



BRIEFING NOTE TO SCOPA

PFMA
2021-22

South African Broadcasting
Corporation (SOC) Limited (The SABC)

2 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

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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 outcome and other findings in respect of the South African Broadcasting Corporation (SABC) Limited (The SABC). The outcomes contain the audit opinion on the annual financial statements, the status of compliance with legislation and reporting of performance against predetermined objectives of the SABC, for the 2021-22 financial year-end.

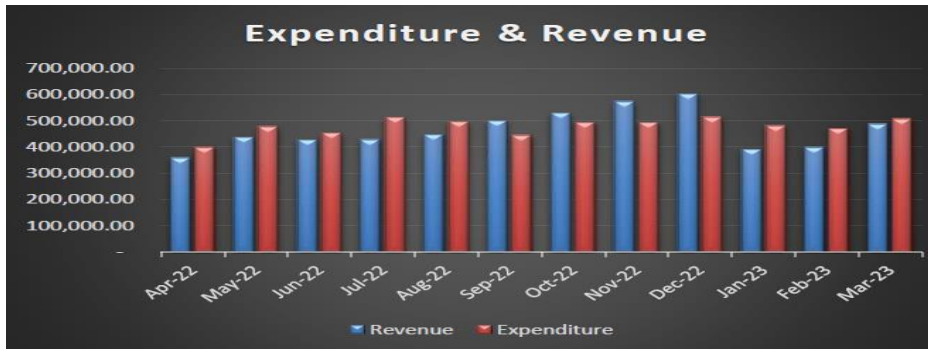
1.3. Overview (Executive summary)

We have included an executive summary of all key messages of the outcome components outlined for the SABC, with the detailed information contained in the relevant sections that follow in this document.

- i. The audit opinion on the financial statements remained stagnant with a qualification on the opening balances of the completeness of irregular expenditure.
- ii. The main root cause for the outcome is attributable to the incomplete process to identify all irregular expenditure pertaining to the prior years. As at 31 March 2022, 96% of the vendor spend from 01 April 2018 to 31 March 2022 had been reviewed with vendor spend of R277 million relating to the same period remaining for assessment. For the years prior to 2018 and going back as far as 2012, the process was still in progress. Management indicated that they anticipate this process to be concluded by November 2022. The audit will then assess the complete process that was undertaken by management to address the completeness of irregular expenditure early during the interim phase of the next audit cycle.
- iii. We also focussed on the sustainability of the institution, with specific emphasis on the turnaround plan. The turnaround plan approved by the board on 12 September 2019, contained the following key objectives:
 - a. To actively pursue SABC financial sustainability; and
 - b. To re-establish effective process to support SABC core operations.
- iv. The plan consists of 6 pillars:

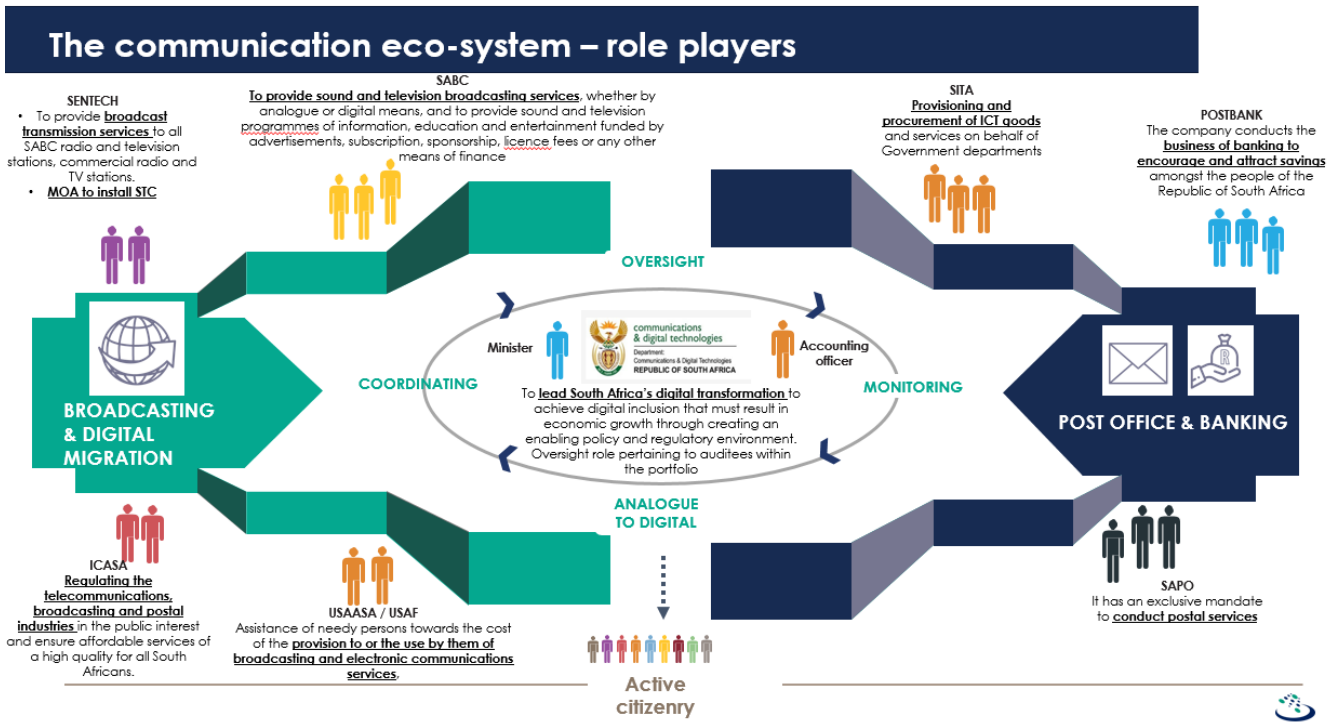
 Financial sustainability	 Content and Platforms	 Digital	 Human Resources	 Governance	 Partnerships
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- v. Our overall audit observation on the turnaround strategy is that the input achievements have been sufficient. However, the risk remains that the impact (output) after a period of 30 out of 36 months of these inputs, have not yet yielded the anticipated tangible results in improving the financial sustainability of the SABC. This could be attributed to various reasons. We have urged management to understand the drivers/ root causes, whether internal or external, and to re-direct the efforts on initiatives to drive output and impact.
- vi. SABC's ability to continuously and effectively pursue its mandate is largely dependent on its urban relevance, which could be effected by the effective distribution of set top boxes, the digitization of content and content acquisition tailored for a wider demographic audience.
- vii. We emphasized in the audit report the material uncertainty relating to the going concern of the entity. The graph below shows management's revenue projections compared to the expected expenditures

