



AUDITOR-GENERAL
SOUTH AFRICA

Briefing note to SCOPA

SABC audit outcomes 2020-21

09 February 2022



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1. Introduction

1.1 Mission of the Auditor-General of South Africa

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

1.2 Vision of the Auditor-General of South Africa

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

1.3 Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to provide an overview of the audit outcomes and other findings in respect of the South African Broadcasting Corporation (SABC) for the 2020/21 financial year.

1.4 Brief overview of the operations of the SABC

The objectives of the SABC, as set out in Section 8 of the Broadcasting Act are mainly to provide sound and television broadcasting services throughout the Republic, whether by analogue or digital means and to provide sound and television programmes of information, education and entertainment funded by advertisements, subscription, sponsorship, license fees or any other means of finance.

SABC RADIO STATIONS

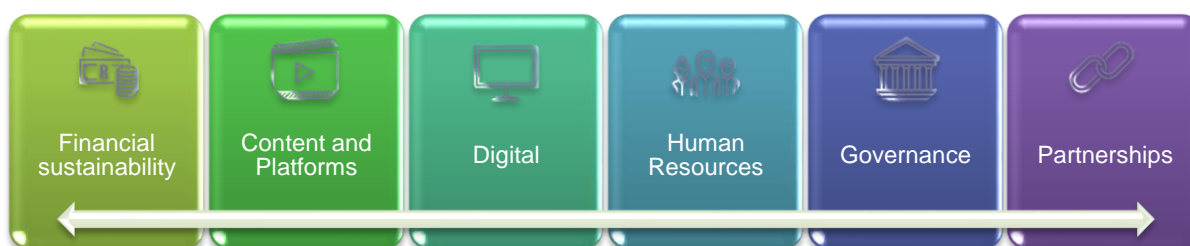
SABC Radio remains the leading hub of entertainment, news and information to the millions of South African citizens and audiences beyond the South African borders. During the year under review, SABC Radio Stations expanded their news and current affairs offering in response to the escalating need for public awareness and more targeted information around the coronavirus outbreak.

SABC TELEVISION CHANNELS

The SABC boasts six free-to-air (FTA) television channels, three exclusive to the DTT platform (include the Parliamentary Channel, SABC Education and SABC Sport) with an additional News Channel (404) on a subscription satellite network. Collectively, these channels deliver compelling local and international content offering in all South Africa's languages countrywide, with a footprint that extends beyond the borders. FTA channels SABC1, SABC2 and SABC3 attract on average 25.8 million South African viewers in a typical month.

SABC TURNAROUND PLAN

The SABC continued working towards realising the aims of its SABC Strategic Roadmap. This was done by focusing on implementing the SABC Turnaround Plan in order to deliver across six strategic pillars:



2. Audit opinion history

The audit outcomes for the SABC remained stagnant with a qualification on the financial statements and findings on predetermined objectives and non-compliance findings. A comparison for the past five years are summarised below:

SOUTH A/FRICAN BROADCASTING CORPORATION (SABC)					
DESCRIPTION	2020-21	2019-20	2018-19	2017-18	2016-17
A: Report on the audit of the consolidated and separate financial statements					
Audit opinions	Qualification	Qualification	Qualification	Disclaimer	Adverse
Areas of qualification :					
• <i>Going concern</i>				X	X
• <i>Non-current assets</i>			X	X	X
• <i>Trade and other payables</i>				X	X
• <i>Irregular expenditure</i>	X ¹	X ¹	X	X	X
• <i>Taxation</i>				X	
• <i>Deferred government grants</i>					X
• <i>Accumulation of immaterial uncorrected misstatements</i>					X
Emphasis of matter :					
• <i>Material uncertainty relating to going concern</i>	X	X	X		
• <i>Restatement of corresponding figures</i>				X	
• <i>Significant uncertainties and judgements</i>	X	X	X	X	X
• <i>Significant judgement :Defined benefit asset</i>	X				
• <i>Material impairment</i>	X	X	X		
B: Report on predetermined objectives					
• <i>Report on predetermined objectives</i>	X		X	X	X
C: Report on compliance with legislation					
• <i>Financial statements, performance report and annual report</i>	X	X	x	X	X
• <i>Procurement and contract management</i>		X	X	X	X
• <i>Expenditure management</i>	X	X	X	X	X
• <i>Strategic Planning</i>	X	X		X	
• <i>Consequence management</i>	X	X	X		X
• <i>Revenue management</i>			X		

AUDIT OPINION INDEX

	CLEAN AUDIT OPINION: No findings on PDO and compliance
	UNQUALIFIED with findings on PDO and compliance
	QUALIFIED AUDIT OPINION (with/without findings)
	ADVERSE AUDIT OPINION
	DISCLAIMER AUDIT OPINION

X¹ relates to the opening balances only

2.1 Financial statements

The following **qualification paragraph** was included in the audit report of the SABC on their annual financial statements for the 2020-21 financial year-end.

