



# **EXHIBIT CC 15**

## **AFFIDAVIT & ANNEXURES AND SUPPLEMENTARY AFFIDAVIT & ANNEXURES OF MZAMADODA MXAKWE**



**JUDICIAL COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,  
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF STATE**

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**AFFIDAVIT**

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I, the undersigned,

**MZWAMADODA MXAKWE**

do hereby make oath and state as follows:

1. I joined the South African Broadcasting Corporation ("SABC") on 1 July 2018 as Group Chief Executive Officer.

Unless otherwise indicated, or the contrary appears from the context, all facts stated herein are within my own personal knowledge and are both true and correct.

2. The purpose of this affidavit is to share with the Commission my experience of the SABC when I joined the Company.
3. As the national public broadcaster, the SABC must offer in all South Africa's official languages, a range of informative, educational and entertainment programmes that showcase South African attitudes, opinions, ideas, values, talent and artistic creativity. Programming must also offer a plurality of views and a variety of news, information and analyses from a South African perspective, and advance national and public interests. By showcasing South Africa's diverse cultural heritage and expression, the SABC represents the hopes, dreams, and aspirations of South Africans.
4. The mandate of the South African Broadcasting Corporation SOC Limited (SABC) as a public broadcaster is defined in legislation as well as in regulations, policies, codes of conduct and licensing conditions. The foundational statutes are the

following: *The Constitution of the Republic of South Africa, No. 108 of 1996; The Broadcasting Act No. 4 of 1999, as amended; The Independent Communications Authority of South Africa Act No. 13 of 2002, as amended; The Electronic Communications Act No. 36 of 2005, as amended.* The Corporation operates television, radio and online media services that are fundamental to the democratic and cultural lives of South African citizens. At a time when the availability of international content is exploding and with unprecedented changes in broadcasting technology, consumer expectations, and the industry structure, public broadcasting continues to play a critical role in South Africa and globally.

The SABC has a three-tiered revenue base. These three tiers and relevant percentages are:

- 4.1 Commercial revenue (including advertising, sponsorships, carriage fees and other commercial partnerships) - 84%
- 4.2 Television Licence Fees - 13%
- 4.3 Government Grant - 3% (mainly for educational programming)
- 5. When I joined the SABC, Ms Yolande van Biljon had been appointed as the Chief Financial Officer on 25 June 2018, while the Chief Operating Officer, Mr Chris Maroleni, was appointed by the Board in February 2018.
- 6. At the time of my arrival the Board was seized, amongst other matters, with the implementation of the following reports:
  - 6.1 Report of the Public Protector entitled, "When Governance and Ethics Fail", Report No: 2014; 23 of 2013/2014 issued on 17 February 2014;
  - 6.2 Parliamentary Ad Hoc Committee Report published on 27 February 2017;
  - 6.3 A number of Internal Audit Forensic reports; and
  - 6.4 Special Investigating Unit Reports.
- 7. All the above reports documented malfeasance and a systematic collapse of good Corporate Governance and financial management systems within the Company.

8. The Auditor-General Reports for previous financial years aptly recorded the net effect of the malfeasance and the collapse of Good Corporate Governance at the SABC.
9. The irregular expenditure stood at R4.98 billion as at 31 March 2018. Fruitless and Wasteful Expenditure stood at R230 million as at 31 March 2018.
10. The Company was technically insolvent.
11. Over the past 10 years the SABC has only made a profit in the three years from 2011/12 to 2013/14
12. However, this can be misleading as those profitable years had the lowest investment in content as indicated by low amortisation of Programme, Film and Sports Rights. ("PFSR"), averaging R1.3bn.
13. The biggest loss in FY 2016/17 also carried the highest amortisation of content at R1.95bn. It should be noted that low investment in content has a direct impact on revenue generation. Fresh compelling content drives audience generation, and these combined enhance revenue performance. As standard practice, advertisers seek exposure for their products and services on programmes that attract fairly large audiences. Also, advertising slots tend to be more expensive when audience numbers are high. Old content and repeat programming do not attract audiences and therefore impact negatively on revenue generation efforts.
14. The SABC made losses of R131m in 2014/15, R412m in 2015/16, R1 billion in 2016/17 and R626m in 2017/18. The projected (unaudited) net loss for 2018/19 is R483m and represents an improvement of 33%.
15. Employee cost averaged 36% (R2.2bn) of total revenue from 2011/12 to 2013/14.
16. Currently, it is 45%. See Annexure A for a breakdown of employee costs per category.
17. The exorbitant cost of Sports Rights and the unfunded public mandate has continued to affect the financial sustainability of the SABC. As part of its public service mandate, the SABC's broadcast offerings must include sports programming. The mandate categories are clearly defined as sport of National interest, as well as Developmental and Minority sports. Sport of national interest are sporting events

that appear in the list of National sporting events of Public Interest in terms of section (5) (1) (a) – (v) of the Government Gazette, 7 April 2010. They are of national interest (popularity), enjoy widespread public recognition (participation) and have particular focus on culture, nation building, the African agenda and restoring of human dignity. During the past few years, Sports rights costs have been escalating by exorbitant amounts far beyond inflation, making acquiring them unsustainable for the SABC. Sports rights are set by Rights Holders, and owing to the growing demand of new entrants in this landscape, it seems that this escalating trajectory of costs will continue. During the past five years (2012/13 to 2017/18) total sports rights and production costs peaked at R3.8 billion, while revenue generated amounted to R150m. The SABC incurred losses of R3.65 billion. These losses had to be absorbed by the Corporation as part of its operational costs. The SABC can neither compete nor sustain the status quo of incurring excessive expenditure for sports rights and productions with little or no return on investment.