for the next operating cycle, which indicates that Revenue will be less than the expenditure incurred, resulting in continued losses.



- viii. Material corrections to the financial statements resulted mainly from a lack of adequate review processes to ensure that amounts recorded in the financial statements are accurate, agree to the supporting schedules, that errors identified, are corrected timeously and that presentation and disclosure is in line with the relevant financial reporting framework. It is important that the SABC implements an appropriate audit action plan to address these going forward.
- ix. R91.4 million of irregular expenditure incurred in the current financial year was as a result of the contravention of SCM legislation. Additional irregular expenditure incurred in previous years amounting to R42,6 million, was also identified in the current year. 7% (1% in the prior year) of this irregular expenditure was identified during the audit process as it was not detected by the public entity's own monitoring processes. The root causes of the lack of effective prevention and detection is due to the fact that, management did not enforce compliance with SCM prescripts to ensure that the evaluation process of each tender is adequately reviewed prior to finalisation of the procurement process and that all the supporting documents submitted, are valid.
- x. Effective consequences management steps were not always taken against officials who had incurred irregular expenditure. The balance of irregular expenditure as at 31 March 2021 is R2.9 billion awaiting condonation after further investigations. As per the 25 April 2022, Audit and Risk Committee (ARC) meeting the following progress was provided by management - The total number of irregular transactions for the period 01 April 2018 to 31 March 2022 is 387 with the total value of R867 417 497. Of the 387 Irregular Expenditure transactions, consequence management has been executed on 34 cases which is about 10% completion rate and engagements with National Treasury are ongoing relating to cases to be condoned.
- xi. Two material findings were reported on the audit of the annual performance report. The main root cause why SABC was not in a position to report on these indicators was due to the management being unable to procure system required to report due to poor planning. The other matter was due to new measurements not being comparable (numbers vs percentages).
- xii. Overall, the entity achieved 22 targets out of 46 planned targets for 2021-22 in the annual performance report, which represents a 47% achievement rate. The main reason(s) for the non-achievement of targets were delays encountered in SCM processes which subsequently resulted in the revision of implementation timelines associated with a significant number of indicators within the Digital Strategic Objective, identified as the least achieved objective.
- xiii. In accordance with the PAA and the material irregularity regulations, we have a responsibility to report on material irregularities identified during an audit and on the status of material irregularities reported in the previous year.
- We identified one new material irregularity in the current year, which related to unoccupied office space paid for by SABC. The accounting authority is appropriately dealing with the matter, and we will follow up on the progress in the next audit cycle.
 - A material irregularity on the security contract was identified in prior year's where supply chain processes was not sufficiently followed. This matter is currently awaiting the court judgement and we will follow up on the progress in the next audit cycle.

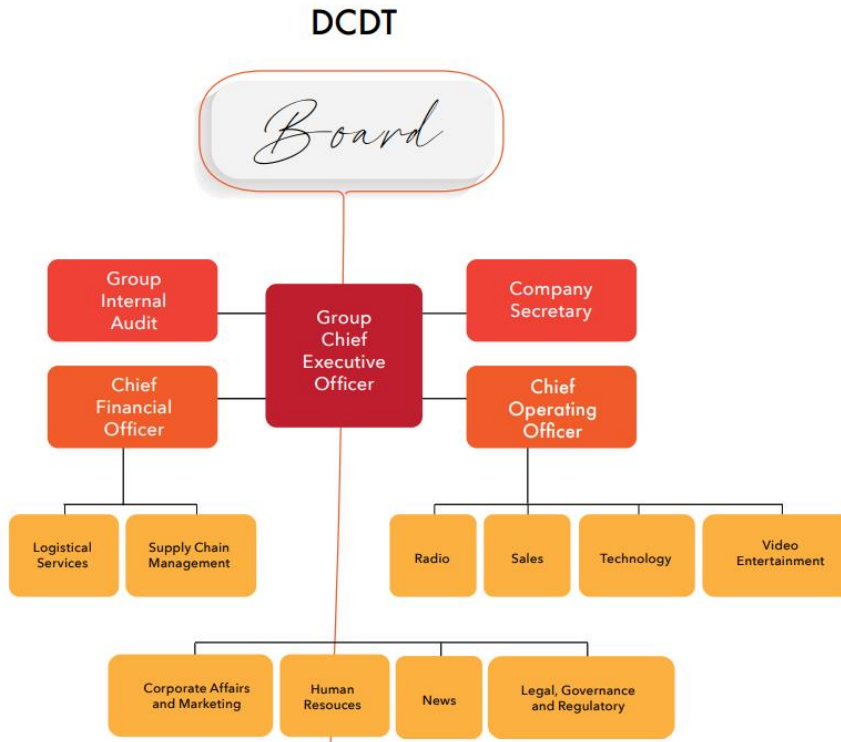
1.4. Structure of the oversight of the Communication Portfolio (including SABC)



