



# BUDGETARY REVIEW AND RECOMMENDATIONS REPORT | **PFMA** 2017-18

## Briefing to Portfolio Committee on Communications



AUDITOR-GENERAL  
SOUTH AFRICA

## Reputation promise

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



## Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



1

## Our focus





# Our annual audit examines three areas

THE AG's  
ANNUAL  
AUDITS  
EXAMINE

3

AREAS:



1 FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS

# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

## Disclaimed opinion








Auditee:

- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

# The percentages in this presentation are calculated based on the completed audits of 7 auditees

The overall audit outcomes are indicated as follows:

-  Unqualified with no findings
-  Unqualified with findings
-  Qualified with findings
-  Adverse with findings
-  Disclaimed with findings

Movement over the previous year is depicted as follows:

 Improved

 Unchanged

 Regressed

Movement of 5% or less:

 slight improvement

 slight regression

DoC – Department of Communications  
GCIS – Government Communication and Information System  
ICASA – Independent Communications Authority of South Africa  
FPB – Films and Publications Board  
BSA – Brand South Africa  
MDDA – Media Diversity and Development Agency  
SABC – South African Broadcasting Corporation



2

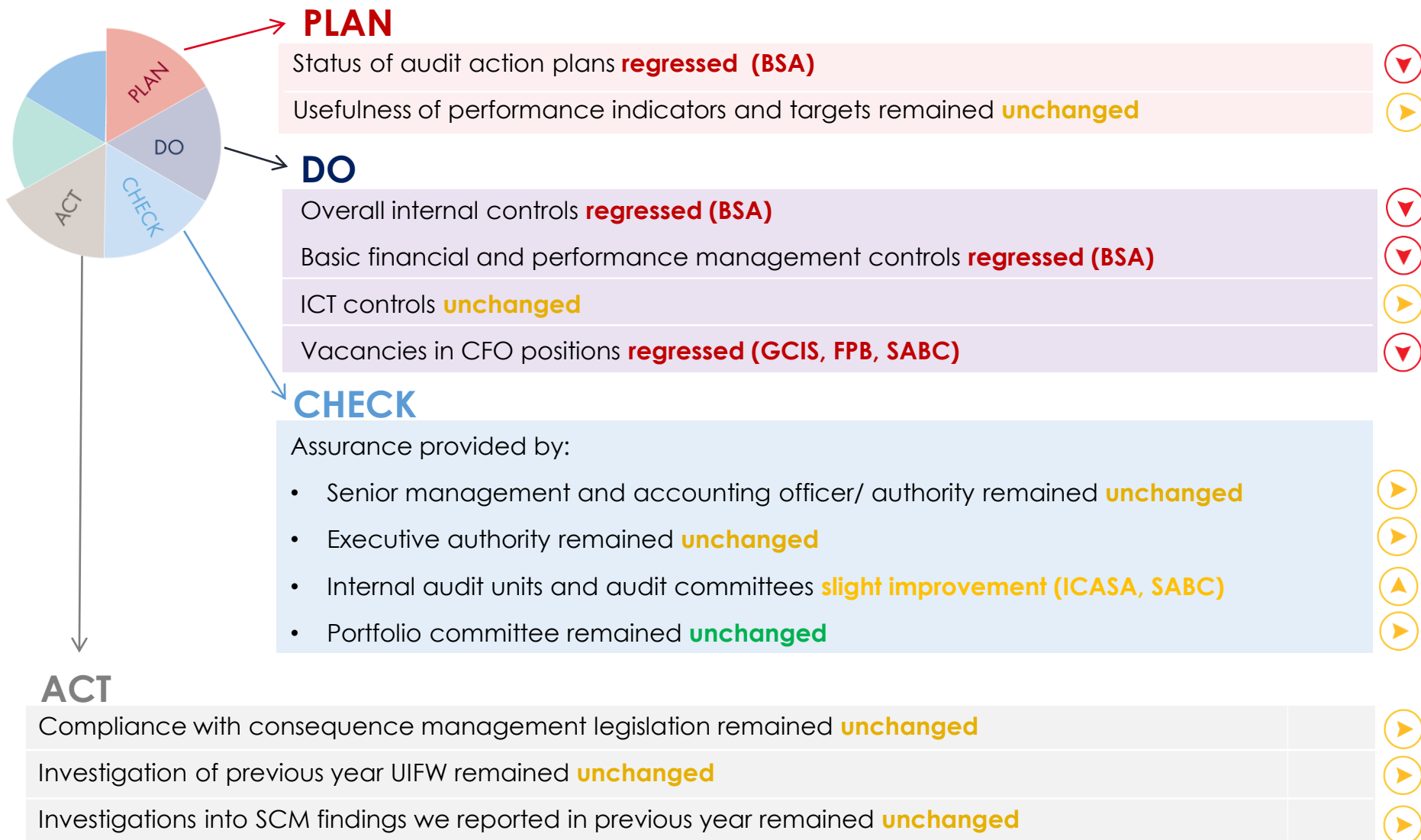
## The 2017-18 audit outcomes



# ACCOUNTABILITY = PLAN + DO + CHECK + ACT



# No improvement in plan-do-check-act cycle



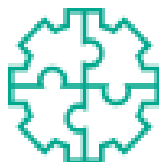
# Communications Portfolio snapshot (2017-18)



