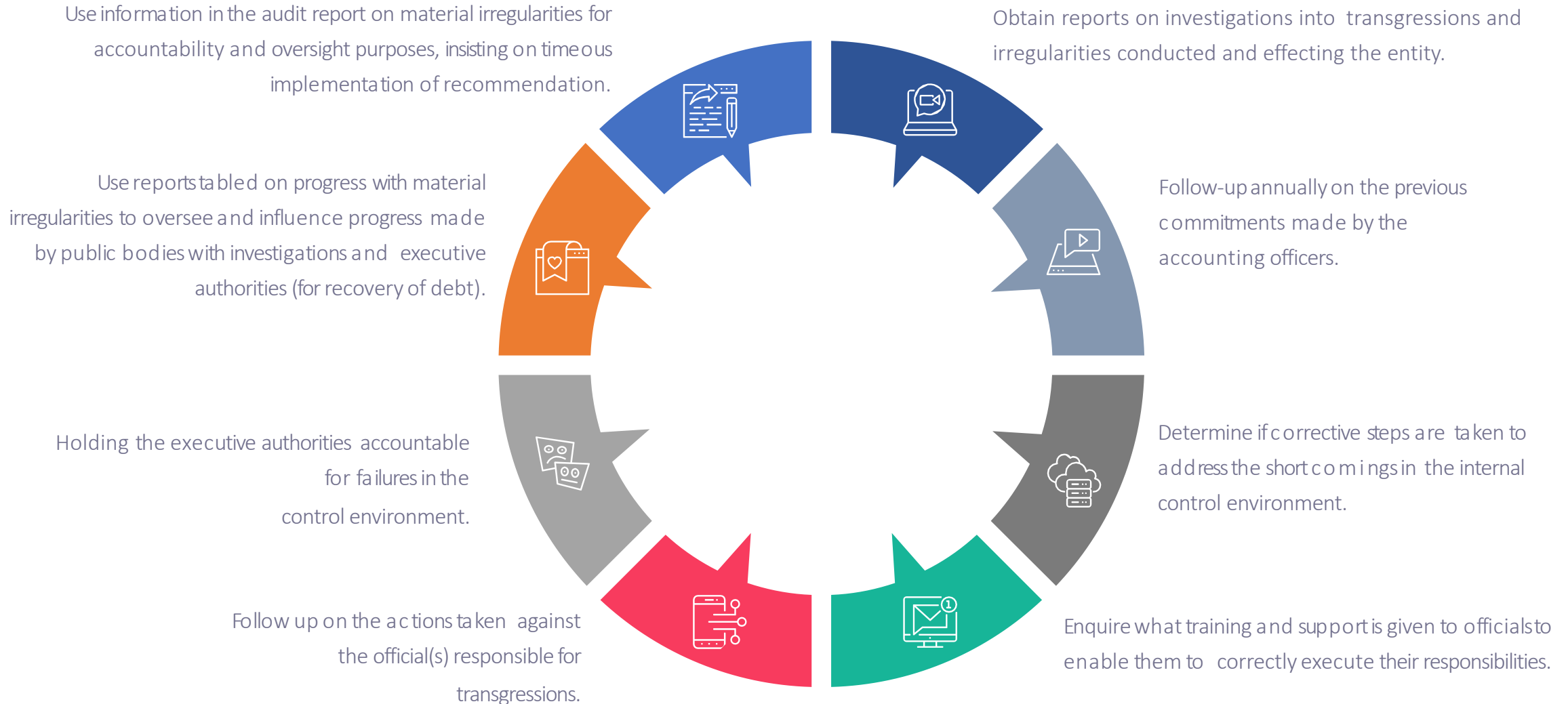
- Deal with bills and other matters falling within its portfolio as are referred to it in terms of the constitution, legislation, rules or by resolution of the Assembly.
- Also maintain oversight of its portfolio of national executive authority, including the implementation of legislation.
- May monitor, investigate, enquire into and make recommendations concerning any such executive organ of state constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution.
- May consult and liaise with any executive organ of the state or constitutional institution

Role of AGSA in Reporting process

Our role as the Auditor General of South Africa (AGSA) is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



What we understand as the role of oversight





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Focus



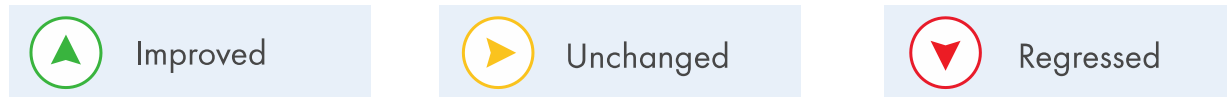
Important to note

The percentages in this presentation are calculated based on the **completed audits of nine auditees**, unless indicated otherwise.

Audit outcomes are indicated as follows:



Movement over the previous year is depicted as follows:



THE AG'S ANNUAL AUDITS EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND ABSENCE OF SIGNIFICANT MISSTATEMENTS IN FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL LAWS AND REGULATIONS GOVERNING FINANCIAL MATTERS