Finding	Root cause	Recommendation
<p><u>Opening balance of irregular expenditure</u></p> <p>The public entity did not include particulars of all irregular expenditure (IE) in the notes to the consolidated and separate financial statements in the prior years, as required by section 55(2)(b)(i) of the PFMA. The irregular expenditure incurred was the result of payments made in contravention of supply chain management legislation and regulations.</p> <p>The public entity did not implement adequate procedures <u>in the past</u> to identify and record all instances of IE <u>from prior years</u> and possible impact of these transactions on the ongoing multi-year contracts concluded in those years.</p> <p>The full extent of the misstatement identified could not be quantified and I was unable to confirm the amount of IE to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the IE disclosure, stated at R2 855 million (2020: R5 399 million) in note 40 to the consolidated and separate financial statements.</p>	<p>In prior periods, the tone from the top in the past indicated that consequence management was not prioritise and as such, was not implemented which had a subsequent impact on the future years. Consequence management was only implemented during 2019/20 financial year.</p> <p>Inadequate training of staff in the supply chain environment occurred in prior years to ensure correct interpretation and application of relevant legislation</p> <p>The Head of Supply Chain Management (SCM) position was also vacant during the year under review and contributed to the slow progress in strengthening the internal control environment.</p> <p>Slow progress in investigating and quantifying prior year irregular expenditure incurred and implementing consequence management, for the irregular expenditure incurred. The longer this process takes, the higher the risk of non-completion due to documents etc.</p>	<p>Although management initiated and dealt with a significant part of the process to identify any irregular expenditure pertaining from 2018 and more particular in the period 1 April 2020 to 31 March 2021, we urge management to complete this process in the new financial year on the <u>prior year balances</u>.</p> <p>This will ensure that consequence management processes are duly followed with the irregular expenditure identified.</p> <p>The position of Head of SCM should be filled as soon as possible.</p>

2.2 Emphasis of matter paragraphs

The **following emphasis of matter paragraphs** were included in the audit report of the SABC on their annual financial statements for the 2020-21 financial year-end.

Finding	Root causes	Recommendation
<p><u>Going concern</u></p> <p>The public entity incurred a net loss of R530 million (2020: R511 million) and net cash outflows from operations of R690 million (2020: R1 209 million) for the financial reporting period to 31 March 2021. As stated in note 41, these events or conditions, along with other matters as set forth in note 41, indicate that a material uncertainty exists that may cast significant doubt on the public's ability to continue as a going concern.</p>	<p>Declining revenues and a high cost base, despite reductions in costs. SABC also operates in a competitive environment</p>	<p>Effective implementation of the turn-around plan with specific focus on revenue generation initiatives and continuation of sustainable cost reduction measures.</p> <p>Management needs to demonstrate value for money and initiatives to attract advertising from suppliers through increased viewer and listenership.</p>
<p><u>Other emphasis of matters</u></p> <ul style="list-style-type: none"> • Significant judgement: Defined benefit asset • Significant judgement: TV licences • Significant uncertainties pertaining to lawsuits • Material impairment: Trade and other receivables 	<p>These matters are emphasised for the benefit and information of the readers/ users of the financial statements due to the significant assumptions and judgements involved and do not indicate control deficiencies.</p>	<p>Not applicable as it is only emphasised for the reader of the financial statements</p>

