



DIVISION: SUPPLY CHAIN MANAGEMENT

**IRREGULAR EXPENDITURE PROJECT PLAN: PART A
PROGRESS REPORT as at 25 JANUARY 2022**

PROJECT GOAL: Strategic initiative to enhance governance and compliance within the Supply Chain Management (SCM) value chain and clear the audit qualifications on the completeness of the irregular expenditure and consequence management.

PROJECT OBJECTIVE: To ensure that occurrences of irregular expenditure are timeously identified, assessed and addressed within the confines of the National Treasury Irregular Expenditure Framework

EXPECTED OUTCOMES:	SUCCESS FACTORS	STATUS as at 25 January 2022
<ul style="list-style-type: none"> • SABC employees are educated, and continuous awareness takes place on the prevention, detection and management of irregular expenditure to ensure that employees understand what is required of them in order to comply with the PFMA. • Monitoring and evaluation of the procurement processes and vendor spend on goods, services, content and works for the period 01 April 2018 to 31 March 2023 to ensure the occurrence of irregular expenditure is identified, assessed, confirmed and recorded in a timely manner. • Preliminary investigations and determination tests are carried out on the opening balance and in-year irregular expenditure and outcomes are addressed in accordance with the IE Framework in order to prepare condonation requests for submission to National Treasury. 	<ul style="list-style-type: none"> • Reduction in the in-year occurrences of irregular expenditure • Clearance of the audit qualification on the completeness of the Irregular Expenditure opening balance. • Reduction in the opening and in-year Irregular expenditure balances 	<p>The In-Year IE total for the 2022 fiscal at end of quarter three was R55.3m. The In-Year IE for the comparable period in FY20/21 amounted to R74m (Q3) whilst the full year IE amounted to R111m. Year on year, there is a consistent decrease in the occurrences of irregular expenditure.</p> <p>The audit outcomes of the FY20/21 are also a reflection of strengthened SCM internal control environment with no material findings being reported on the In-Year IE compared with FY19/20 where 8 contracts from a sample of 25 were declared irregular by the AGSA. Procurement transactions amounting to R3,858 billion (69%) had been assessed and a potential irregular expenditure of R337 million (9%) has been identified and is currently under assessment.</p> <p>Irregular expenditure amounting to R86m is currently under review whilst expenditure amounting to R54m – will be submitted to SABC Board for removal from IE register. Note this represent a 4.8% of the total IE Balance. It should be noted that submissions to condone this expenditure (R54m) were made to National Treasury, however these were not condoned.</p>

PROJECT RISKS	MITIGATING PLANS
<p>❖ Quantum of procurement transactions (SCM goods, services, works and content) emanating from prior fiscals which require assessment for risk of irregularities has a major impact on project timelines and resources. Over 8k procurement transactions were identified in the fiscals 2019 to 2022 (Q1) of which approximately 3.7k transactions are under review.</p>	<p><i>Additional resources have been motivated for and is currently being addressed by HR.</i></p>
<p>❖ Disruptions in the team resourcing warrants critical response to resource needs. Project members are on fixed term contracts, and it is inherent that staff attrition will occur.</p>	<p><i>HR will be actively engaged on the criticality to fill vacant position(s).</i></p>
<p>❖ Delays in the confirmation of irregular expenditure identified and/or disputes with responsible Management on alleged IE identified through the project has an impact on the project timelines to deal with the preliminary investigations and determination tests and condonation procedures.</p>	<p><i>SCM Management to re-visit the approach being followed to confirm the IE and look at different strategies to fast-track the process without compromising its integrity.</i></p>
<p>❖ Quantum of irregular expenditure incidents (opening balance and in-year transactions) which still requires the preliminary investigations, determination tests and condonation procedures to be carried out in order to write off the irregular expenditure from the IE register. Currently a team of two investigators are required to investigate, address outstanding matters and draft condonation requests to National Treasury for approximately 369 incidents noting that these incidents exclude incidents pre-2018 as well as potential IE identified but not yet confirmed and recorded. With these stats, each investigator would have to deal with approximately 7 cases in a month in order to reduce the opening IE balance significantly over a two-year period. Challenges experienced in obtaining information, engaging personnel and root cause analysis in some of the IE incidents determines the extent of investigative procedures required will impact the ability of the team to deliver on these stats.</p>	<p><i>Realistic performance targets will be set for project members and close monitoring of delivery thereto will take place in order to proactively identify challenges and address them immediately with the support of the Head of SCM Governance, HODSCM and CFO.</i></p>
<p>❖ Lack of documentation, information and personnel to facilitate speedy execution of preliminary investigations, determination tests and condonation procedures.</p>	<p><i>Management to engage National Treasury on exemption of ring-fenced historical IE (pre-2017/18 fiscal) where organisation is faced with challenges of implementing consequence management (staff no longer with SABC and/or unavailability of information) from the current Instruction Note.</i></p>