The AGSA expresses the following different audit opinions

Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

Disclaimed opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

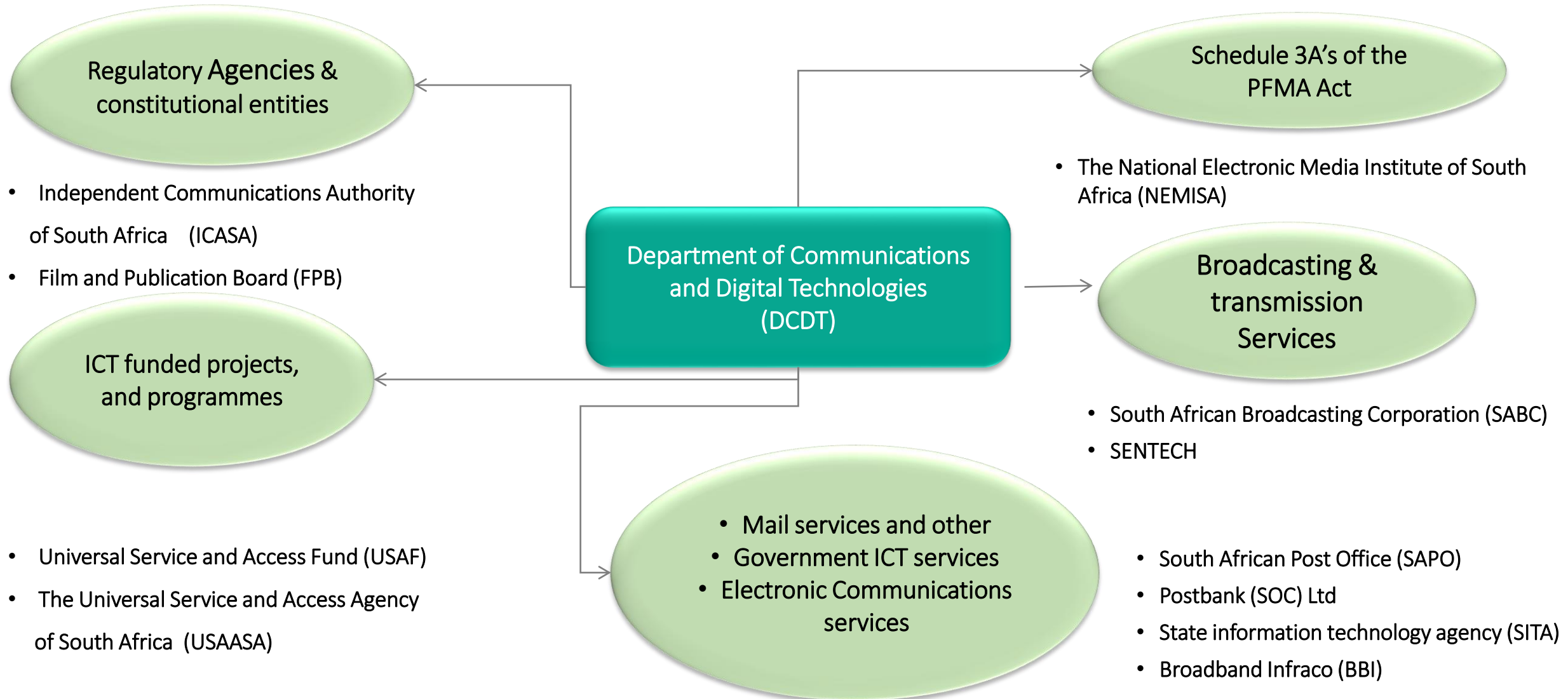


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Portfolio outcome

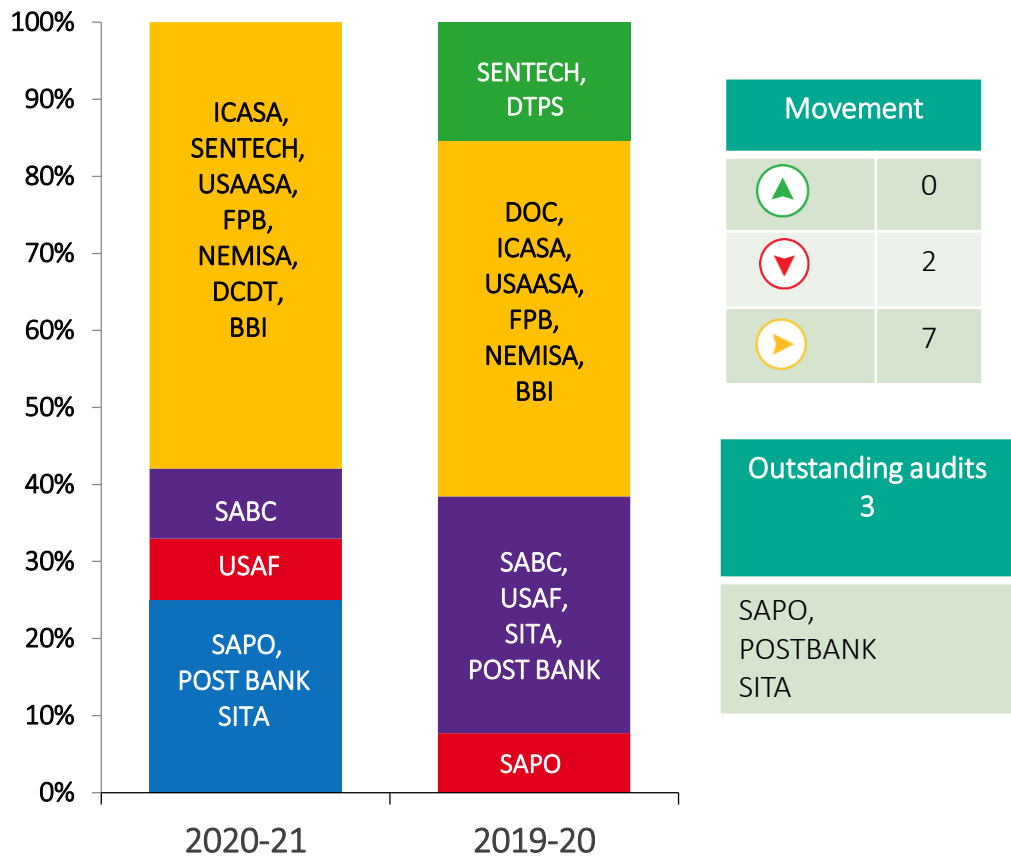


Communications portfolio



Audit outcomes of the finance portfolio over two years

The objective of this document is to brief the communications portfolio committee on the audit outcomes for the period ended 31 March 2021. In this presentation we highlight recommendations in order to improve audit outcomes for the portfolio.



Movement	
▲	0
▼	2
▶	7

Outstanding audits	
3	
SAPO, POSTBANK SITA	

The overall outcomes (9 auditees) regressed as **SENTECH and DCDT (DTPS)** did not maintain their unqualified financial audit opinion *with no findings (clean audit)*.

- SENTECH** *regressed as a result of inadequate controls* to prevent fruitless and wasteful expenditure (FW) and ensuring the quality of the Annual Financial Statements (AFS) prior to submission for audit.
Recommendations: Daily and monthly closure controls and controls over payments – action plans implemented to be followed up
- DCDT (DTPS and DOC merged departments)** *regressed as material non-compliance findings were raised in the new department* (Quality of AFS and Consequences management (mainly from DoC))
Recommendations: Daily and monthly closure controls and implement consequence management processes
- USAF** *regressed from qualified to a disclaimer*. **USAF** entered into an implementing agent arrangement with **Sentech** in the current year to install the STB. No controls over the number of STB and no supporting documentation resulting in more qualification areas which was material and pervasive.
Recommendation: Implement proper record keeping and monthly reconciliations
- SABC** – *Stability in leadership and the strengthening in internal controls* reduced the number of qualification paragraphs. 1 x qualification remains on the completeness of irregular expenditure due to opening balances. *Emphasis of matter on going concern still remains a concern.*
- Predetermined objective material findings - DCDT and USAF**
 Number of subsidised digital television installations indicator - there were no adequate internal control processes implemented by the role players to :
 - Collect and collate the evidence for the actual reported achievement and
 - Record and report on the actual achievement

Audit outcomes are indicated as follows					
Green	Unqualified with no findings	Yellow	Qualified with findings	Purple	Qualified with findings with movement
Pink	Adverse with findings	Red	Disclaimed with findings	Blue	Outstanding audits

Portfolio overall message (outstanding audits and key matters to note) – continue

Outstanding audits consists of SAPO, Postbank and SITA:

- **SAPO** - The entity's failure to manage a (1) healthy financial position, (2) SASSA contract and (3) the split between the Postbank and Post office resulted in the entity receiving a disclaimer of opinion, with 17 limitation of scope issues that formed the basis in 2019-20. Failure to plan properly and the resultant poor internal controls was the root cause despite assurances by management that it was geared to roll out the implementation of the SASSA contract. *The roll over effect now impacts the current audit for which the finalisation is delayed as a result and impacted the Postbank.*
- **SITA** - The current year audit started late due to the late sign-off of the prior year audit and availability of the audit team. As part of the audit process management is awarded an opportunity to correct material misstatements identified and the auditors are busy auditing the material corrections and adjustments which were effected by management.
- **Postbank** – The prior year audit was also signed off late on 5 July 2021, resulting in significant delays in the 2020-21 audit. The auditors are also currently busy auditing the material adjustments to financial statements.

Key matters to note:

- **SAPO** is heavily invested in trying to survive the next salary run due to their insolvency situation, as a result they miss opportunities to turn around their business. *The entity does not have sufficient resources to build capacity to plan and implement their turnaround strategy and proper internal controls.* **The prospect of them addressing the issue of going concern in the near future remains a significant cause for concern if the entity does not begin proceedings to facilitate the rehabilitation plan to rescue the entity by restructuring its business in a manner that maximises their likelihood to continue in existence on a solvent basis.** This will also ensure that the entity attracts and retains the talent needed in both its operations and financial segments, to sustain it in the long run.
- **Postbank** is still in the process of applying for a banking license, the extension of the audit period was successful in improving the 2019-20 audit outcome from a potential disclaimer to a qualification. This was also as a direct result of the lack of planning for the split from SAPO in the previous year. Despite addressing many areas then, the entity was still qualified in the current year due to inadequate controls on the Other deposits and corresponding liabilities balances.

Communication portfolio overall message continued....

To ensure that the entities within the portfolio receive a good audit outcome, good practices must be implemented such as:

- ***A leadership culture that is committed to take action*** to address any findings identified supported by adequately resourced and skilled staff.
- **Leadership oversight** that is entrenched in the organisation.
- ***Continuously implementing and monitoring of internal controls over financial and performance reporting.***
- Internal audit function that effectively executes their mandate with the thorough **follow up of audit action plans**.
- Board, through the audit committee that plays an active oversight role in the **monitoring of the implementation of the actions plans** to address prior year audit findings.

Portfolio committee should enhance in-year monitoring processes to ensure that the good practices as indicated above are implemented and maintained by all entities in the portfolio.

Key root causes in the internal control environment

- Inadequate controls to prevent non-compliance
- Management did not implement adequate review and monitoring controls over the preparation of the financial statements.
- Management was not effective in developing and monitoring the implementation of action plans.

We recommend that accounting officers / authorities:

Strengthened preventative controls to identify non-compliance.

- continue to do their work through the **effective monitoring and oversight by the audit committees** to ensure management implement and enhance processes of review of the financial statements.
- **Review the developed actions plans** thoroughly to ensure that they address the root cause.



