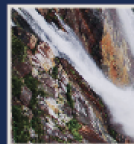
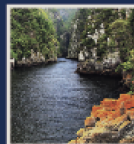




PFMA 2016-17



Budgetary review and recommendations report

Communications portfolio

03 October 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

Reputation promise

The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



Role of the AGSA in the reporting process

Our role as the 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)*.





AGSA theme for the current year to improve outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

“Plan-Do-Check-Act Cycle”, also the Deming cycle , courtesy of the International Organization for Standardization



AGSA theme for the current year to improve outcomes



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

1

The AGSA's Public Audit Act Promise and Focus



Our annual audits examine three areas

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:

- Credible and reliable financial statements that are free of material misstatements
- Useful and reliable performance as measured against predetermined objectives
- complied with key legislation

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

Qualified opinion



Auditee:

- 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



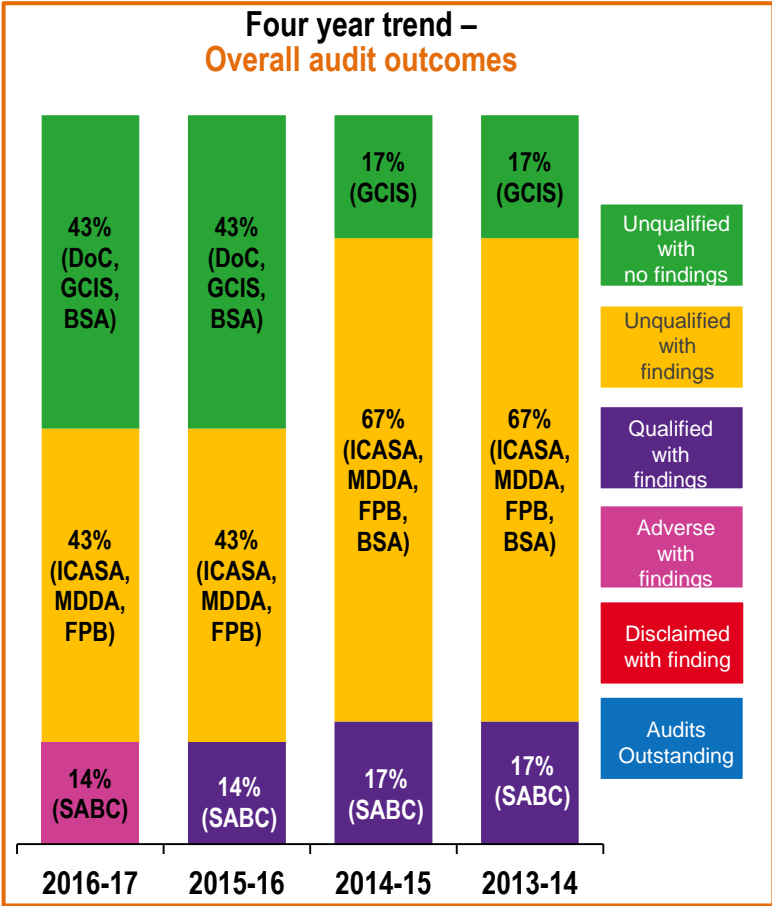
Auditee:

- 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

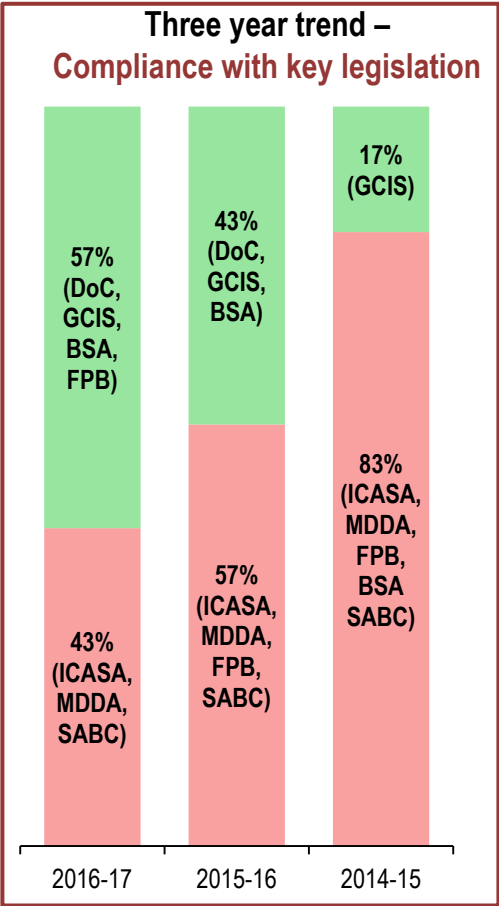
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The 2016-17 audit outcomes and key messages

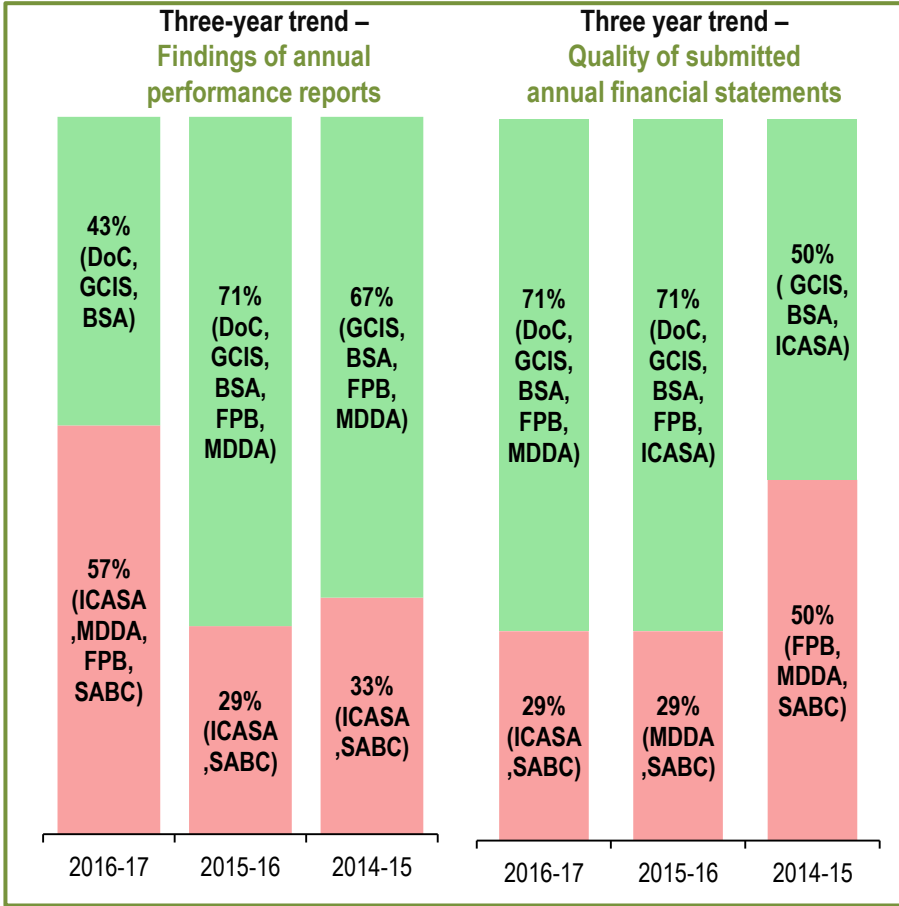
Regression in audit outcomes in the current year