18. Signal, linkage as well as broadcast costs are also high and have a severe impact on the SABC's profitability. The above costs relate to the SABC's transmission of its signal to the public, and amount to approximately R1.1 billion per annum. This is in line with the contractual agreement with signal distributing agency, Sentech, and is based on the number of transmitters availed to the SABC. There are other ad-hoc costs incurred by the Corporation such as satellite feeds and telephone lines used during outside broadcasts. The signal distribution model is becoming outdated owing to the digital migration process. The SABC cannot continue being locked into restrictive arrangements that have a negative effect on its viability. The public broadcaster spends 12% of its revenue on signal distribution, whereas the international average is 7%.
19. There are many historical commercial deals that were signed for the SABC, that were not financially sound. Among these are LornaVision (Pty) Ltd; Gekkonic (Pty) Ltd trading as Infonomix; Lezaf Consulting; Vision View Productions; Asanta Sana (Pty) Ltd.
20. The SABC has been experiencing cash constraints for the past number of fiscals which have had a direct impact on the replacement, upgrading and maintenance of broadcast critical equipment. Capex projects had to be deferred over the years

owing to budget cuts. System and equipment failures are being experienced on an on-going basis, impacting negatively on the SABC's ability to sustain quality broadcasts, retain audiences and generate revenue. Furthermore, it is crucial that the SABC's buildings and infrastructure are fully compliant with the requirements of the Department of Labour. However, due to lack of funds, maintenance and upgrading cannot be performed to comply with these requirements.

21. Some of the members of the SABC Group Executive Committee were identified as implicated in wrongdoing which involved a number of transactions amounting to irregular expenditure, fruitless and wasteful expenditure, breach of the provisions of the PFMA and SABC Procurement Policies, and in some cases, criminal activities. See SIU report prepared for SCOPA dated 19 July 2019, annexed hereto as Annexure B
22. Most members of the leadership team I inherited had lost the moral authority to lead. Due to the history of how SABC executive directors and management had conducted themselves, many employees of the SABC had lost faith in the executive management team and trusted organised labour as their protective gear against management.
23. Lower level employees were aware that many senior managers were involved in corrupt deals that crippled the financial viability of the organisation.
24. Most promotions and appointments had not been based on merit but rather on proximity to authority. This created an environment where the SABC policies and recruitment processes were flouted and resulted in irregular appointments, bonuses and increases.
25. The SABC had a huge trust deficit, lack of cohesion and no shared common value system.
26. A state of fear, anger and betrayal had engulfed the SABC and its employees.
27. The SABC had been left without a performance management culture and, in its place, was a sense of entitlement.



28. The Auditor-General of South Africa made a number of adverse findings against the SABC for many years. On 31 March 2018, the Auditor General issued a Disclaimer Audit Opinion. See Annexure C for the 2017/18 AG Report.
29. The Executives, Senior Management and employees in general were not accustomed to assuming responsibility and accountability. There was no culture of consequence management. The maladministration of the previous administration has resulted in, amongst other things:
- 29.1 a culture of impunity;
  - 29.2 a laissez-faire attitude to the work of the Corporation;
  - 29.3 disregard of policies and procedures;
  - 29.4 no consequence management;
  - 29.5 the inability for people placed in senior positions to perform;
  - 29.6 lack of a high performance culture; and
  - 29.7 entrenched culture of unethical conduct.
30. The effects of maladministration within the SABC have therefore inhibited performance progress and adversely impacted on organisational culture. This observation is based on outcomes of the various internal interventions undertaken such as: the culture and climate survey, the employee engagement survey and group dynamics interventions. One of the key themes that consistently emerge and rate low from the above interventions is the lack of direction and leadership. Leadership has a direct influence on culture, and where there is ineffective leadership, culture is impacted - the two are intrinsically linked.
31. Research shows that accountable leadership sets the tone for the organisation's culture by communicating and demonstrating the values and behaviours which need to be embodied by all employees including managers. This therefore creates a culture of accountability where leaders constantly assume ownership and take responsibility for the decisions, policies, processes and procedures that shape the organisation. The SABC Culture and Climate Survey of 2017 highlighted that employees believed that not everyone is held accountable, and where employees





are not accountable, there is lack of ownership which leads to overall poor performance.