Detail analysis of the 3 x focus areas:
Credible financial reporting
Credible performance reporting
Compliance with legislation



First focus area: Credible financial reporting



Financial statements

Submission of financial statements by legislated date PY (SAPO & USAF)

Movement 2020-21 (9) 2019-20 (13)



100% (9)

84% (11)

Financial statements submitted without errors



22% (2)

23% (3)

CY – (ICASA & BBI)

PY (DCDT, ICASA, SENTECH)

Quality of final submission after audit



78% (7)

62% (8)

CY – (ICASA, DCDT, SENTECH, USAASA, FPB, NEMISA, BBI)

PY – (SENTECH, DTPTS, DOC, ICASA, USAASA, BBI, NEMISA, FPB)

Quality of submitted financial statements

- **ICASA and BBI** submitted financial statements that did not contain material misstatements and we wish to commend these two entities
- **SABC and USAF** submitted financial statements that contained material misstatements and was qualified/ disclaimed. The misstatement mainly affected:
 - SABC**-completeness of the Irregular expenditure on opening balance.
 - USAF**-accounting by principals and agents, completeness of related parties, provisions, commitments and inventory.

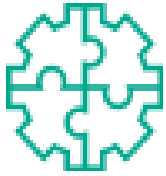
Root cause analysis

- Material misstatements on the AFS was due to **inadequate reviews by management** prior to submission for audit. Majority of the material misstatements identified for the portfolio were on disclosure notes.
- **Lack of adequate action plans** to address internal control deficiencies identified by internal and external auditors.
- **Preventive control measures** not yet effective to reduce repetitive findings.

Recommendations to the accounting officers / authorities:

- Continue to do their work through audit committees to ensure management **implement and enhance processes of review of the financial statements.**
- **Internal audit** to review the AFS (disclosure notes) effectively
- The developed **actions plans must be thoroughly reviewed** to ensure that they address the root cause.
- **Effective monitoring and oversight by the audit committee** is also critical to ensure that these repeat findings are prevented in the next financial year.

Second focus area: Credible performance reporting



Performance report

Performance report submitted without errors

CY- (ICASA, NEMISA, USAASA, FPB, BBI, SENTECH)
 PY- (ICASA, FPB, SENTECH & SITA)

Movement

2020-21 (9)

2019-20 (13)

67% (6)

31% (4)



Performance report adjusted for material misstatements to improve reliability

CY - (ICASA, NEMISA, USAASA, FPB, BBI, SENTECH)
 PY - (DOC, SABC, SENTECH, SITA, DTSP)



67% (6)

38% (5)

Usefulness of performance indicators and targets

CY - (ICASA, USAASA, FPB, BBI, SENTECH, DCDT, USAF, SABC)

Findings raised;
 CY – SABC, USAF, DCDT
 PY – NEMISA



89% (8)

100% (9)

Quality of performance reporting - Regression

- In the current year there has been a regression in the quality of submitted performance information for the 9 auditees.
- **SABC, DCDT and USAF** had findings on reliability of reported performance information. This was due to inadequate monitoring and reporting of reliable performance information.
- **Nemisa** had finding on presentation as the required reasons for variations were not disclosed. **Nemisa** had no improvements compared to the prior year as findings on reliability was reported on. This was due lack of implementation of the action plans to address the prior year performance information control deficiencies.

Root cause analysis

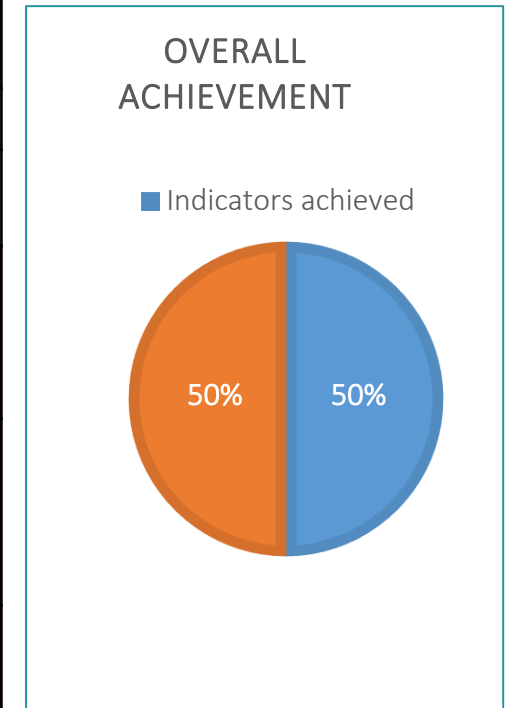
- Information in the annual performance report is **not supported by valid and accurate evidence**.
- **Lack of adequate action plans** to address internal control deficiencies identified by internal and external auditors
- Management did not **adequately implement review and monitoring controls** to ensure reliable reporting of achievements and usefulness of performance indicators and targets.

Recommendations to the accounting officers / authorities

- Auditee need to **design performance indicators** which are well defined and adhere to the SMART criteria.
- **Standard operating procedure/policies** should be improved which contain processes to record information and store supporting evidence for measuring the planned indicator.
- Improve on **action plans** to address findings raised
- **Effective monitoring and oversight by the audit committee** is also critical.

Performance reporting – Continue - Achievement of the planned indicators and targets - DCDT

Programme	Budget spent %	Actual achievement	Comments (Indicators not achieved)
Programme 1 : Administration	83%	(3/4) 75%	None
Programme 2 : ICT International Relations and Affairs	97%	(2/4) 50%	None
Programme 3 : ICT Policy Development and Research	69%	(2/6) 33%	<ul style="list-style-type: none"> • Approved SAPO SOC Ltd Amendment bill. • Approved SABC SOC Ltd bill • Implement data & cloud policy • Implement PC4IR Report
Programme 4 : ICT Enterprise & Public Entity Oversight	99,7%	(1/6) 16%	<ul style="list-style-type: none"> • Approved SOE performance analysis report, APPs and Annual Reports. • ICASA's performance management system • Submission of the 3 bills to cabinet / parliament
Programme 5 : ICT Infrastructure Development and Support	97,8%	(4/8) 50%	<p>Scoped in programme – Unfavorable audit conclusion.</p> <ul style="list-style-type: none"> • Digital Transformation centre established • 860 000 subsidies digital television installations (BDM) – Details of the root cause in the next slide • Distribution of 139 006 vouchers coordinated and monitored (BDM) • Policy on 5G spectrum
Programme 6 : ICT Information Society and Capacity Development	61%	4/4 (100%)	None



Performance reporting – Continue - SA Connect & Broadcasting digital migration (BDM)

SA connect - To promote universal access to high speed and affordable broadband services, especially in rural areas

SA connect – 2021 audited outcome		
Indicator	Target –2021	Actual achievement 2021
Number of Broadband connections to Government facilities sustained	970 connected sites, monitored and sustained	Provision of broadband services to all 970 connected sites were monitored and sustained.

SA connect overall project targets vs achievement		
Project target (inception to 2021)	Achievement (inception to 2021)	Variance
+/- 44 000	3 881	40 119

Role players

- DCDT (oversight)
- SITA (Internet service)
- BBI (Broadband infrastructure)
- Several service providers

Audit observations

- Delays in appointing the service providers
- Delays in appointing the implementing agents due to consultations with National Treasury
- Delays in obtaining funding for phase 2
- Annual targets not met

Broadcasting Digital Migration (BDM)–Migrating from analogue to digital broadcasting.

BDM- 2021 audited outcomes (Qualified)

Indicator	Target	Actual achievement 2021
Number of subsidized digital television installations coordinated and monitored	860,000 subsidized digital television installations coordinated and monitored in three (3) provinces	The target was not met, however Decoder distribution and installation commenced in the targeted Provinces of Free State, Northern Cape, North West and Limpopo which resulted in 12779 installations.

BDM – overall project target vs achievement

Project target (inception to 2021)	Achievement (inception to 2021)	Variance
5 million revised to 4,7 million	598 409 (allocated for installations) –as at 31/03/2021	4 101 591

Role players

- DCDT (oversight)
- USAF (inventory)
- SAPO (registrations & warehouses)
- Sentech (implementing agent)

Audit observations

- DTT installation rate unfavorable to installers leading to low morale in the past
- Service level agreement for installations of STB concluded in October 2020 between Sentech and USAASA / USAF.
- Stakeholder engagements with district and local municipality delayed due to protocols that must be observed.

Progress to date

Revised Broadcasting Digital Migration plan was tabled and approved by cabinet in September 2021 to switch off the remaining areas by March 2022.



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Compliance with legislation



Third focus area: Compliance with legislation

Compliance with legislation - Regression

- Seven (7) auditees have received an unqualified audit opinion with findings on compliance, where SABC was qualified and USAF was disclaimed. Thus the auditees continue to struggle with the compliance with legislation.
- The non-compliance identified is similar to those reported in the prior year. These auditees (**DCDT, SENTECH, USAASA, FPB, NEMISA, ICASA** and **BBI**) did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.
- We will further unpack the challenges of compliance in three (3) sections, i.e. procurement and contract management, expenditure management and consequence management.

