**BUDGET REVIEW AND RECOMMENDATION REPORT (BRRR) 2015/16**

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| **PORTFOLIO COMMITTEE RECOMMENDATIONS** |

| **RECOMMENDATIONS** | **PROGRESS AS AT 31 JULY 2017** |
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| * Ensure that the mandate and funding of BBI, the funding model and the budget of SAPO and funding of iNeSI are reviewed;
 | * The ESEID Cluster approved the iNeSI Bill for submission to Cabinet.
* Scoping and Funding is currently in progress and to be concluded by end August 2017. BBI’s Board has resolved to request that the subordinated Shareholders loans should be converted to Shareholder Equity to strengthen the balance sheet and improve credit risk profile of the company.
* The budget of SAPO for the 2015/16 FY has been reviewed in line with the challenges faced post the strike period and slow rate of recovery. No changes were made to the 2015/16 FY budgets however, the budgets for the 2017/18 FY have been revised downwards for revenues as indicated in the new Corporate Plan for the period 2017/18 to 2019/2020.
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| * Ensure that all entities include timeframes against their targets and each target must include a budget attached to it to ensure efficient oversight by Parliament;
 | * ZADNA has incorporated these requirements in its 2017/18 plan and timeframes against their targets has been included in the APP and budgeted for.
* In the development of the 2017/18 APP of NEMISA, the timeframes and budget for each of the targets have been included.
* The USAASA and USAF Annual Performance Plans for 2017/18 approved by Executive Authority and Parliament (Portfolio Committee on Telecommunications and Postal Services) have reconciled performance targets with the budget and the Medium Term Expenditure Framework as required in terms of National Treasury Framework on Strategic Plans and Annual Performance Plans. USAASA and USAF has also costed operational plans. SENTECH-A budget of each target has been provided for in the Financial Plan in the Corporate Plan.
* SAPO targets have timeframes and budgets. These have been formally assessed by the finance team for the year end reporting exercise. These will also be reassessed to ensure they are SMART, and, if necessary, an application to DTPS and the Portfolio Committee will be made to adjust the targets for the March 2017 year to ensure FY16’s performance objective related audit issues will not be repeated.
* In the development of the 2017/18 APP of NEMISA, the timeframes for each of the targets was included. The targets falls within 5 programmes namely Administration, Multi-stakeholder Collaboration, e-Astuteness development, Knowledge for Innovation and Aggregation Framework. The budget of NEMISA will be shown against each programme.
* The Department, IDC and BBI conclude on an annual basis, the shareholder compact which takes into account alignment of the KPAs and KPIs with the budget (as identified in the APP, Corporate Plan and aligned to the budget).
* SITA’s Annual Report Performance Plan (2017/2018) has frames (quarterly) for each KPI and related target(s). The budget is allocated at a programme level and detailed budget allocation for each target is defined at a divisional level since delivery take place at this level.
* SAPO targets have timeframes and budgets. These will be formally assessed by the finance team as part of the December 2016 dry run for the year end reporting exercise. These will also be reassessed to ensure they are SMART, and, if necessary, an application to DTPS and the Portfolio Committee will be made to adjust the targets for the March 2017 year to ensure FY16’s performance objective related audit issues will not be repeated.
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| * Ensure that the Department and its entities have existing Disaster Recovery Plans;
 | * The Department has an approved Disaster Recovery Plan and will be reviewed in the fourth Quarter.
* ZADNA have disaster recovery measures in place for the domain name registries that ZADNA is regulating.
* Disaster Recovery Plans exist within NEMISA. The Plan was reviewed and approved by the Board and forms part of the overall ICT Policy.
* USAASA has Disaster Recovery (DR) Plan which was approved by the USAASA Board in October 2016. The DR Plan caters for more systems, including SAP, in order to maximise business continuity to its systems in the event that disruptions to its main sites is affected. The Board Audit and Risk Committee monitors the implementation of the Disaster Recovery Plan on quarterly basis.
* SENTECH’s DR site was completed at the end of March 2017 as planned. Commissioning was done.
* Postbank has an interim DR solution, with active-active capability for the financial switch. SAPO is procuring a full DR capability for SAPO to ensure business continuity which will be implemented in due course. SAPO has been engaging with the Office of the Chief Procurement Officer at National Treasury to explore ways to expedite this process.
* BBI has approved the Business Continuity Policy. There is also an emergency preparedness and Response procedure and the approved document management and information security policies govern the recovery of information in case of emergency. A new IT architecture is being implemented to ensure continuity of both the network operating centre and business systems. An IT Oversight Committee has been instituted to oversee these processes. The Business Continuity Management Plan is being revised to align to the approved information management policies.