**Clean audits: 29%**  
(2016-17: 43%)



**Quality financial  
statements: 86%**  
(2016-17: 86%)



**Quality performance  
reports: 43%**  
(2016-17: 57%)



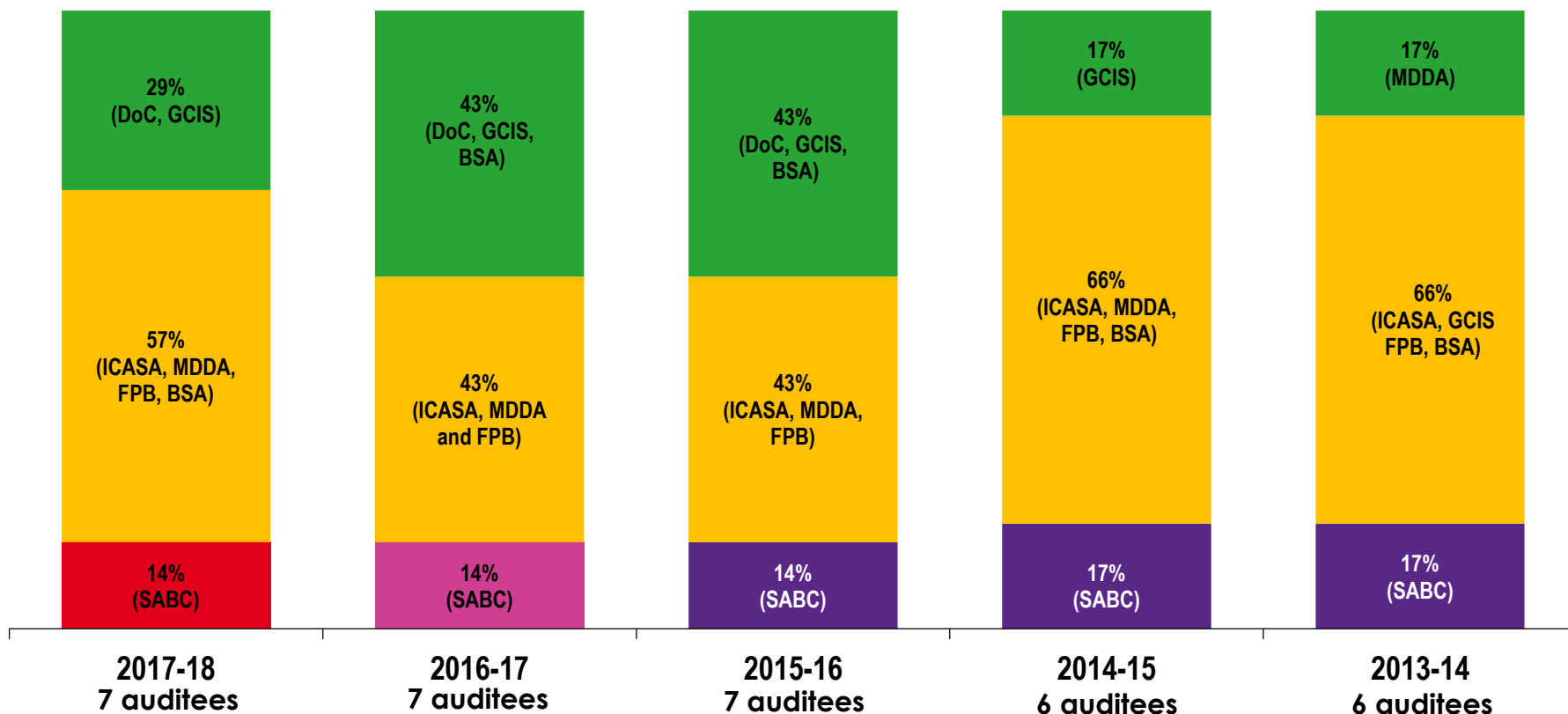
**No findings on compliance  
with legislation: 43%**  
(2016-17: 57%)



**Irregular expenditure:  
R626m**  
(2016-17: R722m)

**Completeness of irregular  
expenditure qualified at SABC**

# Audit outcomes of the portfolio over five years



- In the past 3 financial years, the Communications portfolio has been regressing in audit outcomes
- The SABC technically regressed to a disclaimer of opinion as they were unable to adequately support the going concern assumption used in the preparation of the financial statements. There were other modifications related to PPE, Programme films and sports right, Payables, Irregular expenditure and Taxation.
- BSA regressed from clean audits over a 2 year period to an unqualified opinion with findings as they were unable to prevent irregular expenditure.
- We commend GCIS and DoC for maintaining their clean audit opinions.

# Movement table (2017-18 over 2016-17)

Audit outcome	MOVEMENT				
	0 Improved	5 Unchanged	2 Regressed	0 New auditee	0 + 0 Outstanding audits
Unqualified with no findings = 1		DoC and GCIS			
Unqualified with findings = 0		ICASA, FPB, MDDA,	BSA		
Qualified with findings = 2					
Adverse with findings = 0					
Disclaimed with findings = 0			SABC		

Colour of the number indicates the audit opinion from which the auditee has moved.