- 1** To improve/maintain the **overall audit outcomes**, financial statements processes,
- The SABC regressed to an adverse opinion due to an inappropriate going concern assumptions used in the preparation of financial statements. Other modifications included incorrect classification of PPE resulting in incorrect net carrying amounts and not having proper controls to completely account for all their liabilities.
 - ICASA, FPB and MDDA remained unqualified with findings.
 - We commend GCIS, DoC and BSA for maintaining their clean audit opinions.



- 2** **compliance** with key legislation
- A poor control environment and vacancies at the senior management level resulted in poor oversight of compliance with applicable legislation at the SABC, ICASA and MDDA. These resulted in material non-compliance in procurement and contract management, expenditure management and consequence management.



- 3** **performance planning and reporting** must be improved by....
- The quality of annual performance reports submitted for auditing regressed due to poor record keeping to support reliability of reported Performance information and Indicators and target not meeting the SMART criteria.
 - The quality of annual financial statements at the SABC is still concerning as AFS submitted for auditing were prepared on an incorrect basis, as a Going concern. In addition the AFS had material misstatements in a number of line items which were identified through the audit process. ICASA relied on the audit process to produce credible financial statements, which resulted in an unqualified audit opinion.

Regression in audit outcomes in the current year (continued)

Status of Key controls

LEADERSHIP

- Effective leadership
- Oversight responsibility
- Effective HR management
- Policies and procedures
- Audit Action plans
- ICT governance

FINANCIAL AND PERFORMANCE MANAGEMENT

- Proper record keeping
- Processing and reconciling controls
- Regular reporting
- Compliance monitoring
- IT system controls

GOVERNANCE

- Risk management
- Internal Audit
- Audit committee

	DoC	GCIS	ICASA	BSA	FPB	MDDA	SABC
LEADERSHIP	Stagnant	Stagnant	Stagnant	Stagnant	Improved	Improved	Improved
- Effective leadership	Good	Good	Good	Good	Good	Good	Good
- Oversight responsibility	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning
- Effective HR management	Good	Good	Good	Good	Good	Good	Good
- Policies and procedures	Good	Good	Good	Good	Good	Good	Good
- Audit Action plans	Good	Good	Good	Good	Good	Good	Good
- ICT governance	Good	Good	Good	Good	Good	Good	Good
FINANCIAL AND PERFORMANCE MANAGEMENT	Stagnant	Stagnant	Stagnant	Improved	Stagnant	Improved	Improved
- Proper record keeping	Good	Good	Good	Good	Good	Good	Good
- Processing and reconciling controls	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning
- Regular reporting	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning
- Compliance monitoring	Good	Good	Good	Good	Good	Good	Good
- IT system controls	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning	Concerning
GOVERNANCE	Stagnant	Improved	Improved	Stagnant	Improved	Stagnant	Improved
- Risk management	Good	Good	Good	Good	Good	Good	Good
- Internal Audit	Good	Good	Good	Good	Good	Good	Good
- Audit committee	Good	Good	Good	Good	Good	Good	Good

- Improved
- Stagnant
- Regressed

Good

Concerning

Intervention required

4 ... providing attention to the **key controls** by...

- Internal controls at SABC further weakened in the current cycle.
- Instabilities in senior management, inadequate oversight over monitoring of compliance and lack of consequence management over personnel who do not adhere to policies and applicable legislature were the major reasons for poor internal controls at the SABC.
- Controls over assets, liabilities and general lack of daily and monthly financial management controls and disciplines still remain of concern.
- Poor record keeping resulted in transactions recorded not being able to be adequately supported/ substantiated, especially around the compliance with SCM and irregular expenditure.
- Inadequate oversight over monitoring of compliance and performance management is still a concern at ICASA, MDDA, FPB as there has not been an improvement in controls in this regard over the past 3 years. This is further exasperated at the MDDA by lack of financial management disciplines.

Assurance providers per level

First level

Senior management

DoC	ICASA, FPB, MDDA, BSA	SABC
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Accounting officer/authority

GCIS, DoC, BSA	ICASA, FPB, MDDA	SABC
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Executive authority

All

Second level

Internal audit unit

GCIS, DoC, BSA	ICASA, FPB, MDDA, SABC
----------------	------------------------

Audit committee

GCIS, DoC, BSA	ICASA, FPB, MDDA	SABC
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Third level

Portfolio committee

All

- Provides assurance
- Provides some assurance
- Provides limited/no assurance
- Vacancy
- Not established

5 ... the key role players as part of their role in **combined assurance**

Accounting Authority & Senior Management at the SABC did not provide adequate assurance as the were numerous instances identified of non compliance, lack of both adequate controls and records management.

Audit Committee at the SABC was not effective as it was not non-existent..

Basis for PC evaluation:

- Oversight role ito robust budget vote process, review of the annual report including the audit report, quarterly reporting;
- Follow up on progress made by the entities to address poor audit outcomes;
- Recommendations made in relation to key audit matters; and
- Follow up on key matters reported in the committee's prior year BRRR report.

The Portfolio committee performed the legislative oversight requirements and it robustly engages the department on its role and mandate.