Consequence management

Consequence management remains *a challenge at the following entities*:

Irregular Expenditure (**SABC, DCDT, USAF, USAASA**)

Fruitless and wasteful expenditure (**USAF and USAASA**)

There were non-compliance findings raised relating to the lack of some of the investigations or evidence to support such investigations in these entities.

There is inadequate disciplinary actions taken against staff who have caused irregular, fruitless and wasteful expenditure.

Recommendations to AA /AO

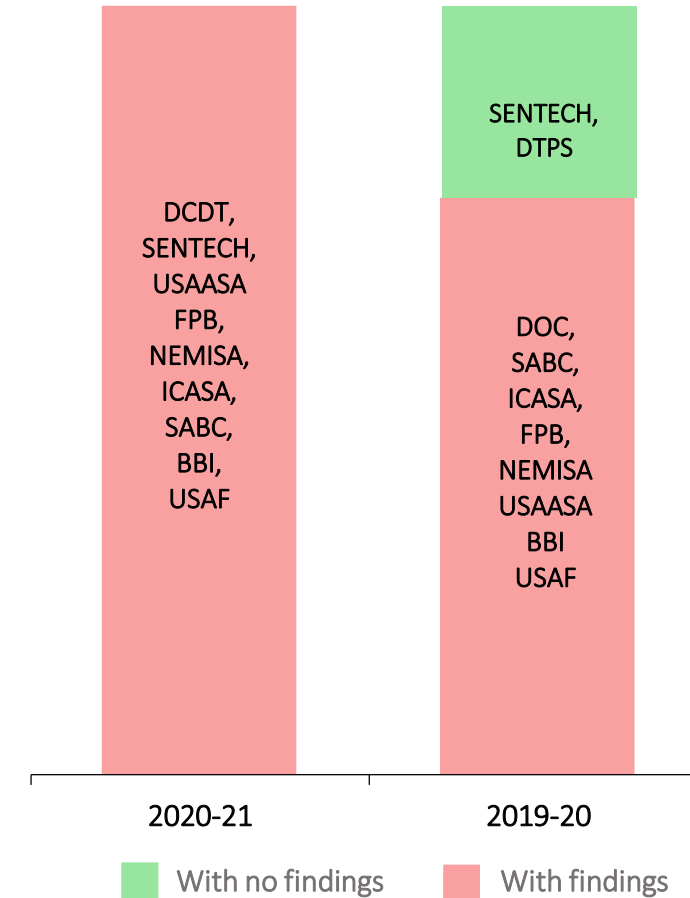
There must be **timely investigations** of the reported IEFW and **follow up actions** be taken where applicable.

Enhance **action plans** to address the repeat findings / non compliance and **strengthen preventative** controls

Internal audit and audit committee must **monitor implementation** of action plan.

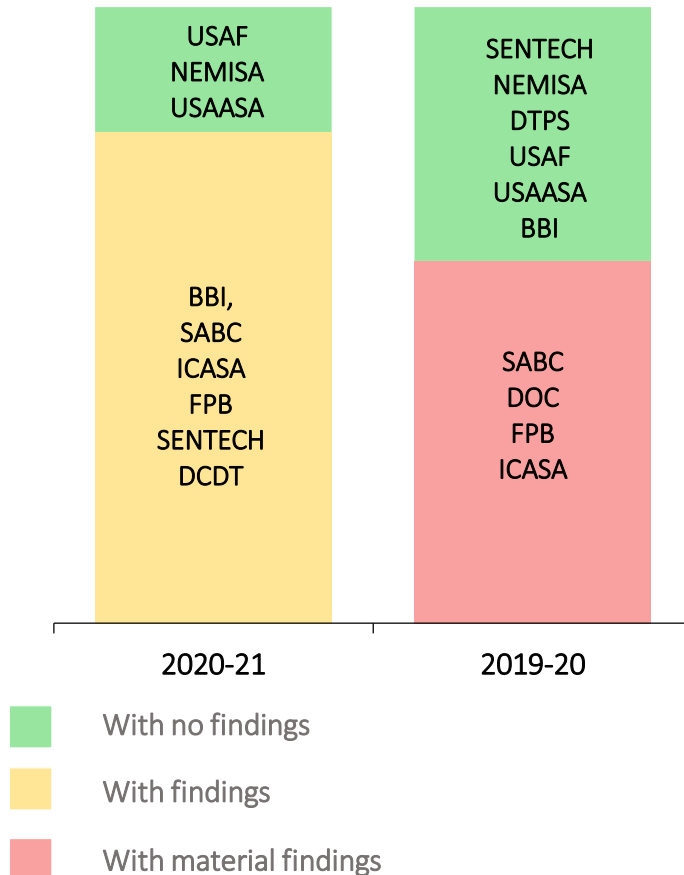


Findings on compliance with key legislation



Supply chain management

▲ Overall improvement in SCM compliance
All SCM findings should be investigated



Most common findings on supply chain management reported to management

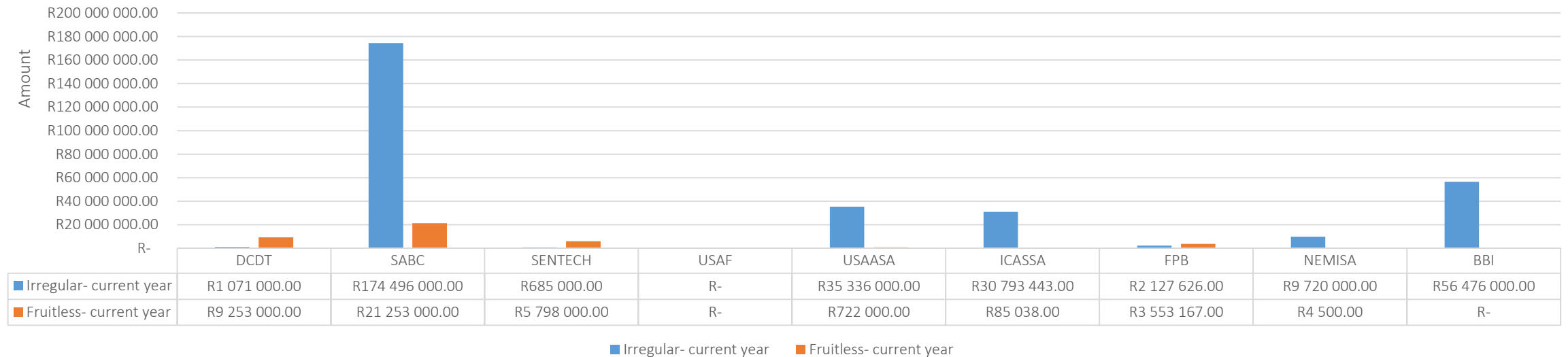
- Awards to persons in the service of the state and their close family members (BBI, ICASA)
- Contract awarded to bid based on preferential points that does not meet the requirements of PPFA (SABC)
- Contract awarded to bidder based on functionality points that were not part of the initial evaluation criteria (SABC)
- Contract extension not in line with NT Instruction (ICASA)
- Awards made without inviting the required quotations. (FBP)
- Payments made where goods and services were not received. (DCDT)
- Awards of persons in service of other state institution (SENTECH)
- Procurement through quotations not approved by delegated official (ICASA)

Recommendations

- **SCM training** to ensure understanding and application of the legislation.
- Accounting officers/ authorities need to ensure that **actions are taken** against staff that transgressed procurement regulations.
- **Effective actions plans** should be in place to ensure root causes relating to none compliance are addressed.
- **Internal audit** to assist with monitoring of addressing procurement findings and providing assurance to management on the controls in place.
- **We commend the portfolio for the improvement of auditees with material findings in the previous year, where majority of the findings are not material**

Irregular, unauthorised, fruitless and wasteful expenditure

Irregular, Fruitless and wasteful expenditure



Nature of irregular, fruitless and wasteful expenditure

Irregular expenditure

- Total irregular expenditure that was incurred during the year total R311 million for the 9 x auditees identified in the current year, relating to current and/or prior years.
- The SABC implemented a project to review the population of procurement transactions from the 01 April 2018 to 31 March 2021. The first phase of the project focused on the FY2021 with procurement transactions amounting to R3,319 billion, of which an amount of R1.705 billion has been confirmed as not irregular and an amount of R121 million has been confirmed as irregular expenditure and recorded accordingly.
- The irregular expenditure mainly relates to, non compliance with Preferential Procurement Regulation 2017, failure to follow a competitive process and payments made without contract

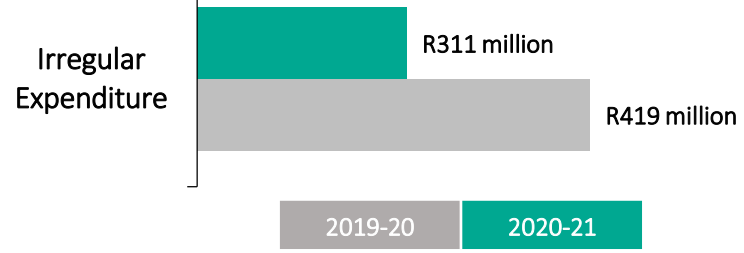
Fruitless and wasteful expenditure

- Total fruitless and wasteful expenditure that was identified during the financial year total R41 million for the 9 x auditees.
- R21 million was incurred by the SABC, which mainly relates to interest and penalties on late payments and rental paid of unoccupied office space.

