



SOUTH AFRICAN BROADCASTING CORPORATION LIMITED SOC
REGISTRATION NUMBER 2003/023915/30

SUBMISSION TO THE SCOPA - JANUARY 2022

1. PROGRESS REPORT TO

The Standing Committee on Public Accounts

2. TITLE OF SUBMISSION:

Irregular Expenditure Project

3. PURPOSE OF SUBMISSION:

The purpose of the submission is to provide a status update of the Irregular Expenditure Project as at 31 December 2021.

4. BACKGROUND:

The SABC embarked on a 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. In order to address the repeat audit qualification on the incurrence and completeness of the irregular expenditure register, management had to tighten the controls within the SCM value chain in the prevention, detection and management of irregular expenditure during the normal course of business. The Irregular Expenditure Project sets out to address the following objectives:

- 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.
- Ongoing monitoring and evaluation of the procurement processes and vendor payments on goods, services, content and works to ensure the occurrence of irregular expenditure is identified, assessed, confirmed, and recorded in a timely manner.

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- Ensure determination tests and/or investigations 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.

5. SUMMARY OF ACTIVITIES AND MITIGATING PLANS TO ADDRESS PROGRESS ON THE IRREGULAR EXPENDITURE PROJECT:

5.1. Supply Chain Management Capacity Enhancement/Challenges

- Socialisation on the SABC Prevention, Detection and Management of Irregular Expenditure Standard Operating Procedure Manual (SOP) was held on the 7th of October 2021 with SABC staff. The audiences included Line Managers, Bid Committee members, SCM Practitioners and Assurance Providers. The objective of the workshop was to reiterate procedures aimed at reducing the occurrence of IE and addressing consequence management and condonations relating to IE.
- Due to the high volume of transactions and significant balance on Irregular Expenditure which has a negative impact on the Annual Financial Statements year in and year out, Finance has sourced two temporary resources to conduct preliminary investigations and determination tests and the additional effort required by National Treasury to consider future condonation requests.
- Standard procedures for the preliminary investigations and determination tests were developed and implemented to streamline the process and improve the number and quality of condonation applications to National Treasury with intent to reduce the IE balance.
- The project also suffered setbacks with prolonged sick leave and staff attrition with one resource placing notice in December 2021. The quantum of procurement transactions still to be reviewed as well as the disruptions in the team resourcing warranted critical response to resource needs. HR has been engaged on the criticality to fill the position and a motivation for additional resource has been approved and recruitment of this resource has commenced.

5.2. Completeness of IE Register

- The SABC implemented the project to review the population of procurement transactions from the 1st of April 2018 for any occurrences of irregular expenditure. The vendor spend for the period 01 April 2018 to 30 June 2022 amounted to R11,844 billion, of which R5.602 billion was confirmed not irregular, R668m was confirmed irregular and R5,574 billion was placed under investigation.
- At the time of reporting, procurement transactions amounting to R3,858 billion had been assessed. The project team has made some progress on the review of the prior year's and in-year population of procurement transactions, taking into consideration the resource challenges, with completion rate at 69% (52% completion rate as of 30 September 2021).
- During quarter three the team mainly focused their efforts on the review of procurement spend below competitive bidding threshold (system RFQs). These relate to large volume of transactions amounting

to 5727 transactions over the period under review, of which 3340 transactions has been reviewed to date, translating to 58.3%,

- The progress on the review of Content contracts was at completion rate of 65%. Included in the vendor spend for Content contracts is recommissioned content which has been excluded from the scope of review on the basis that it was sole source procurement.
 - In October 2021 SABC sought advice from National Treasury to exempt the recommissioning of content from the SCM prescripts on the basis that the procurement was of a sole source nature, however this was not supported. National Treasury advised that all content recommissions must be sent to them for support and approval before any award is made.
 - In dealing with the prior fiscal recommissioned content approved by the Accounting Authority or its delegated authority, SABC was advised by the National Treasury, to assess whether the processes followed were fully compliant with applicable SCM prescripts. This will have an impact on the project completion rate as recommissioned content makes up a significant percentage of total content spend.
- Based on the vendor spend reviewed to date, a potential irregular expenditure of R337 million (9%) has been identified and is currently under assessment. SABC has a zero tolerance for the incurrence of irregular expenditure and the IE Framework, Consequence Management SOP and other governance tools will be applied to its full extent to ensure that SABC complies with the PFMA.
- Notably, 52% of potential irregular expenditure relates to procurement below competitive bidding process (System RFQs) and this is an area where Management is prioritizing efforts to put measures in place to tighten the controls. To prevent the recurrence of the irregular expenditure incidents pertaining to deviations and inability to obtain minimum quotations the following process improvements have been or are in the process of being implemented:
 - SCM is engaging with SAP CCC to make use of the National Treasury Central Supplier Database in order to expand the net of available suppliers to obtain minimum number of quotations and perform market analysis when faced with single source service providers
 - SCM has overhauled the process to proceed without minimum number of quotations, unless written motivation is approved at the correct delegated level. To this effect a standard template to seek approval and document reasons to justify why it is not practical to obtain minimum quotations or why the RFQ evaluation results will be overridden has been developed and implemented

5.3. Status of Condonement/Write Off of Irregular Expenditure

- During the quarter under review, three Condonation Requests with high impact on the irregular expenditure balance of R54m (contract value: R90m) were submitted to National Treasury. The requests were not supported by National Treasury on the basis that, there were insufficient explanations why consequence management was not applied to certain officials. Submissions will be made to the SABC Board and National Treasury to clarify and address the concerns raised with the aim of seeking approval to write off the irregular expenditure.

- The investigative team recently appointed to the project has been tasked to conduct preliminary investigations and determination tests on a total of 379 Irregular Expenditure incidents amounting to R843m in preparation for the condonation process. These incidents relate to irregular expenditure recorded since 01 April 2018.
- As of 31 December 2021, five incidents with irregular expenditure totalling R16m were under investigation. The investigative processes took longer i given that, the team was acclimatizing to the functioning of SABC, understanding its policies, procedures, systems and structures and many staff was on leave during December 2021.

As the investigative team addresses the irregular expenditure reported from 01 April 2018, albeit that all relevant documentation and personnel are available to conduct the preliminary investigations and determination tests, there is still the irregular expenditure pre-2018/19 fiscal which needs to be addressed. Management intends to engage with National Treasury on possible exemption of ring-fencing historical IE (pre-2018/19 fiscal) where organisation is faced with challenges of implementing consequence management (staff no longer employed by the SABC and information is unavailable)

6. PROGRESS ACHIEVED

Significant progress has been made in the reduction Irregular Expenditure incidents over the last 18 months. The audit outcomes of the FY20/21 are a reflection of strengthened SCM internal control environment with no material findings being reported on the In-Year Irregular Expenditure compared with FY19/20 . The quarterly performance audits performed by the Internal Audit, revealed a significant reduction in the number of SCM related findings as compared to the previous years, and this can be attributed to improved systems of internal controls and other SCM related processes.

7. DECISION REQUIRED:

For Noting

8. SIGNATORIES:

Prepared by:



25 January 2022

Senzo Mthembu

Date

Head: SCM Governance, Compliance & Support



Supported for Submission by:



25 January 2022

Magdeline Rampedi
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Date



26 January 2022

Ms Yolande van Biljon
Chief Financial Officer

Date