3

Performance management linked to programmes/ objectives tested & key projects audited

Quality of APP

Outcomes of programmes/objectives selected for testing:

Auditee:	Movement	Programmes/ Objectives	Findings
DoC		Programme 2: Communication Policy, Research and Development	No material findings reported
		Programme 3: Industry and Capacity Development	No material findings reported
		Programme 4: Entity Oversight	No material findings reported
GCIS		Programme 2: Content Dissemination and Processing	No material findings reported
		Programme 3: Intergovernmental Coordination and Stakeholder Management	No material findings reported
BSA		Programme 2: Brand Marketing and reputation	No material findings reported
		Programme 3: Stakeholder management	No material findings reported
ICASA		Sub - programme – Legal, risk & CCC	Material findings reported
		Programme – Licensing	Material findings reported
		Programme – Policy research and analysis	No material findings reported
		Programme – Engineering & technology	Material findings reported
		Programme – Compliance and consumer affairs	No material findings reported
MDDA		Programme 2: Grant and seed funding	Material findings reported
		Programme 4: Capacity building	No material findings reported
FPB		Programme 1: Industry compliance	Material findings reported
		Programme 2: Branding and Marketing	Material findings reported
		Programme 3: Public education and awareness	Material findings reported
		Programme 4: Online and mobile content regulation	Material findings reported
SABC		Goal 1– Financial sustainability	Material findings reported
		Goal 2- Content and platforms	Material findings reported
		Goal 4- Governance	Material findings reported



Improved



Stagnant



Regressed



Key projects selected as part of the statutory audit

The Department of Communications' key project currently underway that was chosen for audit was the DTT (Digital Terrestrial Migration) project which started in 2002. The migration deadline has been estimated for December 2018.

Achievement of planned targets – projects



■ Targets achieved

■ Targets not achieved/
not evaluated

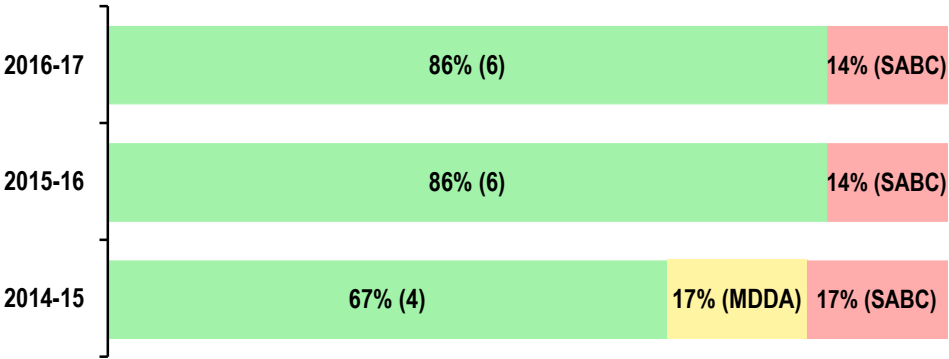
- DoC had 3 target regarding the DTT project. All target set for the current financial year were achieved.
- Though DoC has met its target for the current financial year, there are still a number of concerns regarding the project:
 - Lack of appropriate coordination between all relevant stakeholders in the value chain of the project.
 - There is no official set deadline for the migration as the December 2018 is still the estimated deadline.
 - There has been policy uncertainty regarding the encryption of the set top boxes.
 - Lack of adequate public awareness initiatives to get qualifying households registered. As at 30 May 2017 only 231 335 households have successfully registered and qualified to receive set top boxes.
 - Instabilities in the financial viability of the SABC casts doubt on its ability to meet future DTT targets.
 - Material issues raised on DTT grant spending at the SABC as the total amount received over the years did not reconcile to the deferred grant balance at year end, after expenditure.
 - Target in current APP not adequate to effectively implement the DTT project as there is no link between APP and what is expected or needed to complete project. E.g. Switch off date, awareness, registrations, etc.

4

Financial health and financial management



Material uncertainty exists whether 14% of auditees can continue to operate in future

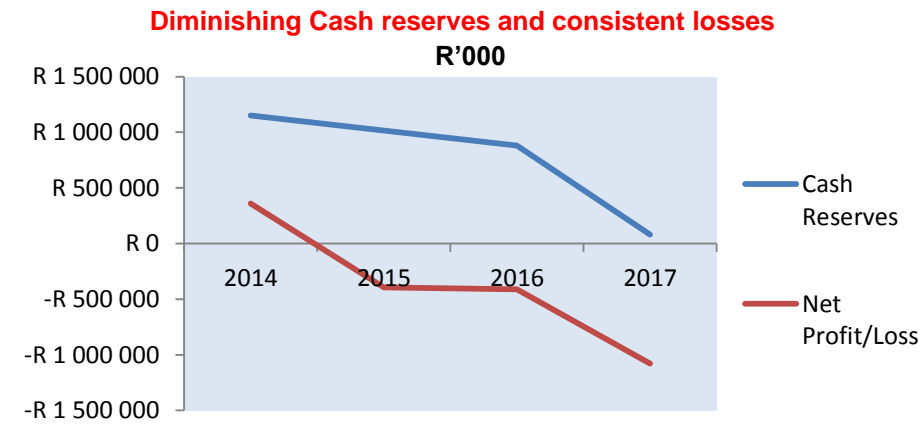


- Two or less unfavourable indicators
- More than two unfavourable indicators
- Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

Key concerns identified

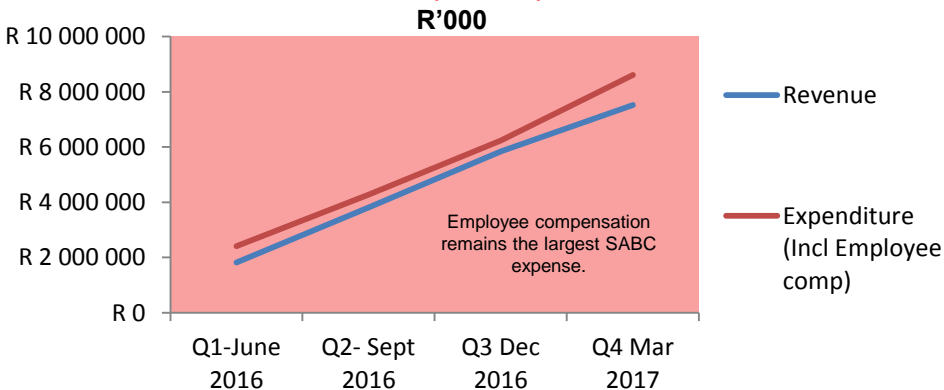
- SABC:
- Over the past 3 years there has been a decline in the revenue and an increase in expenditure of the entity which has caused the entity to be operating at a loss.
 - The decline in revenue and cash collections has put the cash reserves of the entity under distress.
 - Creditors not recorded also exasperates ability to know the full extend of the financial distress.
 - As at 31 March 2017, the entity was commercially insolvent because it was not able to settle its liabilities as and when they are due, even though its assets exceeds their liability.