* BBI launched the Network Operating Centre (NOC) as a Service in March 2016 of which Phase 1 of the project was a Disaster Recovery NOC. BBI has arrangements with some of its own customers to use their NOC to diversify our network and ensure continuity should there be disruptions at their central NOC and vice versa.
* With changes in the law such as the POPI Act and heightened cyber-attacks, BBI is reviewing the Business Continuity framework to include protection of information, assets and people that will integrate all dimensions of the business response, recovery and continuity in an event of a threat.
* SITA has a disaster recovery plan which is implemented and monitored on a regular basis.
* Postbank Disaster Recovery has been moved to Telkom’s Centurion datacentres during April and May 2017. It is now completed.
* National Treasury approval was received in December 2016 for SAPO to engage with Telkom for a duration of 3 years to obtain Disaster Recovery hosting. The implementation of Disaster Recovery was dependent on discussions between SAPO and Telkom with regards to outstanding interest payable and property charges. Interest was paid during the last week of March 2017 after extensive negotiations and therefore SAPO IT has started engaging Telkom regarding the planning and implementation of DR as a Service.
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| * Ensure that SITA develops as a matter of urgency a Cyber-Security vision and strategy that will ensure government-wide data protection;
 | * SITA is in the process of acquiring the service of the external service provider to assist with the development of Cyber-Security vision and strategy. The Cyber-Security vision and strategy will be finalised by the end of the 2017/18 financial year.
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| * Ensure that USAASA’s mandate is reviewed to be in line with the modern broadband and data services;
 | * The USAASA and USAF Strategic Plans and Annual Performance Plans for 2017/18 are aligned with the strategic pillars of South Africa Connect Policy. USAF has Community and Institutional Broadband Access programme indicator which seeks to take full advantage of ICTs to ensure widespread access to high quality broadband networks and services in all towns and villages. This will be done by the establishment of high-capacity broadband points-of-presence within current unserved towns and villages, with last-mile broadband connections to local schools, post offices, health clinics and government offices. Collaborative development of ICT facilities within each institution to ensure maximum public usage and benefit. The typical example is the broadband enabled infrastructure and services recently launched by the Deputy President, Honourable Cyril Ramaphosa in the OR Tambo District Municipality at Mhlontlo and King Sabata Dalindyebo Local Municipalities, Eastern Cape under the auspices of the South Africa Connect.
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| * Ensure that clear time frames in respect of completion of rationalisation of SOCs is made available
 | * The Department has met its SOC Rationalisation milestones as set out in the 2016/17 APP.
* Clear timeframes through the identification of quarterly targets and monthly targets have been set for the 2017/18 financial year in line with the 2017/18 APP.
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| * Ensure that the Department and all entities, especially iNeSI and SAPO, review the ratio of the spending on salaries versus operational costs;
 | * .ZADNA approved the salaries budget accounts for around 40% of the budgeted expenditure, and is indicative of the increased number of employees, and provides for additional new appointments.
* Adjustments to address this are made in the 2017/18 APP. Furthermore, the transition of NEMISA to iNeSI involves a reviewing of the organisational structure. The Board approved a functional structure to ensure that staff are aligned to function.
* Total spending in quarter one for USAASA amounts to R35.9 million. The spending on personnel for the same period was R11.5 million. Therefore, the spending percentage on salaries compared to total spent for the quarter is 32%. USAF does not have personnel cost, instead USAASA administers USAF, hence the ratio.
* BBI reports its expenditure which includes salaries and operational costs on a quarterly basis in line with its Corporate Plan.
* SITA is a service driven organisation and revenue generated from services funds its operation. The majority of the labour included in cost of sales relates to staff that are utilised to provide services to customers and forms part of direct costs. These costs are recoverable from customers in terms of the Service Level Agreements negotiated with customers.
* SITA has implemented vigorous approval processes during the 2016-17 financial year to ensure that any new appointments are absolutely necessary and that staff costs are contained as far as possible, considering the needs of customers and service delivery commitments. Salary increases are negotiated with the staff union to be in line with inflation.
* SENTECH continues to monitor the personnel costs. The targets for cost containment were achieved in the last financial year as it will be seen on the achieved EBIT.
* SAPO-This metric is tracked on a monthly basis, and specific targets have been set for each year of the FY18 through FY20 corporate plan years. The target ratio of salaries as a percentage of revenues is 40% to 42%, versus the current ratio of close to 76%. This will be achieved primarily by growing revenues, and if revenues do not grow as planned, restructuring may have to be implemented to reach the required metric to ensure financial sustainability of the business. [Salaries as a percentage of revenues is considered a more appropriate measure than salaries as a percentage of expenditure.