32. A strong organisational culture drives sustainable performance and supports effective decision making, which in turn reinforces ethical conduct and prevents mismanagement. Therefore, the constant findings of non-compliance and irregularities against the SABC reflected that ethics and compliance programmes were not taken as serious as they should, thereby highlighting a serious lack of accountability. To create a culture of compliance, there is a need for leadership to communicate a clear and common understanding of the organisation's purpose. This can be done through clearly defined values that will set a tone for ethical behaviour and compliance.
33. The Board that was reconstituted in 2017 appointed executive directors with the requisite business acumen, commercial astuteness and leadership skills to turn around the SABC.
34. The Strategic Road Map, first developed in 2018, includes a vision, mission, strategic pillars, objectives, key performances areas, values and behaviours. (See Annexure D) It is the role of the SABC's executive management to develop a strategy. To this end, in July 2018 the SABC EXCO developed a solid strategic roadmap with clearly outlined turnaround plans for the SABC. This strategic roadmap was then shared with the Department of Communications in August 2018 for inputs and comments. The SABC management also arranged a full day workshop on 3 August 2018 to share the strategy with leaders of organised labour and solicit inputs.
35. In line with our governance processes, the strategic roadmap was then presented to the SABC Board for consideration and approval. The SABC Board is the only body that can approve or reject the strategy of the SABC. After thoroughly reviewing the strategy and providing inputs, the Board approved the strategic roadmap and its turnaround plans in August 2018. The strategic roadmap, incorporating turnaround plans, was presented to the Parliamentary Portfolio Committee on Communications in September 2018 for information. The strategic pillars and goals of the SABC strategies are:

- Financial Sustainability: A financially sustainable organisation;

- Content and Platforms: Offer a competitive and innovative multichannel, multiplatform portfolio;
  - Digital: SABC everywhere for everyone;
  - Human Capital: A competent, dynamic workforce that is fit for purpose;
  - Governance: Compliant governance practices, risk management and sound internal controls; and
  - Partnerships: Strategic and sustainable partnerships that will enhance the commercial sustainability of the SABC.
36. A workshop of middle and senior management team, including our provincial offices, was organised to communicate the strategic roadmap. The strategic roadmap and turnaround plans were then cascaded throughout the SABC by respective Group Executives and General Managers. This was also reinforced through various communication platforms and channels.
37. The performance management contracts of SABC employees who signed agreements were and are based on our strategic roadmap. Even our organisational operational plans are based on the execution and implementation of our strategic roadmap. We also shared the Strategic Roadmap with the new members of the SABC Board for inputs.
38. The implementation of our strategic roadmap by the SABC employees has guided the SABC throughout the past and current financial years, and has helped in keeping the SABC afloat without any financial injection. It has helped the Corporation to fulfill its public mandate, drive revenue growth, ensure organisation wide cost cutting measures, launch OTT and develop a News app, drive operational efficiencies in the organisation, and deal with legacy governance matters.
39. Despite the collective efforts in turning around the SABC, the institution urgently needs recapitalisation for it to be financially sustainable.
40. One of the key issues that the SABC is dealing with is managing a number of disciplinary cases. Almost daily, I receive forensic reports detailing cases of wrongdoing by some of our employees, and we are duty bound to act on these.

From 2012 to 2018, we received a total of 186 cases that our Forensic Unit had to investigate. Some of these cases date back a number of years and were left incomplete or abandoned without the allegations being tested and concluded by the previous management teams. Others cases are more current. During the financial year 2018/19, there were thirty-eight (38) active cases carried over from the preceding year and we recorded an additional eighty-five cases (85) during the same financial year, totaling one hundred and twenty-three (123) cases. Almost all of these cases emanate from the past legacy of a total disregard of SABC policies and procedures, as well as a lapse in internal controls and governance.

41. The SABC is pursuing these matters, whether they are as a result of fraud, mismanagement, sexual harassment, editorial interference, irregular salary increases or irregular appointments. Those who are accused of engaging in the aforementioned conduct go through disciplinary processes. In all these matters, we ensure that due processes are followed. It should, however, be noted that some matters might be prolonged owing to the litigation processes in place in order to recover some of the monies the SABC lost over the years.
42. The leadership team has a responsibility to stabilise the SABC, strengthen governance and work on regaining the organisation's integrity.
43. The SABC is currently dealing with Irregular Expenditure of R 5.2 billion as at 30 June 2019, and Fruitless and Wasteful Expenditure of about R 458 million incurred over a number of years dating back to 2012. See Annexure E for a breakdown of Irregular, Fruitless and Wasteful Expenditure. We are working very closely with the Special Investigating Unit (SIU) in some of these cases. All our key internal and external stakeholders have a keen interest in how we address these matters. We continue to implement the recommendations of Parliament's Ad Hoc Committee on the SABC, the Public Protector's remedial actions and the Special Investigating Unit's reports. We continue to address both Internal Audit and the Auditor General's findings as reported.
44. The disciplinary processes, irrespective of who is involved, are not meant to purge, alienate or go after certain individuals, but rather to do what is right for the SABC in restoring confidence and credibility. I trust that the public and all our stakeholders appreciate that at the end of the day we must do what is right for our organisation, regardless of who is involved.