Figure 1: Going concern considerations



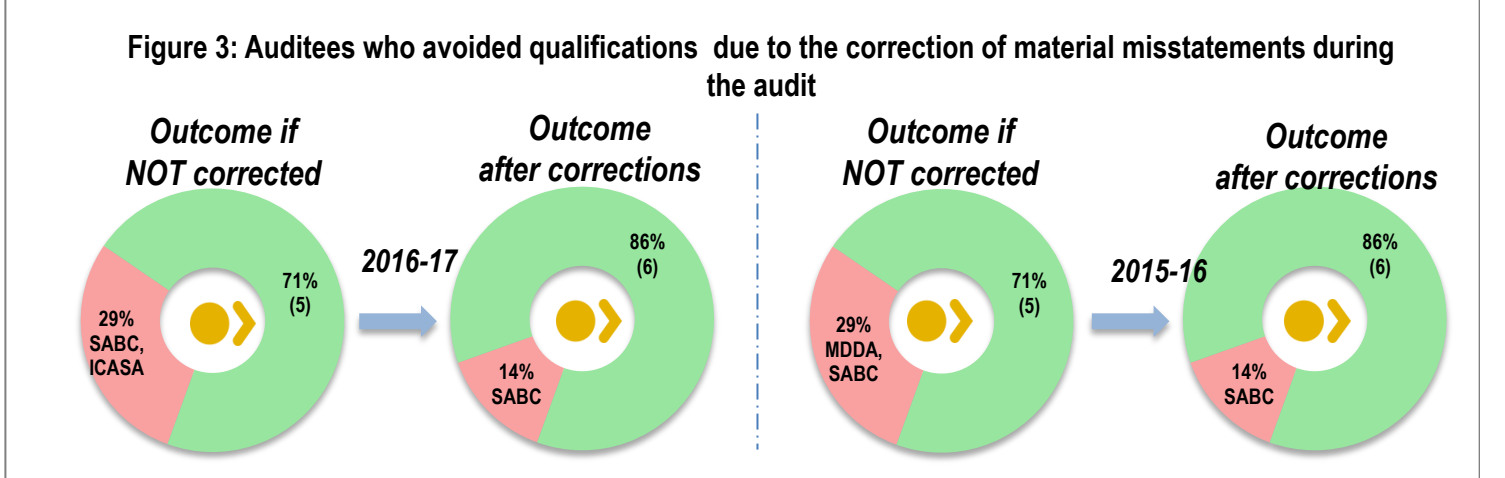
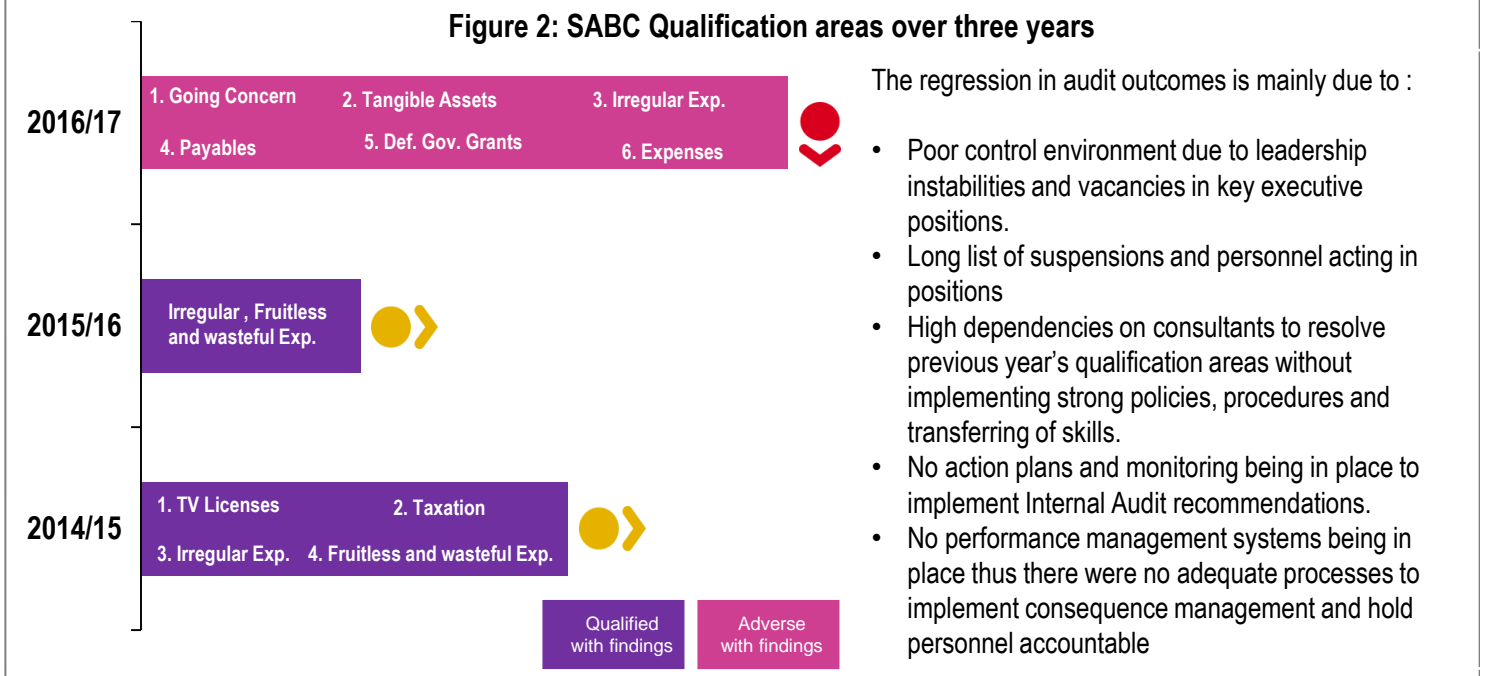
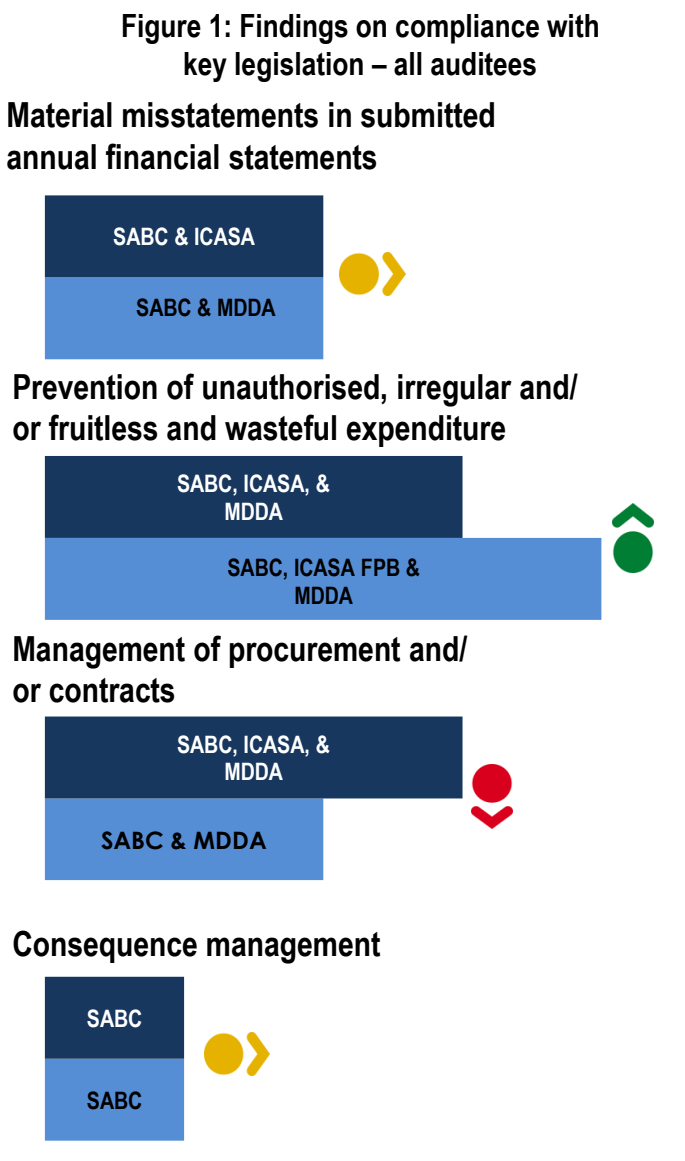
Advertising revenue has significantly decreased over the past financial year, resulting in revenue decreasing and impacting on profitability of the SABC.