2.3 Report on the audit of compliance with legislation

Finding	Root cause	Recommendation
<u>Annual Financial Statement</u> The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of the cash flow statement and disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatement of irregular expenditure resulted in the financial statements receiving a qualified opinion.	Action plans developed to address audit findings of the prior year were not effectively implemented and monitored and as a result inadequate internal controls on financial and expenditure management occurred.	Top management must set an appropriate tone to ensure that all staff comply with established policies and procedures, as well as applicable accounting standards. Audit action plans must be actively driven by top management to ensure achievement of milestones and corrective action taken where milestones are not achieved.
<u>Expenditure Management</u> Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R21 million, as disclosed in note 40 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.	Due to clearing the qualification, management continues to identify irregular expenditure from prior years to be included in the AFS. Unoccupied office space from 2016 and interest incurred due to late payments.	Management to continue with the process to ensure completeness of irregular expenditure. The position of Head of SCM should be filled as soon as possible Management to ensure similar Fruitless and wasteful does not occur again
<u>Consequence Management</u> I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular, fruitless and wasteful expenditure as required by section 51(1)(e)(iii) of the PFMA.	In prior periods, the tone from the top in the past indicated that consequence management was not prioritise and as such, was not implemented which had a subsequent impact on the future years. Consequence management was only implemented during 2019/20 financial year Management could not investigate all the cases of prior year, in some instances due to vacancies and the number of instances required to be follow up.	Management should ensure that all cases are fully investigated and were actions needs to be taken, it should be taken appropriately and timely.
<u>Strategic planning and performance management</u> The corporate plan submitted to the director-general of the Department of Communications and Digital	A decision was taken to de-register the Foundation, lack of oversight resulted in it being omitted as part of	Management must design and implement compliance monitoring controls to ensure compliance with all

Finding	Root cause	Recommendation
Technologies, designated by the executive authority, did not include the affairs of the SABC Foundation as required by section 52(b) of the PFMA.	the group's strategic planning documents which were submitted to be approved.	relevant laws and regulations and that all relevant documents which are required to be approved are, are duly approved.

2.4 Audit of pre-determined objectives

In terms of predetermined objectives, SABC regressed as a material finding have been identified in the current year. Management should address the audit finding on predetermined objectives by ensuring that internal controls pertaining to the supporting evidence supporting the achievements are valid, accurate and complete. We selected Strategic goal 2 – Content and platforms, for audit.

Finding	Root cause	Recommendation				
<p><u>Percentage of local music broadcast on PBS radio stations during performance period</u></p> <p>I was unable to obtain sufficient appropriate audit evidence for the achievement of percentage of local music broadcast on PBS radio stations during performance period reported in the annual performance report, due to the lack of valid and accurate records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement below as reported in the annual performance report.</p> <table><tr><th>Indicator description</th><th>Reported achievement</th></tr><tr><td>Percentage of local music broadcast on PBS radio stations during performance period</td><td>76,7%</td></tr></table>	Indicator description	Reported achievement	Percentage of local music broadcast on PBS radio stations during performance period	76,7%	<p>Management did not review the reported information to ensure that information reported in the annual performance is valid and accurate.</p>	<p>Management to revisit the system and supporting evidence to ensure that the supporting information supports the actual achievements reported.</p>
Indicator description	Reported achievement					
Percentage of local music broadcast on PBS radio stations during performance period	76,7%					

2.5 Irregular expenditure

SABC was qualified in the current and prior financial years due to the incomplete disclosure of irregular expenditure incurred. Management did initiate the process to identify any irregular expenditure pertaining from 2018 and more particular in the period 1 April 2020 to 31 March 2021. However, this process is still in progress and will continue into the new financial period.

This has resulted in the qualification on the opening balance of irregular expenditure.

Irregular expenditure incurred during the current year in contravention of key legislation:

	Irregular expenditure				Consequence management and status of investigations conducted
	Movement	Amount R 2020/21	Amount R 2019/20	Root cause	
Irregular expenditure	↓	111m	202m	<p>In prior periods, the tone from the top in the past indicated that consequence management was not prioritise and as such, was not implemented which had a subsequent impact on the future years. Consequence management was only implemented during 2019/20 financial year.</p> <p>Inadequate training of staff in the supply chain environment occurred in prior years to ensure correct interpretation and application of relevant legislation</p> <p>The Head of Supply Chain Management (SCM) position was also vacant during the year under review and contributed to the slow progress in strengthening the internal control environment.</p>	Not all instances of Irregular expenditure incurred in prior years were investigated to determine if there is any official who has caused or permitted irregular expenditure. As a result, SABC has not implemented full and effective consequence management.

The movement is assessed as follows:

↑	Increase
↓	Decrease
→	Unchanged

The table above indicates a decrease in the amount of irregular expenditure incurred in the current year mainly as a result of prior year continued contracts.