1.5. Organisational structure and vacancy rate of SABC

Organisational structure of SABC

Below is the organisational Structure as at 31 March 2022 – extracted from the SABC's annual report:



Vacancy rate of SABC

xiv. The overall vacancy rate at the SABC was 17% as at 31 March 2022, of which 486 were permanent positions. The permanent positions mostly arose as a result of the new structure implemented on 1 April 2021. The positions were not filled with the Section 189 process because employees whose positions were terminated from the old structure either did not meet the minimum job criteria or did not want to accept a lower salary package. The filling of these positions would increase employee costs by approximately R180m. The graphs below depict the broad areas of the vacancies within the organisation as at 31 March 2022:



2. Audit opinion history for SABC

2.1 South African Broadcasting Cooperation

The audit outcomes for the SABC remained stagnant for the past 4 years with a qualification on the financial statements and findings on predetermined objectives and non-compliance findings. A comparison for the past five years is summarised below:

SOUTH A/FRICAN BROADCASTING CORPORATION (SABC)					
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	Qualification	Qualification	Qualification	Qualification	Disclaimer
Areas of qualification:					
• <i>Going concern</i>					X
• <i>Non-current assets</i>				X	X
• <i>Trade and other payables</i>					X
• <i>Irregular expenditure</i>	X ¹	X ¹	X ¹	X	X
• <i>Taxation</i>					X
Emphasis of matter:					
• <i>Material uncertainty relating to going concern</i>	X	X	X	X	
• <i>Restatement of corresponding figures</i>					X
• <i>Significant uncertainties and judgements</i>	X	X	X	X	X
• <i>Significant judgement :Defined benefit asset</i>	X	X			
• <i>Material impairment</i>	X	X	X	X	
B: Report on predetermined objectives					
• <i>Report on predetermined objectives</i>	X	X		X	X
C: Report on compliance with legislation					
• <i>Financial statements, performance report and annual report</i>	X	X	X	X	X
• <i>Procurement and contract management</i>			X	X	X
• <i>Expenditure management</i>	X	X	X	X	X
• <i>Strategic Planning</i>		X	X		X
• <i>Consequence management</i>	X	X	X	X	
• <i>Revenue management</i>				X	

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

X¹ relates to the opening balances only



3. Report on the audit of the financial statements

3.1 Qualification paragraph – Financial statements

The following qualification paragraph was included in the audit report of the SABC on their annual financial statements for the 2021-22 financial year-end.

Finding	Root cause	Recommendation
<p><u>Opening balance of irregular expenditure</u></p> <p>I was unable to obtain sufficient appropriate audit evidence that the irregular expenditure for the previous years had been completely accounted for, due to the public entity not implementing adequate procedures in the past to identify and record all instances of irregular expenditure. I was unable to confirm the completeness of irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure disclosure stated at R2 898 million (2021: R2 855 million) in note 38 to the consolidated and separate financial statements.</p>	<p>In prior periods, the tone from the top suggested that consequence management was not prioritised and as such, was not implemented. Consequence management was only implemented during the 2019/20 financial year.</p> <p>There was inadequate training of staff in the supply chain environment in prior years to ensure correct interpretation and application of relevant legislation.</p> <p>The head of supply chain post was vacant for more than 8 months of the current year under review. Though the position was filled during the year, the incumbent resigned after 4 months.</p> <p>Slow progress in investigating and quantifying prior year irregular expenditure and implementing consequence management. The longer this process takes, the higher the risk of non-completion due to unavailability of documents / staff etc.</p>	<p>The SABC implemented a project to review the population of procurement transactions from 1 April 2018 to 31 March 2022. In this period the vendor spend amounted to R14.4 billion of which R6,9 billion was under investigation. Through the investigation process further irregular expenditure relating to prior period amounting to R43 million was identified and disclosed accordingly. As at the reporting date the completion rate was 96%.</p> <p>SABC has been qualified on completeness of irregular expenditure since 2012-13.</p> <p>For work done on procurement transactions prior to 01 April 2018, no reports or registers were submitted for audit at the reporting date.</p> <p>Management did commit to concluding this process to confirm the completeness of irregular expenditure by November 2022 where we will assess the procedures performed and conduct an audit.</p> <p>Completing this process will also ensure that consequence management processes are duly followed with the irregular expenditure identified.</p>

3.2 Emphasis of matter paragraphs

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

Finding	Root causes	Recommendation
<p><u>Going concern</u></p> <p>I draw attention to note 39 to the consolidated and separate financial statements, which indicates that the public entity incurred a net loss of R201million (2021: R530 million) for the financial reporting period to 31 March 2022. As stated in note 39, these events or conditions, along with other matters as set forth in note 39, indicate that a material uncertainty exists that may cast significant doubt on the public's ability to continue as a going concern.</p>	<p>Declining revenues and a high-cost base, despite reductions in costs. SABC also operates in a competitive environment, and they are struggling to remain competitive through relevant content.</p> <p>Declining of audience share due to various reasons (graphs are included under section 3.8).</p>	<p>Effective implementation and driving output initiatives of the turn-around plan with specific focus on revenue generation initiatives and continuation of sustainable cost reduction measures.</p> <p>SABC's continued ability to effectively pursue its mandate is largely dependent on its urban relevance which could be affected by the effective distribution of set top boxes, the digitization of content and content acquisition tailored for a wider demographic audience.</p>
<p><u>Other emphasis of matters</u></p> <ul style="list-style-type: none"> • Significant judgement: Defined benefit asset • Significant judgement: TV licences • Significant uncertainties pertaining to lawsuits 	<p>These matters are emphasised for the benefit and information of the readers/ users of the financial statements due to the significant assumptions and judgements involved and do not indicate any control deficiencies.</p>	<p>Not applicable as it is only emphasised for the reader of the financial statements</p>