Increased costs (Employee cost) not aligned to Revenue – CY (2016-17)



The figures above should be read in conjunction with the qualification areas reported on PPE, Deferred Grants, Trade and Other payables, and Expenditure. As a result of the qualification areas the Expenditure and the Net Loss reported is materially misstated .

Stagnation in compliance with legislation and poor quality of financial statements

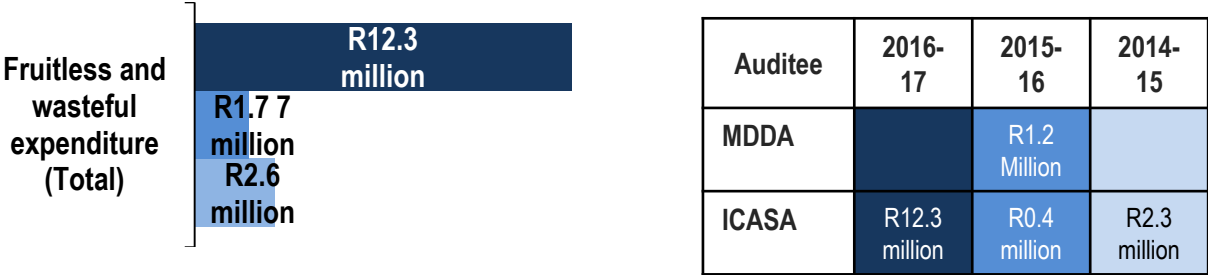


Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in the financial statements (excl. SABC)

UIFW amounts incurred by entities in portfolio

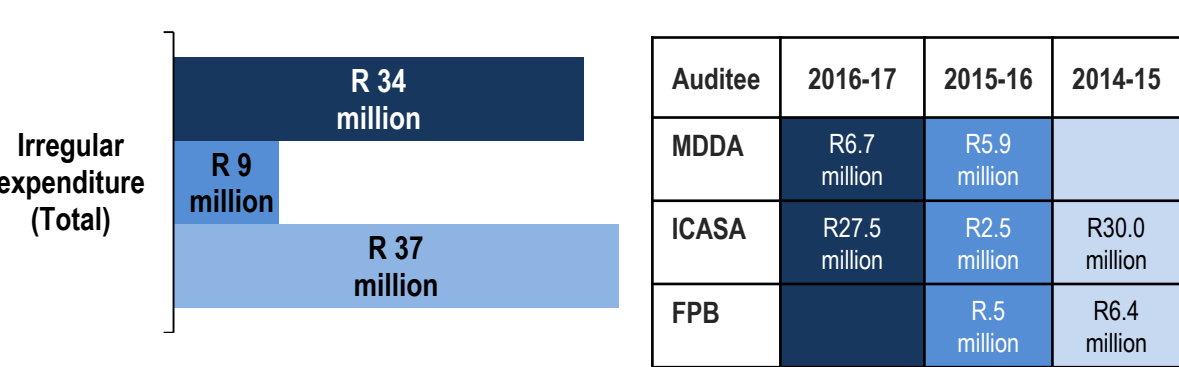
Nature of U.I.FW expenditure R'million

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



Auditee	Settlements	Cost containment	HR processes	Payment Goods/ Services not received	Fines, Penalties & interest
MDDA	R1.0 Million				R.01 million
ICASA	R2.8 million	R3.0 million	R5.3 million	R0.1 million	R0.9 million

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed



Auditee	Fair process not followed	Tax clearance certificates	Incorrect evaluation criteria	No contract	DAF not adhered to	Minimum quotations not obtained	Extension above 15%
MDDA	R6.7 million						
ICASA	R13.9 million	R10.3 million	R1.6 million	R0.2 million		R0.5 million	R0.6 million