# Quality of financial statements

Figure 2: SABC Qualification areas over three years

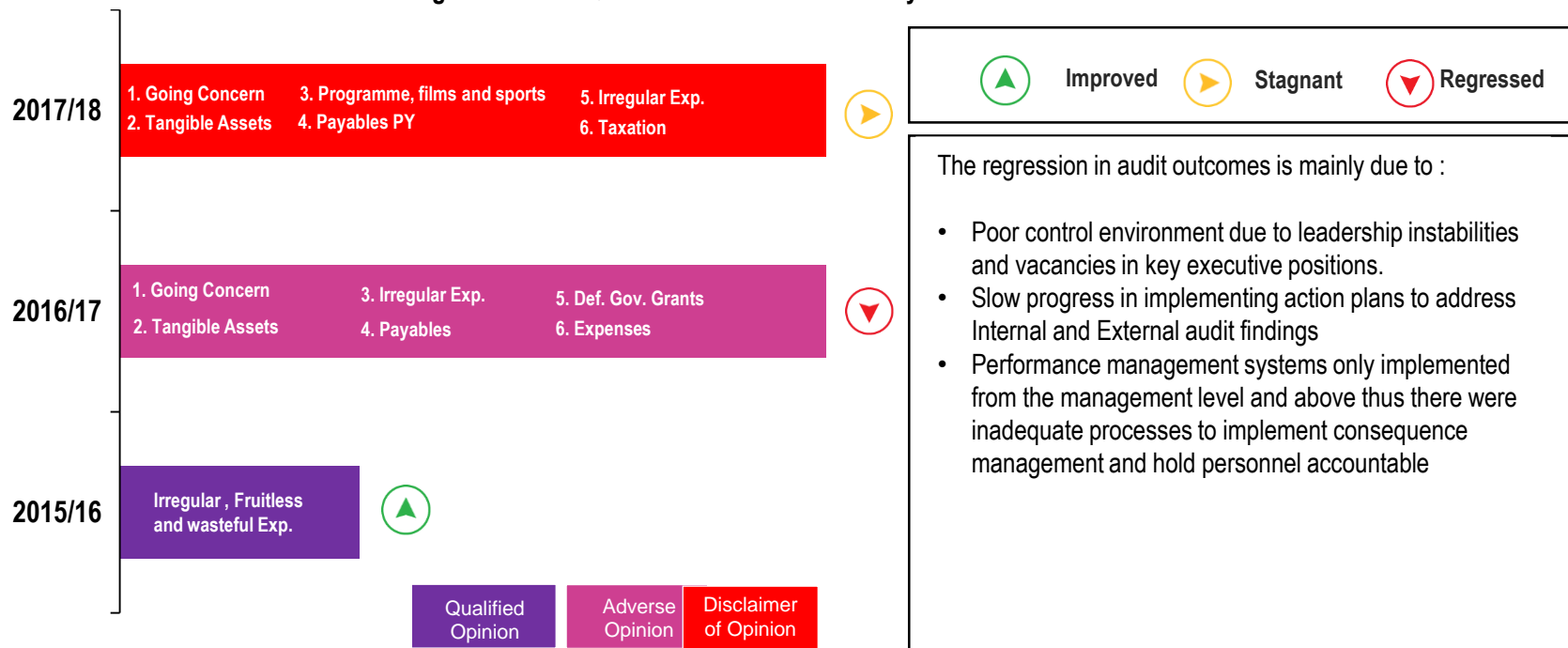
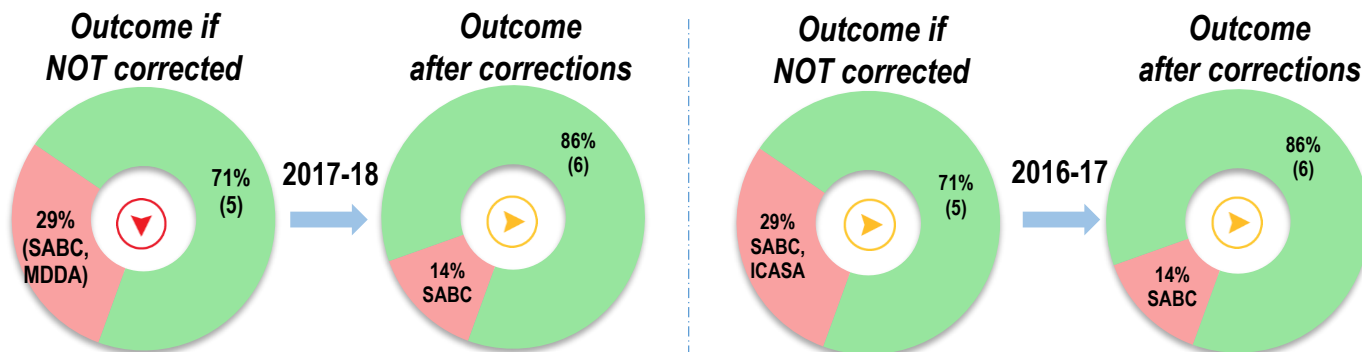
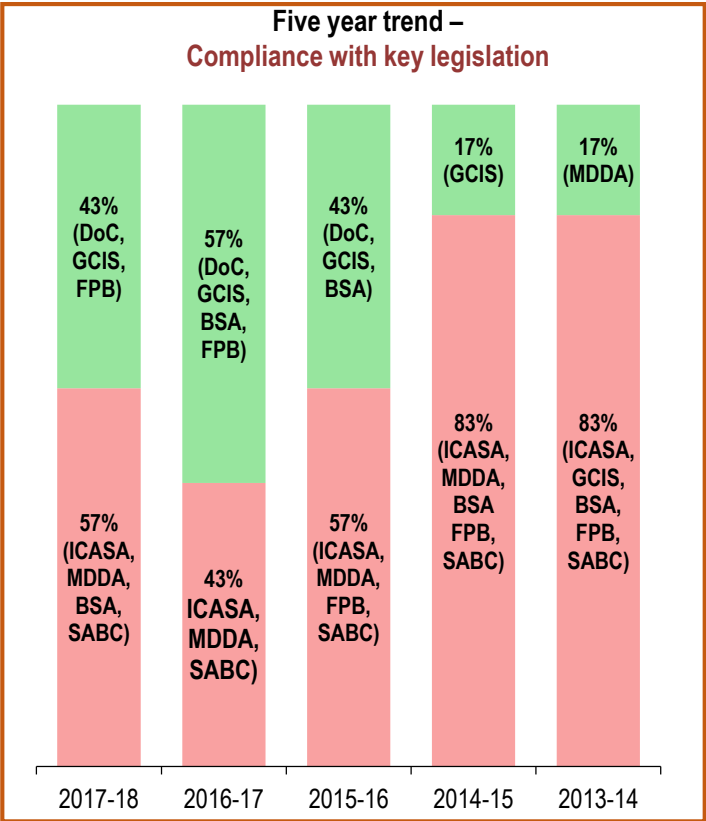


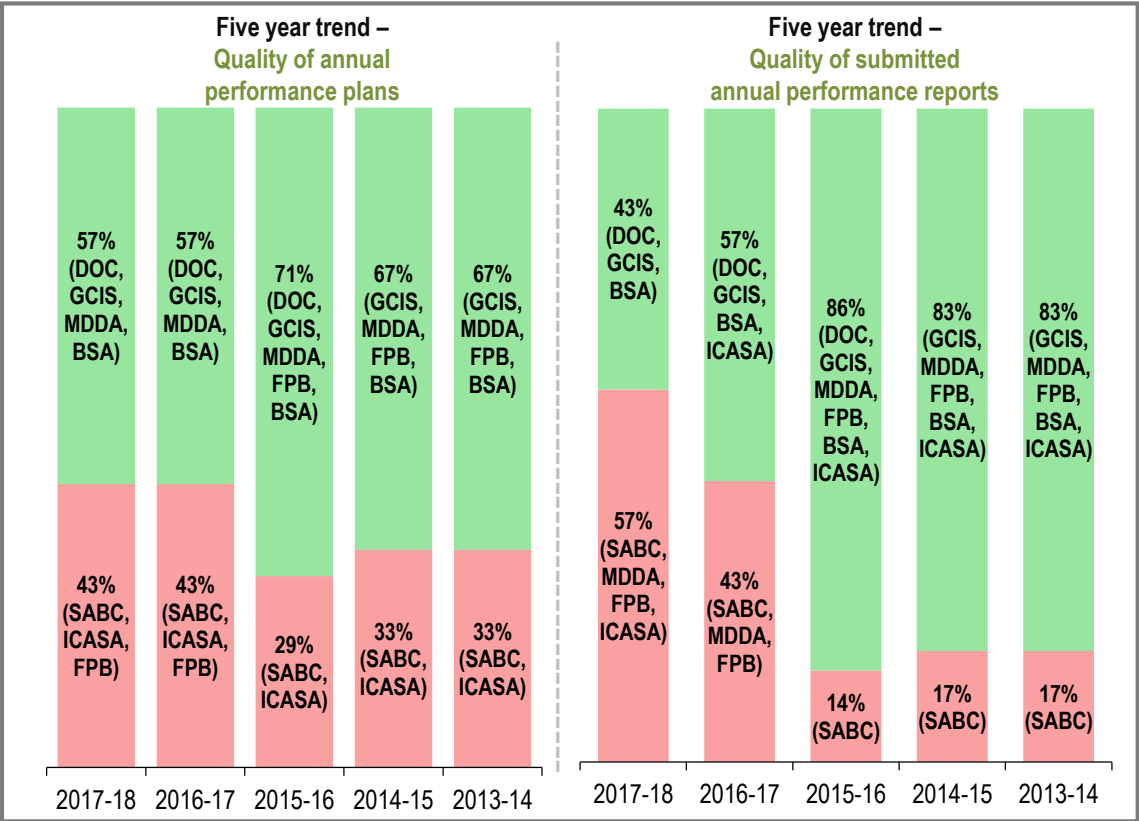
Figure 3: Auditees who avoided qualifications due to the correction of material misstatements during the audit



