BRIEFING NOTE TO SCOPA

PFMA 2021-22

SAPO

PFMA 2021-22

02 November 2022

AUDITOR-GENERAL SOUTH AFRICA

1. Introduction

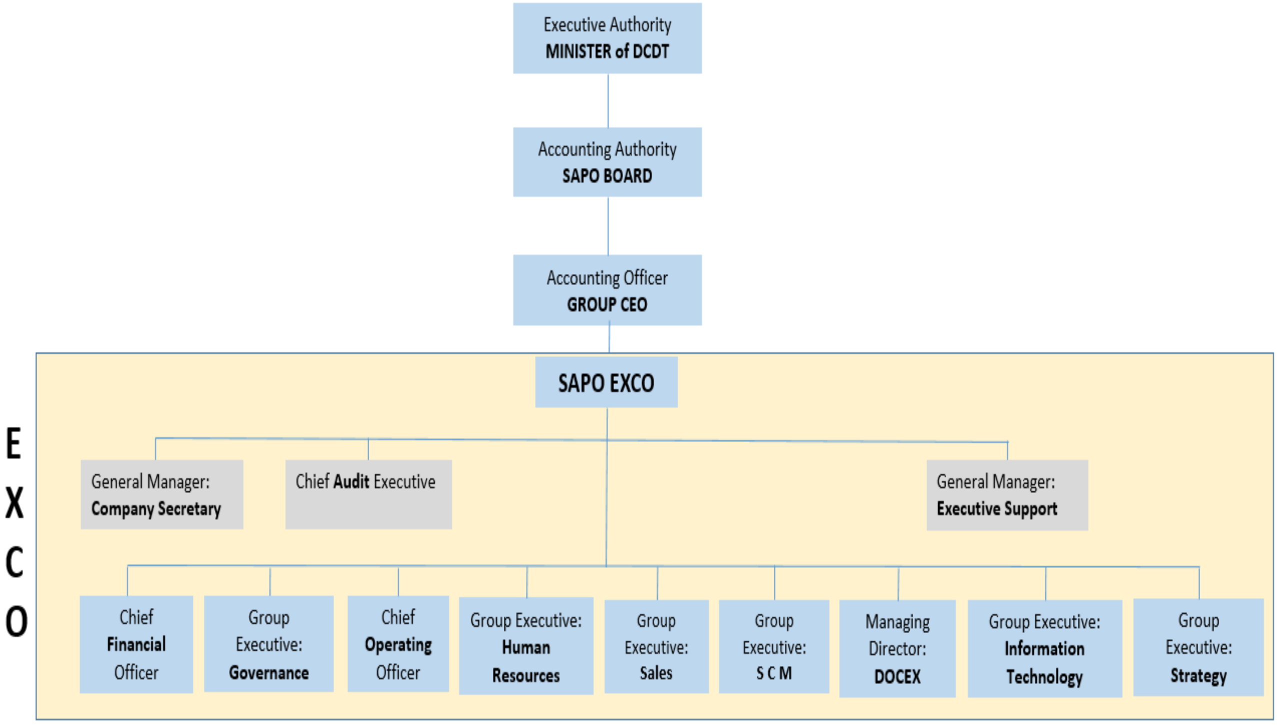
1.1. Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa 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. Purpose of document

The purpose of this briefing document is for the Auditor-General of South Africa (AGSA) to brief SCOPA on the audit outcomes and other findings in respect of the annual financial statements, compliance with legislation and performance against predetermined objectives of the South African Post Office (SAPO) for the 2021-22 financial year end.

1.3. Organisational structure



1.4. Overview

1.4.1. The overall audit outcome of Sapo for 2022 has remained stagnant with a disclaimer of opinion with findings on predetermined objectives and compliance with legislation. There has, however been a decrease in the number of qualification areas contributing to the disclaimer opinion in the 2022 financial year.

1.4.2. The financial statements submitted for audit contained several significant misstatements. We also raised significant findings in supply chain management (SCM), performance information and compliance with legislation. This was as a result of:

- Significant internal control weaknesses;
- Inadequate policies and procedures;
- Lack of proper record-keeping, as evidenced by limitation of scope findings that management were able to resolve in the process;
- Instability and vacancies in key positions within Sapo; and
- Lack of consequence management for poor performance and transgressions in some instances.

1.4.3. The post office continues to battle with going concern challenges. The entity is under severe financial distress and has had a history of significant financial losses over a period of time, with no sustainable income. The entity did not successfully implement its turnaround plan, which resulted in this deteriorating financial position, and consequently a material uncertainty on the financial viability of the entity. The entity's financial situation continued to worsen in the current financial year.

1.4.4. The vacancies on the executive committee (exco) level contributed to the weak internal control environment at Sapo. In the year under review, several key positions in exco were filled in an acting capacity. This included the position of:

- the chief financial officer (CFO),
- chief operation officer (COO),
- chairperson of the board,
- chief audit executive (CAE),
- GE: operations,
- GE: human resources,
- GE: strategy; and
- GE: supply chain management.

1.4.5. Permanent appointments in these roles will assist in addressing the instability caused by the roles being filled in acting capacity and in accelerating the implementation of the strategy to turn around Sapo.

1.4.6. The status of IT controls also requires urgent intervention from management. The IT control environment is very weak, with minimal or no controls implemented on the IT environment as well as the revenue applications.