2016-17

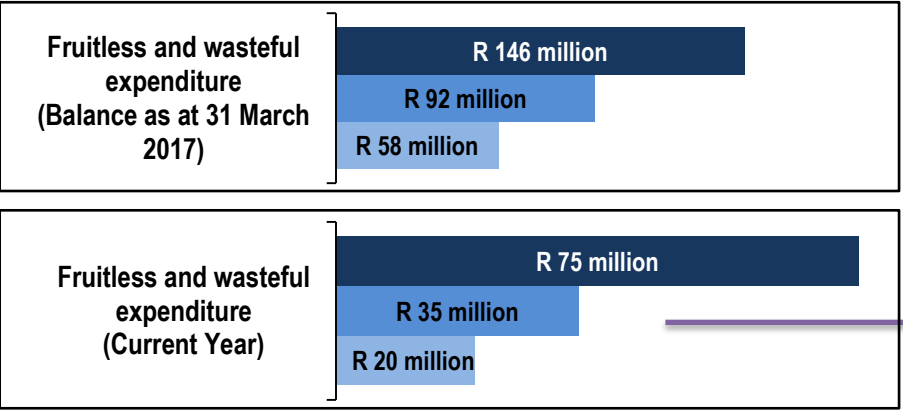
2015-16

2014-15

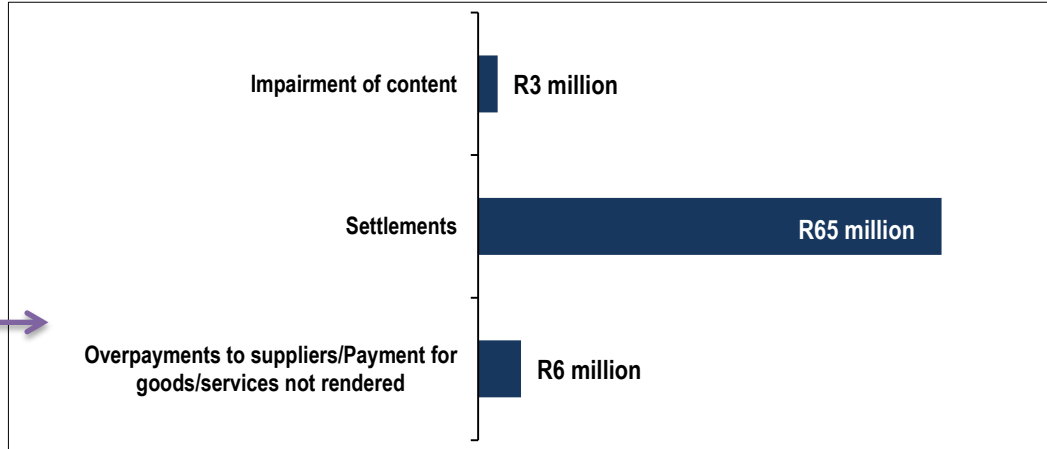


Unauthorised, irregular as well as fruitless and wasteful expenditure disclosed in the financial statements (SABC)

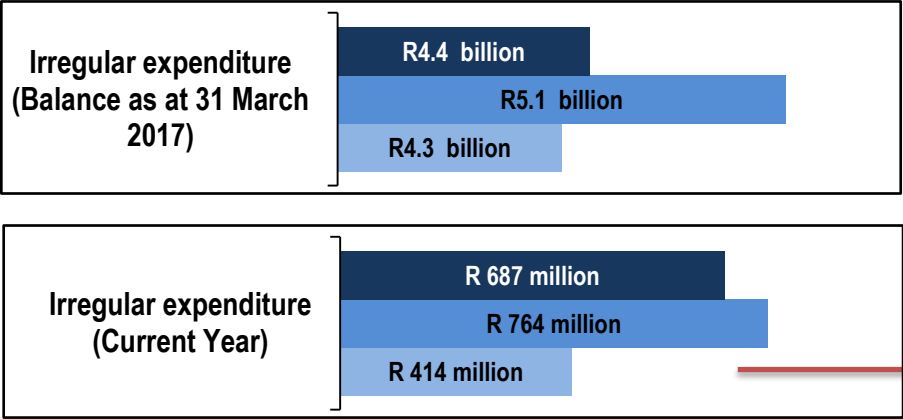
Fruitless and Wasteful expenditure (FWE) balances for the 3 year period



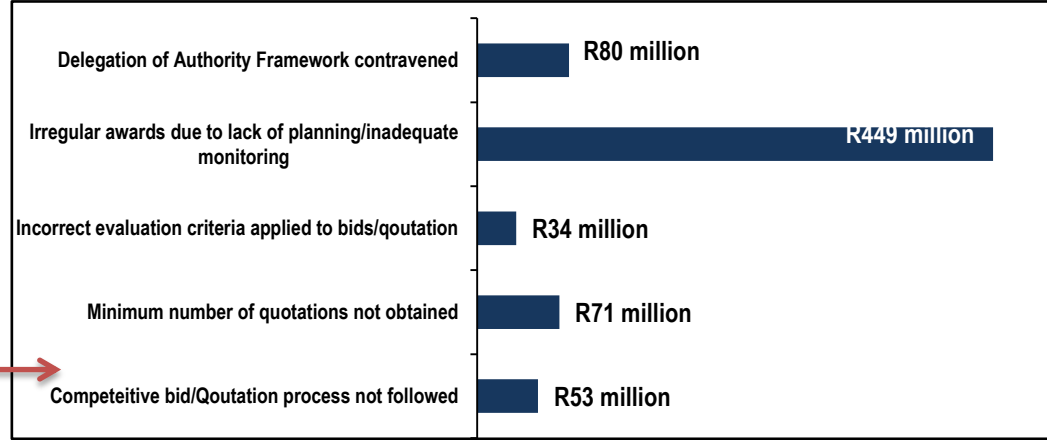
Analysis of nature of FWE incurred in current year



Irregular Expenditure balances for the 3 year period



Analysis of nature of IE incurred in current year



SABC:

- The decrease in the Irregular expenditure should not be read as an improvement as we had material findings resulting in a qualification, on the completeness of Irregular expenditure.

