

# **Follow up briefing to Standing Committee on Public Accounts**

## **Irregular, Fruitless & Wasteful Expenditure – Status Update**

**17 May 2017  
Parliament  
Cape Town**

# **Request from S.C.O.P.A**

- Detailed information regarding contract with Sekela Xabiso (SkX)
- Status update report on irregular, fruitless and wasteful expenditure (IFWE) recovered thus far

# Comprehensive scope of services rendered

- Detection of IFWE from 2010/11 financial years
- Preparation of accurate and complete IFWE registers (incl. identifying incidents/ causes)
- Preparation of IFWE disclosure notes
- Providing audit support during the AGSA audit process
- Implementing sustainable improvements on the SCM control environment

# Misconception/ Misunderstanding

- Scope of SkX was to detect comprehensive IFWE
- Recovery of IFWE can only happen once IFWE disclosed amounts are confirmed to be credible, accurate and complete. The SABC is expecting that this confirmation will be made by the AGSA when they expressing their audit opinion on the 31<sup>st</sup> July 2017
- Once the credibility of IFWE disclosure has been confirmed, the investigation will be done before the disciplinary processes are initiated. The investigations will be performed by
  - Internal forensic unit
  - SIU
  - Management

# External auditor's audit opinion

	Disclosure by SABC		AGSA audit opinion		
Financial Year	Irregular expenditure as R'000	Fruitless & wasteful expenditure R'000	Overstatement	Understatement	Poor documentation
15/16	5 148 526	92 461	X	X	X
14/15	2 677 521	60 985		X	X
13/14	3 376 809	42 000	X	X	X
12/13	106 322	22 116			X
11/12	136 960	104 615			X



# Process to resolve IFWE qualification

Financial Year	Resources used
2016/17	Sekela Xabiso
2015/16	Sekela Xabiso
2014/15	Sekela Xabiso
2013/14	Internal capacity
2012/13	Internal capacity

# **Internal capacity constraints**

- Lack of sufficient resources to undertake such engagement
- Decentralized document management
- Alternative retrieval of documents impractical (electronic copies)
- Balance between daily operational duties and IFWE detection project
- Lack of skills and expertise to detect IFWE
- SkX brought in for the above reasons

# Value of contracts with SkX

Financial Year	Contract value (incl. VAT) R	Contract period
2016/17 (Phase 3)	9 816 024	1 Nov 16 to 31 July 17 (9 months)
2015/16 (Phase 2)	10 395 375	1 Dec 15 to 31 July 16 (8 months)
2014/15 (Phase 1)	4 797 596	7 April 15 – 31 July 15 (4 months)



# IFWE Approach

- Centralize all procurement documents/ files in the SABC
- Assess compliance of SCM policies to PFMA (incl. Treasury guidelines)
- Test compliance of procurement process to the applicable SCM policy on the procurement files
- Alternative identification of electronic document
- Cross link payments/ expenditure to the files tested
- Preparation of IFWE registers and disclosure notes in AFS

# Challenges faced by SkX

- Decentralized procurement documents/ files in the SABC
- Ineffective co-operation/ co-ordination between SABC personnel and SkX
- Inadequate timelines to execute scope of services (especially possible IFWE identified in 15/16 financial year)
- SkX suggested improvements in the internal controls were not implemented

# Analysis of Irregular expenditure (Content)

Incidents	2016/17 R'000	2015/16 R'000	2014/15 R'000	2013/14 R'000	2012/13 R'000
Unsolicited content acquisition did not follow proper process		3,297			
Re-commissioning process not followed	10,584		75		
Evaluation criteria not followed	358	447	1,192	29,281	1,499
No valid (Original) Tax Clearance Certificate	51,403	236,363	350,752	770,384	877,967
Delegation of Authority Framework contravention				6	
Insufficient documentation	916		72,163	215	233
<b>Total</b>	<b>63,261</b>	<b>240,107</b>	<b>424,182</b>	<b>799,886</b>	<b>879,699</b>



# Analysis of Irregular expenditure (Normal procurement)

Incidents	2016/17 R'000	2015/16 R'000	2014/15 R'000	2013/14 R'000	2012/13 R'000
Delegation of Authority Framework contravention	72,945	74,829	49,717	26,672	21,399
Irregular contracts due to lack of planning	265,343	254,388	223,928	129,174	33,702
Minimum number of quotes not obtained	41,135	77,666	55,363	36,665	11,119
No valid (Original) Tax Clearance Certificate	30,692	37,497	65,098	36,214	16,342
Incorrect evaluation of bids	12,766	42,969	36,129	6,329	0
Bids not advertised for minimum period as per policy	60,429	21,979	45,080	23,132	4,312
Insufficient documentation	100,622	293,075	199,462	109,809	193,470
<b>Total</b>	<b>583,931</b>	<b>802,404</b>	<b>674,777</b>	<b>367,995</b>	<b>280,344</b>