45. Consequence management will bring back the culture of accountability amongst all of us. We are strengthening our internal controls so that we can intensify the process of rebuilding our organisation.
46. We continue to build a culture of compliance with our regulatory framework. One of the Auditor General adverse findings over the years has been the SABC's failure to conduct biannual reviews of its policies. Consequently our policies are archaic and do not provide the SABC with the required agility to compete in a rapidly changing market environment. We have a plan in place to turn this situation around, and it is being overseen by the Board. .
47. As indicated above, I inherited an organisation that is factually and commercially insolvent. While we have a solid plan to turn the situation around it is important for the public and our stakeholders to be aware of the extent of damage caused to the SABC as an institution, as a business and to the employees of the public broadcaster.
48. The SABC is facing serious challenges that threaten the sustainability of the organisation.
49. Cash flow is depleted and therefore the SABC cannot honour payments to service providers, meet its contractual commitments and commission local content productions.
50. Trade and other payables amount to R1.8 billion as at 30 June 2019.
51. Significant suppliers due and overdue are Sentech (R554million), Supersport (R259million), SAMRO (R135million) various providers of content (R174million).
52. Several major content providers of key programming (eg. 'soapies') have ceased production and are retaining content until outstanding payments have been received.
53. The public broadcaster relies heavily on these programmes to generate advertising revenue, and the inability to invest in content negatively affects the financial sustainability of the SABC and the local production industry.
54. Service providers that have successfully tendered for the upgrading or implementation of broadcast critical equipment are now declining tenders or



- demanding upfront payment. Many service providers have completely stopped bidding for tenders.
55. Maintenance of the SABC's infrastructure and buildings cannot be performed, placing the Corporation in an extremely risky position in terms of health and safety matters.
  56. The 1st Quarter of FY2019/20 saw a number of hazardous and potentially life threatening events taking place at the SABC. A diesel spill in the Auckland Park Building caused havoc. Disaster protocols were implemented and alternative measures were activated to ensure that the radio stations based in the affected building could continue with normal broadcasting. This meant the relocation of stations to the TV Building. A number of staff members had to be hospitalised as a result of inhaling diesel fumes. Three days of operations and productivity were lost owing to the spillage.
  57. A few weeks later a fire broke out in the SABC's canteen area and staff had to be evacuated again. Once more, a number of employees had to be hospitalised as a result of the incident. . Power failures, old and out-dated infrastructures malfunctioning elevators and many more factors are contributing to health and safety risks.
  58. Sports rights cannot be acquired and the SABC is facing increased public pressure and outcry from the non-broadcasting of sports of national interest. The offers that the SABC is making to acquire sports rights are being rejected as they are considered commercially unsound. The SABC is not receiving any funding for broadcasting events of national interest and therefore some of these productions will have to be ceased.
  59. On 13 December 2018, the Companies and Intellectual Property Commission (CIPC) issued a notice of the SABC in terms of Section 22(2) of the Companies Act of 2008 to show cause regarding reckless trading under insolvent circumstances. A response was provided by the Board to the CIPC, however, the CIPC indicated that the situation would be monitored closely.
  60. The Minister of Communications placed a moratorium on the filling of vacancies in January 2019. The SABC has communicated to the Ministry during the course of the year to lift the moratorium as the non-filling of critical vacancies has a

detrimental effect on the SABC's business operations, implementation of turnaround strategies and ultimately revenue generation.

61. During the 2018/19 financial year 385 staff members left the employ of the SABC through resignations, retirements and terminations. Between 1 April and 30 June 2019 the Corporation lost another 84 employees. This equates to a turnover rate of between 9% and 11%. As a result of the above, acting incumbents were appointed in critical vacancies in order to ensure continuity in business operations.

Amongst others, risks associated with staff acting in critical vacancies are:

- Incorrect or no decisions are being made owing to a lack of skills or the junior level of the staff member acting;
- Policy requires that staff only acts for a three-month period at a time, which results in leadership instability and a lack of accountability;
- Audit findings are not addressed properly owing to a lack of understanding, and this will ultimately result in more audit findings;
- No segregation of duties owing to the lack of staff and managers;
- All stations managers are acting which has an impact on the delivery of Radio strategies, audience share and the SABC brand proposition. (In some instances Interns have to read news bulletins);

62. The SABC has since July 2019 started with the filling of critical vacancies in order to give effect to the implementation of turnaround strategies.
63. The SABC has been working hard during the past number of months to implement its Turnaround Strategies which are aimed at ensuring that the SABC is able to operate competitively in the evolving media and digital landscape, while fulfilling its public mandate to provide informative, educational and entertaining content to all South Africans.
64. Additional effort has gone into enhancing revenue generation from traditional and alternative revenue streams. Revenue initiatives are showing early signs of positive returns.