PROJECT ACTIVITIES	FINANCIAL YEAR UNDER INVESTIGATION	RAND VALUE UNDER INVESTIGATION	RESPONSIBLE ROLES	TARGETED TIMELINES	DEPENDENCIES
1. IDENTIFICATION, ASSESSMENT AND RECORDING OF IE INCIDENTS: STATUS UPDATE as at 25 JANUARY 2022					
Review of the SCM Contracts for the FY 2019, 2020 and 2021	FY2019	R287m (264 contracts) (59% concluded)	Project Manager SCM Governance Practitioners	31 May 2022	Availability of tender/RFQ files and documentation Resource capacitation of team and filling of vacant positions in project. One official has been appointed to another dpt. and will be leaving the project 31/01/22. Also motivation for additional resource has been approved. HR to expedite the recruitment for two temp resources.
	FY2020	R299m (232 contracts) (84% concluded)			
	FY2021	R369m (239 contracts) 100% concluded			
Review of SCM System RFQs for FY 2019, 2020 and 2021	FY2019	R110m (2208 RFQ) (64% concluded)	Project Manager SCM Governance Practitioners	31 May 2022	Availability of supporting documentation on the SAP system. Resource capacitation of team and filling of vacant positions in project. One official has been appointed to another dpt. and will be leaving the project 31/01. Also motivation for additional resource has been approved. HR to expedite the recruitment for two temp resources.
	FY2020	R135m (2050 RFQ) (93% concluded)			
	FY2021	R99m (1171 RFQ) 100% concluded			
Review of PO's not linked to SCM Contract or RFQ for FY 2019, 2020 and 2021	FY2019	R39m (323 transactions) (0% concluded)	Project Manager SCM Governance Practitioners	31 May 2022	Availability of supporting documentation on the SAP system and tender/RFQ files where applicable. Resource capacitation of team and filling of vacant positions in project. One official has been appointed to another dpt. and will be leaving the project 31/01. Also motivation for additional resource has been approved. HR to expedite the recruitment for two temp resources.
	FY2020	R11m (205 transactions) (0% concluded)			
	FY2021	R3.4m (47 transactions) 100% concluded			
Review of Content Contracts for FY 2019, 2020 and FY 2021 (still to be analysed, to determine extent of tests to be carried out). Consider response from National Treasury in respect of internal	FY2019	R1.518b (360 contracts) 40% concluded)	Project Manager SCM Governance Practitioners	30 September 2022	Availability of supporting documentation including RFP & unsolicited proposal files. Resource capacitation of team and filling of vacant positions in project. One official has been appointed to another dpt. And will be leaving the project 31/01. Also motivation for additional resource has been approved. HR to expedite the recruitment for two temp resources.
	FY2020	R1.304b (323 contracts) 58% concluded)			
	FY2021	R1.022b (349 contracts) 100% concluded			

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<p>approvals of recommissioned content and whether further reviews need to be conducted.</p> <p>Note : Recommissioned content was excluded from the scope as it was deemed to be a sole source procurement. Work is underway to assess the recommissioning content based on the National Treasury's opinion</p>					Impact on work performed thus far on content taking into consideration response from National Treasury in respect of Recommission.
Review of In-year Vendor Spend (Content, SCM Contracts, SCM System RFQs & Pos not linked to contracts and RFQs) for FY 2022 (Q2, Q3 and Q4).	FY2022	01 July to 30 November 2021 amounted to R1.088b	Project Manager SCM Governance Practitioners	30 June 2022	<p>Extent of work performed by Governance Unit on in-year transactions will determine the quantum of transactions to be reviewed by Project.</p> <p>Availability of supporting documentation.</p> <p>Resource capacitation of team and filling of vacant positions in project. One official has been appointed to another department and will be leaving the project 31/01/2022. Motivation for additional resource has been approved. HR to expedite the recruitment for two temp resources.</p>
Review of In-year Vendor Spend (Content, SCM Contracts, SCM System RFQs & POs not linked to contracts and RFQs) for FY 2023	FY2022	Unknown	Dependent on SCM Governance long term plans	31 March 2023	This is dependent on plans from SCM Governance to fully integrate the monitoring and evaluation of potential IE within the In Year vendor spend on SCM goods & services, works and content into its day-to-day operations. The Project Team will work with SCM Governance in executing the reviews until the process is fully integrated.
Resolving the disputes from SCM Management on confirmation of potential IE before such	FY2019 to FY2022	Reported to Management as at 31 December 2021, additional potential IE of R337m has been identified in the review of procurement	Project Manager SCM Governance Practitioners	Up to three months from the date the alleged	The SCM Management will reprioritize and expedite the most recent IE cases given the availability of the information and the fact that the transgressors may