3.3 Report on the audit of compliance with legislation

Finding	Root cause	Recommendation
<p><u>Annual Financial Statement</u> The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA and section 29(1)(a) of the Companies Act. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were corrected, but the uncorrected material misstatement of irregular expenditure resulted in the financial statements receiving a qualified opinion.</p>	<p>A lack of adequate review processes to ensure that amounts recorded in the financial statements are accurate, agree to the supporting schedules, that errors identified, are corrected timeously and that presentation and disclosure is in line with the relevant financial reporting framework</p>	<p>It is important that the SABC implements and enhance an appropriate audit action plan to address these going forward.</p>
<p><u>Expenditure Management</u> Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA.</p> <p>Effective steps were not taken to prevent fruitless and wasteful expenditure as required by section 51(1)(b)(ii) of the PFMA.</p>	<p>Due to clearing the qualification, management continues to identify irregular expenditure from prior years to be included in the financial statements. Due to multi-year contracts, irregular expenditure for the duration of the contracts is also a contributing factor to the incurring of Irregular expenditure.</p> <p>Unoccupied office space from 2016 (contract ended in October 2021) and interest incurred due to late payments.</p>	<p>Management to continue with the process to conclude on the completeness of irregular expenditure.</p> <p>Management to ensure similar Fruitless and wasteful does not occur again</p>
<p><u>Consequence Management</u> I was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against some of the officials who had incurred irregular expenditure as required by section 51(1)(e)(iii) of the PFMA.</p>	<p>While majority of irregular expenditure relates to prior years, there are challenges in acquiring supporting documentation and information as well as personnel responsible for irregular expenditure are no longer working for the SABC</p>	<p>Management should ensure that all cases are fully investigated and were actions needs to be taken, it should be taken appropriately and timely.</p>

3.4 Audit of pre-determined objectives

In terms of predetermined objectives, we selected *Strategic goal 2 – Content and platforms*, for audit and identified two material findings:

Finding	Root cause	Recommendation
<p><u>Percentage of new programs broadcast within the year</u></p> <p>I was unable to obtain sufficient appropriate audit evidence for the achievement of the “not applicable” reported against the target of 20% in the annual performance report due to the unavailability of the program scheduling system. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required for the reported achievement.</p> <p><u>Share of diary quarter-hours listened percentage</u></p> <p>I was unable to obtain sufficient appropriate audit evidence for the achievement of the “not applicable” reported against the target of planned targets of Public Broadcasting Services (PBS):67% and Public Commercial Services (PCS):8% in the annual performance report due to a new measurement not being comparable to the previous measurement. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required for the reported achievement</p>	<p>The non-availability of the system and new measurements not being comparable resulted in SABC not being able to report on these two indicators. This was identified by SABC after the annual performance report was approved.</p>	<p>Management to ensure that all strategic objectives supporting systems and measurements are comparable to ensure reporting on it.</p>

3.5 Irregular expenditure

SABC remained qualified in the current and prior financial years due to the incomplete disclosure of irregular expenditure (IE) incurred opening balance, which has been the case from 2012-13.

The SABC implemented a project to review the population of procurement transactions from 1 April 2018 to 31 March 2022. No reports or registers were submitted for audit at the reporting date to support work done on the procurement transactions which occurred prior 01 April 2018. In this period 2018 to 2022, the vendor spend amounted to R14.4 billion of which R6,9 billion was under investigation. Through these investigations, additional IE relating to prior period amounting to R43 million was also identified and disclosed accordingly. As at the reporting date the completion rate was 96%. Management committed to conclude the process to confirm the completeness of irregular expenditure by November 2022 where it will be assessed for audit purposes.

This has resulted in the qualification on the opening balance of irregular expenditure as well as a non-compliance finding on consequence management.

Management also indicated that the overall total number of irregular transactions for the period 01 April 2018 to 31 March 2022, to be 387 with a total value of R867 417 497. Of the 387 irregular expenditure transactions, consequence management has been performed on 34 cases only constituting an approximate completion rate of 10% as at the reporting period. The audit report accordingly reflects the lack of speedy consequence management.

Please also refer to note 38.3 in the financial statements for potential irregular expenditure of R1,5 billion, relating to vendor spending, identified as a result of the project review. This will significantly increase the overall total balance of irregular expenditure taking into consideration the full contract/purchase order values. **This irregular expenditure was confirmed by accounting authority within 3 months as allowed for by the National Treasury Irregular expenditure framework and has therefore not been recorded in the irregular expenditure register as at year end. This raised with management.**

Vendor Spend	Alleged Irregular Expenditure				
	2019	2020	2021	2022	TOTAL
SCM Contracts	136 211 141	R87 125 815	R68 991 122	R76 894 321	R369 222 400
Request for Quotations (SAP and manual)	R73 019 642	R85 475 023	R44 408 153	R84 544 281	R287 447 098
Content Contracts	R254 534 553	R235 016 455	R167 480 773	R273 287 402	R930 319 183
PO not linked to Contracts or RFQs	R5 816 246	R3 166 880	R1 590 566	-R10 832 486	-R258 794
TOTAL	R469 581 583	R410 784 173	R282 470 614	R423 893 518	R1 586 729 888

