



**Presentation to:** Portfolio Committee of Telecommunications and Postal Services

**Organisation:** SITA

**Reporting Period:** 2017-2018 Annual Performance

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**Date:** 16 October 2018



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## PROGRESS ON 2016/17 AG FINDINGS





## Summary Status



Programme	No. Findings raised by the Auditor General of South Africa	No. of Internal Controls Developed for Implementation	Continuous Improvement Plan				
			0% - Not Addressed	25% In progress	50% Implementation Achieved	75% Adequately Achieved	100% Fully Effective
<b>Finance</b>	<b>36</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>29</b>
Accounts Payable	3	3					3
Accounts Receivable	1	1					1
Capital Commitments	5	3					3
Cashflow Statement	2	2					2
Deferred Tax	1	1					1
Employee Costs	3	3					3
Financial Instruments	1	1					1
Fixed Assets	5	4				1	3
Income Received In Advance	1	1					1
Income Tax	1	1					1
Information Technology	1	1					1
Irregular Expenditure	3	1					1
Intangible Asset	3	2					2
Operating Expenses	2	2					2
Operating Leases	1	1					1
Other	2	2					2
Trade and Other Receivables	1	1					1
<b>Supply Chain Management</b>	<b>19</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>17</b>
Irregular, Fruitless and Wasteful Procurement	2	2					2
Procurement	17	17			2		15
<b>Information Communication Technology</b>	<b>11</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>6</b>
Patch Management	2	1					1
Backup Management	1	1					1
Disaster Recovery	1	1					1
Security Configuration	3	2			1		1
User Access Control	2	1			1		1
IT Procurement	1	1					1
IT Service Continuity	1	1					1
<b>Human Capital Management</b>	<b>13</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>12</b>
Employee Costs	13	12					12
<b>Performance Information Management</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
Audit of Predetermined Objectives	3	1					1
<b>Governance and Administration</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
Internal Control Policies	3	3					3
<b>Totals</b>	<b>85</b>	<b>73</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>68</b>



## Detailed Status



Area of Audit Finding	Details of Finding	Action Plan to Address Audit Findings	Progress on implementation of Action Plan
Supply Chain Management	SCM officials not trained	<ul style="list-style-type: none"> <li>Training needs to be identified through an assessment.</li> <li>Develop training plan</li> <li>Appoint a service provider to provide training</li> </ul>	<ul style="list-style-type: none"> <li>Assessment for all procurement staff was done in 2016 by CIPS (Chartered Institute of Procurement &amp; Supply Chain).</li> <li>Results on the proficiency of all SCM staff on 11 key competencies for SCM were provided out of the results, CIPS proposed training interventions (short term and long term) for all SCM staff.</li> <li>The plan was to process this requirement through sole source and this was not successful. Specification for competitive bidding is being developed. The plan to secure a service provider by end of October 2018.</li> </ul>
Supply Chain Management	Completeness of transaction list and contract register	<ul style="list-style-type: none"> <li>Successful implementation of gCommerce to address contract management issues.</li> </ul>	<ul style="list-style-type: none"> <li>To date there are 398 SITA internal contracts on gCommerce, the list of all effective contracts is available on gCommerce for SITA internal use.</li> <li>Currently the system is being configured to send notifications to contract owners on contracts that are coming to an end.</li> <li>Report requirements and rules escalation around contract notification escalation are being developed.</li> </ul>



## Detailed Status

Area of Audit Finding	Details of Finding	Action Plan to Address Audit Findings	Progress on implementation of Action Plan
Hosting and Secure Operations	Internal vulnerability assessment	<ul style="list-style-type: none"> <li>▪ Develop patch management procedures</li> <li>▪ Create a platform to test all patches before it is run in the production environments.</li> <li>▪ Assess the workload to establish the feasibility of migrating workload onto one of the various Government Private Cloud Ecosystem (GPCE) variants to ensure that the environments are hosted in a more secure environment</li> <li>▪ Follow the rest of the “Business-Take-on-Framework” (BToF) process for the buy-in and take-on of clients; and</li> <li>▪ Migrate the workload onto one of the GPCE variants.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Patch management procedures have been developed and have been signed off.</li> <li>▪ The procedures are reviewed and updated on an annual basis to ensure that latest processes and technologies are included.</li> <li>▪ A platform has been created on the Midrand data centre for testing.</li> <li>▪ The environment is ready to be used to test all patches before it is run in the production environments.</li> <li>▪ It is planned to move the windows environments onto the Midrand DC or CFI when established. This will however need to follow the “Business-Take-on-Framework” (BToF) process for the buy-in and take-on of clients. The following will be done:               <ul style="list-style-type: none"> <li>▪ Register an incident number;</li> <li>▪ List the customers/workload to be migrated (pipeline );</li> <li>▪ Prioritise the customers/workload to be migrated (pipeline );</li> <li>▪ Conduct due diligence for these environments – Sourcing of information commenced for both the Windows and Oracle environments; and</li> <li>▪ Review the above list – To be done after the due diligence.</li> </ul> </li> </ul>



## Detailed Status



Area of Audit Finding	Details of Finding	Action Plan to Address Audit Findings	Progress on implementation of Action Plan
Network & Service Management	External vulnerability assessment	Implement a centralised Intrusion Prevention System to detect and protect all hosts that are hosted inside the SITA network against all known forms of intrusion	A centralised Intrusion Prevention System (IPS) has been implemented by the Operational Security and Internet Services (OSIS) during Q1 of 2018-2019 financial year. Investigations on specific individual hosts that are client owned are ongoing
Network & Service Management	Inadequate user access controls on the microsoft billing system	Migrate all billing into an automated billing system that would provide better user access controls.	<ul style="list-style-type: none"> <li>▪ The process to procure the required software licenses to include a billing automation engine on the SITA ERP is currently in progress.</li> </ul>
Finance	Depreciation recalculation differences	<ul style="list-style-type: none"> <li>▪ Test the accounting for retirement of assets.</li> <li>▪ Reconcile data to ensure that there are no differences.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Currently testing the accounting for retirement of asset</li> <li>▪ Testing for acquisitions is done.</li> <li>▪ Target date is still end of October 2018.</li> </ul>