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can be recorded in the IE register		transactions from 01 April 2018 to 30 June 2021		irregular expenditure is reported	still be employed by the Corporation. The Consequence management plan will be enhanced and tracked bi-weekly. Furthermore, transactions where it is established that the affected parties are no longer in the employ of SABC, there is no financial loss nor suspicion of fraudulent activities, will be grouped and dealt with as a single transaction for condonation purposes
2. PRELIMINARY INVESTIGATIONS AND DETERMINATION TESTS OF IE INCIDENTS STATUS UPDATED as at 25 JANUARY 2022					
Conducting the preliminary investigations & determination tests of reported IE and issuing of reports to management on outstanding issues	01 April 2018 to current	IE Balance as at 31 December 2021 is R2.9b. - IE amounting to R2.1b relates to pre-April 2018 fiscals which will be addressed through engagement with National Treasury for exemption from certain requirements of the IE Framework noting that if National Treasury declines the request, this will impact the project timelines.	Project Manager Senior Investigators	80% of IE opening balance to be submitted to National Treasury by 31 March 2023 (opening balance and in year) investigations and determination tests are currently conducted 100% targeted to be completed by 31 March 2024	2 Senior investigators joined the Corporation on 1 November 2021.
Management reviewing and commenting on reported issues by IE investigating team		- IE amounting to R843m from 01 April 2018 (consolidated 379 incidents) to be investigated excl. alleged IE still to be confirmed), progress of work as follows 6% (R54m) IE Investigations concluded, to be submitted to Accounting Authority for Write Off 1% (R7m) IE Investigations concluded, consequence management in progress 10% (R86m) IE Investigations in progress 82% (R695) IE Investigations have not started			Availability of documentation and personnel to conduct investigative procedures Extent of investigative procedures will depend on the issues and depth of root cause analysis and risks of financial losses, fraud and corruption in the IE transgressions. Quality review of internal processes is dependent on level of skills of investigative team, certain investigations may require upskilling
Providing supporting documentation where needed.					
3. CONSEQUENCE MANAGEMENT: STATUS UPDATE as at 25 JANUARY 2022					

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<p>Management taking appropriate actions against parties implicated or implementing remedial actions as recommended by the IE investigating team.</p> <p>Keeping records of such actions of consequence management and remedial actions for purposes of condonation.</p>	01 April 2018 to current	<p>IE Balance as at 31 December 2021 is R2.9b.</p> <ul style="list-style-type: none"> - IE amounting to R2.1b relates to pre-April 2018 fiscals which will be addressed through engagement with National Treasury for exemption from certain requirements of the IE Framework noting that if National Treasury declines the request, this will impact the project timelines. - IE amounting to R843m from 01 April 2018 (consolidated 379 incidents) to be investigated excluding alleged IE still to be confirmed), progress of work as follows <p>6% (R54m) IE Investigations concluded, to be submitted to Accounting Authority for Write Off 1% (R7m) IE Investigations concluded, consequence management in progress 10% (R86m) IE Investigations in progress 82% (R695) IE Investigations have not started</p>	Project Manager Senior Investigators	<p>80% of IE opening balance to be submitted to National Treasury by 31 March 2023</p> <p>100% targeted to be completed by 31 March 2024</p>	<p>Availability of documentation and personnel to conclude investigative procedures</p> <p>Dependent on Management to address outstanding matters such as consequence management in a timely manner</p> <p>Dependent on the ability to recover financial losses where noted in investigative procedures.</p>
4. CONDONATION AND/OR IE WRITE-OFF PROCESS: STATUS UPDATE as at 25 JANUARY 2022					
<p>IE reports being submitted to the Loss Control Committee for consideration</p> <p>IE team compiling condonation applications to National Treasury or Board Write off.</p>	01 April 2018 to current	<p>IE Balance as at 31 December 2021 is R2.9b.</p> <ul style="list-style-type: none"> - IE amounting to R2.1b relates to pre-April 2018 fiscals which will be addressed through engagement with National Treasury for exemption from certain requirements of the IE Framework noting that if National Treasury 	Project Manager Senior Investigators	31 March 2024 to deal with 100% IE (opening balance and in year) investigations and determination tests	<p>Availability of documentation and personnel to conclude investigative procedures</p> <p>Dependent on Management to address outstanding matters such as consequence management, remedial actions etc.</p> <p>Dependent on the ability to recover financial losses where noted in investigative procedures</p>