# Regression in audit outcomes in the current year



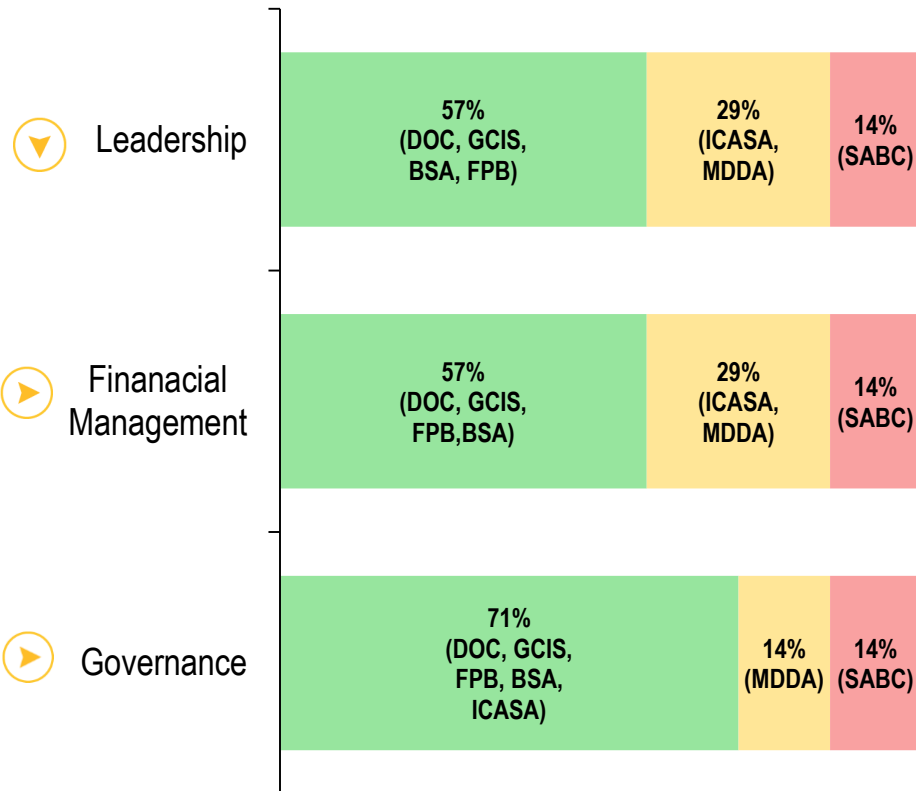
- Financial statement preparation remains a concern at MDDA and SABC as material adjustments were effected to the AFS submitted for audit.
- A poor control environment and vacancies at the senior management level resulted in poor oversight and monitoring of compliance at the SABC, ICASA, BSA and MDDA. These resulted in material non-compliance in procurement and contract management, expenditure management and consequence management.



- There is an overall stagnation in audit outcomes relating to predetermined objectives.
- The quality of annual performance plans for SABC, ICASA and FPB was impacted by indicators and targets not being well-defined criteria.
- The quality of annual performance reports submitted for auditing resulted from inadequate systems design to properly support the reported performance information and in some instances resulted from indicators and targets not meeting the SMART criteria.
- We commend DOC, GCIS, and BSA for having maintained no findings on their annual performance plans and annual performance reports submitted for auditing over the last 5 years.