1.4.7. The internal network was exceptionally vulnerable to cyber security attacks. The combination of weak and/or non-existent controls as well as a lack of best practice fundamentals is an indication that the entity may be at significant risk. The weakness in the system creates significant risk of unauthorised access to the internal network via social engineering, which would provide access to all servers and systems due to an unsegmented "flat" network architecture.

1.4.8. Furthermore, Sapo also has very limited ability to detect and respond to cyber-attacks and unauthorised access to resources. The weaknesses noted are significant and these were mainly due to lack of investment in IT infrastructure as well as poor IT governance processes that do not support the advancement of IT in the entity.

1.4.9. Sapo additionally did not have adequate disaster recovery processes in place. Sapo did not have mechanisms and systems in place to monitor the availability of systems. As a result, the availability of systems linked to service delivery was not monitored. The risk relating to poor disaster recovery processes materialised when Sapo was not able to restore backups of the third-party operations management (TPMS) system, which resulted in an audit qualification matter.

1.4.10. The absence of a technical IT representative within board governance structures (including Audit and Risk Committee) inhibits these structures from providing effective direction and oversight in relation to IT governance and strategic alignment. Moreover, this had an impact on these structures' ability to effectively ensure that IT governance reporting was complete, with due consideration of the technical nature and related complexity of Sapo computing environment

2. Audit opinion history

SOUTH AFRICAN POST OFFICE (SAPO)					
DESCRIPTION	**2021-22**	**2020-21**	**2019-20**	**2018-19**	**2017-18**
A: Report on the audit of the consolidated and separate financial statements					
Audit opinions	Disclaimer	Disclaimer	Disclaimer	Qualification	Unqualified
Areas of qualification:					
• *Going concern*	√	√	√		
• *Discontiued operations*		√	√		
• *Other financial assets*			√		
• *Right of use assets*	√	√	√		
• *Finance lease liabilities*	√	√	√		
• *Provisions – site restoration*		√	√		
• *Trade and other receivables*	√	√	√	√	
• *Cash and cash equivalent*	√		√		
• *Trade and other payavles*	√				
• *Deposits from the public*				√	
• *Property plant and equipment*		√	√		
• *Investment property*		√	√		
• *Intangible assets*			√		
• *Retirement benefit*			√		
• *Related parties*	√	√	√		
• *Comparative figures and prior period errors*	√	√	√		
• *Financial instrument and risk managemet*		√	√		
• *Cashflow statements*		√	√		
• *Deffered tax and income tax*		√			
• *Irregular expenditure*			√		
• *Fruitless and wasteful expenditure*	√		√		
• *Non-current assets held for sale*	√				
• *Financial sercvice revenue*	√	√			
• *Other operating expenses*	√	√			
• *Accummulated loss*	√	√			
Emphasis of matter:					
• *Material uncertainty relating to going concern*				√	√
• *Restatement of corresponding figures*				√	√
• *Significant uncertainties and judgements to the future outcome of litigation*	√	√	√	√	√
• *Irregular expenditure*			√		

• *Material impairment trade and other receivables*				√	√
• *Loans to group companies*	√				
• *Other financial assets*	√				
• *Material losses*	√	√			
B: Report on predetermined objectives					
• *Report on predetermined objectives*	√	√	√	√	√
C: Report on compliance with legislation					
• *Financial statements, performance report and annual report*	√	√	√	√	√
• *Procurement and contract management*	√		√	√	√
• *Expenditure management*	√	√	√	√	√
• *Strategic Planning*	√	√	√		
• *Consequence management*	√	√	√	√	√
• *Asset management*		√	*	√	√
• *Revenue management*			*	√	√

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

***** Not scoped in for the audit cycle

3. Report on the audit of the Annual Financial Statements

The issues form a basis of the ***disclaimer of opinion*** included in the audit report of the SAPO on their annual financial statements for the 2021-22 financial year-end.

3.1 Going concern limitation and inadequate disclosures

Finding	Root cause	Recommendation
Going concern Significant indicators of material uncertainty on going concern, including net loss of R2,2 billion and net current liability position of R6,5 billion	Inadequate disclosure, not all indicators of material uncertainty were disclosed in the financial statements	Management should prepare accurate and complete financial assessment that is supported and evidenced by reliable information. Leadership should ensure that the governance structure is stable and monitors the implementation of the turnaround strategies.
The state of SAPO's financial health remained a significant concern due to solvency and liquidity challenges. The public entity's going concern assessment indicates that the planned strategies are not sufficient to turn the entity around in at least 12 months after year end	The instability and capacity challenges including the board members resulted in the slow implementation of the SAPO strategic initiatives. Furthermore, the lack of funding to implement the strategies resulted in delays in some of the projects.	
The entity is struggling to implement the strategies due to lack of funding. Furthermore, we were unable to assess if the plans will be effectively implemented and if implemented will yield the desired results. This is mainly due to information supporting the assumptions not provided		
Mitigating factors dependent on availability of funding, and the only main source has been cited as from government.	No evidence to support funding by government	