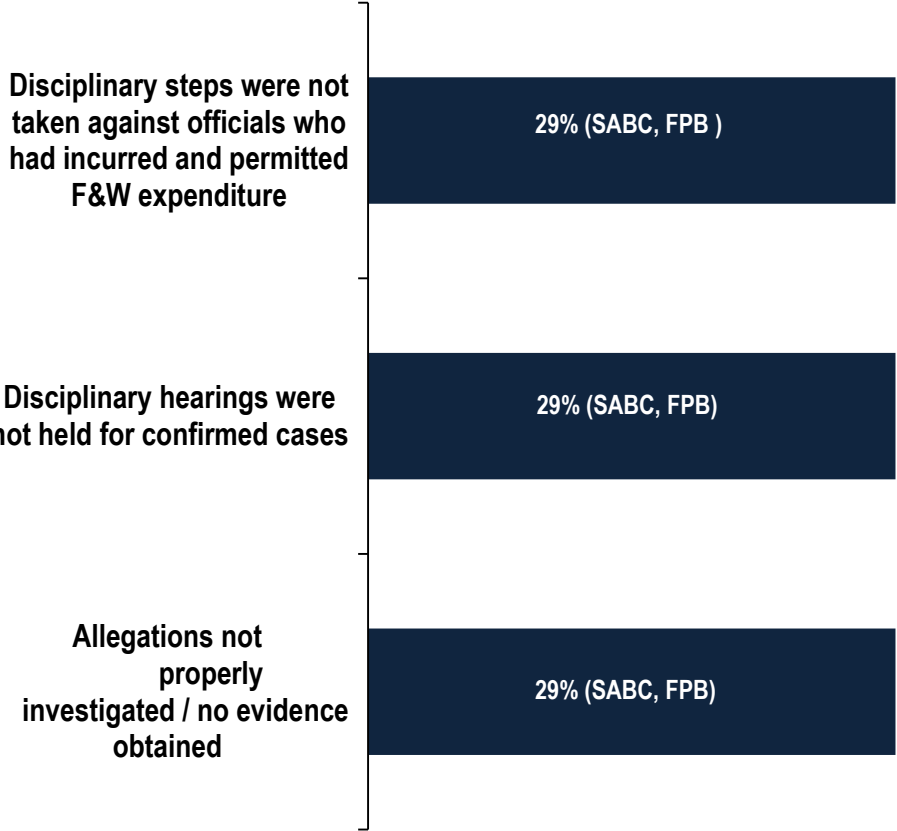
2016-17 2015-16 2014-15



Fraud and consequence management

The SABC had findings on non-compliance with legislation on consequence management for which were material findings

Investigations to be conducted on allegations of financial and/or fraud and SCM misconduct within the SABC – (non compliance included in the audit report)



Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation

There three categories of investigations to be conducted.

- Fruitless and Wasteful Expenditure
- Irregular Expenditure
- Financial misconduct and other.

All allegations within the SABC received through

- Ad-hoc committee on SABC board inquiry, and
- the SABC Whistle-blowing hot-line.

The allegations are being investigated by the Forensics division at SABC. The interim Board also requested the SIU to further investigate these allegations.

The National Treasury is investigation allegation of contravention of SCM processes.

The Department was requested to provide feedback to Parliament and SCOPA during the year with regards to Irregular expenditure.



5

**Top three root causes, follow up
on commitments and proposed
recommendations**



Top root causes, follow up on commitments and proposed recommendations

1 ... the following **root causes** must be addressed

Root Cause

Slow response by Political leaders

14% (SABC)



Slow response by oversight

14% (SABC)



Slow response by management

43% (SABC, ICASA, MDDA)

29% (ICASA, FPB)



Instability or vacancies in key positions

29% (SABC, MDDA)

29% (SABC, MDDA)



Lack of consequences for poor performance and transgressions

14% SABC

14% (SABC)



2016-17 2015-16

- The entities is not able to attract the right calibre staff it requires to fill vacancies, despite numerous recruitment processes.
- Lack of accountability of personnel resulted in slow response to the findings and action not being taken against transgressors
- Vacancies at the MDDA and SABC continue to pose significant challenges regarding the operations of these entities.
- Ineffective investigations allows repeat transgressors not to be held accountable.

2 ... through honouring the following **commitments** made by the executive authority.....

Status of key commitments by minister

Letters will be written to all the entities who incurred irregular expenditure requesting details of expenditure and progress on consequence management

Formation of Audit Committee Forum.

Filling of vacancies in the governance structures and senior management level

Frequent assessment of the implementation of the action plans to address internal and external audit findings

Strengthen record keeping management of accounting and performance information.

Improve IT Governance and Framework to ensure business continuity

Consequence management: initiates disciplinary steps against officials who incurred and/or permitted irregular expenditure, fruitless and wasteful expenditure.

Follow up on the filling critical vacancies.

Clarify the role of each entity as there is overlapping of functions and responsibilities.

Re-assessment of Senior Managers' performance agreements to ensure clearly defined roles and responsibilities

Implement responses to assessed risk and ensure checks and balances are in place.

To fill all leadership vacancies by November 2012 and to create a monitoring unit consisted out of a representative from each entity.

Not implemented

In progress

Implemented

New

3 ... and implementation of the following **proposed commitments** by the PC.

1. PC must request management to provide feedback on the implementation and progress of the action plans to address poor audit outcomes during quarterly reporting.
2. PC must request management to provide quarterly feedback on status of key controls, especially around records management and financial management disciplines.
3. PC must request quarterly feedback on the progress of filling key vacancies at SABC and MDDA.
4. PC must request feedback on controls to address irregular expenditure and implementation of preventative controls, including actions against transgressors.
5. PC must request feedback on actions implemented to improve the financial health, budget management and control and turnaround plans/ interventions.

6

AGSA audit methodology improvements



AGSA audit methodology improvements

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Status of records review = Pro-active follow up procedures + Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Key control engagements / status of records review – objectives

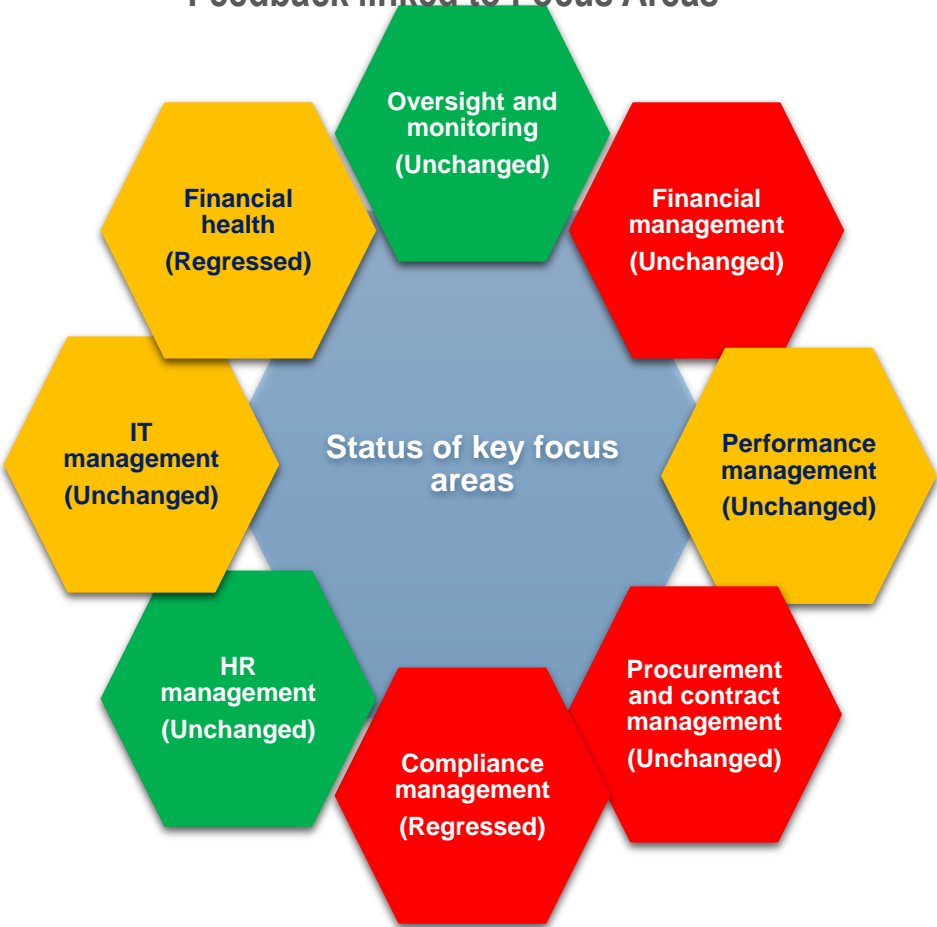
Identify key areas of concern that may derail progress in the preparation of financial and performance reports and compliance with relevant legislation and consequential regression in audit outcome