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| * That the Department, National Treasury and BBI urgently intervene to avoid unintended consequences while the BBI’s future is being finalised
 | * The Department, IDC and National Treasury and BBI hold monthly meetings to discuss BBI’s financial performance which includes monitoring of quarterly and monthly performances.
* With BBI being mandated to aggregate the broadband infrastructure roll out for SA Connect project, the budget allocation request has been submitted to the Department
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| * Ensure that INeSI develops a new marketing strategy to ensure that more people are aware of the e-skills initiative
 | * A marketing and communication plan has been developed and is being implemented in the current financial year. This marketing and communication plan is aimed at raising the awareness of e-skills and the strengthening NEMISA.
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| * Ensure that the Minister engage the SITA Board to revise its bloated structure and instead develop a new strategy that will maximise the efficiency of the institution;
 | * The Board recommended the revised macro structure to the Minister of Telecommunications and Postal Services.
* DTPS is preparing for engagement between the SITA Board and the MTPS in the near future.
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| * Ensure that the Minister engage the SITA Board on the establishment of the proposed subsidiaries and their importance, and submit a report to Parliament within three (3) months after the APP process
 | * The Department has engaged SITA and SITA indicated that the proposal for the establishment of subsidiaries is no longer part of SITA’s strategy.
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| * Ensure that the filling of all vacant Board positions in affected entities is expedited.
 | * NEMISA- all non – executive board member vacancies have been filled.
* USAASA- all non – executive board member vacancies have been filled
* One Non-Executive Director resigned with effect from 4 July 2017. The Ministry is in the process of filling this vacancy.
* SITA- all non –executive board member vacancies have been filled
* SAPO- Filling of all three non-executive board member vacancies have been finalised (CFO and COO positions). The Company Secretary position has been finalised during July 2017, to start from 01 August 2017.
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| * Ensure the filling of key vacancies in the portfolio, specifically in the Department, NEMISA, USAASA, Sentech and SITA;
 | * The Department have only six (6) vacant and funded managerial positions which are:
	+ DDG: International Affairs and Trade – Preferred candidate has been recommended -in the final stages of the recruitment process.
	+ DDG: ICT Policy and Strategy – subject to conclusion of the organisation restructuring process
	+ DDG: ISAD & R – subject to conclusion of the organisation restructuring process
	+ Chief Director: GITO – Filled with effect from 01 March 2017
	+ Chief Director: CAE – Filled with effect from 01 March 2017
	+ Chief Director: Broadband – Post filled – to commence in August 2017.
* NEMISA: CFO post was filled on 1 November 2016, however the CFO resigned on 30th April 2017. The entity is in the process of recruiting a new CFO. A shortlist is in the process of being finalised by the Board.
* USAASA - critical vacancies have been filled (CEO, CFO and non-executive board members). USAASA is currently filling senior management positions (Company Secretary and Executive Managers).
* The employment contract of the COO expired on 30 July 2017 and the recruitment process to fill the vacancy is underway.
* SITA is in the process of filling all executives’ vacancies in line with revised organisational structure.
* SAPO – CFO has been appointed. COO appointment has being finalised and started on 01 June 2017
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| * Ensure that all board positions which are about to come to an end such as those under USAASA are advertised and filled as a matter of urgency;
 | * NEMISA: All non-executive board member vacancies have been filled. The organisation is currently in the process of realigning its staff complement to support its APP 2017/18 and beyond.
* USAASA- - all non-executive board member vacancies have been filled
* SENTECH- the COO’s employment contract will expire on 30 June 2017 and a recruitment process has commenced. The shortlist of candidates to be interviewed has been submitted to the Minister.
* SAPO – Filling of all three non-executive board member vacancies has been finalised (see above)
* SITA- all vacancies in the Board have been filled.
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| * Ensure that effective tracking of irregular and wasteful expenditure in the portfolio is done and that the Committee receives a report indicating what corrective measures have been undertaken to recover the outstanding monies;
 | * Irregular, fruitless and wasteful expenditure registers are implemented by the department. The loss management committee deliberates on the cases and determine liability.
* The Finance Division is required to compile the compliance register that lists the wasteful expenditure, irregular expenditure and deviations. The register is tabled on quarterly basis at EXCO, the Board Audit and Risk Committee and the Board. The CEO is fully delegated by Board to ensure that the action plan is implemented.
* The South African Post Office has a Financial Misconduct Committee (FMC). The purpose of the Financial Misconduct Committee (FMC) is to ensure that all “Financial Misconduct matters” within the SAPO Group of companies are managed in accordance with the requirements of the PFMA (Public Finance Management Act) and related regulations.