3.2 Control deficiencies on SASSA related balances

Finding	Root cause	Recommendation
Trade and other receivables SASSA related receivable balance not supported by reconciliation and relevant documentation. Prior year qualification not resolved on the same matter.	• Regular reconciliations were not always adequately prepared during the year, necessitating many manual reconciliations being conducted at year-end. • The use of manual reconciliations coupled with a lack of assurance processes not implemented in time to ensure that information was accurate and complete, resulted in a number of limitations and errors being experienced and identified. • Management made significant use of clearing accounts that are not regularly reviewed and reconciled. Where supporting listings were made available, management had not always acted to ensure that long-outstanding items were reconciled and cleared.	Management should establish a better system that will facilitate regular reconciliations
Trade and other payables Insufficient supporting evidence for trade and other payables and employee benefit payments		

3.3 Other inadequate information or weakness in supporting significant components or weaknesses in control deficiencies

Finding	Root cause	Recommendation
IFRS 16 (Right of use assets and lease liabilities) Management used the contractual amount instead of actual payments on valuation of the lease liability and leased asset and the escalation rates were not taken into account.	• Management did not ensure that the accounting standard is appropriately applied. • Reporting system note being designed to account for IFRS 16 as this is due to SAPO not updating SAP system (SAP RE-FX Function for IFRS 16) SAP RE-FX module came up with functionality of valuation contracts. The lease computation at SAPO not automated as a result the calculations are done on manual bases • Lack of proper record keeping that will ensure complete, relevant and accurate information is accessible and available to support credible financial and performance reporting. • Poor disaster recovery processes as management were not able to restore backups of the Third-party Operations Management (TPMS) system. • Inadequate review by management to ensure that all amounts in the annual financial statements agree to the amounts as per the support to the annual financial statements.	• The governance structures must ensure that internal audit is sufficiently capacitated and that executive leadership acts on internal audit reports in a serious and urgent manner. • Management should attend to the IT weaknesses. Investment in IT infrastructure as well as IT governance processes that will support the advancement of IT in the entity • Capacitate the fiancé department • Proper reviews of financials before submission • Design and implement the system that will be able to account for lease transactions based on the actual payments • Management should investigate and properly reconcile the errors as a result of opening balances especially on trade and other payables and accumulated loss. • Management should prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. • Disaster recovery process
Funds collected on behalf of third parties and financial service revenue Sufficient and appropriate audit evidence not available to support the reported amount		
Non-current assets held for sale Non-current assets held for sale has been modified as a result of a management not maintaining a complete schedule of non-current assets held for sale		
Accumulated loss Accumulated loss has been modified as a result of the material differences that have been in the recalculation of the balance. This is majorly driven by unexplained differences that are coming from prior years and journals that are not appropriately supported by sufficient information		
Operating expense During 2021, we were unable to obtain sufficient appropriate audit evidence that management had properly accounted for other operating expenses, due to the status of the accounting records and to confirm the expenditure		
Cash and cash equivalents Cash and cash equivalents were modified as a result of the incorrect classification of the cash in transit as cash and cash equivalent rather than receivables. Incorrect interpretation of the contracts to ensure that substance of the transaction is properly accounted rather than the legal form.		
Comparative figures and prior period errors Comparative figures and prior period errors has been modified as a result of differences identified between the amounts as per the annual financial statements and the amounts as per the support to the annual financial statements.		

Finding	Root cause	Recommendation
Related parties Related parties balance was modified as a result of differences identified between the amounts as per the annual financial statements and the amounts as per related party schedules		
Fruitless and wasteful expenditure Fruitless and wasteful expenditure has been modified due to the lack of support documentation to support the write-off of fruitless and wasteful expenditure. The board approved the write-off of fruitless and wasteful expenditure with no evidence that proper procedures were followed		

3.4 Emphasis of matter paragraphs

The ***following emphasis of matter paragraphs*** were included in the audit report of the SAPO on their annual financial statements for the 2021-22 financial year-end.

Finding	Root causes	Recommendation
Contingent liabilities The SAPO group is a defendant in number of lawsuits. The ultimate outcome of the matters cannot presently be determined, and the uncertain part of the litigation claim has been disclosed in the consolidated and separate financial statements.	N/A	N/A
Material losses due to criminal conduct Material losses were incurred as a result of fraud and theft.	Weak internal controls to safeguard cash	Design and implement controls that will reduce losses incurred due to criminal conduct.
Other financial assets An amount of R861 000 000 were withdrawn from PRMA investments.	N/A	N/A
Loans to Group companies Material impairment of R703 996 000 were incurred as a result of the impairment of the loan to the Courier and Freight Group (Pty) Ltd	N/A	N/A