65. Cost containment and cash conservation measures are in place and year-to-date as at 30 June 2019, the SABC through these initiatives managed to preserve an amount of R524million. It is worth noting that R230 million of that relates to underspending in the investment in content, while R57 million is due to underspending in Marketing. However, this has a negative impact on future revenue generation efforts. . Also, this amount is unfortunately not enough to address the current and projected losses of the Corporation.
66. A major focus area is the review of the SABC's operating model and structure, and good progress has been made in this regard. The SABC needs to review its operating model to keep up with the shifting competitive landscape, customer needs, markets and competitive threats.
67. The SABC is undergoing a process of rehabilitation and renewal. It should be noted that many factors – structural and symptomatic – have impacted on the SABC's viability over the past years.
68. In addition to the clear maladministration, corruption, mismanagement, there are other reasons that have contributed to the SABC's dire financial status. The following are some of the main contributors to the Corporation's precarious financial situation:
- 68.1 funding model of the SABC (over-reliance on commercial / advertising revenue);
  - 68.2 regulatory / legislative framework not keeping pace with the evolution of digital technology, the convergence of media, technology and telecommunications;
  - 68.3 global slowdown in economic growth and related foreign exchange fluctuations significantly affecting the core business of the SABC, as it needs to acquire content, sports rights and technology;
  - 68.4 multinational advertisers have reduced their industry-wide spending over the past 24 months;





- 68.5 SABC's operating environment which makes it difficult compete with commercial broadcasters, while complying with public sector operating guidelines;
- 68.6 cost of public mandate (compounded by higher costs related to delivery on the mandate, especially for events of national importance of which sports is a major contributor, both planned and unplanned).
69. We aware of the challenges, and working together with the Board, the Department of Communications, Shareholder representatives and ICASA we are addressing the identifiable policy constraints strangling the business.
70. Maladministration within the SABC has inhibited and adversely impacted the Corporation's culture. A strong organisational culture drives sustainable performance and ensures effective decision making which in turn, strengthens ethics and prevents mismanagement. It is therefore crucial that the SABC implements an approach that promotes the understanding and embodiment of its Values, creating clarity and employee connectivity in order to drive organisational and individual performance. This is also crucial to improving accountability and ethical behaviour across all levels. To this end, the Values Drive Project has been implemented in order to achieve the above. Whereas the project will conclude towards the end of November 2019, debates on the revitalisation of organisational culture will continue beyond this period.
71. I am confident that the SABC is on the right path to recovery and profitability. With decisive leadership addressing the wrongs of the past, and an effective and implementable turnaround plan to achieve financial sustainability, it is without doubt that the public broadcaster's dignity will be restored and will give effect to its vision of becoming the leading, credible voice and face of the nation and the continent.
72. We thank the Deputy Chief Justice for giving us the opportunity to share our experiences in terms of where we come from, and our plans about where we are going.



This affidavit consists of 15 pages (excluding annexures). The dates and information set out herein was given to the best of my recollection and I reserve the right to supplement this affidavit if required.



**DEPONENT**

I hereby certify that the deponent has acknowledged that he knows and understands the contents of this affidavit, which was signed and sworn to before me at \_\_\_\_\_ on this the \_\_\_\_\_ day of \_\_\_\_\_ 2019, the regulations contained in Government Notice No R1268 of 21 July 1972, as amended, and Government Notice No R1648 of 19 August 1977, as amended, having been complied with.



**COMMISSIONER OF OATHS**

Full Names: LISA APPELGRIN

Business Address: 96 RIVONIA ROAD, SANDTON

Office: ATTORNEY (PRACTISING).

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## ANNEXURE A

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## Estimated Employee Compensation for FY2019/2020

Category	Estimated Annual	
Directors & GE's	26 934 558	
Senior Management	56 834 315	
Middle Management	420 654 416	
Bargaining Unit	1 595 122 510	
<b>Guaranteed Compensation for Permanent Positions</b>	<b>2 099 545 798</b>	<sup>2</sup>
Non-Guaranteed for Permanent	280 214 762	<sup>1</sup>
<b>Total for Permanent Positions</b>	<b>2 379 760 561</b>	
<b>Independent Contractors</b>	<b>457 602 090</b>	<sup>3</sup>
<b>Non-Permanent Employees &amp; Interns</b>	<b>41 119 025</b>	
<b>Total Estimated Employee Compensation for 2019/2020</b>	<b>2 878 481 676</b>	

*1. Includes Non-Guaranteed Cost Items like Overtime, Sales Commission, Leave Accrual, Additional Work, SDL, WCA, UIF, Leave Accrual, PRMA Service Cost etc.*

*2. Figures Based on Total Guaranteed Remuneration Package*

*3. Assumption that 90% of budget for 2019/2020 will be utilised. At this stage the budget is underspend by 22%*

### Note

*The figures are based on Payroll data for July 2019 as well as the SABC Income Statement for the period 1 April 2019 - 31 July 2019 as extrapolated for 12 month*



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## ANNEXURE B

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Ref: SABC

Enq: Gina Howes

19 July 2019

**Mr Bongumusa Makhathini**  
**Chairman of the SABC Board**  
**South African Broadcasting Corporation**  
**Corner of Artillery and Henley Road**  
**Auckland Park**  
**Johannesburg**  
**2092**

Dear Mr Makhathini

**RE: PREPARATION FOR SCOPA WITH THE SIU**

1. The purpose of this correspondence is to provide the SABC with input to be made to SCOPA by the SABC on the progress made in the SABC investigation.
2. Herewith please find inputs to assist SABC with its response to SCOPA's request dated 11 July 2019, for an update on matters referred to the SIU. Please note that there are several matters in Phase 2 that are nearing completion and the outcomes will be reported on once finalized.