# PERFORMANCE OVERVIEW





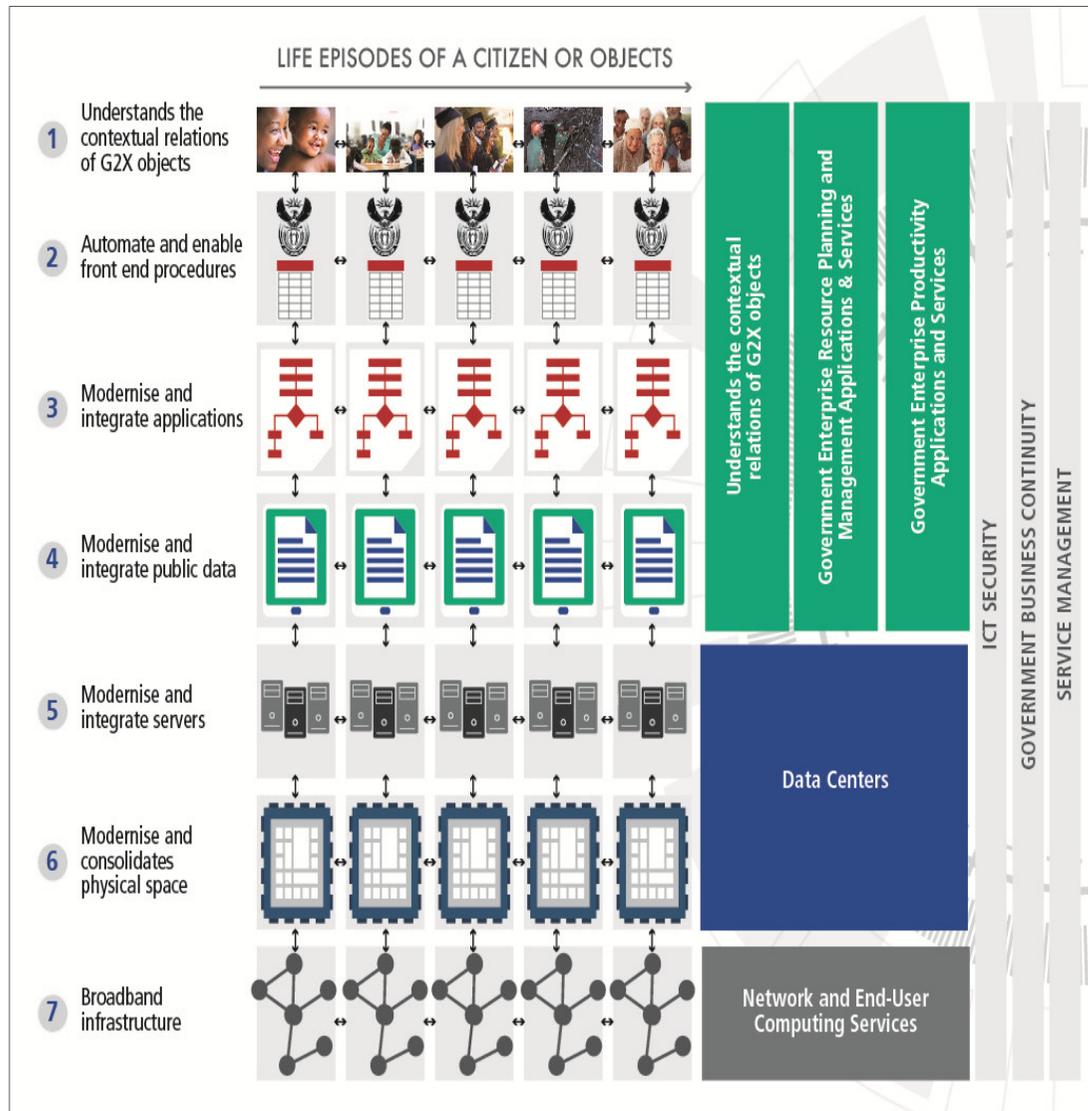
# Performance Overview



- During the year under review, SITA initiated a transformation process which entailed the:
  - overhaul of its business and operating model and overall value proposition to various stakeholders
  - assessment of its capability and readiness to improve public service delivery in a reliable and cost-effective manner for the betterment of the lives of the citizens
  - analysis of the internal environment from infrastructure, technology requirements, process efficiencies, service delivery mechanisms and skills requirements
  
- In the spirit of “thuma mina” the impact of SITA’s transformation to the citizens requires an equal transformation within government departments
  
- SITA continued with the modernisation of the technical operating environment to facilitate digitization of government driven by the following considerations:
  - focus on specific value-added services
  - fundamental changes in the cost structure
  - fundamental changes in agility and flexibility to meet demands of the e-Government paradigm;
  - fundamental changes in the resilience and integrity
  - ability to exploit and employ modern ICT skills to drive the changes



# Performance Overview



- Government digitization enables SITA to view the systems in the context of various public service value chains and the identification of roles and responsibilities of different members of a context ecosystem.
- This equips SITA to build incremental integrated value at different levels of the business and technology stacks towards a completely new paradigm in public service delivery.
- This requires social consciousness which is becoming the new driver for our public service ethos; in crafting relevant problem statements and designing smart business solutions and implementing enduring technologies that meet Government outcomes.



- A benchmark of IT Agencies service offering in comparison to SITA
- Benchmark results revealed that SITA has been operating as a general dealer while the majority of state IT agencies have a narrower service portfolio.
- A new business model was launched which underpins our new internal and external promises of performance.
- Decisions were taken which specify products and services SITA should offer, what role should SITA play in delivering the products and services and which services should be delivered through industry partnerships.

Technology Tower	 South Africa	 Australia	 France	 Germany	 UK	 US
Cross-department application development and maintenance	✓	✓	✓	✓	✓	✓
Department-specific application development and maintenance	✓	✗	✗	✗	✗	✗
Systems architecture and security	✓	✓	✓	✓	✓	✓
Data management and interoperability	✓	✓	✓	✓	✓	✓
Infrastructure provisioning and operations	✓	✗	✓	✗	✗	✓
Procurement	✓	✗	✗	✗	✗	✗
Standards and advisory services	✓	✓	✓	✓	✓	✓
Training and end user support	✓	✓	✓	✓	✓	✓



# Performance Overview



**SERVICES ARE MAPPED ON A MATRIX OF STRATEGIC IMPORTANCE VERSUS OPERATIONAL RESPONSIBILITY TO DETERMINE THE DELIVERY MODEL**

**DELIVERY MODEL MATRIX**

		<b>"Fully in-house"</b> SITA has full accountability for strategy & plan, design & optimise, build & operate service using internal employees	<b>"Partner delivery or automation"</b> SITA remains accountable for strategy & plan and design & optimise oversight but alternative delivery models are used for day-to-day operation	<b>"Full transfer to partner"</b> SITA transfers full accountability for the service to a partner
<b>Strategic importance of service line</b>	High	<b>IT services:</b> <ul style="list-style-type: none"> <li>• Architecture</li> <li>• Research</li> <li>• Standards</li> <li>• Security</li> <li>• Service Management</li> <li>• Hosting</li> <li>• Data Centre facilities</li> <li>• End User computing- High Risk</li> <li>• App Maintenance- High Risk</li> <li>• Procurement services:</li> </ul> <b>Automated procurement platform</b> <ul style="list-style-type: none"> <li>• Strategic sourcing</li> <li>• Demand management &amp; supply intelligence</li> </ul>	<b>SITA and partner share responsibility for day-to-day operations (project dependent) :</b> <ul style="list-style-type: none"> <li>• App Development</li> <li>• Training</li> </ul> <b>Partner fully responsible for day-to-day operations:</b> <ul style="list-style-type: none"> <li>• WAN</li> <li>• App Maintenance- Low Risk</li> <li>• End User Computing- Low Risk</li> </ul> <b>Automation:</b> <ul style="list-style-type: none"> <li>• Tender administration</li> <li>• Commodities sourcing</li> </ul>	<b>No services</b> , as SITA needs to retain full accountability for services that are high in strategic importance
	Low	<b>No services</b> , as SITA should not retain full accountability and carry resources for services that are low in strategic importance	<b>No services</b> , as SITA should not retain accountability and carry resources for services that are low in strategic importance	<b>IT services<sup>1</sup>:</b> <ul style="list-style-type: none"> <li>• Bulk Printing</li> <li>• Business Process Outsourcing</li> </ul>
		None	Partial	Full
<b>Operational responsibility of partners</b>				

<sup>1</sup> Transfer to other government entities that are better positioned to deliver the service to government



## Performance Overview



- As part of the new business model, SITA institutionalized a successful eGovernment and Cloud Computing programs within the business operations environment.
- SITA deployed 23 e-government services in the respective value chains of government enterprise productivity and government business solutions, demonstrating clear socioeconomic value to the citizens. These eServices include eMatric (a first eService for the DBE) and various ePermits which were largely consumed by provincial departments that focus on the environment.
- The cloud computing program is implemented within the hosting department which created an exciting multi-year modernisation roadmap for our entire hosting plant.
- SITA exceeded its planned targets on the APP for the modernisation of infrastructure. Major inroads made with two cloud variants of the target government private cloud ecosystem (GPCE) include an off-premise hosted private cloud and on-premise private OEM cloud, which are already in production.
- SITA successfully executed 12 examination cycles and results were released to qualifying candidates on time. This exam cycle included the National Senior Certificate for the 2017. A significant improvement was reported in all the different examination and resulting processes in comparison to previous years due to system changes, enhancement of standard operating procedures and introduction of job schedules..



- The Agency plays a significant role in the implementation of SA Connect Phase I, SITA upgrading eight (8) sites according to the SA Connect specification.
- SITA currently connects approximately 7 000 government entities; enabling access to internet, transversals and other shared government services.
- SITA lead the Western Cape (WCG) broadband programme. Connectivity has now been established in all twenty five (25) Local Municipalities in the Province.
- SITA implemented solid secure platforms and infrastructure to support eGovernment and cloud services, while also ensuring that private confidential data is not leaked, stolen or abused. In addition, SITA achieved ICT security level 2 maturity status for all 21 disciplines of the information security forum (ISF) maturity model.
- SITA launched the first phase of the gCommerce solution which resulted in the Microsoft license and services contract being catalogued and loaded onto the gCommerce BuySite, with the following benefits:
  - Organisations with more than 150 users can procure directly
  - Total discount has increased from 8% to 22%
  - All government entities can access the discount directly.



# Performance Overview



- SITA has signed framework agreements for licencing and maintenance with eight OEM's where terms have been negotiated not only for SITA and its clients but for all organs of state.
- The substantive result is that favourable discounts now impact over 800 national and provincial departments, local authorities, and their related entities as well as constitutional bodies. The cost saving based on these new discounted rates, inclusive of the Microsoft framework agreement concluded last year will be in excess of R2.9 billion over the next three years.
- To ensure growth of the SMME ICT Sector and broader transformation, SITA has implemented various initiatives:
  - SITA created eight (8) preferential procurement clauses that are included in relevant tender/s document to drive SMMEs spend.
  - SITA utilised the signing of the agreements to empower SMME's through obtaining commitments by the OEM's to train and enhance skills of SMME's so that they will be able, over time, to be the prime implementers of solutions.
  - SITA launched the SMME readiness programs which aims to equip SMMEs, who do not qualify for Request for Accreditation (RFA) panels with appropriate technical as well as business management skills, to successfully participate in subsequent opportunities.
  - SITA leveraged its premier GovTech 2017 ICT conference and collaborated with the ICT industry to successfully empower SMMEs with technical training through OEMs. Thirty (30) exhibition spaces were allocated to SMMEs within the GovTech solution center.