4. Report on the audit of compliance with legislation

Finding	Root cause	Recommendation
Annual financial statement, performance and annual report • The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA.	• Action plans developed to address audit findings of the prior year were not effectively implemented and monitored. • Significant findings arising from submitted financial statements indicated that the accounting standards were not properly applied when preparing the financial statements. The public entity waited for financial year to end to address internal controls that resulted in disclaimer in prior years. Due to the capacity at the finance department resulted in the entity heavily relying on external service providers in preparation, addressing and responding to audit issues	• 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.
Strategic planning and performance management • The corporate plan submitted to the director-general of the Department of Communications, designated by the executive authority, did not include the affairs of the SAPO subsidiaries as required by section 52(b) of the PFMA.	Inadequate compliance monitoring procedures to ensure compliance with relevant laws and regulations.	Management must design and implement compliance monitoring controls to ensure compliance with all relevant laws and regulations.
Expenditure management • Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R611 708 000 as disclosed in note 51 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The entity went and procured services relating to Dignity services which are part of the SAPO requirements during the SASSA grant payments.by means of competitive bidding and deviations not approved at the appropriate delegated level. • Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b) (ii) of the PFMA. As reported in the basis for disclaimer of opinion the value of R242 637 000 disclosed in note 50 of the financial statements does not reflect the full extent of the fruitless and wasteful expenditure incurred.	• SAPO leadership did not exercise oversight responsibility regarding compliance and related internal controls to ensure that compliance requirements are met in order to prevent irregular and fruitless and wasteful expenditure. • Disciplinary steps were not taken against officials who had incurred irregular and fruitless expenditure as investigations were not performed.	• A functioning consequence management system is in place. • Implement adequate internal controls to prevent material non-compliance findings

Finding	Root cause	Recommendation
Consequence management • I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, as required by section 51(1)(e)(iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed. • I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred fruitless and wasteful expenditure as required by section 51(1) (e) (iii) of the PFMA. This was because investigations into fruitless and wasteful expenditure were not performed. Similar non-compliances were reported in the prior year. • I was unable to obtain sufficient appropriate audit evidence that allegations of fraud at the retails which exceeded R100 000 were reported to the SAPS, as required by section 34(1) of the PRECCA.	• Policies and standard operating procedures were not designed and implemented to facilitate an effective process of consequence management.	• Top management must design policies and procedures to guide the implementation of consequence management.
Procurement and contract Management • Some of the goods and services were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1) (a) (iii) of the PFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the splitting on appointment of service providers rendering dignity services during the SASSA grant pay-outs.	• SAPO leadership did not exercise oversight responsibility regarding compliance and related internal controls to ensure that compliance requirements are met	• An effective and functioning consequence management system must be implemented. • Implement adequate internal controls to prevent material non-compliance findings

5. Audit of pre-determined objectives

In terms of predetermined objectives, we selected *Strategic Objective 4 – Efficient systems and processes*, for audit and identified two material findings:

Finding	Root cause	Recommendation
Key performance indicator 4.1 - Achieve the regulated Mail Delivery standard 32. The method of calculation for achieving the planned indicator was not clearly defined as the required level of performance did not cover the financial year. **Key performance indicator 4.2 - Maintain system availability uptime at online Post Office branches 33.** I was unable to obtain sufficient appropriate audit evidence for the achievement of 97.82% reported against target 98, 00% in the annual performance report, and due to the lack of accurate and complete 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. **Key performance indicator 4.3 - Rollout of IPS equipment 34.** I was unable to obtain sufficient appropriate audit evidence for the achievement of 50% reported against target 100% in the annual performance report, due to the lack of accurate and complete 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	Poor record management, information could not be provided when requested for audit Due to system failures to monitor the network uptime and as a result we could not get adequate reports that could verify the information disclosed Lack of coordination and poor planning. Project was planned without the necessary resources such as funds.	Management must ensure that they implement proper systems to systems to craft and set the targets and indicators in a manner that supports achievement of its strategic objectives. They must be implementable. Supporting evidence and systems that supports reporting must also be implemented to substantiate the reported performance by management.

6. Irregular expenditure, fruitless and wasteful expenditure

(a) Irregular expenditure:

Auditee		Irregular expenditure (balance)			
		Movement	Amount R 2022	Amount R 2021	Amount R 2020
1	SAPO SOC Ltd	↑	R2.4b	R1.8b	R1.4b

Irregular expenditure reported in the 2022 financial year increased by R612 million from the prior year. The irregular expenditure amounting to R612 million identified and reported in the current year was mostly as a result of contravention of supply chain management prescripts. This irregular expenditure was mainly caused by the incorrect application of deviation criteria, unfair application of evaluation processes, and bids awarded to suppliers that did not get the highest points.

(b) Fruitless and wasteful expenditure:

Auditee		Fruitless and Wasteful expenditure (Balance)			
		Movement	Amount R 2022	Amount R 2021	Amount R 2020
1	SAPO SOC Ltd	↓	R132m	R537m	R394m

Fruitless and wasteful expenditure has decreased by R405 million from the prior year. The decrease was as a result of the net effect of write- off amounting to R648m. This write-off should be read in light of the qualification paragraph expressed under fruitless and wasteful expenditure basis for disclaimer of opinion.

Systems and processes implemented by the SAPO could not prevent the incurrence of irregular, fruitless and wasteful expenditure and the entity continued to incur fruitless expenditure of R243 million and irregular expenditure of R612m in the current year.

SAPO continued to have repeat findings in the current year, indicating that the action plans developed by management were not adequately implemented to achieve the desired result. Some of the findings could have been avoided had management adequately addressed the root causes identified during the prior year audits.

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

	Irregular expenditure				
	Movement	Amount R 2021/22	Amount R 2020/21	Root cause	Consequence management and status of investigations conducted
Irregular expenditure	⬆	612m	379m	Irregular expenditure incurred in both current and prior financial years was as a result of the contravention of SCM legislation and lack of effective application of the National Treasury regulations.	Irregular expenditure incurred in prior years has not been investigated to determine if there is any official who has caused or permitted irregular expenditure. As a result, SAPO has not implemented effective consequence management.