Provide our assessment of the status of key focus areas that we reviewed

Assess progress made in implementing action plans/ follow through with commitments made in previous engagements

Identify matters that add value in putting measures and action plans in place well in advance to mitigate risks

Feedback linked to Focus Areas



AGSA audit methodology improvements (cont.)



We have enhanced our **audit methodology** to ensure you continue to receive a **valuable** and **relevant product**

It was the result of a robust and methodical process:



In-depth research



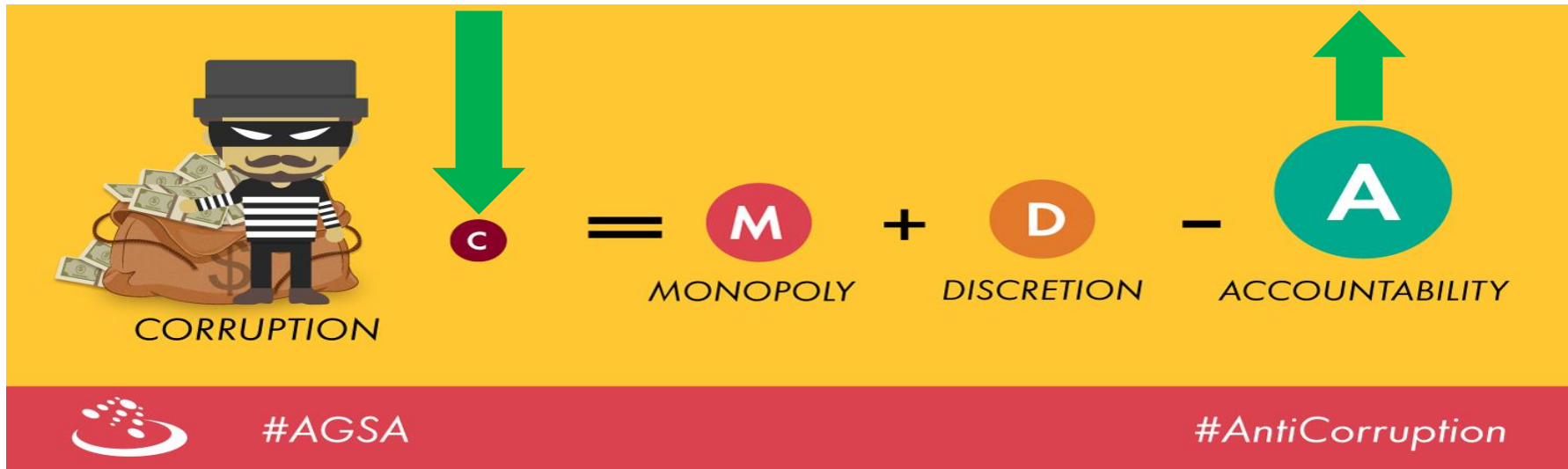
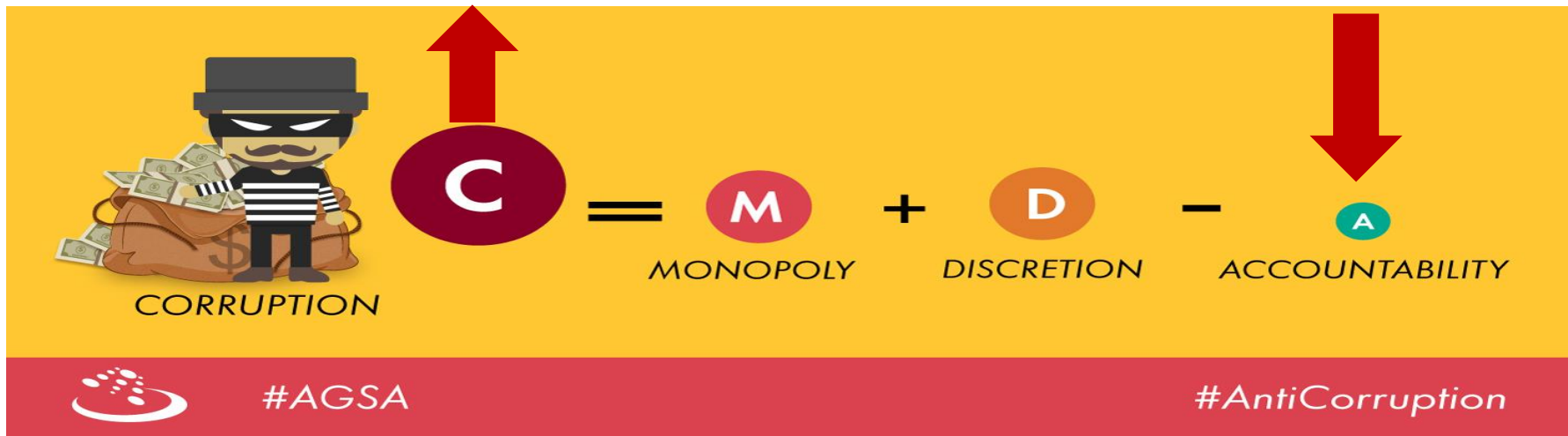
Numerous local and international discussions



Thousands of hours of testing

The audits will be more **focused** and **integrated** with a robust risk approach, allowing you to continue driving **accountability** and **good governance**.

Correlation between low accountability, corruption and impact on service delivery



Source: Robert Klitgaard (academic anti-corruption research)



ACCOUNTABILITY = PLAN + DO + CHECK + ACT

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