## Performance Overview



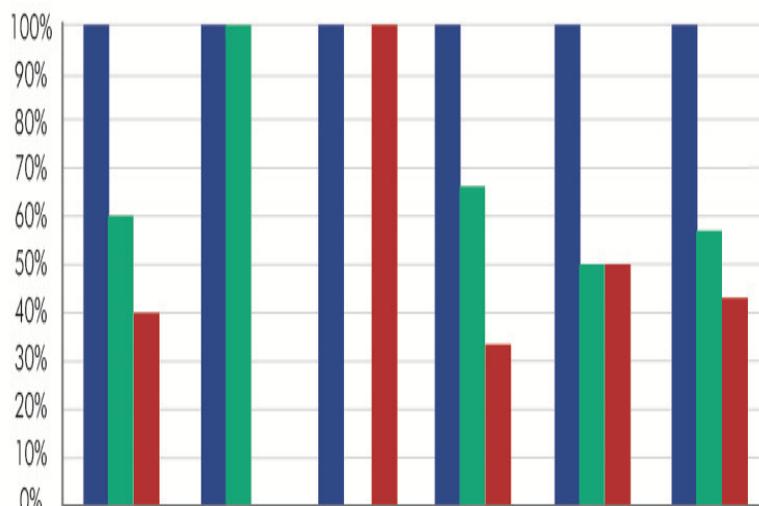
- SITA attained a customer satisfaction score of 51% in 2018, which was below the target of 70%, but 2% higher than the 2017 score of 49%.
- The new business model is centered on people, their intellectual capital and competence on cutting-edge technology resulting in the creation of SITA employees with a shared vision to deliver South Africa's information technology ambitions.
- To date SITA appointed 81 interns in line with its drive to develop talent, where 90% were placed within the software development discipline and the remaining 10% in the network management discipline.
- SITA invested in training and development by awarding 75 bursaries to its employees to grow its ICT talent pipeline to support core capabilities as per the new business and operating models of the organisation.
- SITA attained an overall employee satisfaction level weighted score of 67.25% which exceeds the APP target.



# Performance Overview



FY2017/18 Annual performance results as at 31 March 2018



■ Target	5	2	2	3	2	14
■ % Achieved	60.00%	100.00%	0.00%	66.67%	50.00%	57.14%
■ % non-achievement	40.00%	0.00%	100.00%	33.33%	50.00%	42.86%

- The business model implemented was a vehicle to refocus SITA to optimally enable Government to better serve the nation.
- To drive change in alignment with the implementation of the new model, key strategic projects (not included in the 2017/18 APP) were introduced which improved service delivery with visible achievements and notably increased demand for services.
- SITA achieved an overall audited performance of 57.14% on its planned targets as per the APP.
- The highest performing programmes are customer facing programmes and the financial sustainability programme. The agency has overachieved on the targets related to the modernisation of core IT services.
- SITA received an unqualified audit opinion on both the financial statements and the predetermined objectives



# PROGRAMME PERFORMANCE





## Programme 1: Service Delivery

The purpose of this programme is to provide high-quality IT services to enable government to deliver efficient and convenient services to citizens through the use of ICT and to optimise the provision of SITA's IT infrastructure services to increase availability, flexibility, scalability, predictability and security.

Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
20 e-services deployed	23 e-services deployed	Achieved	Additional services were developed to meet identified client needs. These were mostly e-permits for the export and import of wild animals and birds for the Eastern Cape DESTEA and Free State DESTEA.	N/A
Attain information security maturity level 2 as per generic security controls model	Attained information security maturity level 2	Achieved	No variance. Security Maturity Level 2 as per generic security controls model was attained as planned.	N/A



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Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
70% customer satisfaction level	51%	Not achieved	Expected improvements in customer service levels were premised largely on implementation of the new business model and related changes in the operating model, culture & skills sets. This would have required robust practical change management & extensive involvement of executive line management to drive changes through operational leadership. All these proved to be a challenge and the change management and executive management involvement in operations were affected by the need to focus on the clean-up operation, whose benefits will most certainly be felt in later years.	Customer improvement initiatives are currently being implemented



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Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
98% level performance against measured contracted SLA metrics	96.56%	Not achieved	<p>The target of 98% was 3% points higher than the old target of 95% that had been in place for at least the last 5 years. In order to achieve the new target, a number of changes were required in skills sets, processes and technologies used to draw and analyse systems performance data and improve service levels accordingly. The required changes were more intensive than anticipated given the base and therefore, the organization missed its targets in quarters one and two of the financial year whilst the changes were being implemented. This being a cumulative target meant that although quarters three and four targets were improved, the annual target could not be achieved because of the performance in the first half of the year.</p>	<p>Current status is 94.23% due to the August power outage that affected availability of services:</p> <ul style="list-style-type: none"> <li>- mean time to respond</li> <li>- mean time to resolve</li> <li>- customer edge metrics missed</li> <li>- availability of WAN and hosting services</li> </ul>



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Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
10% increase in government market share on designated services (increase on 2016/17 target)	10.7%	Achieved	Improved customer relationships and improved value proposition through our transformation programmes.	N/A



## Programme 2: Infrastructure

The purpose of this programme is to optimise the provision of SITA's IT infrastructure services in order to increase availability, flexibility, scalability, predictability and security.

Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
1 government private cloud service available	13 government private cloud services deployed	Achieved	SITA implemented various activities to drive implementation of GPCE and the take-on of clients onto the designated infrastructure escalated significantly.	N/A
Disaster recovery services provided to 2 clients	Disaster recovery services provided to 4 clients	Achieved	Due to client demand	N/A



## Programme 3: Procurement



The purpose of this programme is to address all issues relating to delayed procurement turnaround times, operational inefficiencies, removing customer pain points, cost ineffectiveness and transforming the procurement function's ICT acquisition spending through SMMEs.

Annual Target	Actual Performance	Status	Explanation of Variance	Current Status @ 30 Sep FY18/19
30% of ICT acquisition spend through SMME entities	14.22%	Not achieved	SITA created an SMME and ESD policy for the first time during FY2016/17. This policy was supported by additional work in the commodity strategy and ESD strategy whose implementation would have created commodity and general spend spaces for SMMEs. The target was premised on the fact that the lines of business were ready in terms of demand planning and operational contract management to support the programs however; this was not the case, reflecting that there was a need to drive extensive change management within the organization.	The Q2 target is 40% of ICT acquisition spending through SMME entities.  Current status is 26.57% (excl. indirect spending) 66% of SITA spending goes to the top 10 large companies ; with the rest of the entities sharing the 34% (a mix of large and small enterprises).



## Programme 3: Procurement



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Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
80% of tender awards completed within the targeted turnaround time	28.94%	Not achieved	Late design and implementation of the new supply chain operating model and delayed implementation of supply chain automation for efficient use of resources and improvement of turnaround times. This was exacerbated by the investigations that were conducted in the supply chain environment, which resulted in disturbances within the environment.	Current status is 28%, this due to delays in the design and implementation of the new model for efficient use of resources and improvement of turnaround times



## Programme 4: Financial Sustainability



The purpose of this programme is to ensure an effective and efficient financial management and ensure financial growth and sustainability

Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
R139m	R263m	Achieved	Strict cost-containment measures and improved contract negotiations that yielded positive results.	N/A
80%	94%	Achieved	Implementation of the electronic document delivery (EDD) system, which ensures that customers receive their invoices within the shortest time after being raised.	N/A
R1326m	R1262m	Not achieved	Non-achievement of services revenue targets as a result of unapproved labour tariffs.	Current status is R297.9m due to revenue accruals that were only made to the extent of costs as major SLAs are not signed



## Programme 5: Organisation, Governance and Administration



The purpose of this programme is to build and maintain organisational capability to enable SITA to achieve its strategic imperatives.