**3. SUMMARY OF OUTCOMES**

**3.1 Evidence referred for the institution or defence of civil proceedings**

**3.1.1 Lornavision**

The contract concerned between Lornavision and the SABC has been set aside by the High Court following litigation between the two parties. On 11 May 2018, the SIU submitted evidence to the SABC's attorneys (i.e. Werksmans, who represent the SIU as well) with a



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view to support a civil claim in the amount of R62 733 556.61 against Lornavision and Mr Aguma (former Chief Financial Officer of the SABC) ("CFO") and with a view to join the SIU as a co-plaintiff. Whereas the joinder application has been set down for hearing on 14 August 2018, Lornavision has since filed a second exception. The SIU's application to join the proceedings was argued on 19 February 2019 and the SIU has been granted leave to intervene as the second applicant.

### **3.1.2 Vision View**

On 12 March 2018, the SIU submitted evidence to the SABC's attorneys (i.e. Werksmans, who represent the SIU as well) with a view to institute appropriate civil action aimed at the setting aside of the contract between the SABC and Vision View to the value of approximately R52 million. The consequent Notice of Motion was filed on 24 April 2018 and registered under case number 18/15870. Vision View filed its answering affidavit on 29 May 2018, upon which a replying affidavit was about to be filed at the date of compilation of this report. To date, the SABC has paid Vision View an amount of R34 444 729.28 for services rendered in terms of the contract. On 9 November 2018 judgement was handed down by the High Court setting the contract aside between the SABC and Vision View, except for the provisions that allow for the disputes to be resolved by means of arbitration. The court ordered the parties to refer the determination of just and equitable remedy for arbitration.

The SIU has appealed the ruling of the court to the effect that the arbitration provisions in the contract not be set aside as well. Leave to appeal has been granted and the review application will be heard on 3 June 2019 and is unopposed.

### **3.1.3 SekelaXabiso**

During December 2017, the SABC submitted an application to have the award of a procurement contract to the value of R9 816 023.52, entered into between themselves and SekelaXabiso, set aside (case number 17/49870, High Court of South Africa, Gauteng Local Division, Johannesburg). During April 2018, the SIU submitted additional evidence to the SABC's attorneys (i.e. Werksmans, who represent the SIU as well) with a view to support the application and be joined as co-applicant in the matter. The SIU's application to join proceedings was granted on 5 June 2018. On 24 May 2019 judgement was handed down and the review application was dismissed.

### **3.1.4 Hlaudi Motsoeneng**

Following evidence obtained by the SIU, the SIU and SABC jointly issued summons against Mr Motsoeneng on 5 February 2018 in the High Court of South Africa, Gauteng Local Division, Johannesburg (case number 18/04253). The claim against Mr Motsoeneng relates to an

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undue payment in the amount of R11 508 549.12 made to him as a "success fee" and damages in amount of R10 235 453.20 caused by him due to irregular appointments, salary increments, suspensions and unlawful terminations of employment that he sanctioned, facilitated and/or condoned. Mr Motsoeneng entered an Appearance to Defend and thereupon filed an Exception to the Particulars of Claims. The SIU Exception hearing was heard on 13 February 2019. Judgement was delivered on 10 May 2019 and the Exception was dismissed with costs.

### 3.1.5 Asanta Sana

In the Asanta Sana matter the SIU provided evidence gathered in order to assist the SABC to defend the claim by Asanta Sana for R350 000. This claim resulted from the fact that the SABC has refused to pay Asante Sana for their duly rendered services – purely on the basis that the procurement was suspected to have been irregular and despite them not having suffered any losses.

### 3.1.6 Infonomix

The SIU instituted a review application to set aside the contract between the SABC and Infonomix. The process is underway.

### 3.1.7 Mjayeli

The SIU has succeeded in bringing an application to court to be joined as a party in the current proceedings between Mjayeli and the SABC. The SIU seeks an order to set aside the contract between the SABC and Mafoko Security Patrols. The value of the contract is R185 519 425.67 but an additional R8 831 252.54 in lieu of the delay in the adjudication of the tender was approved by the interim Board, even though the actual contract signed was for R185 519 425.67. As part of the court proceedings, the SIU also seeks a just and equitable order seeking to recover monies lost by the SABC.

## 3.2 Referrals to the relevant Prosecuting Authority

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence and value	Status of referral
1.	NPA	06/06/2018	1) Frans Lodewyk Basson	Director Lornavision	Attempted fraud and theft R7 308 741.95	Criminal case opened, Brixton CAS 167/7/2018 refers. The SIU is working with the SAPS.