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		<p>declines the request, this will impact the project timelines.</p> <p>- IE amounting to R843m from 01 April 2018 (consolidated 379 incidents) to be investigated excl. alleged IE still to be confirmed), progress of work as follows</p> <p>6% (R54m) IE Investigations concluded, to be submitted to Accounting Authority for Write Off 1% (R7m) IE Investigations concluded, consequence management in progress 10% (R86m) IE Investigations in progress 82% (R695) IE Investigations have not started</p>			

PART B: INTERNAL CONTROL MEASURES PUT IN PLACE TO IMPROVE PROCUREMENT PROCESSES

1. SCM CAPACITATION

- ❖ SCM has been capacitated with additional personnel on fixed term and permanent basis. The Head of SCM commenced work on 01 November 2021. Two new senior investigators who will assist in expediting condonations of Irregular Expenditure have been appointed and commenced work from the 1 November 2021. Requests to appoint a Fixed Term Contractor for SCM Governance Team as well as the Category manager has been made to the Vacancy Committee in November 2021 and approved. Two (2) SCM Practitioners appointed on Fixed Term Contracts started on 1 October 2021 and One (1) SCM Administrator started work on 1 November 2021. B-BBEE Manager has been appointed effective 1 February 2022. Recruitment for all other critical SCM vacant posts is still in progress to be finalized by end of February 2022

2. DEVELOPMENT OF SCM POLICY AND PROCEDURES

- ❖ The SCM Policy and Procedure Manual have been developed, approved and socialised across the organisation and is reviewed regularly. These

procedures are augmented by various checklists to ensure compliance. Continuous workshops on SCM related matters are conducted for both business units and SCM officials also often in consultation with National Treasury,

Furthermore, tenders are subjected to compliance review before award.

- ❖ The Bid Committee Terms of reference have been developed, approved and socialized. Socialization of the terms of reference forms part of the standing agenda item for the initial onboarding meetings for BEC and BSC appointed to each tender or RFQ
- ❖ An overview of the SCM Policy and Procedure Manual is included in the quarterly Induction Programme for new employees.
- ❖ Regular engagements with National Treasury ensure alignment with and continuous improvement between the Corporation and National Treasury Regulations and SCM prescripts.
- ❖ Service Level Agreements supported by regular engagements between SCM and Business Units ensure constant alignment, guidance and advise and ultimately improved planning
- ❖ Executive Management support for all SCM initiatives is in place.

3. REDUCTION OF CONTRACT DEVIATIONS AND EXPANSIONS

- ❖ The contract management process is detailed in the revised SCM Procedure. The roles and responsibilities of the various role-players in the contract management value chain is clarified in the abovementioned procedure to enforce improved contract management.
- ❖ The ERP, SAP system has been configured to issue early contract expiry warning to the relevant contract owners. In addition, the Contract management unit, within SCM shares the contract register with the relevant Heads of Business Units to raise awareness on expiring contracts.
- ❖ Expansions and deviations are only used in exceptional cases where sole supplier and emergencies apply, as stipulated in National Treasury Regulations.
- ❖ Market analysis is conducted to confirm sole supplier status prior approval.
- ❖ All deviation and contract extensions are reviewed by SCM compliance section before finalised. This ensures that none of these are executed contrary to compliance requirements.

4. IMPLEMENTATION OF CONSEQUENCE MANAGEMENT RELATING TO IRREGULAR EXPENDITURE

- ❖ The Guideline for Consequence Management of Financial Misconduct has been finalised and approved. Consequence management processes relating to AGSA findings are in progress. The process of investigation and determinisation of role players to these transgressions are underway, attention will now turn to the FY22 AGSA findings with most of the historic findings having been addressed.
- ❖ Engagements with Executives where IE instances have been identified are also ongoing to ensure consequence management are implemented based on the Guidelines and the Disciplinary Code in the Corporation.
- ❖ A Standard Operating Procedure for the Prevention, Detection and Management of IE has also been developed, socialised and is currently in implementation.
- ❖ Two Senior investigators were appointed in November 2021 on a fixed term contract to assist with determining the IE root cause and responsible party with focus on the historic IE was concluded. A guideline was developed and shared with Business on the procedures, timelines and expectations in the course of the investigation process
- ❖ Consequence Management is being tracked, reported on separately to oversight Committees of the Board

5. CONTINUOUS MONITORING

- ❖ The procurement processes are periodically assessed /audited by the Group Internal Audit and the SCM compliance and Governance Unit to assess the level of compliance and assist management in putting measures in place to close any detected deficiencies. Various reports are shared with the Board as a means of enforcing compliance with SCM prescripts