Annual Target	Actual Performance	Status	Explanation of Variance	Current Status 30 Sep FY18/19
30% of critical positions with minimum cover ratio of 1:2	12.5%	Not achieved	Delays in finalising competency assessments and development plans and programmes for potential candidates.	Current status is 23%
60% employee satisfaction level	67.25%	Achieved	Due to favourable scores obtained in the areas of strategy and change management as a result of aggressive engagements and communication on the new business model.	N/A



# FINANCIAL OVERVIEW





- The revenue for the year of R5.838bn is R522.7m (8.2%) below the budget of R6.361bn.
- The actual service revenue performance for the year was below the budget by R788.1m, while the target for agency revenue was met and exceeded by R245.9m.
- The expected gross margin on services was R1.266bn and represented a margin of 24% on services revenue. The actual gross margin was R1.130bn or 25.7% of revenue. This left a gross margin shortfall on services revenue for the year of R135.8m
- The expected gross margin on agency related sales was R59.9m or 5.1% of revenue. The actual margin for the year on agencies was R131.4m or 9.2% of agency revenue. This was a positive variance of R71.5m.
- The actual gross surplus was R1.262bn which is R64.3m below the budgeted gross margin of R1.326bn.
- The under performance in the finances was a combination in respect of an underachievement of labour based revenue and business opportunities that did not materialise as planned.



## Statement of Financial Position



Figures in Rand Thousand	2018	2017
<b>Assets</b>		
<b>Non-current assets</b>	1 208 719	1 377 260
Property, plant and equipment	709 478	756 719
Intangible assets	457 100	514 430
Non-current portion of Prepayments	41 050	70 254
Deferred tax assets	1 091	35 857
<b>Current assets</b>	2 940 356	2 539 270
Cash and cash equivalents	1 605 114	1 183 329
Trade and other receivables	1 158 954	1 108 846
Income Tax receivable	111 322	179 444
Current portion of Prepayments	64 966	67 651
<b>Total assets</b>	<b>4 149 075</b>	<b>3 916 530</b>
<b>Net assets and liabilities</b>		
<b>Net assets</b>	2 961 365	2 734 487
Share capital	-	-
Reserves	627 335	627 335
Accumulated surpluses	2 334 030	2 107 152
<b>Liabilities</b>		
<b>Non-current liabilities</b>	97 677	114 302
Post-retirement employee benefits	97 677	114 302
<b>Current Liabilities</b>	1 090 033	1 067 741
Trade and other payables	856 293	841 696
Income received in advance	233 740	226 045
<b>Total net assets and liabilities</b>	<b>4 149 075</b>	<b>3 916 530</b>

- **Property, plant and equipment/ intangible assets:**  
Represents the infrastructure assets of the Agency.

- **Cash and cash equivalent**  
Detailed explanation per cashflow statement.

- **Trade and other receivable (Note 9)**  
This represents the amount owed to the Agency by departments. The agency is working with DPTS and National Treasury to collect outstanding debts.

- **Income tax receivable**  
Amount due to the Agency by SARS.



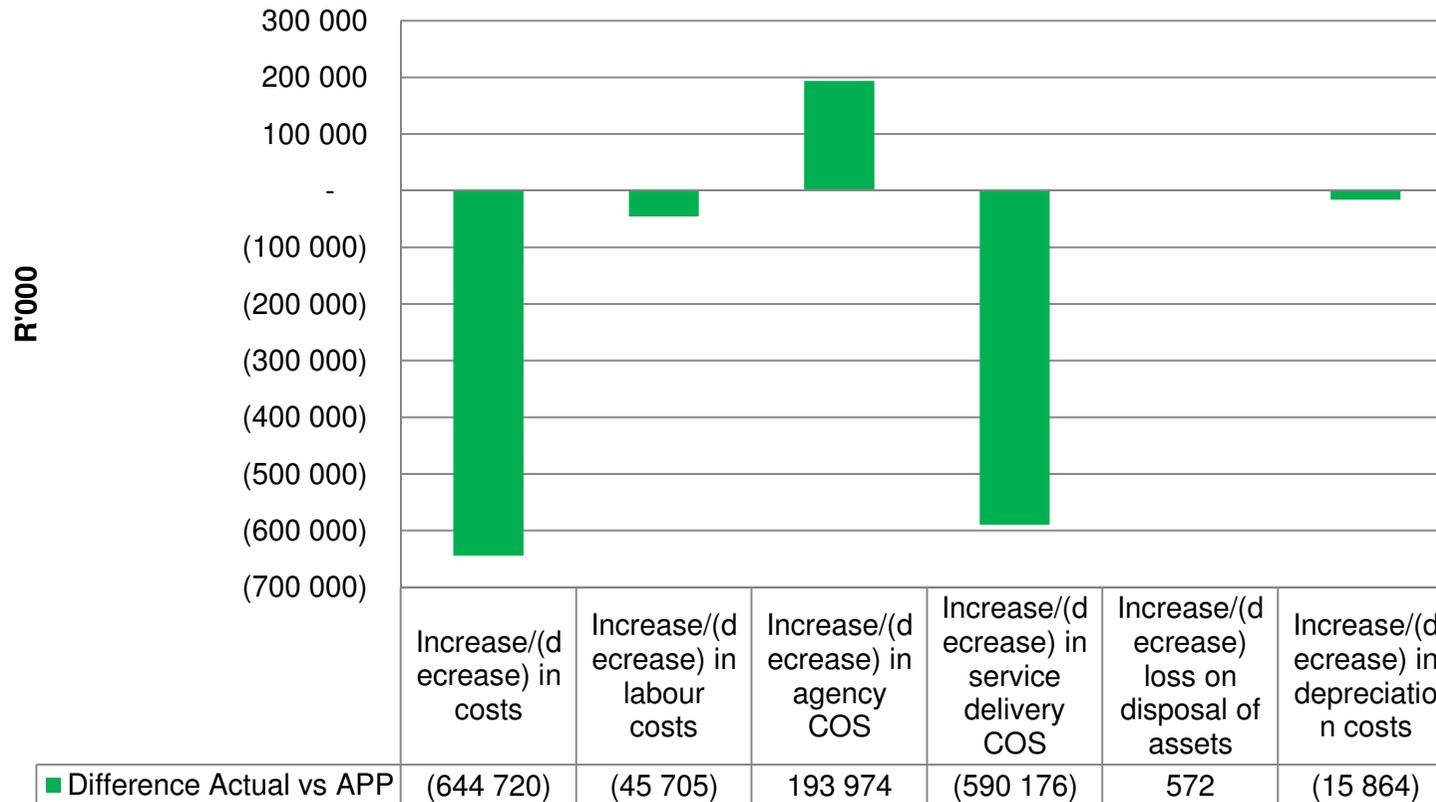
Figures in Rand Thousand	2018	2017
Revenue	5 758 712	5 680 793
Cost of sales	(4 537 081)	(4 661 882)
Gross surplus	1 221 631	1 018 911
Other income	32 755	38 345
Operating expenses	(1 040 302)	(954 839)
Surplus from operating activities	214 084	102 417
Finance income	151 780	192 273
Finance expenses	(55 336)	(49 678)
Surplus before income tax	310 528	245 012
Income tax	(83 649)	(84 172)
<b>Surplus for the year attributable to shareholder</b>	<b>226 879</b>	<b>160 840</b>



Figures in Rand Thousand	Actual As Per Statement of Financial Performance	Adjustment For Notional Interest	Actual Excl. Notional Interest (A)	Budget (B)	Variance % (A-B)/B
Revenue	5 758 712	79 242	5 837 954	6 360 669	-8.22%
- Agency revenue	1 414 574	19 465	1 434 039	1 168 610	
- Services revenue	4 344 138	59 777	4 403 915	5 192 059	
Cost of sales	(4 537 081)	(38 750)	(4 575 831)	(5 034 211)	9.11%
- Agency cost of sales	1 302 670	-	1 302 670	1 108 696	
- Services cost of sales	3 234 411	38 750	3 273 161	3 925 515	
Gross surplus	1 221 631	40 492	1 262 123	1 326 458	
- Agency gross surplus	111 904	19 465	131 369	59 914	
- Services gross surplus	1 109 727	21 027	1 130 754	1 266 544	
Other income	32 755	-	32 755	30 961	5.80%
Operating expenses	(1 040 302)	8 506	(1 031 796)	(1 218 136)	15.30%
Surplus before income tax	214 084	48 998	263 082	139 283	
Net Finance income	96 444	(26 751)	69 693	49 912	39.63%
Surplus before income tax	310 528	22 247	332 775	189 195	75.89%
Income tax	(83 649)	-	(83 649)	(52 975)	57.90%
<b>Surplus for the year attributable to shareholder</b>	<b>226 879</b>	<b>22 247</b>	<b>249 126</b>	<b>136 220</b>	<b>82.88%</b>