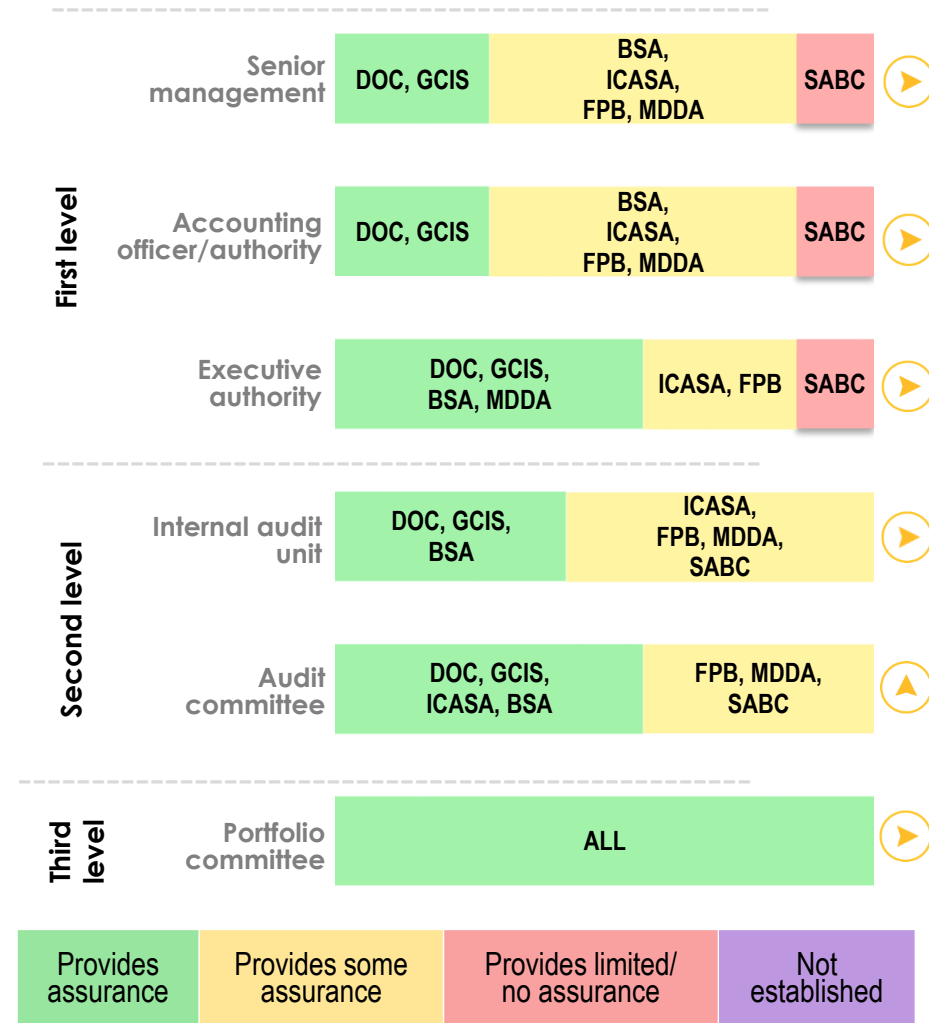


# Status of internal control



Good Of concern Intervention required

# Assurance provided



Provides assurance Provides some assurance Provides limited/no assurance Not established



# AGSA Status of records review: SABC

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

**Status of records review**



Pro-active follow up procedures



Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



**Feedback linked to Audit Outcomes**  
**Key matters for attention:**

Oversight and monitoring – Shareholders compact not signed and slow progress in implementing audit action plan

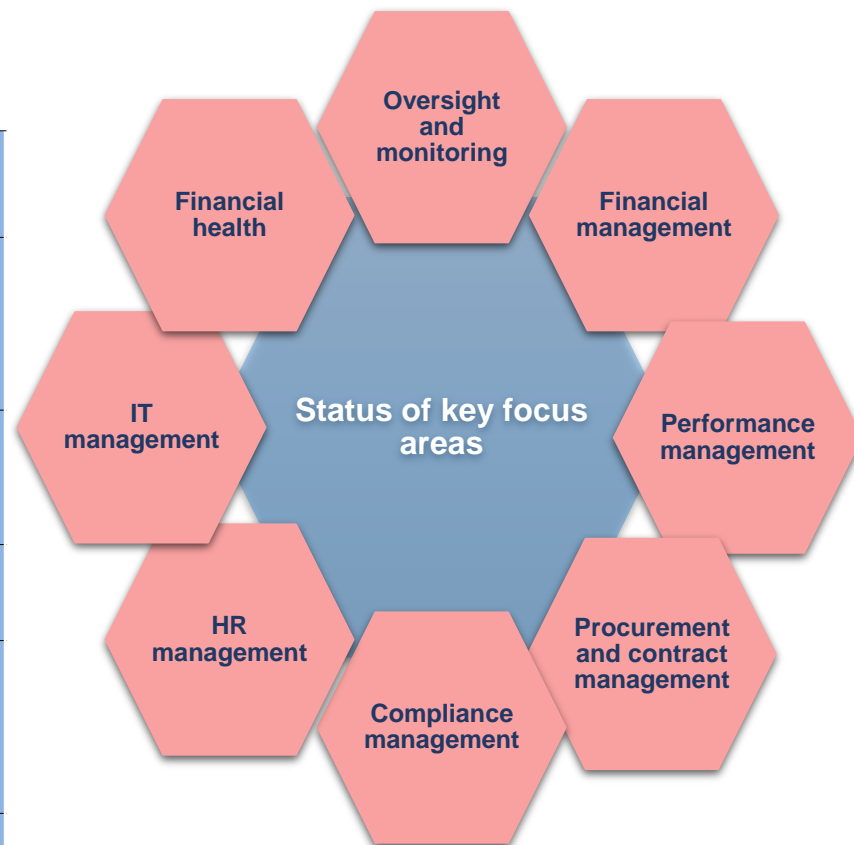
Financial health – Significant increase in accounts payables; cash balance below the required level, expenditure exceeded revenue; inadequate cash flow forecasts prepared together with indications of future cash flow difficulties.

Procurement and contract management; Compliance Management - Instances of non compliance identified resulting in a qualification on irregular expenditure.

IT Management - IT governance framework and IT strategic plan was not approved

HR Management; Performance Management - CEO and CFO appointed late in the financial year  
Performance management not fully implemented during the year under review

Financial Management - Slow progress in addressing prior year qualification areas and implementing audit action plan



■ Good 
 ■ Of concern 
 ■ Intervention required

**3**

## **Management and delivery of key programmes**



# Key projects selected as part of statutory audit

The Department of Communications' key project selected for audit was the BDM (Broadcasting Digital Migration) project which started in 2002. The migration deadline is estimated for June 2019.

*Achievement of planned targets – projects*



Targets achieved

Targets not achieved/  
not evaluated

- The planned target for 2017/18 related to analogue signal switch off in 88 borderline towns within seven provinces was not achieved.
- Value add procedures were performed on the Broadcasting Digital Migration project for the current financial year and the following weaknesses were identified relating to the project;
  - Lack of appropriate coordination and effective planning between all relevant stakeholders (Department, SAPO and USSASA) in the value chain of the project to achieve the national goal of switch off by the set date.
  - The Department has indicated that it does not have adequate human resource capacity for monitoring the BDM project within the Department of Communications.
  - Expenditure management is a concern as funds could not be fully utilised (R13 million (32%) for 2016/17 and R 5 million (26%) unspent for 2017/18) even though the department indicated that more funds are required to achieve the overall deadline for the project.
  - Lack of adequate public awareness initiatives to get qualifying households registered. As at 31 March 2018 only 686 150 households have successfully registered and qualified to receive set top boxes representing 14% completion of target initially set.