Top 5 incidents that resulted in IE are as per table below:

2020/21

Description	Amount R
Incorrect evaluation criteria applied to bids (multi-year contracts arising from prior years)	63 808 000
Deviations	14 210 000
Tender above R30 million did not include subcontracting as a condition	12 713 000
Payments without contracts	5 748 000
Procurement through quotation process versus competitive	5 158 000
	101 637 000

2019/20

Description	Amount R
Incorrect evaluation criteria applied to bids	85 098 598
Payments without contracts	52 921 640
Variation order in excess of prescribed thresholds (15%)	21 179 036
Schedule All - Procurement processes not followed	18 348 994
Deviations	11 879 048
	189 427 316

The audit team identified the following key internal control deficiencies:

- Bid evaluation Committees not paying enough attention to detail when evaluating bids.
- Lack of adequate contract management controls within the entity, as the public entity continues to incur expenditure on expired contracts. In addition, more than the legislated threshold was varied on some contracts.
- Motivation for deviations are not always in line with National Treasury prescripts.
- Inadequate review and monitoring procedures to prevent irregular expenditure
- Inadequate training of staff in the supply chain environment in prior years to ensure correct interpretation and application of relevant legislation.
- Inadequate implementation of consequence management to act as a deterrent to non-compliance with legislation.

R2,9 billion relating to **SABC** irregular expenditure balance is awaiting condonation subject to further investigation. **SABC** is currently continuing its engagements with NT to determine the process going forward.

2.6 Fruitless and wasteful expenditure

SABC incurred fruitless and wasteful expenditure in the current year.

The majority of the fruitless and wasteful expenditure emanated from interest on late payments of R7 million and also the rental of the unoccupied office space of R11 million on a contract that was signed in November 2016.

2.7 Material irregularity

Implementation of material irregularity process

Material irregularity

means any **non-compliance** with, or **contravention** of, legislation, **fraud**, **theft** or a **breach of a fiduciary duty** identified during an audit performed under the Public Audit Act that **resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public**

If accounting officer/authority does not appropriately deal with material irregularities, our expanded mandate allows us to:



Refer material irregularities to relevant public bodies for further investigations



Recommend actions to resolve material irregularities in audit report
Take binding remedial action for failure to implement recommendations



Issue certificate of debt for failure to implement remedial action if financial loss was involved

The audit team identified the following material irregularity at SABC in prior years:

Security service provider: Bidder did not score the highest preference points:	
Nature of the material irregularity identified	Status of the material irregularity
<p>In August 2017, the public entity made an award of R185 million for the provision of security services to a bidder that did not score the highest preference points, in contravention of section 2(1)(f) of the PPPFA, without objective criteria to justify the decision.</p> <p>The non-compliance is likely to result in a material financial loss as the price of the security service procured from the successful bidder was higher than the price submitted by the bidder that scored the highest preferential points. The likely loss results from the difference between these two bids incurred over the duration of the security contract awarded.</p> <p>As at 31 March 2021, R113 million has been paid on the contract.</p> <p>The public entity will not be able to recover the likely financial loss from the supplier as the supplier is delivering the service in line with the signed contract.</p>	<p>The accounting authority was notified of the material irregularity on 7 July 2020. The following actions have been taken or are in progress to address the material irregularity:</p> <ul style="list-style-type: none"> In December 2020, the SIU as a co-applicant instituted a review application to seek an order setting aside the award of the tender and an order that the tender process be started afresh. When the SIU served and filed its founding affidavit, it inadvertently omitted to file its notice of motion and, as a result, in February 2021 the SIU filed a condonation application requesting that the court condone the late filing of its notice of motion. Also, approval was given by the board to support the application by the SIU and the SABC is not opposing the SIU's Review Application and served and filed its own answering affidavit on 22 June 2021. The accounting authority agrees with the SIU's final report and that follow-up steps for consequence management will be instituted once the court case has been finalised. The public entity has put in place internal controls to address some of the shortcomings in relation to its supply chain management processes and has considered commencing a new tender process for the security services, effective when this contract is coming to an end. <p>Follow up on the implementation of the above actions during the next audit.</p>