Irregular expenditure over 2 years

Definition Expenditure incurred in contravention of key legislation; goods may have been delivered but prescribed processes not followed

Irregular expenditure incurred by entities in portfolio (9)



Irregular expenditure decreased by 26% when compared to the prior year.

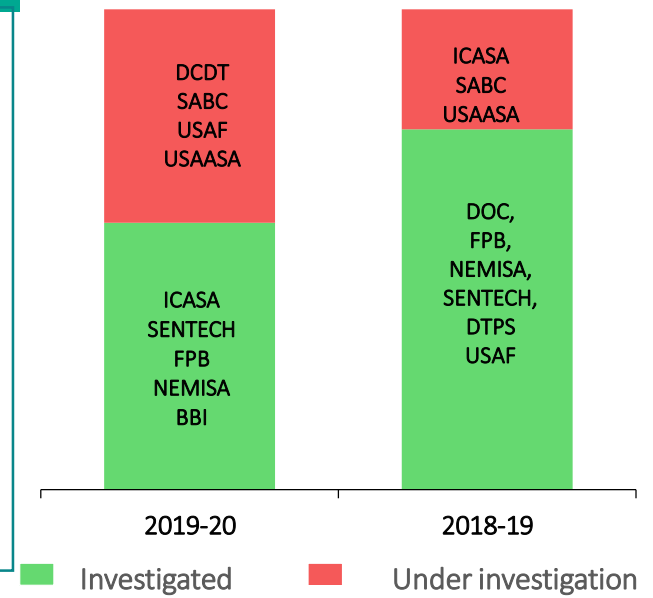
Nature of the irregular expenditure

The highest contributors to irregular expenditure in the portfolio;;

- Payments made to suppliers without a valid contract.
- Payments that did not qualify as deviations which is defined as an emergency, sole source or where prior approval.
- Purchase Orders without obtaining the minimum number of quotations.
- awarded purchase orders /contracts for services without following a competitive bidding or quotation process in accordance with the Policy and PPPFA.
- Variation order in excess of 15% as prescribed by National Treasury.

R2,9 billion relating to **SABC** irregular expenditure balance is awaiting condonation subject to further investigation. **SABC** is currently engaging NT to determine the process going forward
 For **DCDT, USAF AND USAASA**, disciplinary steps were not taken against officials who had incurred irregular expenditure as investigations were not performed.

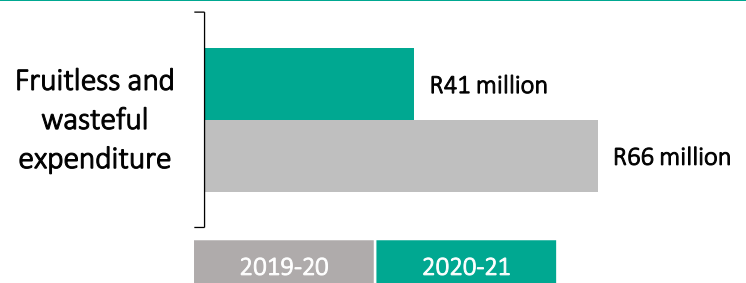
Previous year irregular expenditure reported for investigation



Fruitless and wasteful expenditure over 2 years

Definition Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!

Fruitless and wasteful expenditure incurred by entities in portfolio (9)

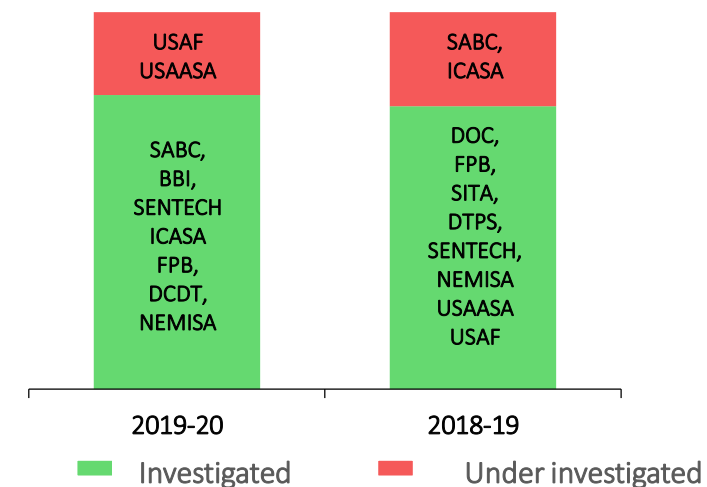


Reduction in Fruitless and wasteful expenditure of 38% compared to prior year.

Nature of the fruitless and wasteful expenditure

- In the current year, **SABC** contributed 50% of the total Fruitless and Wasteful. It was investigated as there are no material non-compliance or consequence management reported in the audit report.
- For **USAF AND USAASA**, disciplinary steps were not taken against officials who had incurred fruitless and wasteful expenditure as investigations were not performed.

Previous year fruitless and wasteful expenditure reported for investigation



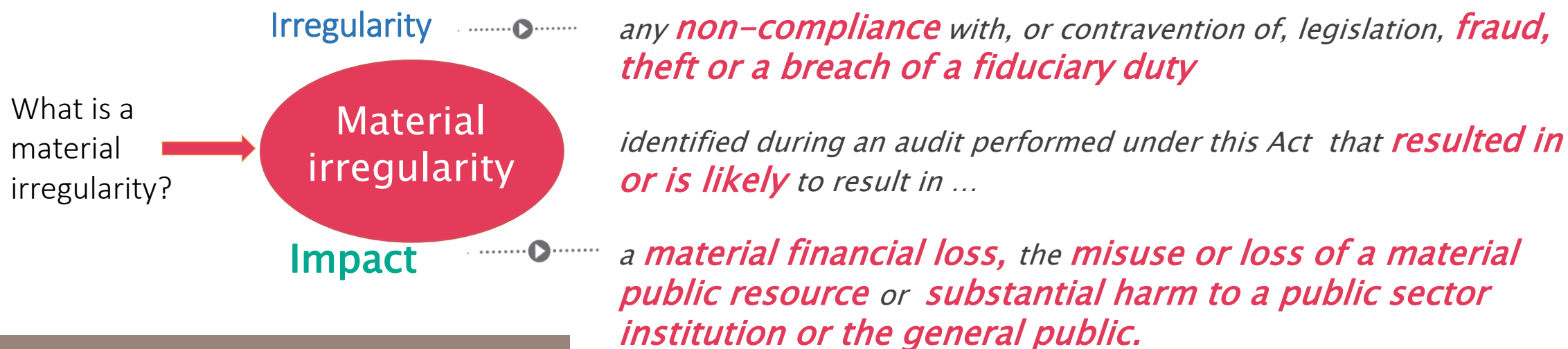


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Material Irregularities



At the center of the PAA amendments – Material irregularity



To allow for establishing capacity and processes, a phased-in approach for identifying material irregularities will be followed in 20–21 based on:

1. the type of material irregularity to be identified and reported
2. the auditees where it will be implemented

Selection criteria

Type of material irregularity

Any non-compliance with the definition stated above.

The material irregularity process is implemented at selected auditees audited by the AGSA that represent a **significant portion of the expenditure budget** and the irregular expenditure of national, provincial and local government, including state owned entities.

The selection is also focused on auditees that are key contributors to the **government priorities**. For the 2021 year, the SABC and SAPO were selected for MI implementation in the communication portfolio.

Implementation of expanded mandate in 2020-21



Status of MI's in-progress:

SABC

- Security contract – in contravention of section 2(1)(f) of the PPPFA relating to 2019/2020. Court proceedings still in progress.

SAPO

- Failure to implement effective controls on customer bank cards issued by the entity (SAPO/ Postbank x 3 issues).
- Software license procured and paid for but not utilized.