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Table 1: Referrals to the Relevant Prosecuting Authority

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence and value	Status of referral
			2) Loma-vision			Request to have specialised prosecutor forwarded to Adv. Nkoana at SCCU Jhb on 30/11/2018. A further request followed on 24/04/2019 for this case to be handled by the State Capture Team.
2.	NPA	05/04/2018	Sully Motsweni	Group Executive SABC Sport Division	Fraud in relation to travel claims R45 184.56	Criminal case opened, Brixton CAS 156/5/2018 refers. Ms Motsweni appeared in the Commercial Crime Court on 30/5/2018 on 11 counts of fraud. She was released on R5000 bail. The next court appearance was on 17/9/2018 and the case postponed to 03/09/2019. Request to have specialised prosecutor forwarded to Adv. Nkoana at SCCU Jhb on 30/11/2018. A further request followed on 24/04/2019 for this case to be handled by the State Capture Team. The JHB Commercial Crime Court is relocating, therefore all the matters were being postponed and this matter will now be held at Palmridge Court on 3 September 2019.
3.	NPA	20/09/2018	Audrey Raphela	Acting CFO	Contravention of section 45 (c) and (e) of the PFMA	Request to have specialised prosecutor forwarded to Adv. Nkoana at SCCU Jhb on 30/11/2018. A further request followed on 24/04/2019 for this case to be handled by the State Capture Team.



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Table 1: Referrals to the Relevant Prosecuting Authority

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence and value	Status of referral
4.	NPA	02/11/2018	1) James Aguma 2) Frans Basson 3) Lomavision	CFO SABC  Director Lomavision	Attempted fraud	Request to have specialised prosecutor forwarded to Adv. Nkoana at SCCU Jhb on 30/11/2018. A further request followed on 24/04/2019 for this case to be handled by the State Capture Team.
5.	NPA	02/11/2018	James Aguma	Former Group CFO	Contravention of section 86 (3) of the PFMA 1 of 1999 w.r.t Mott MacDonald	Request to have specialised prosecutor forwarded to Adv. Nkoana at SCCU Jhb on 30/11/2018. A further request followed on 24/04/2019 for this case to be handled by the State Capture Team.

### 3.3 Referrals made for disciplinary, executive and/or administrative action

Table 2: Referrals made for disciplinary, executive and/or administrative action

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence	Status of referral
1.	SABC Board	25/06/2018	Priscilla Nomsa Philiso	Acting Chief Executive Officer	Irregular and unlawful procurement re Lomavision	Employee to submit reasons why they should not be disciplined by 14/9/2018
2.	SABC Board	25/06/2018	Priscilla Nomsa Philiso	Acting Chief Executive Officer	Irregular and unlawful procurement re Vision View	Employee to submit reasons why they should not be disciplined by 14/9/2018
3.	SABC Board	25/06/2018	Priscilla Nomsa Philiso	Acting Chief Executive Officer	Misconduct: Breach of SABC policies, PFMA and Constitution re Lezaf	Employee to submit reasons why they should not be disciplined by 14/9/2018



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Table 2: Referrals made for disciplinary, executive and/or administrative action

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence	Status of referral
4.	SABC Board	25/06/2018	Morobadi Phileon Moliwa	General Manager: Policy and Regulatory Affairs	Irregular and unlawful procurement re Lomavision	Employee to submit reasons why they should not be disciplined by 14/9/2018
5.	SABC Board	25/06/2018	Morobadi Phileon Moliwa	General Manager: Policy and Regulatory Affairs	Irregular and unlawful procurement re Vision View	Employee to submit reasons why they should not be disciplined by 14/9/2018
6.	SABC Board	25/06/2018	Morobadi Phileon Moliwa	General Manager: Policy and Regulatory Affairs	Misconduct: Breach of SABC policies, PFMA and Constitution re Lezaf	Employee to submit reasons why they should not be disciplined by 14/9/2018
7.	SABC Board	29/11/2017	Kubendhran Padayachee	Acting Group Executive: Technology	Misconduct: Breach of SABC policies, PFMA and Constitution re Vision View	Employee resigned on 31 May 2018 after disciplinary action was instituted
8.	SABC Board	26/03/2018	Bessie Tugwana	Former Acting Chief Operating Officer	Misconduct: Breach of SABC policies, PFMA and Constitution re Vision View	Employee retired after disciplinary referral was made
9.	SABC Board	09/04/2018	Simon Molaudzi	The Head of Procurement: SABC Radio Park	Misconduct: Breach of SABC policies, PFMA and Constitution re Vision View	Dismissed on 5 October 2018 and sanction awaited.
10.	SABC Board	08/05/2018	Zakir Rawoot	Operations Committee member	Misconduct: Breach of SABC policies, PFMA and Constitution re SekelaXabiso	Disciplinary hearing schedule for 18-19/10/ 2018
11.	SABC Board	30/05/2018	Anand Moodliar	The Group Secretary	Misconduct: Breach of SABC	Found guilty and final written



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Table 2: Referrals made for disciplinary, executive and/or administrative action