The movement is assessed as follows:

⬆	Increase
⬇	Decrease
➡	Unchanged

The table above indicates an increase in the amount of irregular expenditure incurred in the current year. It is a concerning that the majority of the incidents that resulted in irregular expenditure related to matters which were flagged in prior years.

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

2021/22

Description	Amount
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

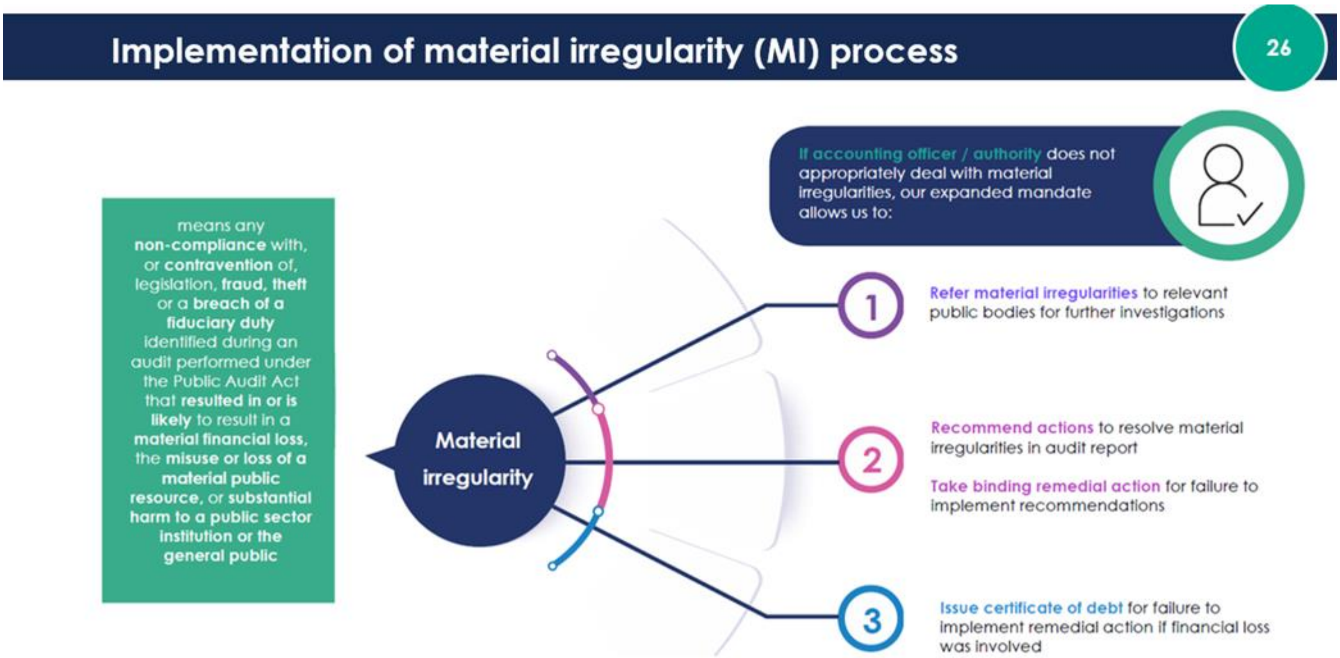
2020/21

Description	Amount
Payments without contracts	88 743 000
Bids advertised for less than minimum number of days	85 378 000
Incorrect evaluation criteria applied to bids	53 267 000
Schedule All - Procurement processes not followed	28 215 000
Minimum number of quotations not obtained	26 147 000
	281 750 000

The audit team identified the following fundamental internal control deficiencies in the procurement and contract management control environment:

- Poor awareness/rolling out of policies and procedures with regards to compliance with SCM policy, procedures and other laws and regulations;
- Lack of adequate automated controls implemented and monitored to prevent irregular expenditure;
- Annual Procurement Plan not approved and not submitted to National Treasury;
- Supply Chain Management Policy has not reviewed and updated since 2018;
- No assessment is performed to check whether goods and services procured are classified under the "designated commodities"; and
- Supply Chain Management unit with a high vacancy rate, therefore minima skills to ensure general compliance and implementation of preventative measures during procurement.

7. Material irregularity



Nature of material irregularities identified during 2022 financial year

- Three material irregularities emanating from penalties and interest that were incurred due to late payments of VAT and PAYE to South African Revenue Service (SARS), has been identified and reported.
- The AGSA is currently taking further actions after concluding that the actions taken by the accounting authority are not appropriate. These actions will be communicated when finalised.

Previously reported material irregularities

- In the 2019-20 financial year, SAPO SOC Ltd did not implement effective controls and risk management processes on the grant payment system, resulting in various internal control deficiencies relating to the management of the integrated grant payment system (IGPS) used to manage the SASSA grant beneficiary payments, as required by PFMA section 51(1)(a)(i).