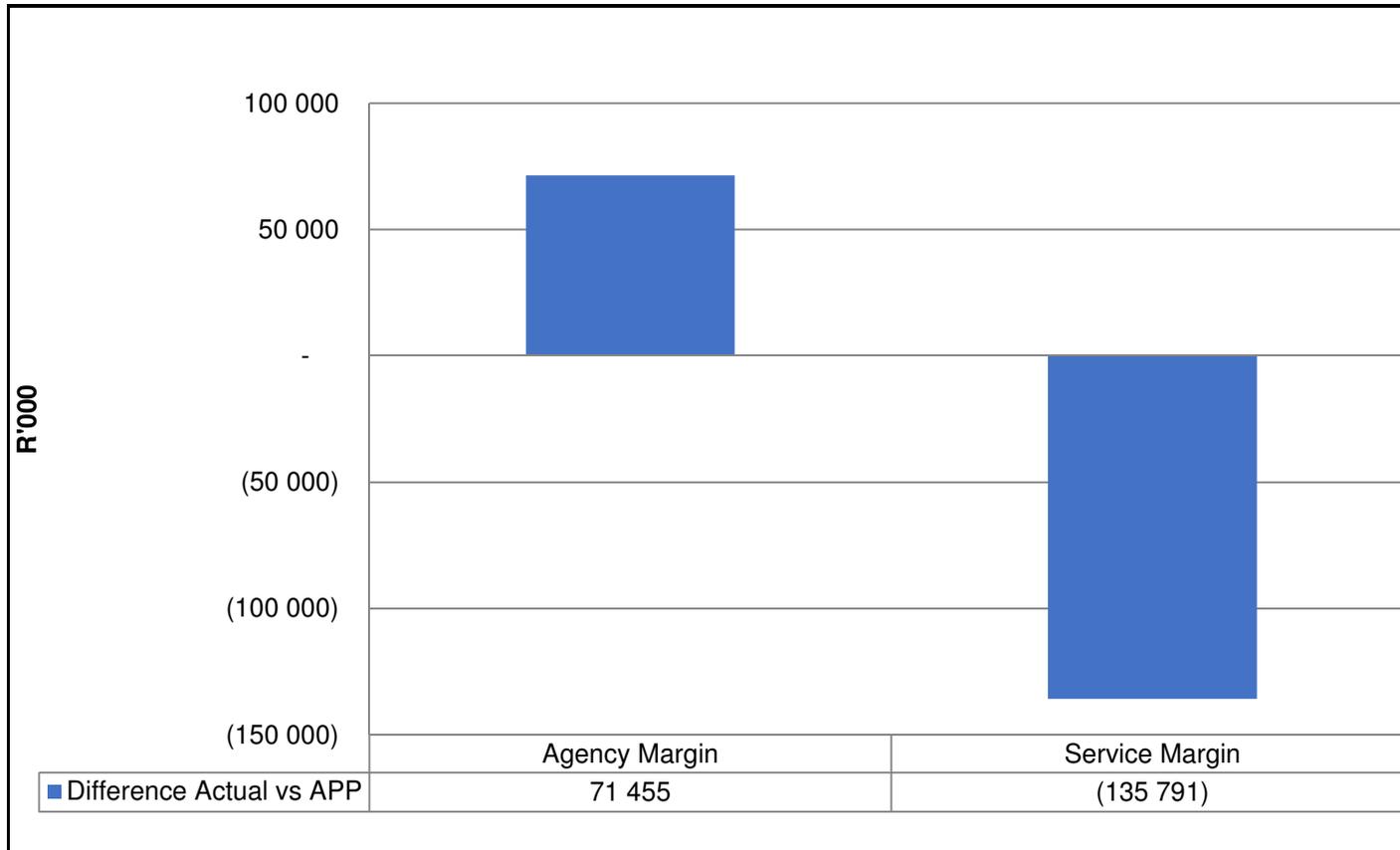
## Statement of Financial Performance Cost Performance Against Budgets



The Actual costs were below budget by R674.9million. The reason for the variance is a combination in respect of underachievement of labour based revenue and business opportunities that did not materialise



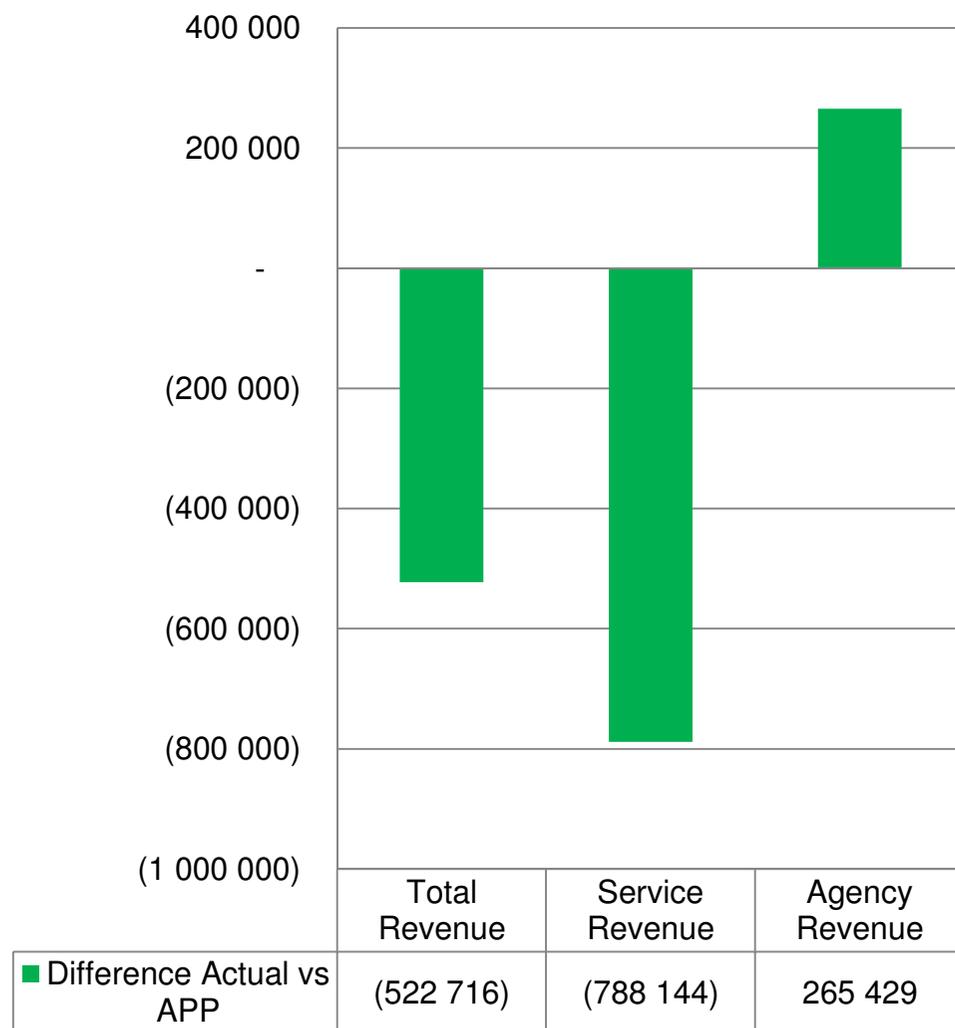
# Statement of Financial Performance Margin Analysis



The annual performance is a reflection of the management of the Agency's ability to adapt to changing environments and re-focussing resources to deliver on its mandate within the constraints of an evolving environment.



# Statement of Financial Performance Revenue Performance Against Budgets



- Against the budget revenue was below budget by R522.7m. The actual service revenue performance for the year was below the budget by R788.1m, while agency revenue performed well exceeding the budgeted by R265.4m.
- An amount of approximately R257m of the services revenue variance is directly attributable to the non-approval of tariffs.