Recommendations:

- Adequate in-year monitoring on the MI and consider whether the Executive Authority took the appropriate action after all processes were concluded by the AA.
- Accounting officers / Authorities and management should ensure that there are adequate preventative controls in place to prevent non-compliance linked with the MI's identified in future.



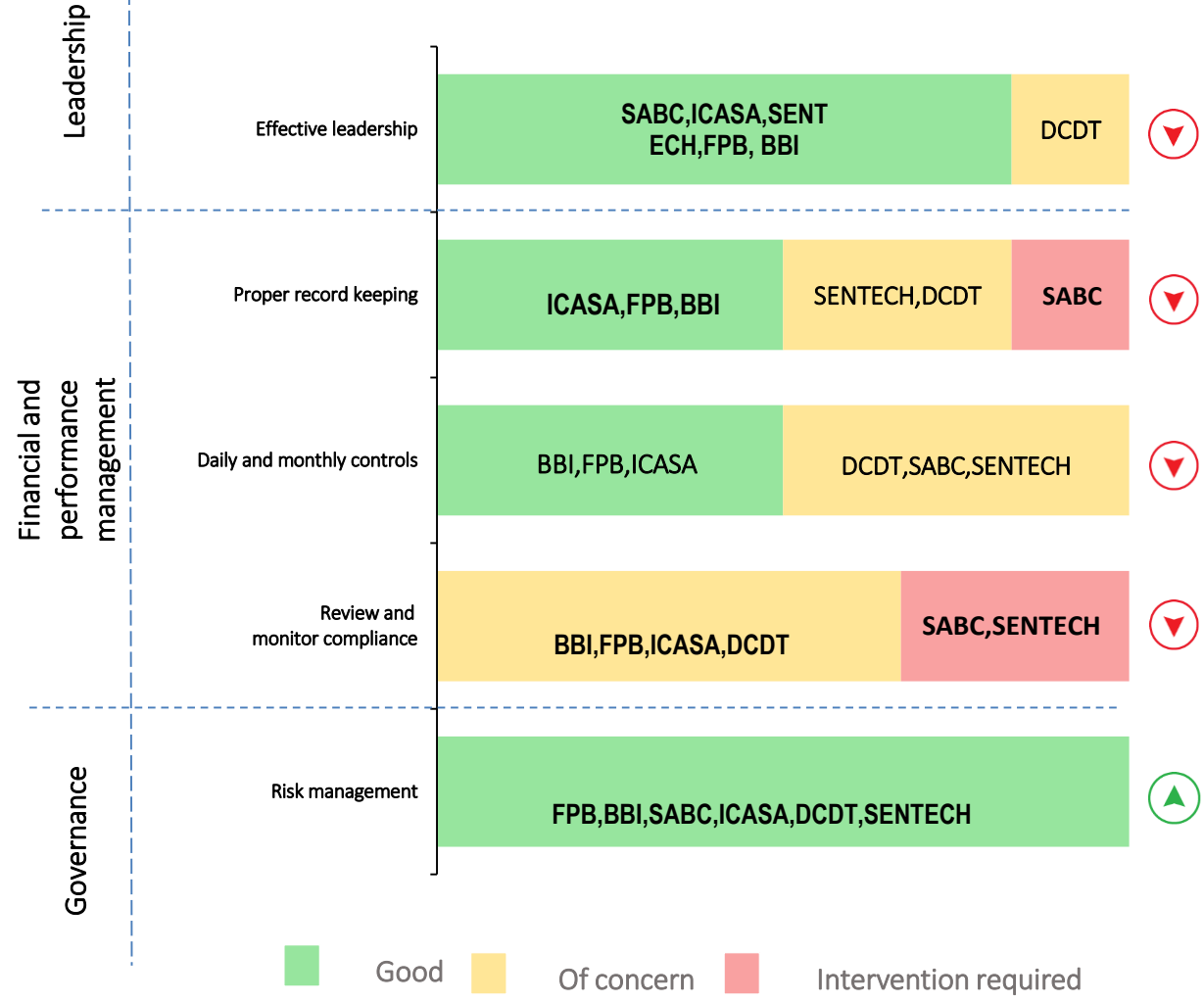
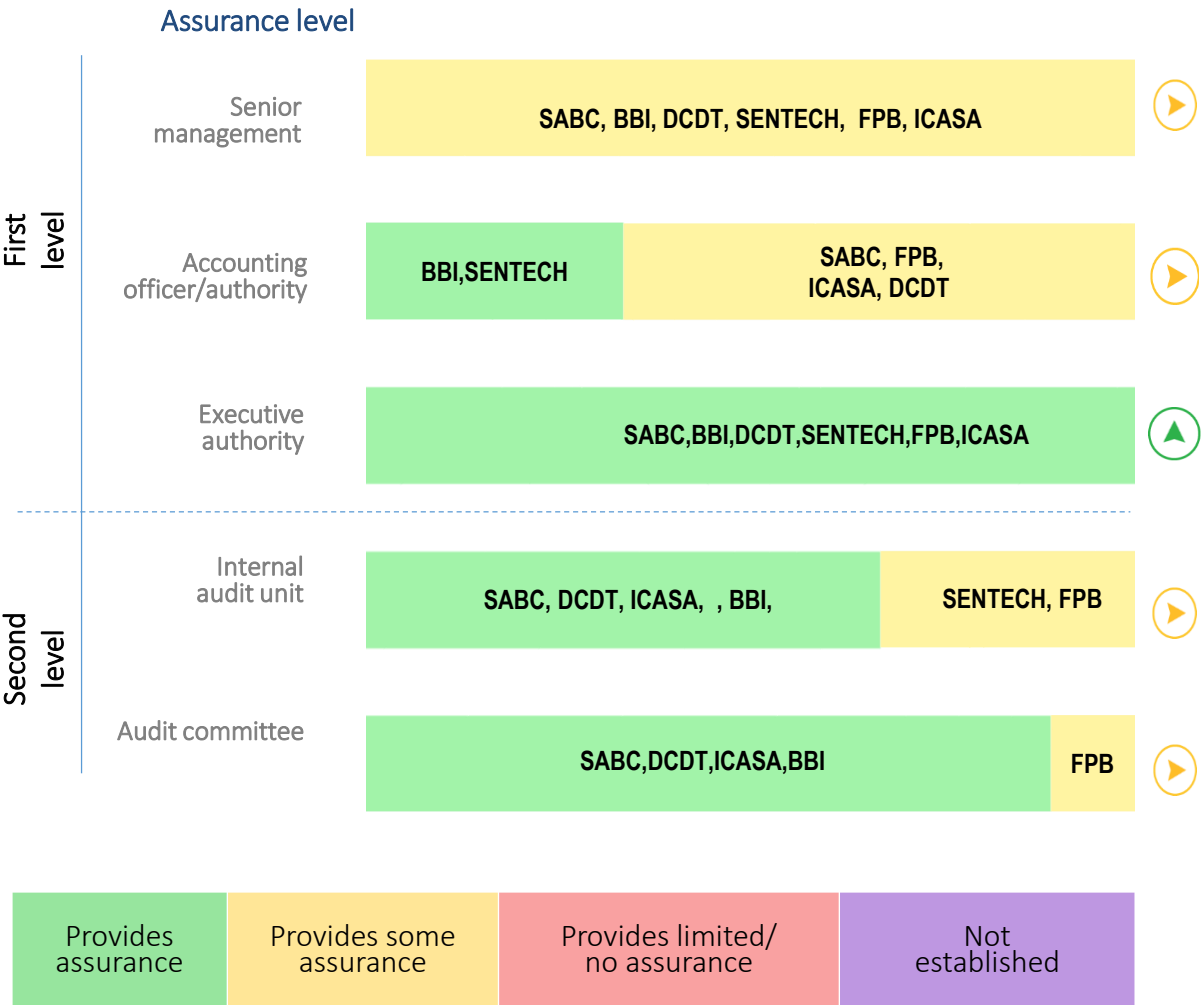
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Governance and internal controls



Assurance provided

Status of internal controls



* CBDA is not included in the assessment of internal controls is not performed for small auditees.