ACCOUNTABILITY = PLAN + DO + CHECK + ACT

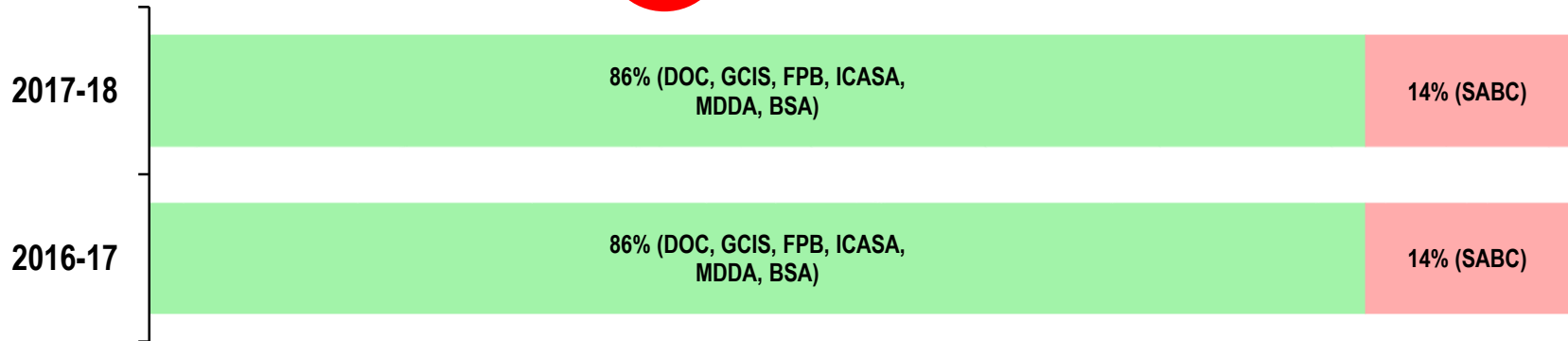


4

## Financial health and financial management

# Financial Health




Material uncertainty exists whether **1** auditee can continue to operate in future



## Key concerns identified

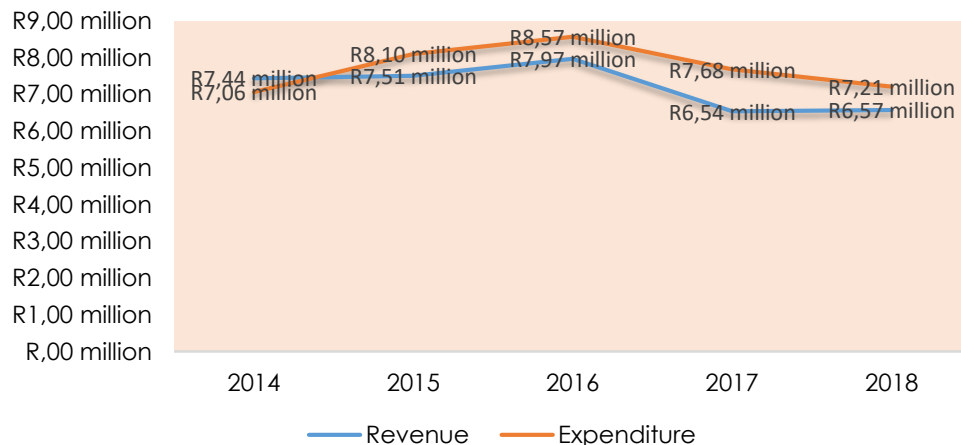
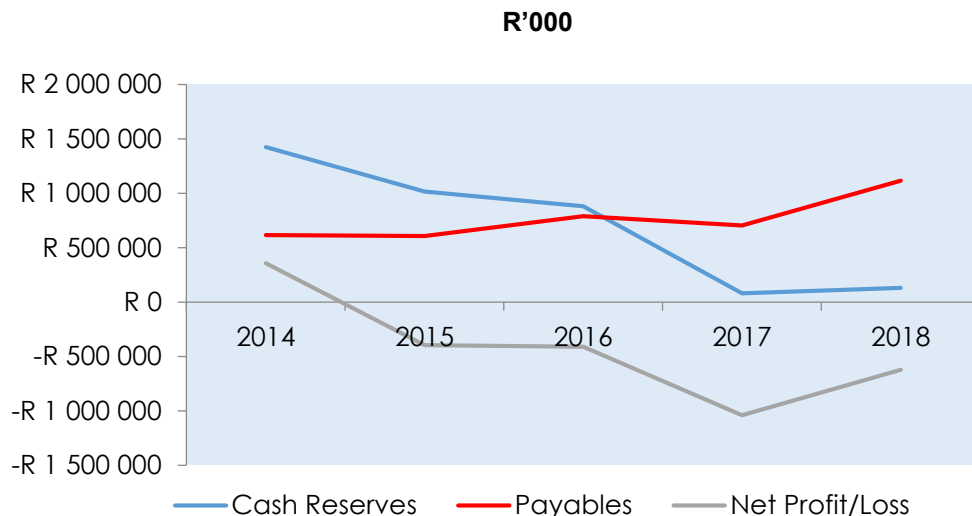
SABC:

- As at 31 March 2018, the entity was commercially insolvent because it was not able to settle its liabilities as and when they were due, even though its assets exceeded its liability.
- The entity did not have an adequate model to properly forecast cash flows, as forecasted cash balances did not properly consider all relevant information and was therefore incomplete.
- Management have forecasted a significant increase in creditors over the next financial year – significant concern.
- The initiatives in the roadmap prepared in July 2018 were still at an infancy stage. These were not adequately factored into forecasted cash flows.

-  Two or less unfavourable indicators
-  More than two unfavourable indicators
-  Significant doubt that operations can continue in future and/or auditee received a disclaimed or adverse opinion, which meant that the financial statements were not reliable enough for analyses

# Financial health

**Figure 1: Going concern considerations**



The figures above should be read in conjunction with the qualification areas reported on PPE, PFSR, Trade and Other payables (PY), and Taxation. As a result of the qualification areas the Expenditure and the Net Loss reported is materially misstated

## Qualification matter related to going concern/financial sustainability included in the audit report:

- The SABC incurred a net loss of R621 million (2016-17: R1 billion). The decrease in the loss is mainly due to a reduction in expenses rather than an increase in revenue. Revenue increased by 1% (R42 million) whereas expenses decreased by 6% (R466 million). Predominantly the decrease was in amortisation of Programme, Film and Sports Rights (R236 million), Employee cost (R89 million) and Marketing expenses (R88 million).
- Cash reserves slightly increased by R49 million from a cash balance in PY of R82 million to R131 million in CY.
- However, payables have significantly increased compared to cash reserves with an increase of R411 million from a balance of R706 million in PY to R1 117 million in CY.
- Net assets reduced from R2bn as at 31 Mar 2017 to R881 million as at 31 Mar 2018 - down by 56%.