2.8 Turnaround plan

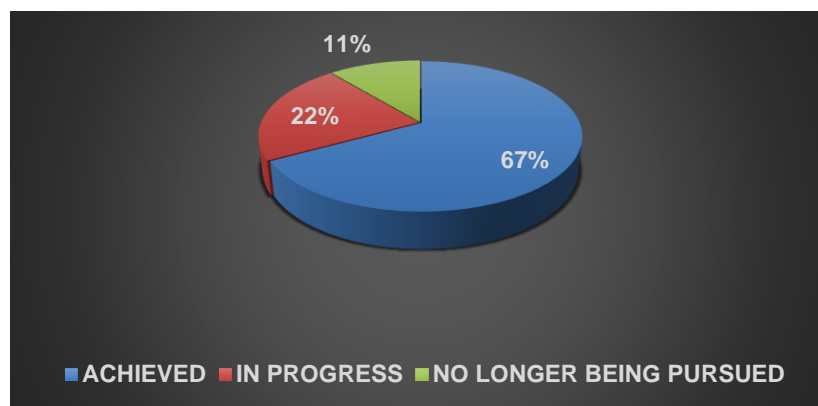
The plan has the following key objectives:

- To actively pursue SABC financial sustainability
- To re-establish effective process to support SABC core operations

It is underpinned by the following key pillars:



As at 31 March 2021, we obtained the following overall progress feedback from management, on the status of the implementation of the turnaround plan:



Key actions in progress:

- Develop a costed time-bound implementation plan based on transparent revenue enhancements and cost savings;
- Analyze historic spend on content and associated revenue;
- Irregular expenditure findings including consequence management; and
- Address PFMA PPPFA procurement difficulties.

Key actions abandoned:

- **Factoring the sale of bad debt** - this option will not be pursued further following the decision to opt for the TV license moratorium / amnesty.
- **Appoint a transaction advisor** - this forms part to actively pursue private sector participation initiatives and due to the change in the nature of the deals currently being pursued, the need of a transaction advisor is not at this point foreseeable in the short to medium term
- **Increase TV license fee collection** - this relates to only the cloud call centre solution and due to the fact that the TV License Operations will be outsourced to a third party/ies. This technology is therefore no longer required and will not be pursued by the business, however with regards to TV license fee collections the Geographical Information System and the Website enhancements to improve online payments is still ongoing.

- **Develop streamlined supply chain management processes:** Secondment of National Treasury officials (The SCM Department has successfully filled some of the identified critical positions. The recruitment process for the remaining positions will continue)

Key Audit Observation:

- Emphasis of matter on going concern included in audit report; and
- Completion of irregular expenditure and investigations relating to consequence management are in progress as some investigations did not occur.

With specific focus on the financial sustainability, we noted the following observations:



A financial bailout of R3.2bn received in October 2019 financial year improved the cash position of the entity. The financial bailout was earmarked for specific spending on capital projects, acquisition of content and settlement of other operational liabilities.

Upon review of management's assessment of the going concern assumption and related supporting cash flow forecasts, we identified various indicators of going concern challenges as follows:

- Continuing operating losses are forecast over the next 3 years.
- Negative operating cash flows are forecast until at least the 2022 financial year. The forecasted decreases in operating cash flows resulted in concerns that insufficient cash may be available to adequately cover the minimum forecasted operating expenses, including the salary costs.
- The projected capex spending was significantly lower than the required investment per the capex plan. Management has indicated that funding will be approved based on the availability of cash.

The identified indicators of going concern challenges results in a significant uncertainty in respect of which management has made adequate disclosure in the financial statements. This has resulted in an emphasis of matter being included in the audit report.

Figure 1: Key cash flow movements:

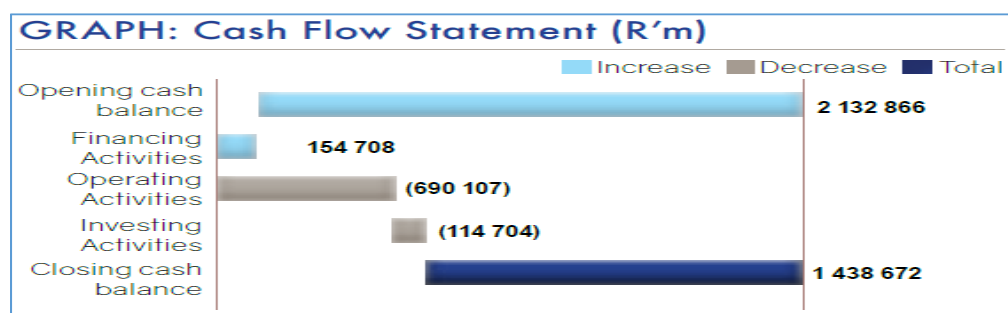
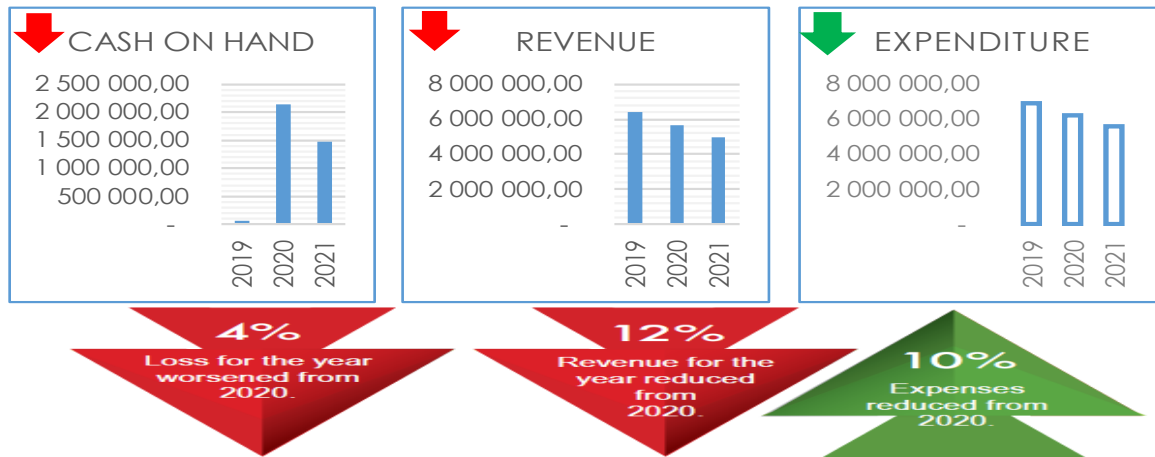


Figure 2: Key operational indicators movements:



2.9 Status of internal controls

Drivers of internal control														
Entity	Leadership						Financial & performance management					Governance		
	Effective leadership culture	Oversight responsibility-monitoring	HR management	Policies and procedures	Action plans	IT governance	Proper record-keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Audit committee	Internal audit
SABC														

LEGENDS:

Preventative or detective controls are in place and are functioning effectively

Progress was made with the implementation of controls, but further improvement is required where actions taken are not sustainable

Internal controls are not effective, and intervention is required to design and implement appropriate controls

Leadership

The accounting authority did not adequately oversee the efforts by management to implement measures to improve various short-comings in procurement and contract management, including the following:

- Identifying and properly recording all irregular expenditure incurred by the entity in prior financial year.
- Inadequate implementation of consequence management as it relates to irregular expenditure incurred in prior years. Management did not ensure that all instances of irregular expenditure incurred in prior years have been fully investigated and appropriate actions have been taken.

The entity developed an action plan to address internal and external audit findings. An improvement was noted in the number of qualification areas affecting the financial statements over the years.

Audit action plans were however not effective in improving on the audit outcomes irregular expenditure and compliance with legislation.

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information and non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management.

3. Recommendation to SABC

We made the following key recommendation to management for implementation to address the significant matters reported:

- Conclude on the process of identifying possible irregular expenditure from the prior years;
- Ensure effective implementation of the turnaround plan and strict monitoring thereof;
- Implement regular and adequate review controls over financial and performance reporting to ensure that valid and accurate reporting occurs; and
- Consequence management processes should be enhanced supported by concluded investigations.

4. Key recommendations to the committee

We request and recommend that the committee consider the following actions to be implemented as part of the role oversight can play in facilitating an improvement in the financial and performance management, as well as the status of compliance of the public entity to improve audit outcomes, thereby ensuring good governance and administration of public funds:

- The committee should follow up with management on the timely and effective implementation of the audit action plan to address the qualification of irregular expenditure.
- The committee should also follow up on the effective implementation of the turnaround plan as well as the measures to improve the liquidity position of the public entity. These must be augmented with actions to monitor management's actions to improve the overall financial stability of the entity.

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