- Notified the acting accounting authority (AA) of the material irregularity on 12 November 2020 and provided them with an opportunity to respond. The AA responded on the 16 February 2021 and indicated that they are not the appropriate AA, and therefore cannot take any action as an agreement was reached to transfer ownership of the IGPS system from SAPO to Postbank SOC Ltd effective from 08 January 2021 in line with transfer of the Postbank division from the group to its own stand-alone entity which is not /consolidated.
- The written representation received was further assessed against the requirements of section 51(1)(a)(i) of the PFMA and an assessment of the responses to the internal control deficiencies identified contained indicators of fraud were prevalent in the internal control deficiencies identified.
- Referred the material irregularity to the directorate for priority crime investigation (DPCI) on 15 November 2021 for investigation as provided for in section 5(1A) of the PAA
- Progress report received from DPCI dated 14 July 2022 indicated that SAPO terminated the contract of a service provider (card manufacturer and supplier) and further reported them to National Treasury as an unfit and dishonest service provider.
- The DPCI status report also indicated that SAPO and Postbank covered the losses incurred due to the fraud or theft in relation to the SASSA bank cards that was suffered by SASSA and or SASSA beneficiaries.

8. Going concern

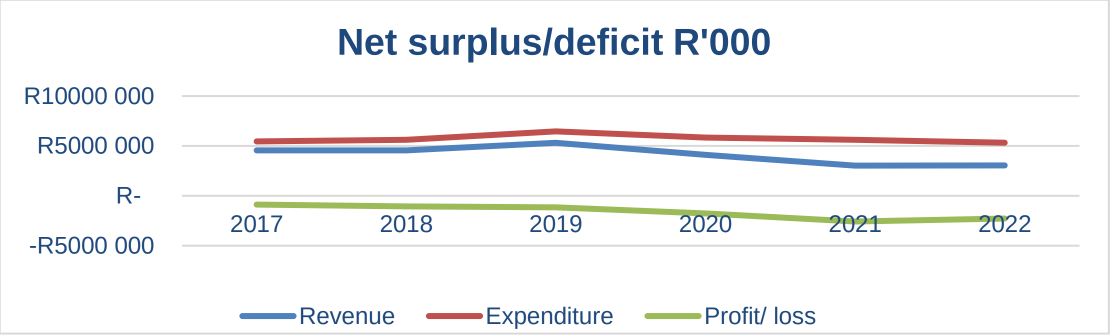
8.1. The state of SAPO's financial health remained a significant concern due to solvency and liquidity challenges. The public entity's going concern assessment indicates that the planned strategies are not sufficient to turn the entity around in at least 12 months after year end. The annual performance plan (APP) which is a good tool to track the progress of the project is not being fully utilised as the entity has set some of the targets which were not formally documented on the APP.

8.2. The entity worked very hard to prepare the strategy that was linked to the going concern assessment which, in management's view, will turn the entity around in the next foreseeable future.

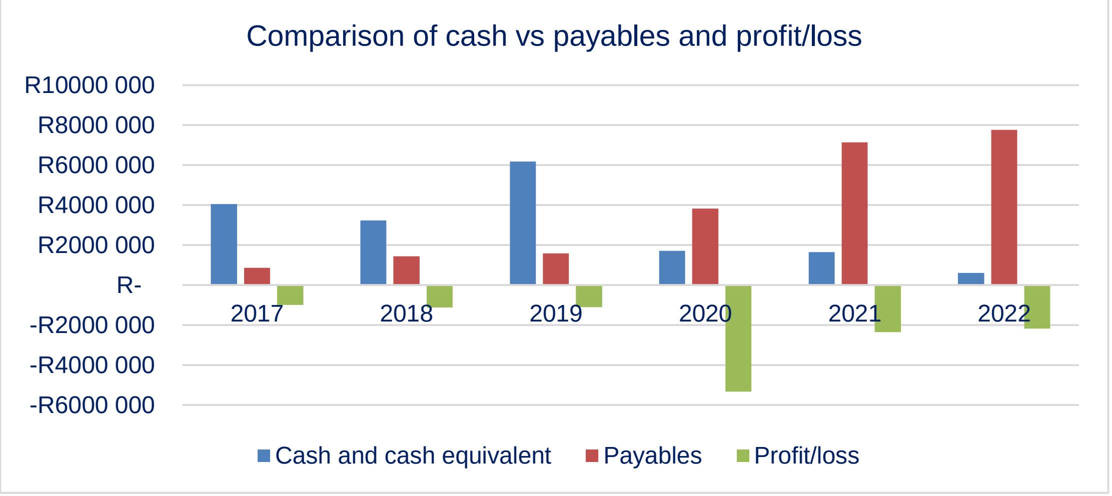
8.3. In our assessment of the entity's plans, we identified that the entity is struggling to implement the strategies due to lack of funding. Further, we couldn't be able to assess if the plans will be effectively implemented and if implemented will yield the desired results. This is mainly due to information supporting the assumptions not provided.

8.4. The group's unfavourable financial health position indicates that the entity is potentially in financial distress. To this effect, the audit report includes a paragraph noting the concern on the entity's going concern status detailing the auditor's inability to neither confirm nor dispel this status. The necessary focus should be provided to the implementation of the turnaround plan initiatives.

8.5. The graph below shows slight declining but high costs in total expenditure, the staff cost has been the largest contributor over the 6-year period. It also shows declining revenues and net losses since 2017.



8.6. The graph below depicts the cash on hand of the entity against its short-term liabilities to demonstrate how much cash is available for it to pay its short-term liabilities as when they fall due.