# Consolidated cumulative irregular expenditure

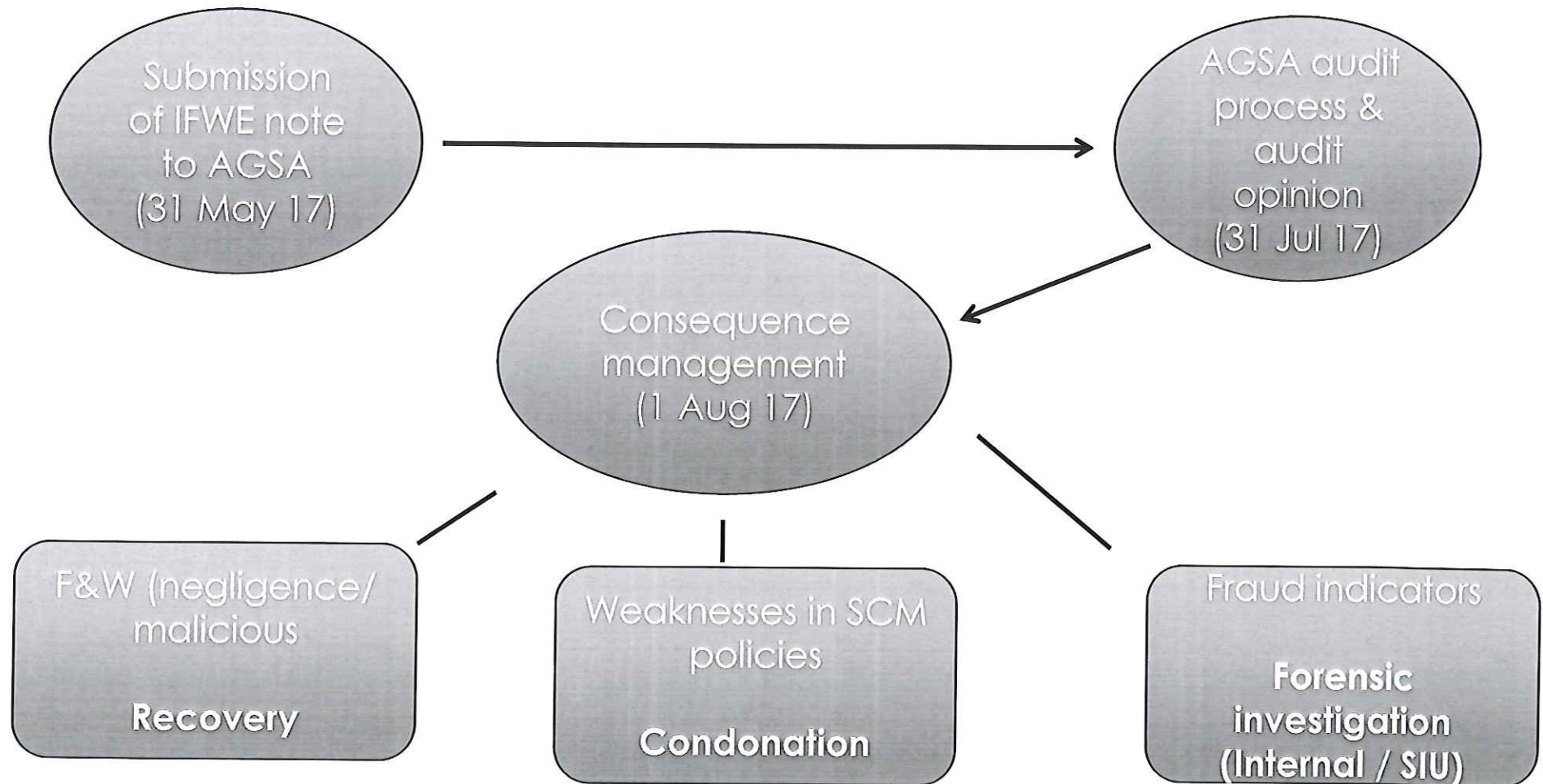
Incidents	Percentage	Total R'000
Content acquisition process for unsolicited offers not followed	0.06%	3,297
Re-commissioning process not followed	0.21%	10,659
Incorrect evaluation of bids/ not followed	2.56%	130,970
No valid (Original) Tax Clearance Certificate	48.33%	2,472,711
Delegation of Authority Framework contravention	4.80%	245,569
Irregular contracts due to lack of planning	17.72%	906,536
Minimum number of quotes not obtained	4.34%	221,948
Bids not advertised for minimum period as per policy	3.03%	154,932
Insufficient documentation	18.96%	969,966
<b>Total</b>	<b>100%</b>	<b>5,116,587</b>



# Fruitless and wasteful expenditure

Incidents	Total R'000
<b>Opening balance</b>	92,461
Less: Reversal of incorrectly disclosed prior year amount	(21,655)
<b>Restated opening balance</b>	70,806
Impairment of foreign and sports content	2,706
Travel cancellation fees and penalties	472
Interest, penalties and fines on late payments	69
<b>Closing balance</b>	<b>R74 053</b>

# Process going forward



# **Sustainable improvement in control environment**

- SCM policy has been reviewed and updated (June 2016)
- SAP system has been reconfigured. Programme changes implemented 1 April 2017 (prevention measure for IFWE)
- New SCM policy has been work-shopped. Frequent workshops to be conducted for policies, procedures and DAF
- SAP system now requires procurement documents to be attached (electronic copies)
- Training of Bid committees
- Human Resources: Learning & Development skills audit
- Improve induction program (take on process) – induction on policies

# Referral to SABC Forensic Unit

- Irregular expenditure incurred between April 2012 and March 2017
- Contracts with:-
  - Infonomix
  - Mott MacDonald
  - Asante Sana
  - Foxton Communications
  - Lesaf Consulting



# Referral to SIU

- Contract with Lornavision after cancellation
- Contract with Vision View to construct studio
- Contract with Sekela Xabiso
- All fruitless and wasteful expenditure incurred between April 2012 and March 2017
- All appointments, promotions and salary increases of employees and bonuses paid to employees in contravention of the Human Resource policies of the Corporation and arising from the recommendations of the Public Protector, the Final Report of the Ad Hoc Committee and other specific matters brought to the attention of the Board



**Thank you**