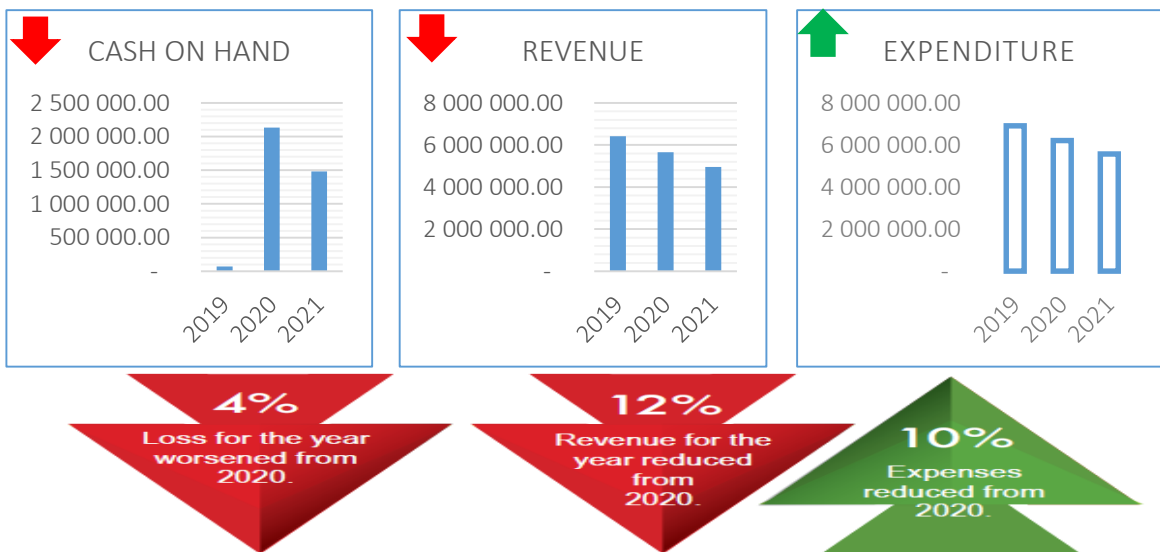
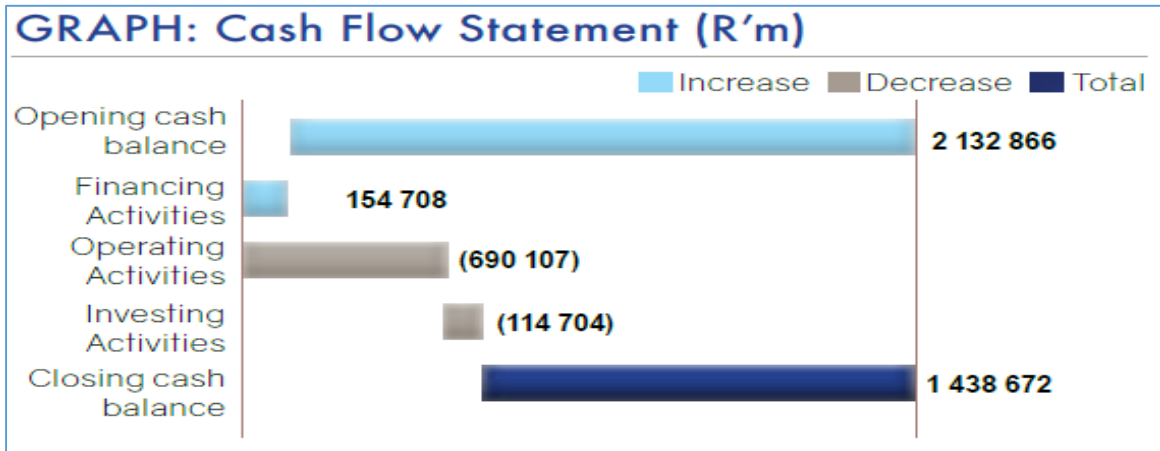
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SOEs messages: SABC

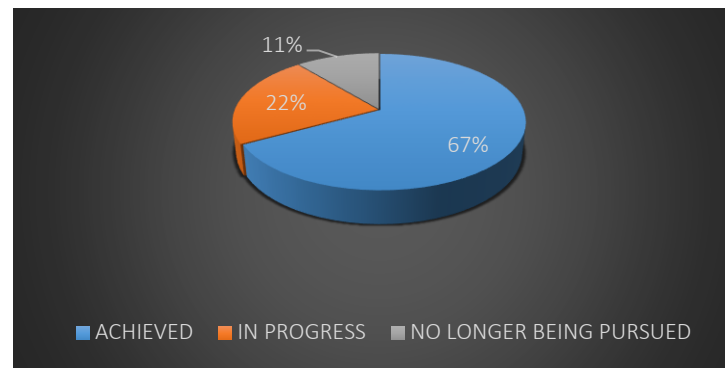


Going concern for SABC

31 MARCH 2021 HIGHLIGHTS



Turnaround plan: Financial sustainability & Governance



- Key objective:**
- To actively pursue SABC financial sustainability
 - To re-establish effective process to support SABC core operations

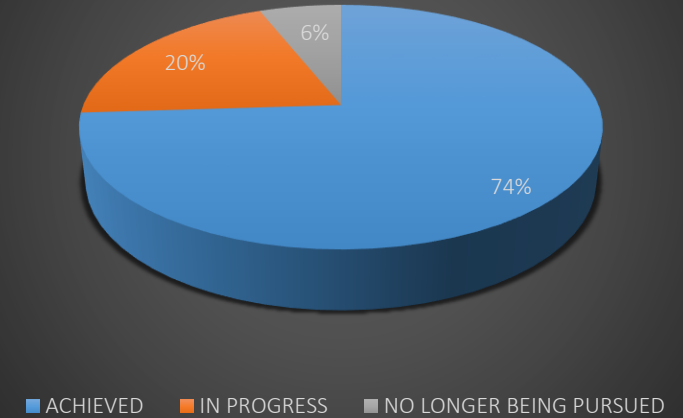
- Key actions in progress:**
- Develop a costed time-bound implementation plan based on transparent revenue enhancements and cost savings
 - Analyze historic spend on content and associated revenue
 - Irregular expenditure findings including consequence management
 - Address PFMA PPPFA procurement difficulties
- Key actions abandoned:**
- Factoring the sale of bad debt
 - Appoint a transaction advisor
 - Increase TV licence fee collection
 - Develop streamlined supply chain management processes: Secondment of National Treasury officials
- Key Audit Observation:**
- Emphasis of matter on going concern included in audit report
 - Completion of irregular expenditure and investigations relating to consequence management are in progress as some investigations did not occur

Going concern analysis as at 30 September 2021 (Management information)

AS AT 30 SEPTEMBER 2021 HIGHLIGHTS

- SABC reported a loss of R155,4m for Q2 (YTD loss of R183,6m). The loss Q1vsQ2 increased by 551% mainly due to underperformance in revenue.
- As at 30 September 2021 cash on hand was amounting to R1,398bn including bailout funds received: cash on hand is dedicated as follows.
 - Acquisition of content R417m.
 - Capex 490m.
 - Own cash R251,4m.
- Net cash out flow from operations for a month of September 2021 was R35,1m showing that the entity is still struggling to generate sufficient revenue from its operating activities
- Actual cash on hand have decreased from R1,4bn (01/04/2021) to R1,3bn (30/09/2021)
- There was also a R165,8m savings in employee costs as of 30 September 2021 with 555 vacant positions
- Budgeted monthly employee costs of R629m is still higher than own cash of R251,m.

OVERALL TURNAROUND



Overall management observation:

The SABC must work on improving the pillars of **revenue growth and profitability** to address the going concern risk in the medium term. Current projections are that, without improvement in the two pillars, the going concern risk remains high in the medium term.



