**Report of the Committee on Public Accounts on its oversight visit to the South African Post Office (SAPO) in Johannesburg and Pretoria, from 02 to 03 December 2021, dated 16 March 2022.**

1. **Introduction**

The Standing Committee on Public Accounts (the Committee) undertook an oversight visit to the South African Post Office (SAPO) in Johannesburg and Pretoria, from 02 to 03 December 2021. The Committee hereby reports its findings and recommendations to the House as required by Rule 137 of the National Assembly.

**Delegation:**

Mr M Hlengwa (IFP), Chairperson, leader of the delegation;

Mr S Somyo (ANC);

Ms N Tolashe (ANC);

Mr B Hadebe (ANC);

Ms B Swarts (ANC);

Mr RA Lees (DA);

Ms B Van Minnen (DA);

Ms N Mente (EFF);

**Apologies:**

Mr M Dirks (ANC);

Ms B Zibula (ANC);

**Support staff:**

Ms N Nkabinde (Secretariat);

Mrs F Ndenze (Communication Officer);

Mr L Balfour (Committee Assistant).

**Department of Communications and Digital Technology**

Mr MP Mapulane - Deputy Minister

Ms Nonkqubela Jordan-Dyani - Acting Director-General

**SAPO delegation**

Ms CM Van der Sandt - (Acting Chairperson of the Board)

Mr Sipho Majombozi - (Acting Deputy Chairperson)

Ms Yvette Myakayaka-Manzini - Board member

Ms Nolitha Pietersen - Board member

Ms Nondumiso Ngonyama - Board member

Mr Toto Ntetho - Board member

Ms Nomkhita Mona - Chief Executive Officer

Ms Zukiswa Ntsiken - Acting Chief Operations Officer

Mr Lenny Govender - Acting Chief Financial Officer

Ms Shumi Sontange - AGE SCM

 Mr Dawood Dada - Company Secretary

**Apologies**

Mr Sipho Nkese - Board member

Mr Emmanuel Lekgau - Board member

**Auditor-General of South Africa**

Ms Joyce Nkonyana - Senior National Manager

Ms Naveen Mooloor - National Manager

1. **Background**

The Committee had a hearing with the South African Post Office on 16 November 2021. The entity received a disclaimed audit opinion which is a regression from the qualified audit opinion of 2018/29. SAPO has received R8 billion in bailouts from the government. The main findings for 2019/20 were as follows:

1. The Group and company incurred losses of R1,7 billion for the year ended 31 March 2020.
2. Furthermore, at that date, their current liabilities exceeded their current assets by R1,5 billion and R1,5 billion for the Group and company, respectively. The Group and company were therefore commercially insolvent because they were unable to pay their debts when they became due, even though their total assets exceeded their total liabilities.
3. The Accounting Authority (AA) was notified of the material irregularity on 12 November 2020 and was invited to make written submissions on the actions taken and still to be taken to address the matter. The Accounting Authority responded on 16 February 2021, highlighting that SAPO is not the AA for the IGPS system, as this has been transferred to SA Postbank, and is therefore not responsible for addressing the MI. The AA highlighted the disagreements between SAPO and SA Postbank concerning the ownership of the IGPS system

**2.1 Objectives**

 The main objectives of the oversight visit to the SAPO were to:

1. Ascertain financial situation that has resulted in severe liquidity risks as creditors and statutory payment obligations (medical aid contributions, pension fund contributions, employee risk benefits contributions, and SARS) remained unpaid for a period in excess of twelve months;
2. Engage the Department on the challenges regarding the instability of leadership and vacancy rate in key positions;
3. Assess the financial support required from the government on adequate funding for the entity to deliver on its mandate and turnaround plan interventions;
4. Ascertain the impact of SASSA grants and Postbank deficiencies; and
5. Have a discussion with the Board on the lack of consequence management after investigations had been completed.

**2.2 Findings**

1. The entity continues to face severe liquidity challenges. There is lack of sufficient information to support the going concern;
2. There are deficiencies related to irregular expenditure and performance reporting;
3. The Committee identified challenges that impact on governance and leadership responsibility, which require urgent intervention by the Executive Authority and Accounting Authority;
4. The entity does not have sufficient resources to build capacity to plan and implement their turnaround strategy and proper internal controls;
5. Despite initial assurances provided by management that it was geared to roll out the implementation of the SASSA contract the SASSA payment solution is not cost effective. Failure to plan properly and the resultant poor internal controls were the main root causes for the shortcomings on the SASSA payment solution, related transactions and balances.;
6. Vacancies not filled timeously in key positions, especially in the Finance and SCM units, contributed to the entity being unable to implement sufficient internal controls to maintain adequate accounting records;
7. Lack of consequence management resulted in transgressors not being dealt with effectively;

#### The subsidy that is allocated by government to SAPO is not sufficient to cover all the operational costs as it only covers salaries. This no doubt impacts on SAPO delivering at its core mandate.

1. **Recommendations**

 The Committee recommends that:

1. The entity prepares its audit action plan that must be implemented and consistently monitored by those charged with governance within the entity, and progress on the implementation of the audit action plan reported on a quarterly basis to the Accounting Authority;
2. The implementation of such action plan and its remedial actions upon submission by the Accounting Authority to the Executive Authority, must be closely monitored and followed up with regular engagements with the Executive Authority.
3. In the event of poor performance, the entity must introduce measures of intervention which may include training or disciplinary action;
4. Control activities are identified and developed with consideration to their cost and potential effectiveness in mitigating risks;
5. Management establishes, develops and implements a fraud prevention plan;
6. Management maintains an effective risk management policy which continuously evaluates and updates the financial management and internal control risks;
7. The Executive Authority must submit a report addressing the governance and leadership challenges;
8. Criminal charges are laid against individuals who have committed financial misconduct;
9. The entity must submit a revised strategic and associated financial plan that must take into account the financial challenges that exist, and ensure that any funding that may be approved by National Treasury to implement the revised strategy is submitted to the Committee;
10. Risks relating to the status of the entity as a going concern are addressed as a matter of urgency; and
11. The Department audits the skills and expertise of the Board.
12. **Conclusion**

The Committee was generally disappointed by the extent to which the Accounting Authority and Executive management seem to not have addressed the financial management weaknesses identified in the audit report, especially as some of these matters had been raised in the audit report of previous years.

In the light of the above, SCOPA resolves that the Auditor-General should conduct a follow-up special audit into the matter of financial weaknesses of the entity.

The Committee further recommends that the Executive Authority submits a quarterly progress report on the implementation of the above recommendations to the National Assembly within 30 days of the adoption of this report by the House.

Report to be considered.