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

	Irregular expenditure			Root cause	Consequence management and status of investigations conducted
	Mvmnt	Amount 2021/22	Amount 2020/21		
Irregular expenditure	↑	R134m	R111m	<p>Management is in the process of ensuring irregular expenditure is complete resulting in identifying irregular expenditure. Of the R134 million, R43 million related to IE pertaining to prior years</p> <p>The R91 million consists of multi-year contracts where irregular expenditure has been identified in the past as well as new identified irregular expenditure.</p>	<p>Not all instances of irregular expenditure incurred in prior years were investigated to determine if there is any official who has caused or permitted irregular expenditure. As a result, SABC has not implemented full and effective consequence management.</p>

The movement is assessed as follows:

↑	Increase
↓	Decrease
→	Unchanged

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

Description	2021/22	2020/21
Incorrect evaluation criteria applied to bids	43 939 000	63 808 000
Tender above R30 million did not include subcontracting as a condition of a tender	13 212 000	12 713 000
Schedule All - Procurement processes not followed	7 155 000	2 727 000
Use of supplier without following procurement process	5 878 000	1 003 000
Procurement through quotation process versus competitive	1 185 000	5 158 000
	71 369 000	85 409 000

The audit team identified the following key internal control deficiencies during the audit:

- Management did not enforce compliance with SCM prescripts in some instances, to ensure that the evaluation process of each tender is adequately reviewed before finalisation of the procurement process.
- Management did not implement adequate measures to ensure that contract end-users submit supplier performance evaluations to the contract management unit, to enable sufficient contract monitoring and prevent non-compliance.
- Management also did not implement sufficient measures to promote and maintain an appropriate procurement and provision system which is fair, equitable, transparent, competitive and cost-effective. This was identified by internal auditors where findings such as acceptance of quotations prior RFQ creation and realise date (irregular expenditure of R101 925), permission to proceed with less than minimum number of quotations not obtained, Bidder appointed without meeting evaluation criteria resulting in irregular expenditure.
- Management further did not ensure that adequate and timely disciplinary steps were taken against some of the officials who had incurred and/or permitted irregular expenditure in prior years, as required by the legislation.

R2,9 billion relating to SABC irregular expenditure balance was awaiting condonation at reporting date subject to further investigation.

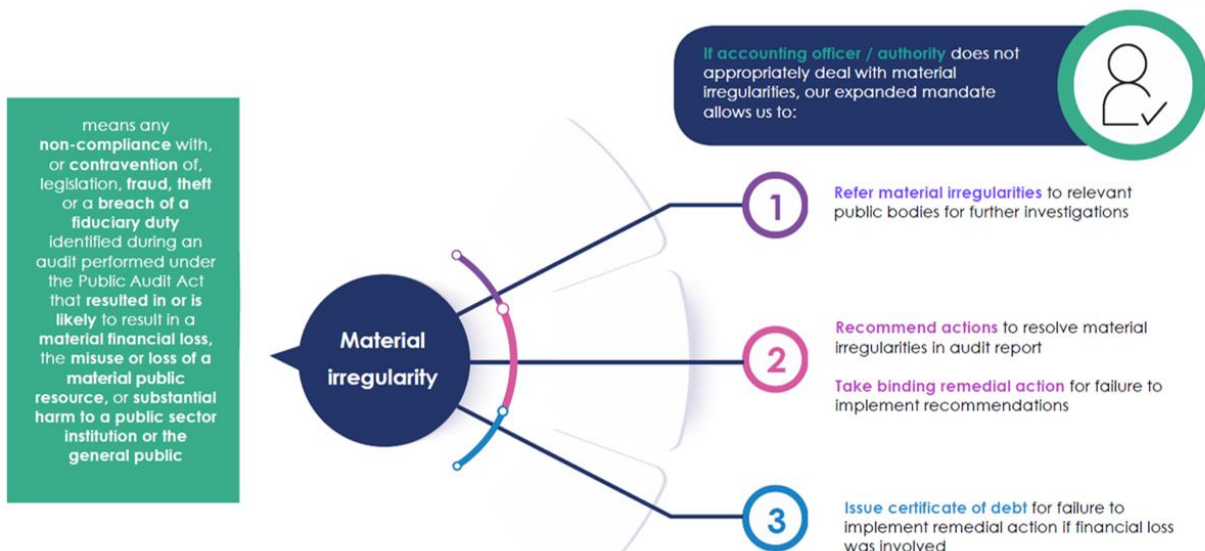


3.6 Fruitless and wasteful expenditure

SABC incurred fruitless and wasteful expenditure in the current year. The majority of the fruitless and wasteful expenditure emanates from interest on late payments of R3.3 million and also the rental of the unoccupied office space of R1,5 million on the contract that ended in October 2022 and impairment of content amounting to R5.5 million.