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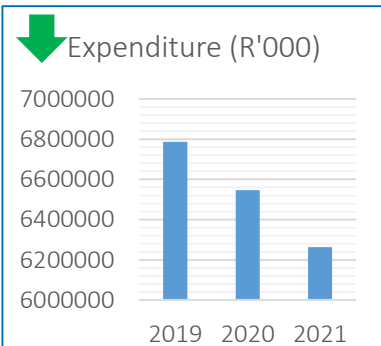
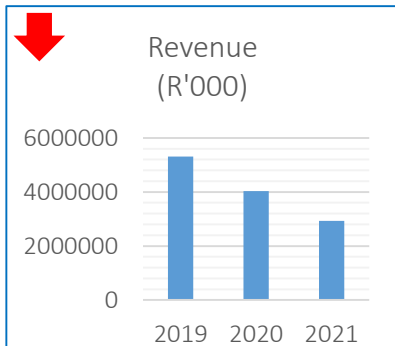
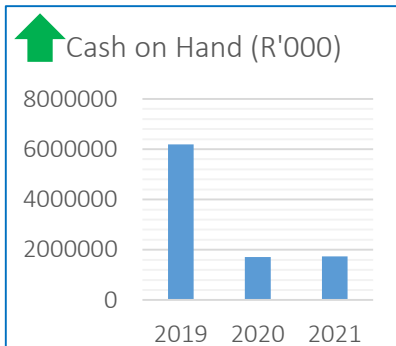
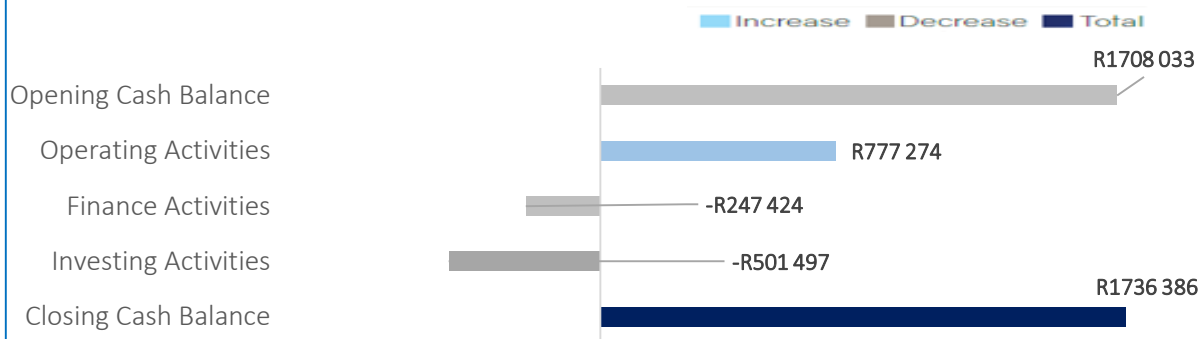
SOEs messages: SAPO



Going concern for SAPO

31 MARCH 2021 HIGHLIGHTS

Cash Flow Statement (R'000)



30%
LOSS for year worsened from 2020

27%
Revenue for the year reduced from 2020

4%
Expenditure reduced from 2020

Turnaround plan: Financial sustainability & Governance

Request by the entity:

Total funding of R8,16 billion is required for:

- R3,8 billion is required to settle liabilities as at 30 June 2021.
- Includes statutory obligations of R624 million that is due to SARS, R543 million to Medipos, R543 million to Post Office Retirement Fund and R65 million to UIF.
- R2,2 billion is required to settle Postbank liabilities.
- R360 million for voluntary severance packages to reduce staff costs.
- R1,8 billion is required for operational requirements whilst the Turnaround Plan is developed and implemented.

“SAPO is exposed to an imminent risk of a total shut down or the risk being liquidated by its major creditors.” The entity shows strong indications of an entity in distress and trading recklessly, based on the requirements of the companies act.

Current Year Audit Assessment:

- No indication if National Treasury will grant the funding requirement of the entity
- A draft “turnaround strategy” was submitted for audit in July 2020. This strategy was noted to no longer be applicable as the entity was now still busy drafting a new “turnaround strategy”.
- The new strategy called “Post Office of Tomorrow” was submitted on 18 October 2021. The initiatives set out on the strategy only intends to have an impact on the financial viability on the entity in the 2022/23 financial year.
- The current years AFS lacked the inclusion of “material uncertainties” disclosure and management’s plan to mitigate these uncertainties.
- A cash flow forecast for 2021/22 was not submitted for audit, further exacerbating the ability to assess the going concern.



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Presidency: GCIS & MDDA



Audit outcome for GCIS and MDDA

Expenditure Management

Irregular Expenditure – GCIS CY(R280thousand) PY (R0)
 – MDDA CY(R49m) PY (R49m)

Fruitless and Wasteful Expenditure

– GCIS CY(R0) PY (R0)
 – MDDA CY(R52k) PY(R52k)

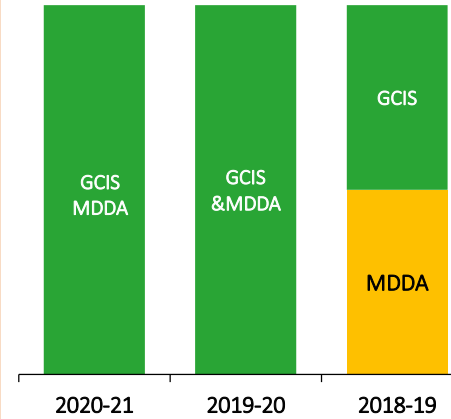
MDDA (Clean audit)

- The internal control system of the entity shows maturity, however, there is still room for Improvement especially around the record keeping.
- Significant efforts were made by the entity in ensuring continued compliance with laws and regulations as no non-compliance was identified in the current year. The entity did not incur irregular expenditure and fruitless and wasteful expenditure which is consistent with the prior year.
- No concerns were raised on investigations relating to consequence management.

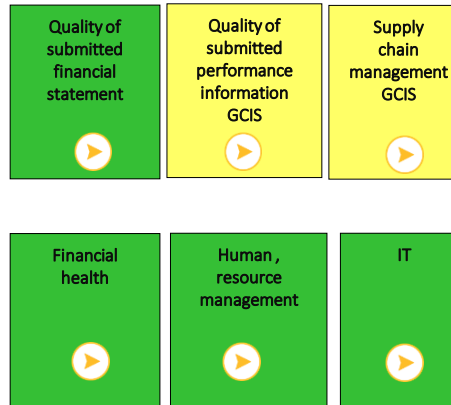
GCIS (Clean audit).

- Irregular expenditure was identified in the year under review, and no fruitless and wasteful expenditure.
- Material adjustments were made on the submitted Annual Performance Report.

Stagnant in audit outcomes



Risk areas



Assurance levels

First level of assurance

Senior management – MDDA&GCIS

Accounting Officer MDDA&GCIS

Executive Authority MDDA&GCIS

Internal controls

- Those charged with governance to **continue their effective contribution to oversight** in all areas.
- Management to **continue to monitor internal control systems**, maintain and enhance it on an ongoing basis
- **Ongoing reviews and reconciliation controls** of actual reported performance information and review controls on compliance (prevention)

Performance Information (Achievement of Targets – 20/21)

- **MDDA** - had set **18** annual targets of which **16** was achieved (**89%**). Furthermore, the audit scoped in programme 3 (partnership, public awareness and advocacy) was achieved.
- **GCIS** - had set **48** annual targets of which **42** (**88%**) targets were achieved. The scoped in programme was programme 2 : Content Processing and Dissemination of which (20/25) 80% of the planned targets were achieved.



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Portfolio snapshot



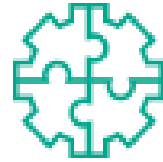
Portfolio snapshot 2020-21



Clean audits: 0
(2019 - 20: 2)



Financially unqualified
financial statements: 7
(2019-20: 8)



No findings on performance
reports: 6
(2019-20: 8)



No findings on compliance with
legislation: 0
(2019-20: 2)



Irregular expenditure:
R311 million
(2019-20: R419 million)

Recommendations for entities within Comms and digital tech Portfolio to deal with poor systems of internal controls preventing improvement in audit outcomes

The following must be addressed:

What remains which still requires attention:

- SABC – lack of preventative controls identifying non-compliance and ensuring compliance with legislation
- SAPO and Postbank – needs to appoint the correct resources that are able to timely respond to prior year matters raised as the lack of leadership stability due to regular key positions changes, adversely affects both entities. SAPO and Postbank need to urgently deal with the lack of controls on the SASSA related transactions.
- USAF / ICASA – lack of daily reconciliations on financial and reporting process.



What must be done/ actions to effectively journey towards of clean audits:

- **SABC** – management to address the controls on non-compliance and to speedily complete the process in identifying the IE in the population for investigation and consequence management.
- **SAPO** – Seek to resolve the issue of financial distress, which seems to also have a direct impact on the entity’s ability to invest in solutions to their financial reporting issues.
- **DCDT,SAPO** Appropriate controls must be implemented to ensure that installations recorded are supported by evidence to ensure that it is valid and accurate.
- **USAF** – Enhance accountability on the roll out of the project, and improve its controls over the implement agent(s). Ensure reporting is supported by sufficient supporting evidence.



By the Accounting Officer / Accounting Authorities

Strengthen controls relating to proper record keeping and diligently maintain reconciliations required to support reported financial and performance information.

Perform and finalise investigations to enable consequence management.

Improve and monitor internal controls relating to procurement and contract management processes.

Filling of key executive positions with skilled and experienced personnel. DCDT (merged department) had various acting director-generals.

And those actions be monitored by the PC

Follow up on action plans implemented for proper record keeping and reconciliations for all quarterly reports which will effectively feed into the financial statements.

Monitor the consequence management processes to ensure perpetrators are held accountable.

Follow up with management action plans implemented to ensure compliance with regulations relating to procurement, contract management and performance information (implement preventative controls)

Monitor the vacancies to ensure stability of leadership.



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