8.7. The spike in of cash in 2019 was due to the bailout funds received then and SASSA funds held on behalf of beneficiaries. The sharp decline in 2020 was as a result of the Postbank division that moved to the Postbank separate entity, during the split. The increase in trade payables in 2020 was as a result of trade payables – related party transactions with Postbank on SASSA related transactions.

9. Status of internal controls

	Leadership						Financial and performance					Governance		
Entity	Oversight responsibility	Effective leadership culture	HR Management	Policies & procedures	Action plans	IT governance	Proper record keeping	Processing and reconciling controls	Reporting	Compliance	IT Systems controls	Risk management	Internal audit	Audit committee
SAPO SOC Ltd														

Legend Drivers	Good	Causing Concern	Intervention required

The following internal control deficiencies relate to the significant internal control deficiencies that resulted in the basis for a disclaimer of opinion, the findings on compliance with legislation and the audit of predetermined objectives.

Leadership

- The Audit and Risk Committee (ARC) mandated the implementation of IT Governance as per good corporate governance (King). However, the absence of a technical IT representative within the ARC as an oversight body of IT Governance inhibits the ARCs capability in providing effective direction and oversight. As a result, the IT governance framework was not formally communicated nor reviewed and updated with the evolved business processes by IT management. This resulted in a number of key IT governance initiatives (outputs of the IT governance framework) not being performed.
- The leadership did not implement effective human resource management to ensure that sufficiently skilled resources are in place and individuals are held accountable for non-performance.
- The leadership of the SAPO did review adequately established policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
- The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evidenced by the failure of management to adequately address audit findings in a timely manner.

Financial management performance management

- The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
- Regular reconciliations were not always adequately prepared for financial items during the year. This resulted in the entity being required to rely on manual reconciliations at year-end. Due to the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information is accurate and complete. As a result, a number of errors were identified in the reconciliations by the external auditors.

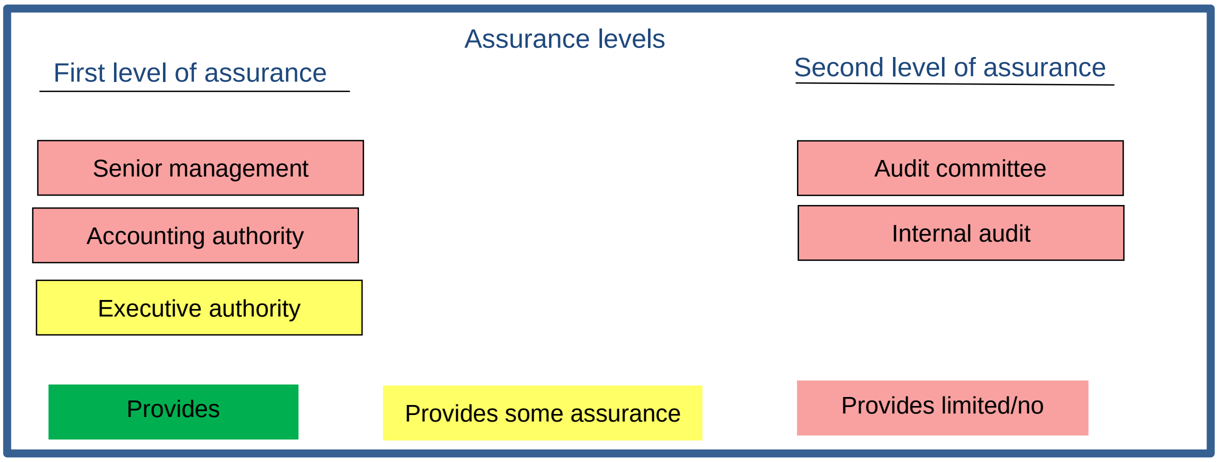
- Effective financial systems of internal controls and the management thereof had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements is not adequate planned, to ensure a comprehensive review of year-end adjustments and reconciliation, resulting in errors.
- The quality of annual performance report was poor as significant audit findings were identified in usefulness and/or reliability of performance indicators and targets. This is as a result of SAPO not having a policy on performance information clarifying standard operating procedures on performance reporting as well as the lack of understanding by management of National Treasury Framework for Managing Programme Performance Information (FMPPI) and poor record keeping. This is also due to the lack of oversight and monitoring of performance reporting by senior leadership at SAPO.
- Controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.
- Performance indicators and targets on the corporate plan, shareholders compact, and annual performance report were not adequately reviewed by leadership to ensure compliance with FMPPI before approval and submission for audit.
- The asset management unit is understaffed; as a result, basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework.
- As the majority of financial management controls are automated and monitoring takes place mostly on reports generated by the IT systems, good IT controls and skills are fundamental to enabling robust financial and performance management including in-year monitoring. The design and implementation of formal controls over information technology systems relating to security management, facilities and environmental controls, service continuity, user access management and change control were not adequate to ensure the reliability of the systems and the availability, accuracy and protection of information in delivering a seamless, efficient and effective service to SAPO customers

Governance

- The leadership did not act on a timely basis on the internal audit unit's recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.
- Although a risk assessment framework was in place, management did not adequately monitor and report on the progress of controls implemented or respond to new risks that may arise. Therefore, the entity's risk management processes were not considered adequate or effective

10. Assurance providers

We assessed the level of assurance provided by these assurance providers based on the status of internal controls at the entity and the impact of the role players on these controls.