* The FMC has established processes and procedures as well as a formal mandate to guide the effective execution of financial misconduct matters. In essence, the FMC is authorised to establish processes, protocols and controls that will give effect to the policies and laws aimed to manage matters of financial misconduct within public entities and more specific the SAPO group of companies.
* Supply Chain Management (SCM) monitors procurement spend on a monthly basis and then identifies all possible irregular expenditure. These transactions are registered through the Risk Business Intelligence system (RUBI) to enable and facilitate the registration, investigation and follow up of all alleged FMC matters, of a possibly Irregular or of a possibly Fruitless and Wasteful nature.
* In addition to monitoring irregular expenditure any fruitless and wasteful incidences which are reported through various means, such as reviews by the finance team, are also registered and investigated accordingly.
* The Financial Misconduct Committee assesses all transactions tabled by SCM on a bi-weekly basis. The outcomes are tabled in quarterly reports to Exco, Board Audit Risk (BARC) to SAPO Board of Directors for consideration and condonement where appropriate, after disciplinary steps have been instituted
* SITA has a loss control committee which monitors Irregular, fruitless and wasteful expenditure and report progress at EXCO and /Board.
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| * Ensure that tracking of SAPO as a going concern is done on a continuous basis, so that the entity can continue its operations for the foreseeable future and invest its current resources to secure its long term sustainability. The Minister should further consider if Public-Private Partnerships (PPP) are necessary for certain SAPO operations, and he should encourage Cabinet members to commit to increasing their departments’ support for SAPO to ensure that SAPO secures government business as a way of generating sustainable income
 | * Going Concern – SAPO monitors it’s liquidity on a daily basis and solvency is monitored on a monthly basis. The going concern tracking and monitoring is done on a monthly basis, at the interim reporting period and yearend at March. This is reported to the Board Audit and Risk Committee.
* Government Business – The SAPO Commercial team has visited various government departments with proposals on the SAPO offering, and has submitted many tenders. SAPO has been awarded contracts by Sentech and UNISA in addition to existing contracts for delivery of services to DPW in Eastern Cape and other agencies of the State. SAPO also follows the competitive bidding process and submits bids for published Government tenders, as advertised on the National Treasury website and portal. Engagements have taken place with the Office of the Chief Procurement Officer and continues.
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| * Ensure that the Department develops risk mitigating strategies to overcome the significant risks relating to DTT procurement, the management of contracts and contract escalations. The Committee recommends continuous engagement between the DTPS, DOC and USAASA to resolve gaps in the delivery of the DTT
 | * The Department is in a process of establishing risk management engagements that will be considering key strategic and operational risks across the Portfolio.
* A DTPS & SOCs Engagement Framework has been developed and accepted for forward engagement with the SOCs by the Departmental Executive Committee. This document will ensure timely and proper engagement among the Entities in the Portfolio to consider the Portfolio’s cross-cutting risks, share ideas and mitigation strategies to mitigate these risks in a consistent and seamless manner and manage progress on the management of these risks.
* An implementation plan will be developed to support the DTPS & SOCs Engagement Framework clearly indicate formal planned engagement to monitor implementation of programmes, including the DTT, risks identified, emerging risks, mitigation strategies, allocation of responsibilities, etc.
* USAASA has a dedicated Contract Management risk register in line with the National Treasury guidelines on contract management. For oversight purposes all risk issues identified are reported to Risk Management Committee, EXCO, the Board Audit and Risk Committee and the Accounting Authority.
* Over and above the contract management risk register, there is Digital Terrestrial Television Project Management Office (DTT PMO) Steering Committee meeting chaired by the DTT Programme Head from the Department of Communications. USAASA, Sentech, SAPO, Department of Communications, the DTPS and the SABC are part of the DTT PMO Steering Committee.
* The risk mitigation strategies in relation to the DTT procurement have been developed and monitored. The reviews occur on a quarterly basis in order to ensure management takes ownership of the issues for proper and appropriate resolutions.
* A report relating to DTT procurement findings of 2015/16 was compiled and appropriate steps are undertaken.
* USAASA has compiled an affidavit with the aim of petition the High Court to set aside the contracts awarded to the 27 appointed manufacturers.
* A list of the service providers that were alleged to have been involved in bid collusion has been submitted to the attention of the Competition Commission and the investigations by the Commission are underway.
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| * Ensure that all the SIU investigations across the portfolio are finalised and that corrective measures are implemented
 | * Engagements are being held with the SIU to identify the outstanding work and where necessary expediting the process to ensure that their work is completed in time and reports submitted to the Presidency and the Department for determinations and taking appropriate actions.