## Cash Flow Statement



Figures in Rand Thousand	2018	2017
<b>Cash flows from operating activities</b>		
<b>Receipts</b>	6,778,818	6,390,211
- Sale of goods and services	6,690,600	6,235,145
- Finance income received	62,727	62,616
- Income tax receipt	25,491	92,450
<b>Payments</b>	(6,257,908)	(6,155,474)
- Payment to suppliers and employees	(6,257,370)	(6,154,984)
- Finance costs paid	(538)	(490)
- Income tax paid	-	-
<b>Net Cash flows from operating activities</b>	520,910	234,737
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(90,201)	(32,837)
Purchase of intangible assets	(8,924)	(171,057)
equipment	-	-
<b>Net Cash flows from investing activities</b>	(99,125)	(203,894)
<b>Cash flows from financing activities</b>		
(Repayment)/Receipt of interest-bearing borrowir	-	-
<b>Net Cash flows from financing activities</b>	-	-
Increase/(Decrease) in cash and cash equivalent	421,785	30,843
Cash and cash equivalents at beginning of year	1,183,329	1,152,486
<b>Cash and cash equivalents at end of year</b>	<b>1,605,114</b>	<b>1,183,329</b>

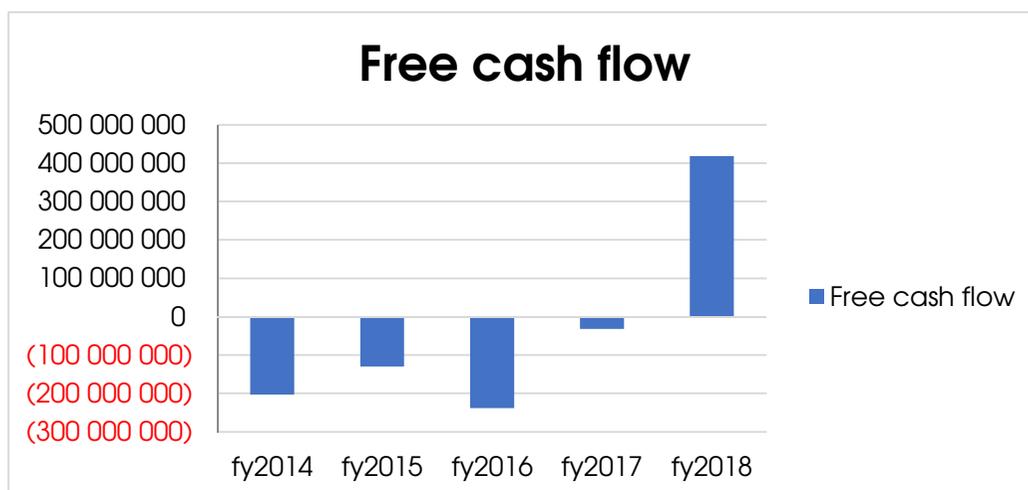
- SITA is not generating enough cash from operations to provide enough funding for capital expenditure.
- Cash reserves are depleted to fund urgent capital expenditure procurement.
- SITA is currently considering various options in order to address the shortfall.



## Statement of cash flow – free cash flow



In Rands	fy2014	fy2015	fy2016	fy2017	fy2018
Surplus/(Deficit) after tax	45 421 364	144 289 136	(157 268 927)	160 839 367	226 878 098
Add: Finance expenses	816 400	10 197 483	7 219 821	11 317 362	55 335 965
Less: Finance income	(56 920 624)	(53 690 169)	(54 469 804)	(70 884 441)	(151 779 673)
Add: Depreciation	21 110 286	48 589 082	74 469 620	95 806 395	226 329 249
Less: Capital expenditures	(355 975 204)	(250 904 318)	(511 121 731)	(203 894 249)	(99 125 569)
Less: Working capital investment	142 146 383	(28 387 958)	403 055 381	(25 002 708)	160 621 175
<b>Free cash flow</b>	<b>(203 401 395)</b>	<b>(129 906 744)</b>	<b>(238 115 641)</b>	<b>(31 818 274)</b>	<b>418 259 245</b>



- Free cashflow represents the cash that a company is able to generate after spending the required funds to maintain and/or expand its asset base.
- SITA over the years has been producing negative free cashflow due to low cash generated from operations. This resulted in the Agency utilizing its cash reserves to fund the business operations.
- SITA has achieved positive free cash flow in the Fin Year 2017/18.



# AUDIT AND GOVERNANCE OVERVIEW





To improve/maintain the **audit outcomes** ...

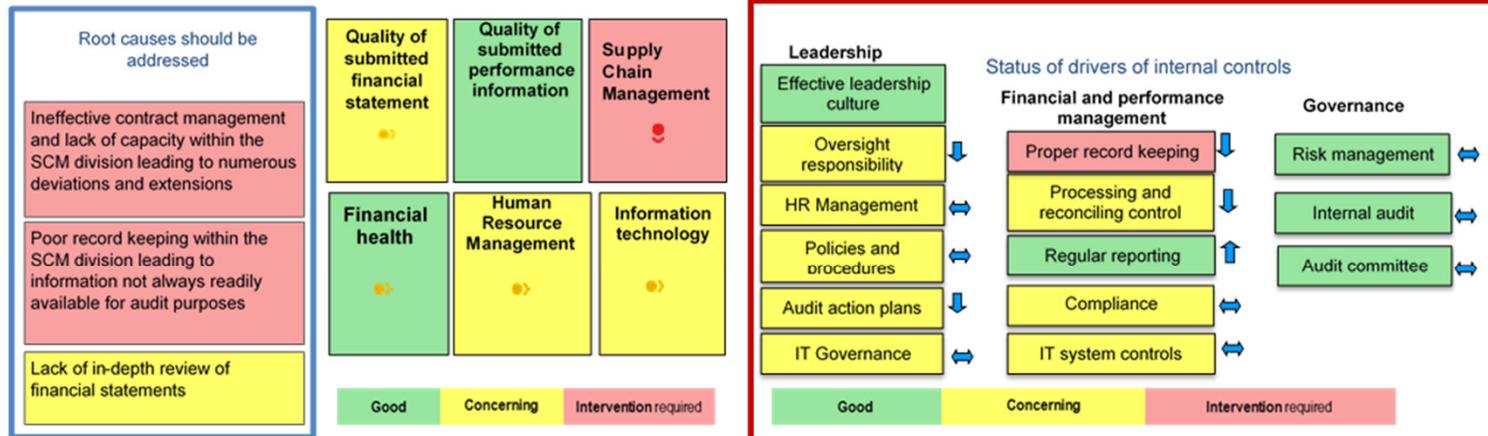
2 ... the key role players need to **assure** that ...

5 ... the **root causes** are addressed ...

4 ... the **risk areas** and ...

3 ... attention is given to the **key controls** and ...

... the **best practices** are maintained.

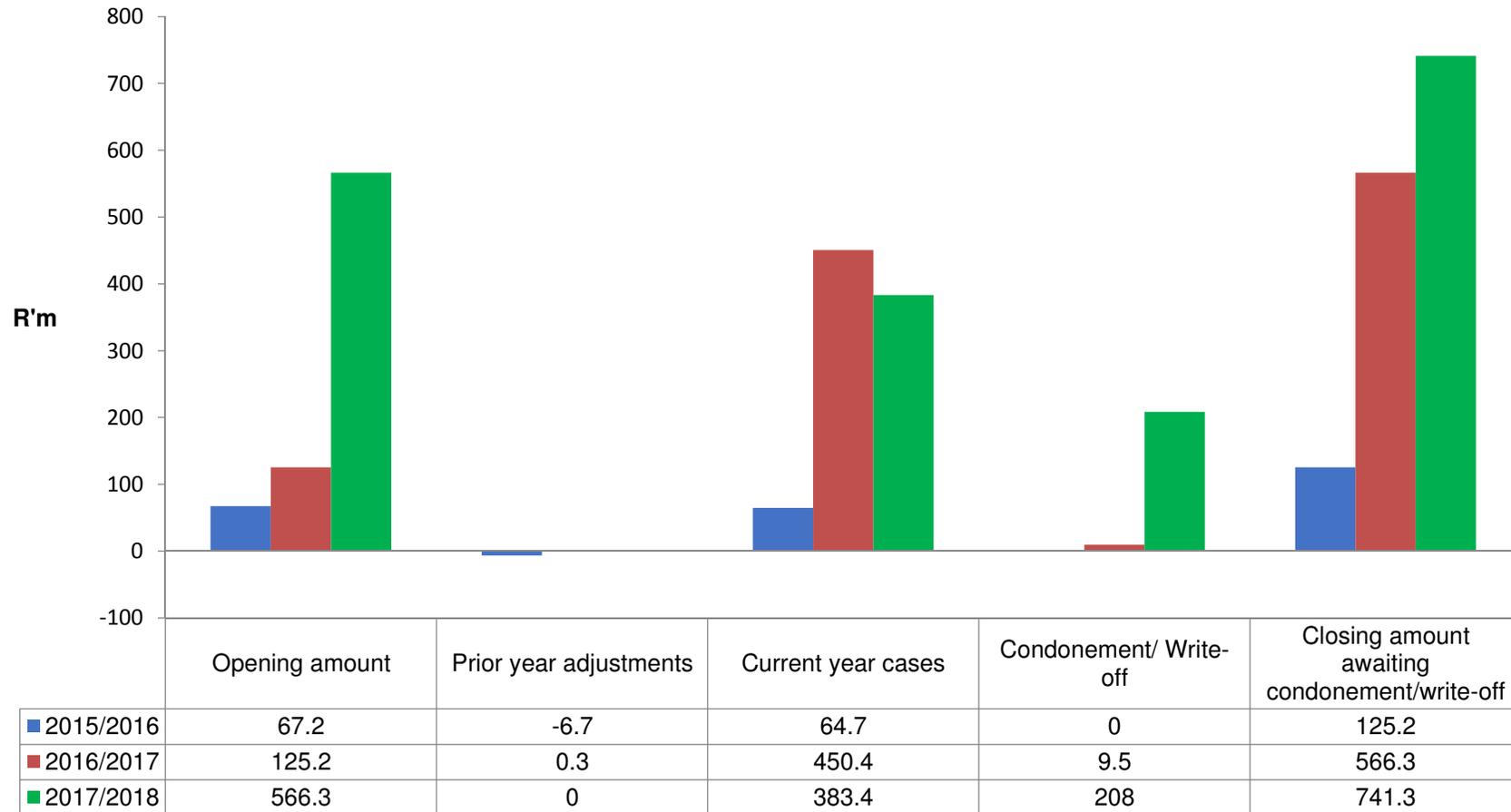


The tick mark or legends on the figure mean the following:

- ↑ / ↑ Improved
- ↔ / ↔ Unchanged / slight improvement / slight regression
- ↓ / ↓ Regressed

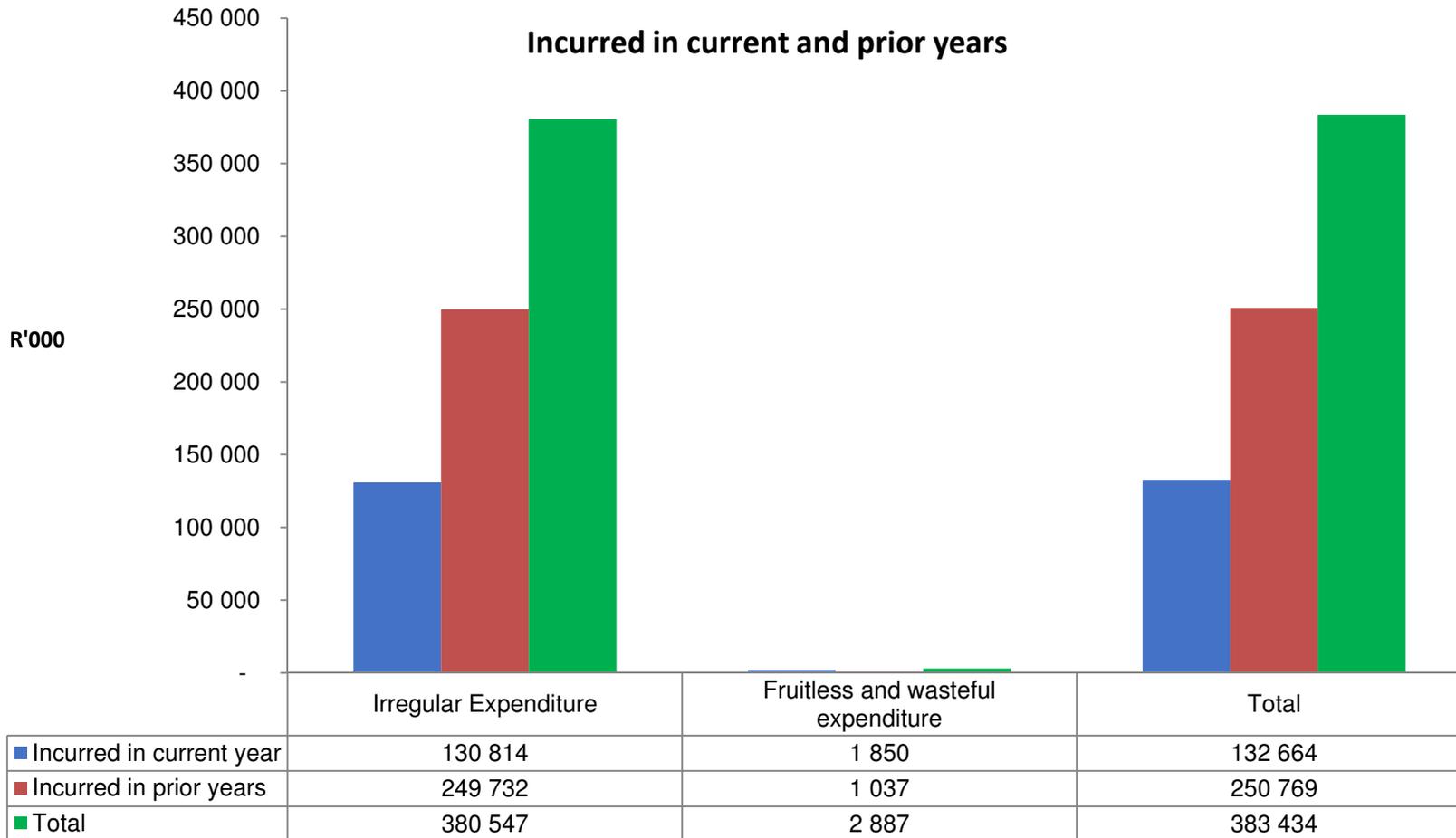


## Year on year comparison



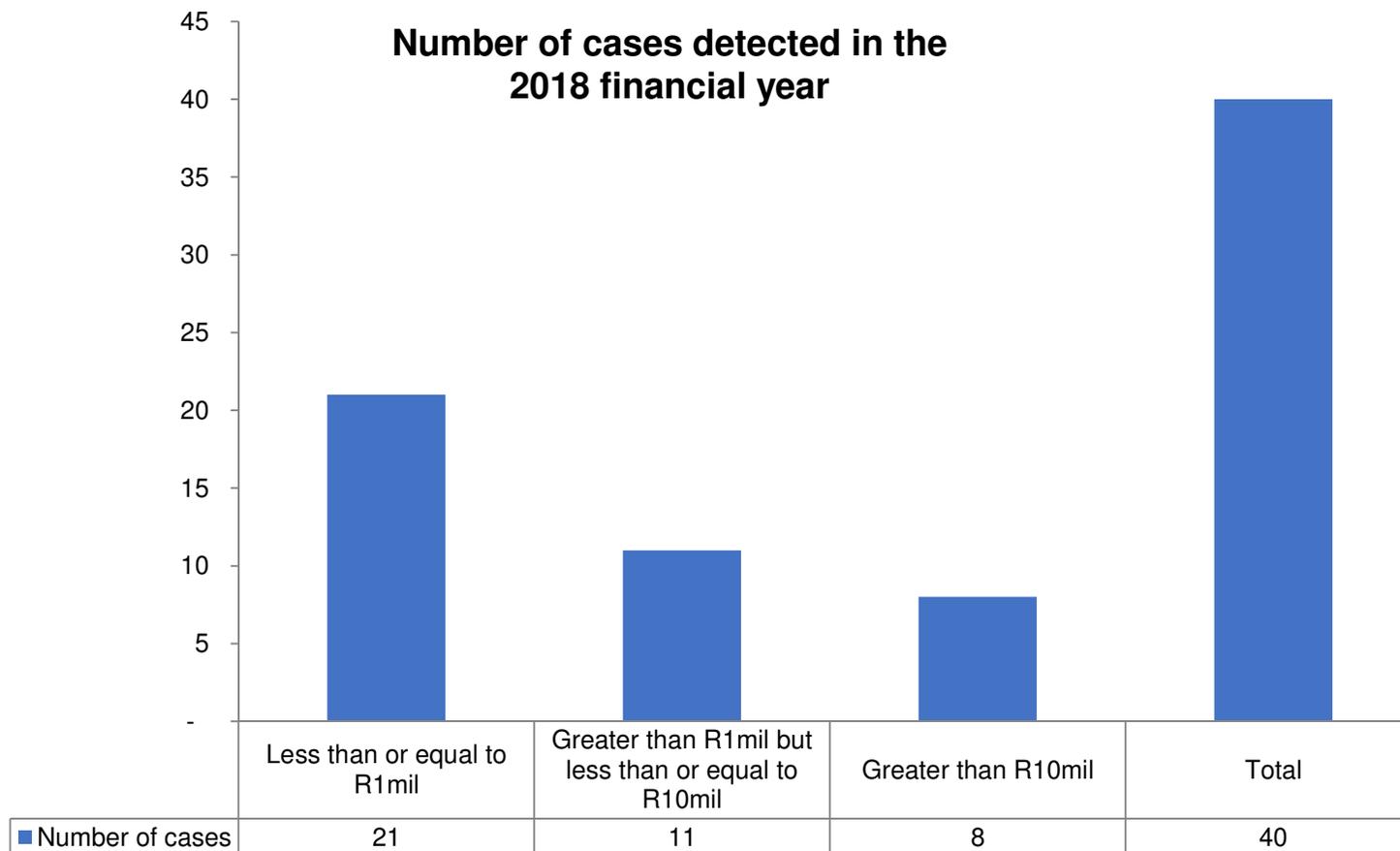


# Uncondoned Unauthorised, Irregular, Fruitless and Wasteful Expenditure



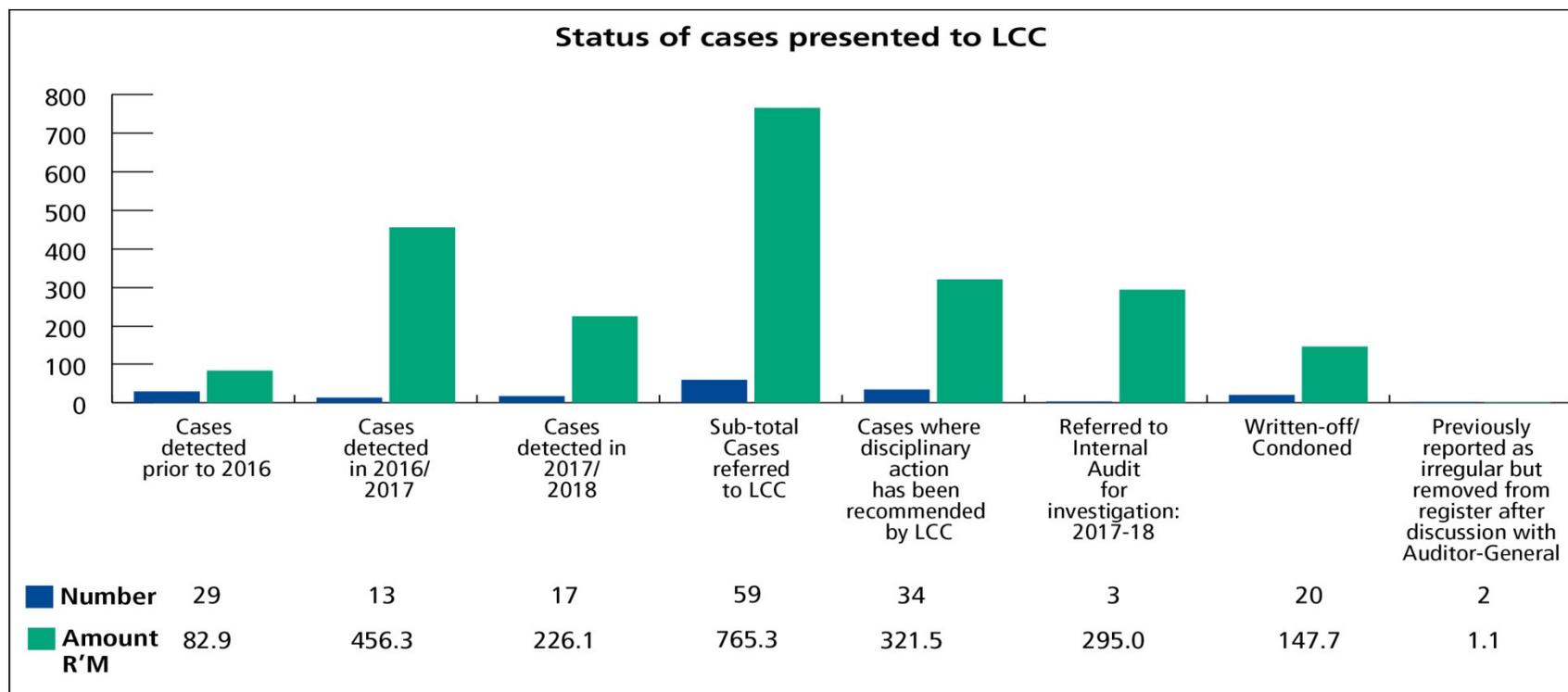


## Uncondoned Unauthorised, Irregular, Fruitless and Wasteful Expenditure



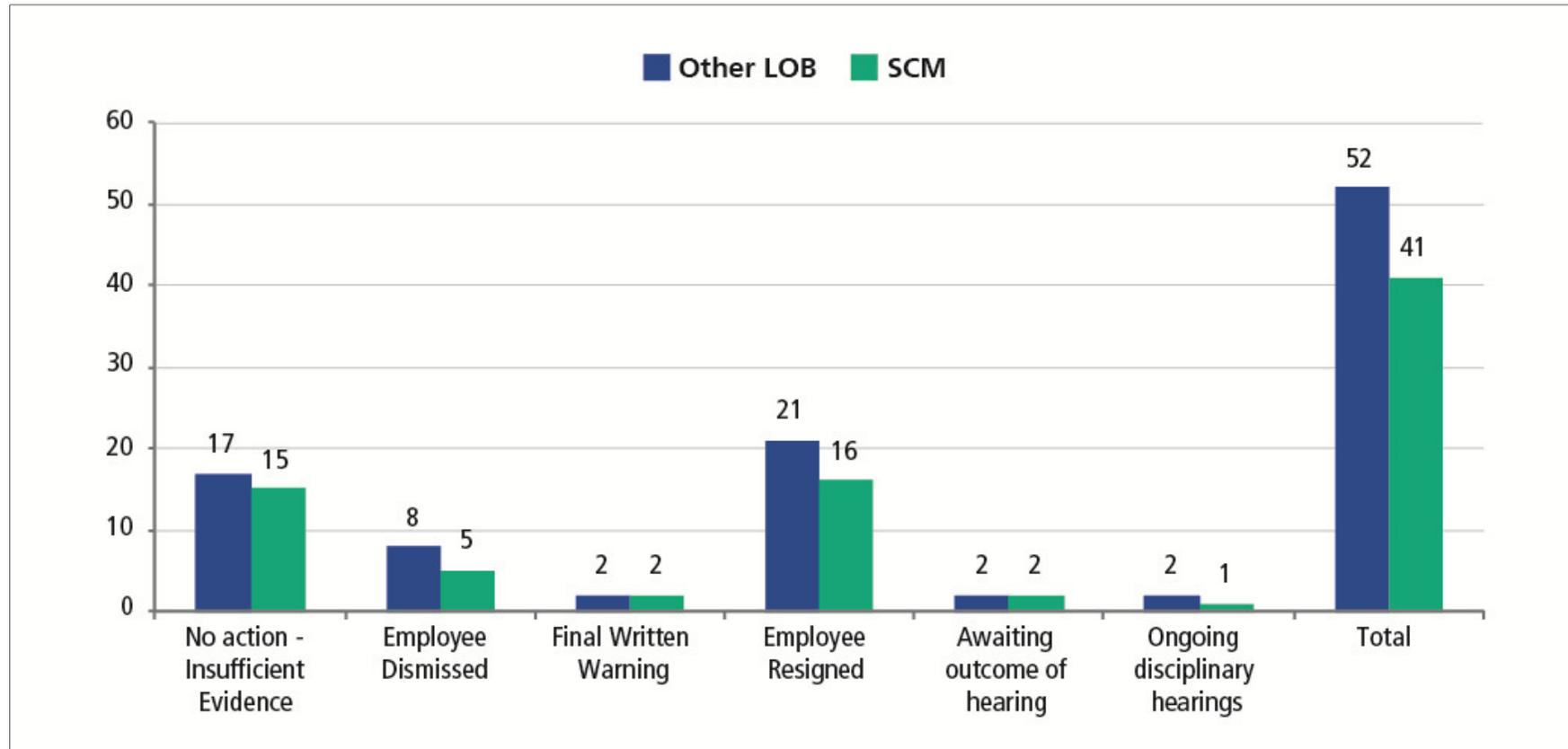


- The organisation established a loss control committee to specifically monitor and reduce cases of fruitless and wasteful expenditure as well as refer cases for consequence management.
- In the financial year under review 59 cases were presented of which 20 cases were recommended for condonation/write-off, disciplinary action has been recommended for 34 cases, 3 cases were referred to Internal Audit for a full Investigation and 2 cases previously reported as irregular were removed from the register after discussion with the Auditor General.





Fraud and corruption audits were conducted in HCM, SCM and core business. The number of cases shown below is not only an indication of the rigorousness of stamping out corruption but also that the related disciplinary matters emphasise a zero tolerance approach





telecommunications  
& postal services

Department:  
Telecommunications and Postal Services  
**REPUBLIC OF SOUTH AFRICA**



**THANK YOU!**