3.7 Material irregularity

Implementation of material irregularity (MI) process 26



The audit team identified the following material irregularity at SABC in the current year:

Rental expenditure paid for office space not occupied	
Nature of the material irregularity identified	Status of the material irregularity
<p>On 11 November 2016, the SABC entered into a five (5) year lease agreement for rental of office space, a portion of which was incomplete and not ready for occupation. The SABC however paid the full amount of rental including the unoccupied space. The lease agreement expired on 31 October 2021.</p> <p>The payments relating to the unoccupied space resulted in uneconomical utilisation of the entity’s resources, in contravention with section 57(b) of the PFMA. The total amount paid for the unoccupied space amounted to R12 million, from November 2016 to October 2021. The amount is disclosed as part of fruitless and wasteful expenditure in note 42, to the financial statements.</p>	<p>The accounting authority was notified of the material irregularity on 03 June 2022 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions are in progress to address the material irregularity:</p> <p>The lease agreement formed part of Proclamation R29 of 2017 and which was amended by Proclamation R19 of 2018 for investigation by SIU. On 18 March 2020, the SIU as the first applicant and SABC as the second applicant approached the Special Tribunal to have the lease agreement declared invalid and unlawful.</p> <p>The accounting authority intends to recover all monies paid, including interest at 10.25% tempora morae, from the respondent for the unoccupied space.</p> <p>The accounting authority is awaiting the outcome of the legal proceedings before taking any further action.</p> <p>We will follow-up on the implementation of the planned actions during my next audit</p>

The audit team identified the following material irregularity at SABC in prior years:

Security service provider: Bidder did not score the highest preference points:	
Nature of the material irregularity identified	Status of the material irregularity
<p>In August 2017, the public entity made an award of R185 million for the provision of security services to a bidder that did not score the highest preference points, in contravention of section 2(1)(f) of the Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA), without objective criteria to justify the decision.</p> <p>The non-compliance is likely to result in a material financial loss as the price of the security service procured from the successful bidder was higher than the price submitted by the bidder that scored the highest preference points. The likely loss results from the difference between these two bids incurred over the duration of the security contract awarded. As at 31 March 2022, R147 million has been paid on the contract. The public entity will not be able to recover the likely financial loss from the supplier as the supplier is delivering the service in line with the signed contract.</p> <p>In December 2017, one of the losing bidders instituted a court application for review of the award made by the public entity. In June 2019 the SIU concluded an investigation of this award as per Proclamation R29 of 2017 and amended by Proclamation R19 of 2018. The SIU joined the case initiated by the losing bidder with a motion to set aside the contract.</p>	<p>The accounting authority was notified of the material irregularity on 7 July 2020. The following actions have been taken or are in progress to address the material irregularity:</p> <p>In December 2020, the SIU as a co-applicant instituted a review application to seek an order setting aside the award of the tender and an order that the tender process be started afresh. When the SIU served and filed its founding affidavit, it inadvertently omitted to file its notice of motion and, as a result, in February 2021 the SIU filed a condonation application requesting that the court condone the late filing of its notice of motion. The security service provider has filed its answering affidavit on 8 May 2021.</p> <p>Approval was given by the accounting authority to support the application by the SIU and as such the SABC is not opposing the SIU's review application and served and filed its own answering affidavit on 22 June 2021.</p> <p>On 20 January 2022, the deputy judge president responded to the request for a special allocation of the matter and advised that the matter will be enrolled for hearing between 09 May 2022 and 11 May 2022. The matter was heard from 9 to 11 May 2022 where all the parties presented and argued their cases before the court. Judgement was reserved on this matter.</p> <p>We will follow up on the actions taken based on the court judgement during the next audit.</p>

3.8 Turnaround plan

The plan has the following key objectives:

- To actively pursue SABC *financial sustainability; and*
- To re-establish effective process to support SABC core operations.

It is underpinned by the following key pillars:

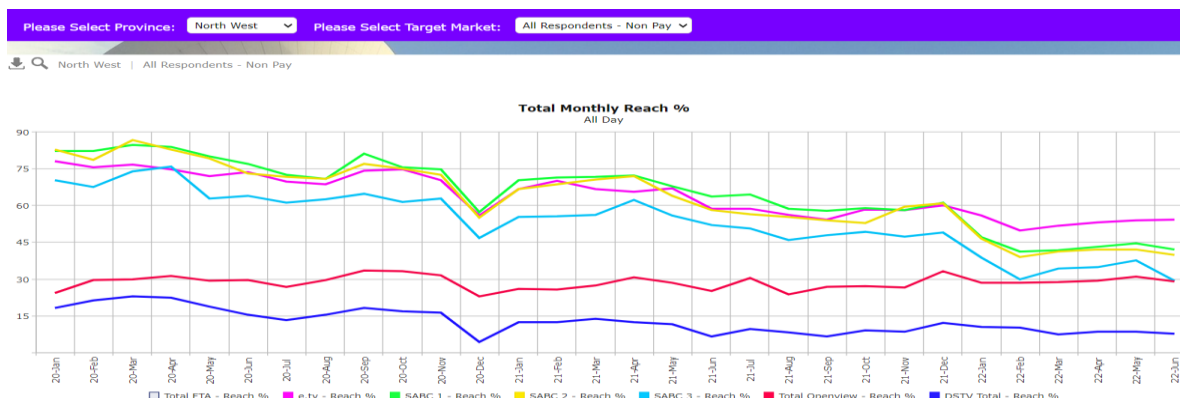


The financial bailout of R3.2bn which was underpinned by the turnaround strategy received in October 2019, improved the cash position of the entity at that stage. The financial bailout was earmarked for specific spending as follows (date of SABC bailout report – 31 March 2022):