* SAPO-Six SIU disciplinary cases were identified and five cases were completed. One case has started at the CCMA as a (Pre-dismissal Arbitration) in April 2017 and still in progress.
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| * Ensure that transfers from the Department to entities are done timeously and not towards the end of the 3rd Quarter of the financial year
 | * The drawing schedule as submitted to National Treasury will be adhered to. In the 2017/18 financial year the transfers to International organisations are in the first quarter.
* The transfers from the Department were received on time within the first month of the quarter. Fund for USAASA were received on the 28 July 2017 and the ones for USAF were received on the 01 Aug 2017.
* The Board approved implementation of the three budgets under NEMISA's Management (NEMISA allocation, e-SI budget and e-skills rollout budget) and drawdown is being done against the approved consolidated budget for 2017/18.
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| * Ensure that under-expenditure of funds in the Department and all entities are not reflected as a surplus;
 | * USAASA and USAF subscribes to Generally Recognised Accounting Practice and therefore the use of the term ‘surplus’ is in line with the accounting standards for financial accounting and reporting as set by Accounting Standards Board (ASB). The standards set by the ASB specify how transactions and other events are to be recognised, measured, presented and disclosed in government financial statements.
* GRAP 1 outlines the information to be presented either on the face of the Statement of Financial Performance or in the notes to the financials.
* However, it is acknowledged that the terminology of the standard, particularly the term surplus masks the fact that public entities are indeed under spending when the surplus is reflected.
* SAPO follows the IFRS basis of reporting, so ring-fenced funds are reflected in separate call accounts in the general ledger. These are not recorded as a surplus.
* NEMISA follows GRAP reporting standards. The terminology of the standard, particularly the term 'surplus' masks the fact that public entities are indeed under spending when the surplus is reflected.
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| * Ensure that the Department and all entities have realistic targets and that the term ‘partially achieved’ for performance indicators/targets not achieved is done away with.
 | * USAASA has involved the Department of Planning Monitoring and Evaluation (DPME), DTPS and AGSA on setting of targets on both USAASA and USAF Annual Performance Plan for 2017/18 and therefore the targets are realistic and achievable. Both USAASA and USAF Quarterly performance reports are subjected to Board Audit and Risk Committee scrutiny and are further audited by the Internal Audit Division and performance outcomes for the quarters are either reported as achieved or not achieved.
* Furthermore, USAASA has refrained from using partially achieved for year-end reporting.
* SAPO-The targets for the 2015/16FY have been ambitious after taking into account the delays in concluding the term loans, correcting operations and revenue recoveries. The targets for the 2017/18FY have been normalised to be more realistic. Performance indicators that do not meet the target are now rated as “Not Achieved” and no longer as “partially achieved”, even if some progress has been made on the performance indicator. Percentage progress will be reported to indicate significant work done.
* The Department officials participates in the development of the entities Strategic Plans thereby assisting in ensuring that the targets set are realistic and achievable. Furthermore the Department meets with public entities to review their quarterly performance. Public entities will henceforth be discouraged to use partially achieved for targets not achieved during year-end reporting.
* Furthermore, the Department will refrain from using partially achieved for year-end reporting.
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| * Ensure that recommendations raised in the previous BRRR are adequately addressed
 | * Progress reports against all previous BRR Reports, in relation to the Department and relevant SOCs, have been submitted to the Portfolio Committee.
* Furthermore, monitoring and reporting will continue going forward.
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| * Ensure that operational deficiencies identified by the AG form part of the KPIs for all the senior managers of the entities.
 | * There were no deficiencies relating to ZADNA because the AG does not audit ZADNA.
* NEMISA-Management has concluded on performance reviews for 2016/17 and concluded on the performance management framework. A legal service provider was appointed and concluded the review of all contracts.
* USAASA indicated that the operational deficiencies identified by the AG are mainly monitored in terms of the Implementation Action plans as indicated above. The operational deficiencies reported by the auditors in July 2016 in the final audit report will be further incorporated into the performance agreements of Senior Managers to ensure that these KPI’s are included in upcoming performance agreements to ensure non-recurrence.
* All SITA management have balanced scored contract which includes a KPI on the resolution of audit division monitors and tracks the implementation of controls related to operational deficiencies identifies by the AG and progress is reported at EXCO and Board.
* SAPO- During the 2016/17FY the AG audit items were included as part of the Group Executives KPI’s. The audit items will be part of the senior managers KPI’s during the 2017/18FY – this process has commenced.
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