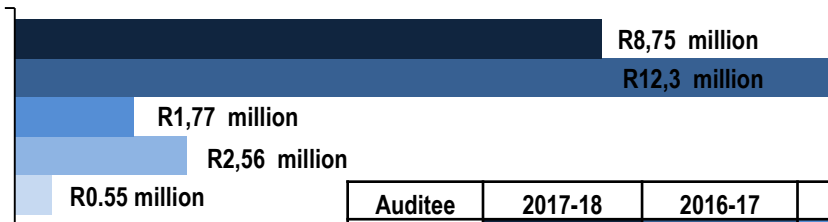
# Unauthorised, irregular as well as fruitless and wasteful expenditure over 5 years – excl. SABC

UIFW amounts incurred by entities in portfolio

Nature of U.I.F.W expenditure R'million

*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken. No value for money!*

**Fruitless and wasteful expenditure  
(Current year)**

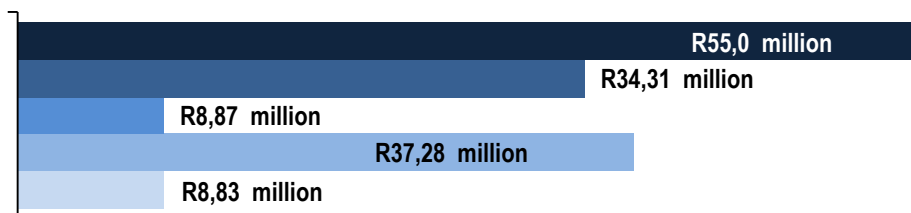


Nature (CY - Top 3)	GCIS	FPB	ICASA
Settlements	R4 million	R2.9 million	R0.57 million
Late cancellations/No shows			R0.17 million
Worker strike payouts			R0.89 million

Auditee	2017-18	2016-17	2015-16	2014-15	2013-14
GCIS	R4.0 million	-	-	R0.01 million	-
ICASA	R1.62 million	R12.27 million	R0.37 million	R2.34 million	R0.42 million
FPB	R2.94 million	R0.03 million	R0.08 million	R0.02 million	R0.06 million
MDDA	R0.08 million	-	R1.16 million	R0.02 million	-
BSA	R0.09 million	-	R0.15 million	R0.17 million	R0.07 million
DOC	R0.02 million	-	R0.01 million	-	-
<b>Total</b>	<b>R8.75 million</b>	<b>R12.3 million</b>	<b>R1.77 million</b>	<b>R2.56 million</b>	<b>R0.55 million</b>

*Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed*

**Irregular expenditure  
(Current year)**



Nature (CY - Top 3)	ICASA	FPB	BSA	MDDA
SCM not followed	R32.2 million		R1.5 million	R1.4 million
Contract related	R 5 million	R1.2 million	R9.2 million	R1.8 million

Auditee	2017-18	2016-17	2015-16	2014-15	2013-14
GCIS		R0.12 million		R0.51 million	R0.34 million
ICASA	R39.9 million	R27.49 million	R2.51 million	R30.22 million	R7.02 million
FPB	R1.2 million		R0.46 million	R6.47 million	R1.08 million
BSA	R10.7 million			R0.08 million	R0.39 million
MDDA	R3.2 million	R6.7 million	R5.9 million		
<b>Total</b>	<b>R55 million</b>	<b>R34.31 million</b>	<b>R8.87 million</b>	<b>R37.28 million</b>	<b>R8.83 million</b>



2017-18

2016-17

2015-16

2014-15

2013-14

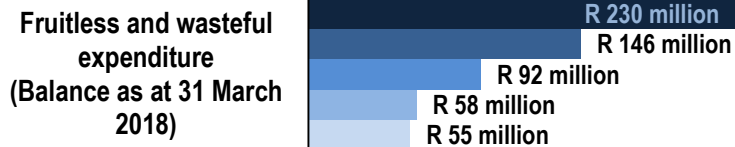
23

**PFMA**  
2017-18

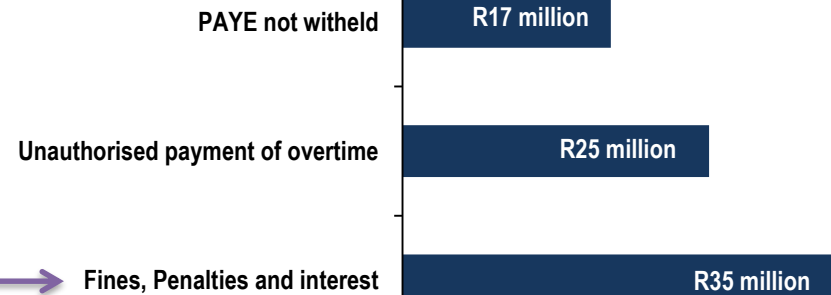


# Unauthorised, irregular as well as fruitless and wasteful expenditure increase over 5 years - SABC

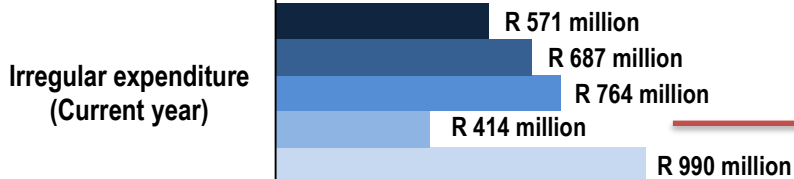
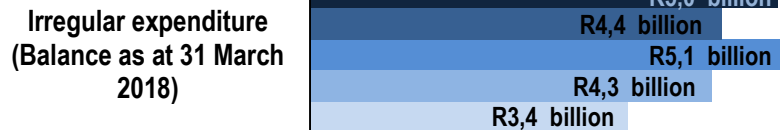
Fruitless and Wasteful expenditure (FWE) balances for the 3 year period



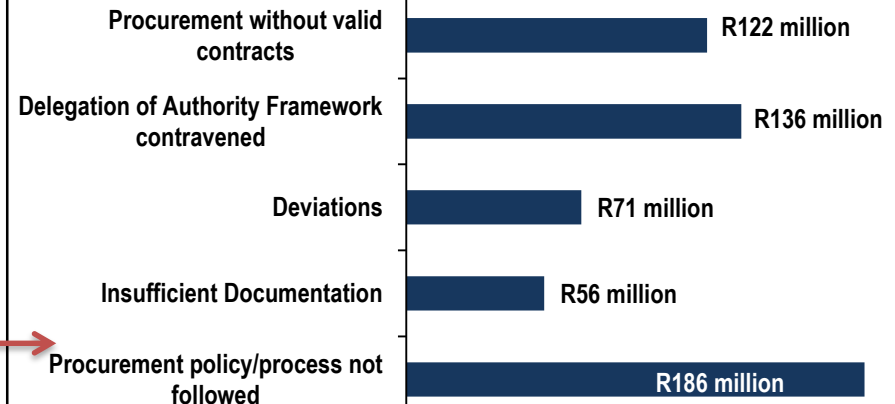
Analysis of nature of FWE incurred in current year (Top 3)



Irregular Expenditure balances for the 3 year period



Analysis of nature of IE incurred in current year (Top 5)



SABC:

- The decrease in the Irregular expenditure should not be read as an improvement as we had material findings resulting in a qualification, on the completeness of Irregular expenditure.