ANNEXURE 1: BAIL-OUT UTILISATION SUMMARY AS AT 31 March 2022 (R3.2bn)						
Description	Balance as of 30 Sep 2019 (RM)	Cross reference Annex.	Split of Funding Received Oct '19 & March '20 (RM)	Funds Utilisation as at 31 March 2022 (RM)	Cross reference Annex.	Remaining Funds (RM)
TRADE & OTHER PAYABLES						
Trade Payables	- 975 290,9	2.1		974 401,8	3.1	
Accruals	- 296 485,0	2.3		274 512,9	3.2	
GRIR Clearing	- 25 173,6	2.2		25 164,6	3.3	
Royalties				69 935,1	3.6	
TOTAL	- 1 296 949,5		1 400 000,0	1 344 014,4		55 985,6
NEW EXPENDITURE CONTRACTED AFTER 30 SEP 2019						
TV Content	-		1 200 000,0	786 085,4	3.4	413 914,6
Long term Capex	-		600 000,0	152 742,0	3.5	447 258,0
GRAND TOTAL			3 200 000,0	2 282 841,9		917 158,1

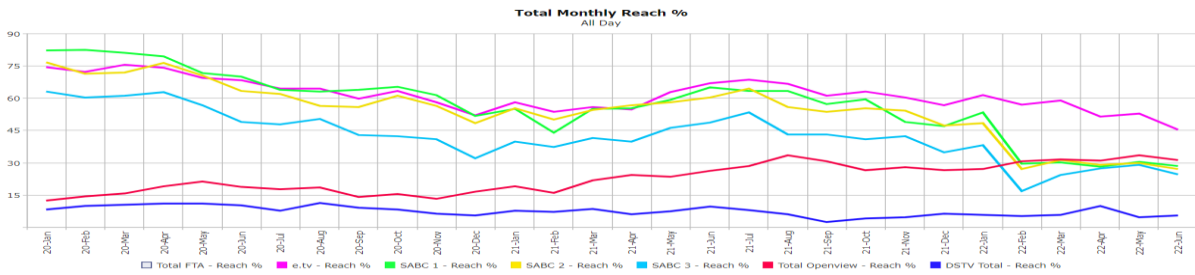
We evaluated and reconciled the above report and the following audit observations were noted and brought to leadership during our status of records review process during May 2022:

- Management plans to spend the remaining balance of R469 million in 2022/23, as the turnaround plan focused on activities for up to 36 months. These amounts are included in the current budget.
- The remaining balance of R414 million for the acquisition of content is allocated and part of the budget for 2022/23. The aim is to increase local content and management is in the process of obtaining National Treasury approval for deviation to procure it. This will be followed up during the next audit (22/23 audit). The spending on content so far has not increased the viewership numbers as was expected.
- The Internal audit report on acquisition of television content, indicated that SABC is recommissioning programs without significant audience ratings and poses a risk of minimal return on investment.



Please Select Province: **Mpumalanga** Please Select Target Market: **All Respondents - Non Pay**

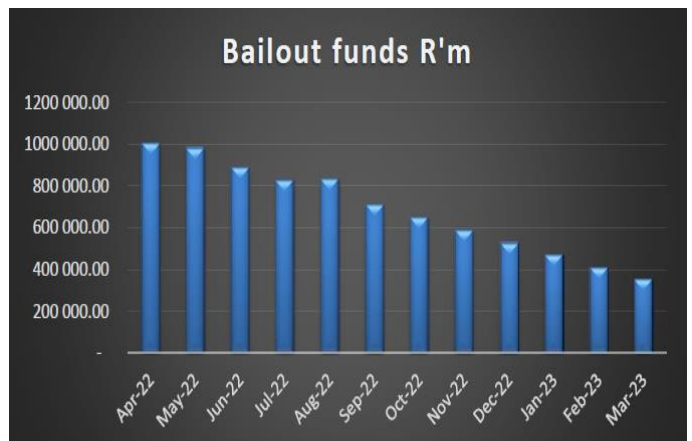
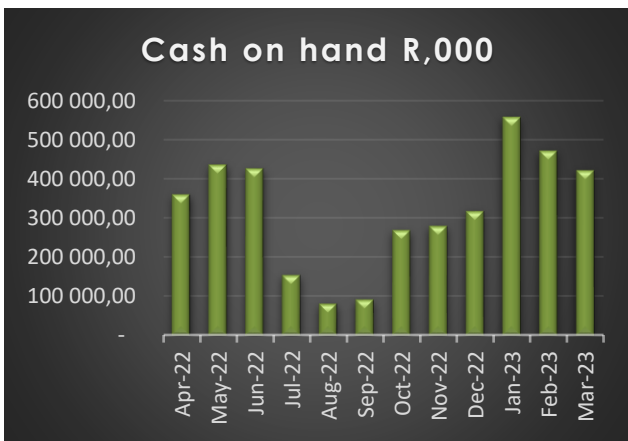
Mpumalanga | All Respondents - Non Pay



- The Capital Expenditure was not used as a significant amount of R447 millions still remained on 31 March 2022.

As part of the turnaround strategy, the SABC is pursuing eight amendments to the Broadcasting Act and four to the Electronic Communications Act. The corporation wants the NT to clarify content procurement in terms of the PPPFA. Additionally, the SABC has five regulatory submissions before ICASA.

Management’s cash reserves are forecasted to decrease from R1.1bn to R775m as at 31 March 2023 graphs below depicts the movement of cash on hand (own cash: R421m) and (bailout funds: R353m) (April to June – actual figures)



Fiscal Turnaround Strategy Commenced & Bailout received

Upon receiving R3.2 billion in bailout funds in two tranches on 7 October 2019 and 27 March 2020, financial position as cited in the audited annual financial statements for the **19/20 fiscal**, the operating losses of R511 million and negative cash flows from operations of R1.2 billion occurred. However, the going concern assumption was supported by a healthy capital position and total cash on hand as at reporting date was R2.1 billion, with R1.7 billion from the yet to be used recapitalisation funding and R400 million from operating cash reserves.