Senior management: provides limited assurance

- A number of control deficiencies were identified during the current year.
- A significant a number of findings were identified in the current year that can be linked to senior management not implementing the internal controls that have been put in place.
- The above can also be linked to a high number of senior level vacancies that result in lack of segregation of duties.
- Review and monitor compliance with applicable laws and regulations.
- Implement controls over daily and monthly processing and reconciling of transactions
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Accounting authority: provides limited assurance

- There has been instability in the composition of the board of directors (Accounting Authority) due to resignations and currently there are only 5 non-executive members of the board. This has resulted in the audit committee not being fully capacitated.
- There were constant changes during the financial year, resignations, and changes of board members. This has resulted in accounting authority not being able to implement leadership controls, risk management and governance and also not being able to effectively and efficiently exercise the oversight responsibility the addressing the internal control deficiencies. The policies and procedures had not been reviewed and updated. Audit action plan that was developed had not been properly monitored as repeat findings were identified throughout the audit. The IT governance was also impacted as a number of issues were identified and some of them resulted in modification of the audit report.

Executive authority provides some assurance

- The executive authority did not deliver on its delegated responsibility due to the instability of the accounting authority. This led to the monitoring processes not fully implemented in order to ensure that the senior management deliver on the mandate through a stable financial and performance control environment

Internal audit provides limited assurance

- Legislation in South Africa requires the establishment of internal audit units with designated, roles and responsibilities. Internal audit units form part of the internal control and governance structures of the entity and play an important role in its monitoring activities. Internal audit provides an independent assessment of the entity's governance, risk management and internal control processes.
- The internal audit unit of an entity must prepare a risk-based audit plan and internal audit programme for each financial year. It must advise the accounting authority and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management, performance management, loss control and compliance with the PFMA. The internal audit unit must also perform such other duties as may be assigned by the accounting authority.
- Time frames in place for the preparation and internal review of the financial statements were not adequate as no reviews were performed on the draft financial statements by the internal audit unit due to time constraints and lack of capacity.

Audit committee: limited assurance

- Legislation requires the accounting authority to ensure the establishment of an audit committee.
- The accounting authority is expected to ensure that the audit committee functions effectively to have a positive impact on the status of key controls.
- The audit committee is an independent advisory body to the accounting authority and the management and staff of the entity on matters relating to internal financial control and internal audits; risk management; accounting policies; adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the PFMA, Treasury Regulations and any other applicable legislation; performance evaluation and any other issues.
- The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the public entity, its efficiency and effectiveness and its overall level of compliance with the applicable legislation.
- The audit committee did not consider and satisfy itself of the appropriateness of the expertise and adequacy of resources of the auditees finance function especially the IT skills
- The where also a number of the repeat and new audit findings in the current year.
- As a result of the above oversight over the effectiveness of the internal control environment including financial and performance reporting and compliance with laws and regulations was not adequately monitored.

11. Key recommendations to the Committee

We remain concerned, that some of the key audit matters reported in the audit report, were repeat matters. Some interventions could either not be implemented or were not still successful in dealing with these key matters due to various reasons. We also appreciate the challenges faced by the entity, such as the financial constraints.

- There was some progress in addressing some of the prior year qualifications, however, the overall opinion did not improve as there are other new paragraphs reported in the current year.

- The continuous instability of management, and the lack of adequate human resource capacity in the financial reporting unit of the entity as previously highlighted, are cause for serious concerns on the ability of SAPO to fully and adequately respond to the audit matters, timely and effectively.

- We acknowledge the plan to develop and implement a new turnaround strategy. These interventions remained at concept stages with only some implementation due to various reasons. Some of these require funding to implement and therefore remain at risk of not being implemented due to the current strained financial position of the entity.

- These need to be prioritised in order to yield the desired results for the institution, which impact we remain hopeful to also observe in improved audit outcomes, as noted previously.

We request and recommend that the committee considers 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:

- Remain steadfast in its focus to follow-up with the accounting authority and the executive authority on the adequate implementation of effective consequence management. Leadership must be clear on the processes they will follow to investigate these cases of irregular expenditure, especially the long outstanding cases. These investigations must be conducted in a proper manner that will facilitate appropriate action being taken to enforce consequence management. The accounting authority should report, through the executive on a quarterly basis to SCOPA, and therefore SCOPA should continue to insistently request feedback on these as it has.

- To follow up on all action plans per entity to ensure AGSA's recommendations are tracked, and internal controls are strengthened, which will include:
  - Implementation for proper record keeping and reconciliations for all quarterly reports which will effectively feed into the financial statements; and
  - Compliance with regulations relating to procurement, contract management and performance information.

- The committee should also follow up on the effective implementation of the turn-around plan as well as the liquidity position of the public entity, together with management's actions to improve the financial stability of the entity.

- Request the accounting authority, supported by the strategic leadership of the executive authority, to present a proper recruitment plan on how the key vacancies will be filled. The progress on the implementation of this must also be regularly reported to SCOPA to demonstrate the active and effective implementation and monitoring of the filling of these key vacancies. This will promote stability of leadership so that the appointed leadership can then focus on stabilising the operations for sustainability.

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