2017-18

2016-17

2015-16

2014-15

2013-14

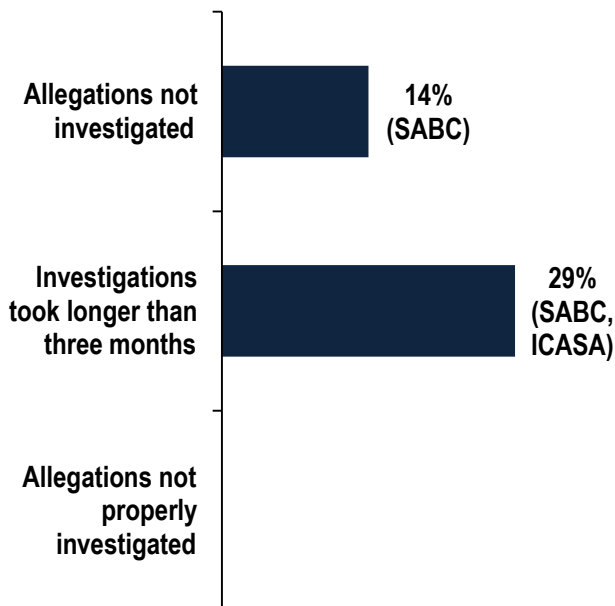
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PFMA  
2017-18

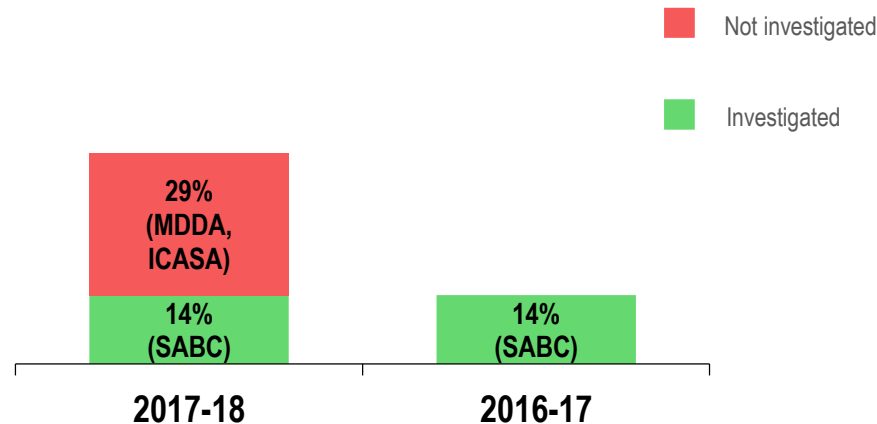
# Fraud and consequence management

- Only MDDA had findings on non-compliance with legislation on consequence management

## Allegations of financial and/or fraud and SCM misconduct (7 auditees)



## Previous year unauthorised, irregular and fruitless and wasteful expenditure reported for investigation



- MDDA had allegations reported of fraud, however management investigated these allegations and followed the disciplinary processes required.
- ICASA also had allegation of SCM misconduct reported, however as at year end these investigation/hearings were still on-going. The investigation started in September 2017.
- SABC had on-going investigations which were undertaken by the SIU. The SIU has not yet issued final report on the outcome of the investigations. In addition, there are some investigations currently underway within the Internal Forensic Unit, however not all of them were investigated at YE.

5

## Root causes and recommendations

# Top 3 root causes, commitments and proposed recommendations

## Root Causes

■ 2016-17 ■ 2017-18

### Slow response by management (Accounting officer and senior management)

57% (SABC, ICASA, MDDA)  
67% (SABC, ICASA, FPB, BSA)

### Instability or vacancies in key positions

29% (SABC, MDDA)  
29% (SABC, MDDA)

### Inadequate consequences

14% (SABC)  
14% (SABC)

- Action plans were not effectively implemented at SABC, ICASA and MDDA to address audit findings raised in prior financial years.
- The CEO and CFO positions at SABC and the AO position at the MDDA were vacant for the year under review. These critical vacancies resulted in instability which contributed to the audit outcomes. The CEO and CFO positions at SABC were filled subsequent to year end.
- The SABC did not adequately investigate the reasons for poor audit outcomes and did not effectively implement consequence management related to this.

## Status of key commitments: SABC

### Completed

- Permanent Board appointed
- Filling of vacancies at senior management level (CEO, CFO, COO). CEO and CFO positions filled after year end.

### In progress

- Strengthen record keeping management of accounting and performance information
- Follow up on the filling critical vacancies
- Re-assessment of Senior Managers' performance agreements to ensure clearly defined roles and responsibilities
- Improve monitoring oversight by the department

### Not adequately implemented

- Frequent assessment of the implementation of the action plans to address internal and external audit findings
- Improve IT Governance and Framework to ensure business continuity
- Consequence management: initiates disciplinary steps against officials who incurred and/or permitted irregular expenditure, fruitless and wasteful expenditure
- Implement responses to assessed risk and ensure checks and balances are in place

## Recommendations

1. PC must request management to provide feedback on the implementation and progress of the **action plans** to address poor audit outcomes during quarterly reporting.
2. PC must request quarterly feedback on the progress of **filling key vacancies** at SABC and MDDA.
3. PC must request feedback on controls to address **irregular expenditure** and implementation of preventative controls, including actions against transgressors.
4. PC must request feedback on actions implemented to improve the **financial health**, budget management and control and turnaround plans/interventions.



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ACCOUNTABILITY



#AGSA

#AntiCorruption



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Service Delivery

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