The audited annual financial statements for the **20/21 fiscal** showed a net loss of R530 million, attributable mostly to employee and signal distributions costs. The going concern assumption was supported indicating ongoing engagements with signal distributor (SENTECH) to manage signal distribution costs, and management’s revenue expectations from the revised commercial revenue generation strategies indicating growth. The SABC did not realise the budget figures planned (between 20% (2019-2020) and 39% (2020-2021) respectively) with an overall shortfall of R1 925 543 000 (26%) realised due to declining revenue.



Our overall audit observation on the turnaround strategy is that the input achievements have been sufficient. However, the risk exists that the impact (output) after a period of 30 out of 36 months did not yet yield the anticipated tangible results in improving the financial sustainability of the SABC. This could be attributed to various reasons. We urged management to understand the drivers and root causes, whether internal or external, and to re-direct the efforts on initiatives driving output and impact.

3.9 Analogue Switch off (ASO)

ASO was targeted by government for the end of March 2022 (postponed to 30 June 2022 and again postponed (currently no new date)). This is dependent on a critical mass of SABC’s audiences having digital broadcasting devices to be able to access SABC content after ASO.

The project to install Set top Boxes (STB) by Sentech and USAF/ USAASA is overseen by the DCDT.

Description	Achievement reported (STB installations)	Target	Audit outcome
SABC (switch off TV transmitters)	50.3%	100%	No material finding

SABC’s ability to continuously and effectively pursue its mandate is largely dependent on its urban relevance which could be affected by the effective distribution of set top boxes, the digitization of content and content acquisition tailored for a wider demographic audience.

- *Low rates of registrations and STB installations have plagued the project. The Courts have given all FTA broadcasters until the end of June 2022 to complete ASO.*
- *The SABC will continue to support DCDT’s efforts to encourage registrations.*

4. Status of internal controls

Drivers of internal control														
Entity	Leadership						Financial & performance management					Governance		
	Effective leadership culture	Oversight responsibility-monitoring	HR management	Policies and procedures	Action plans	IT governance	Proper record-keeping	Processing and reconciling controls	Reporting	Compliance	IT systems controls	Risk management	Audit committee	Internal audit
SABC	Green	Green	Green	Yellow	Yellow	Yellow	Red	Yellow	Yellow	Red	Yellow	Green	Green	Green

LEGENDS:

Preventative or detective controls are in place and are functioning effectively
Progress was made with the implementation of controls, but further improvement is required where actions taken are not sustainable
Internal controls are not effective, and intervention is required to design and implement appropriate controls



Leadership

Management addressed some of the issues reported previously pertaining to vetting of independent contractors and performance management systems. We did not identify any material findings in the current year relating to human resource management.

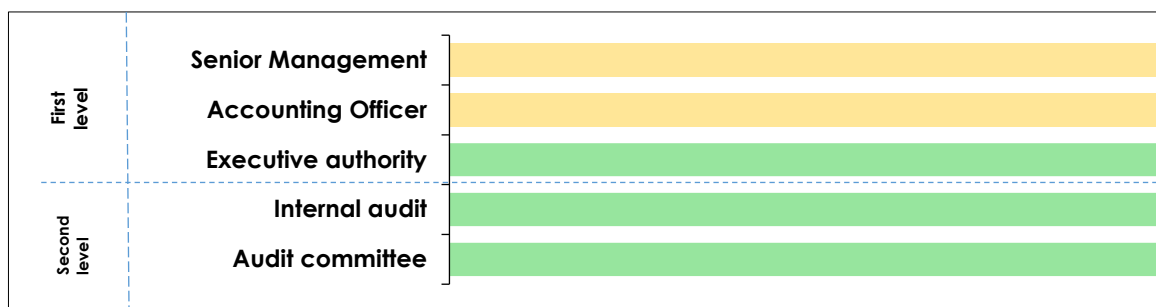
The SABC implemented a Section 189 restructuring as from 1 April 2021 and as at 31 March 2022, the SABC had 486 vacant permanent positions, with a 17% overall vacancy rate. The vacancy rate for senior management is 15% (2 vacancies (Chief Audit Executive and General Executive –News) out of 13 positions). The vacancy rate for finance is 11% (14 out of 126 positions).

The entity developed an action plan to address internal and external audit findings. Audit action plans were however not finalised to improve the audit outcomes on irregular expenditure and compliance with legislation.

Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information and non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management.

5. Assurance providers



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

6. Recommendation to SABC

We made the following key recommendation to management for implementation to address the significant matters reported:

- Conclude on the process of identifying possible irregular expenditure from the prior years;
- Ensure effective output initiatives concerning the turn-around plan and strict monitoring there off;
- Implement regular and adequate review controls over financial and performance reporting to ensure that valid and accurate reporting occurs; and
- Consequence management processed should be more focused, deliberate and assigned the necessary swiftness.

7. Key recommendations to the committee

We request and recommend that the committee consider 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:

- The committee should follow-up with management on the timely and effective finalisation on the implementation of the audit action plan to address the qualification of irregular expenditure.
- The committee should also request management to provide sufficient progress reports and feedback 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. These initiatives must be clear on how they will drive financial sustainability at the entity.
- Enquire from accounting authority what measures they have implemented to ensure improvement of preventative controls relating to comply with procurement, contract management legislation. Management must also report on their proactive management of performance information.
- Continue the focus on consequence management from the accounting authority and the executive authority. The accounting authority must speedily complete all ongoing investigations and cases into irregular and fruitless and wasteful expenditure in order to take appropriate actions and implement remedial actions.

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