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence	Status of referral
					policies, PFMA and Constitution	warning issued on 16 September 2018.
12.	SABC Board	08/05/2018	Simon Molaudzi	Head of Procurement: SABC Radio Park	Misconduct: Breach of SABC policies, PFMA and Constitution re SekelaXabiso	Dismissed on 5 October 2018.
13.	SABC Board	07/05/2018	Audrey Raphela	General Manager Finance and Reporting	Misconduct: Breach of SABC policies, PFMA and Constitution re SekelaXabiso	Employee resigned on 10 July 2018 after the disciplinary referral was made.
14.	SABC Board	07/05/2018	Audrey Raphela	General Manager Finance and Reporting	Misconduct: Breach of SABC policies, PFMA and Constitution re Infonomix	Employee resigned on 10 July 2018 after the disciplinary referral was made.
15.	SABC Board	30/05/2018	Zakir Rawoot	General Manager: Compliance, Monitoring and Evaluation	Misconduct: Breach of SABC policies, PFMA and Constitution re Vision View	Disciplinary hearing schedule for 18-19/10/ 2018
16.	SABC Board	21/06/2018	Simon Molaudzi	The Head of Procurement: SABC Radio Park	Misconduct: Breach of SABC policies, PFMA and Constitution re Infonomix	Dismissed on 5 October 2018 and sanction awaited.
17.	SABC Board	29/06/2018	Audrey Raphela	The General Manager: Compliance, Monitoring and Evaluation	Misconduct re Infonomix	Employee resigned on 10 July 2018 after the disciplinary referral was made.
18.	SABC Board	17/07/2018	Tshifhiwa Mulaudzi	The Group Executive: Commercial Enterprises	Misconduct re Infonomix	Found guilty and final written warning issued on



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Table 2: Referrals made for disciplinary, executive and/or administrative action

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence	Status of referral
						29 October 2018. He since resigned.
19.	SABC Board	17/07/2018	Thandeka Ndlovu	The General Manager in the CFO's Office	Misconduct re Infonomix	Disciplinary hearing schedule for 20-21/9/ 2018.
20.	SABC Board	17/07/2018	Ayanda Mkhize	The General Manager: Supply Chain Management, Governance and Special Projects	Misconduct re Infonomix	Dismissed on 17 October 2018.
21.	SABC Board	29/03/2018	Sully Motsweni	Group Executive: Sport	Misconduct for charges relating to abuse and possible fraud relating to travel claims	Found guilty in absentia on 11 of the 12 charges. Dismissed on 4 July 2018 thereafter.
22.	SABC Board	29/03/2018	Nabeweya Moosa	Learning and Development Specialist	Incurring of fruitless and wasteful expenditure of SABC Foundation funds	Disciplinary proceedings instituted, charges served on employee and disciplinary hearing date to be confirmed.
23.	SABC Board	29/03/2018	Iris Cupido	CEO: SABC Foundation	Incurring of fruitless and wasteful expenditure of SABC Foundation funds	Disciplinary proceedings instituted, charges served on employee and disciplinary hearing date to be confirmed.
24.	SABC Board	29/03/2018	Sully Motsweni	Group Executive: Sport	Acting dishonestly contrary to the	Found guilty in absentia on 11 of the 12 charges.



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Table 2: Referrals made for disciplinary, executive and/or administrative action

No	Entity referred to	Date of referral	Name and Surname	Job Title	Nature of offence	Status of referral
					SABC Disciplinary Code re SABC Foundation Bursaries	Dismissed on 4 July 2018.

### 3.4 Other

**3.4.1** The SIU identified fruitless and wasteful expenditure which resulted from the irregular procurement of certain service providers and the irregular salary progression and bonuses paid to certain staff members (including the former Chief Operating Officer of the SABC, Mr Motsoeneng). The details of the SIU's findings of fruitless and wasteful as well as irregular expenditure are in the table below.

**3.4.2** These findings have been reported to the SABC with a view to enable them to report it to the AGSA and to NT.

No.	Beneficiary of the expenditure incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure
1.	Lornavision (Pty) Ltd	R62 733 556.61	
2.	Vision View Productions CC	R34 444 729.28	
3.	Lezaf Consulting CC	R6 053 000.00	
4.	SekelaXabiso CA Incorporated	R31 247 240.07	
5.	Asante Sana Consulting	R 18 497 605.00	
6.	Foxtan Communicating (Pty)Ltd	R1 282 500,00	
7.	Mott MacDonald Africa (Pty) Ltd	R5 612 703.13	
8.	Success fee paid to Mr Motsoeneng	R11 508 549.12 (before tax) R10 253 453.20 (after tax)	R11 508 549.12 (before tax)




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No.	Beneficiary of the expenditure incurred	Irregular Expenditure	Fruitless and Wasteful Expenditure
			R10 253 453.20 (after tax)
9.	Sully Miranda Motsweni	+R4 000 000 (salary progressions)	R18 290.12
		<u>R 512 597.92 (bursary application)</u>	R512 597.92

4. The SIU is available to discuss any of these matter further with you. Should you have any questions or require further clarification, please do not hesitate to contact Mr L Lekgetho on 012 843 8534 or email [LLekgetho@siu.org.za](mailto:LLekgetho@siu.org.za).

Yours sincerely

  
 Adv. J.L. Mothibi  
 Head of the Special Investigating Unit



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## ANNEXURE C

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*MM/HA*

# Report of the Auditor General to Parliament on the South African Broadcasting Corporation SOC Ltd (SABC)

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### Disclaimer of opinion

1. I was engaged to audit the consolidated and separate financial statements of the SABC and its subsidiaries (the group) set out on pages 88 to 138, which comprise the consolidated and separate statement of financial position as at 31 March 2018, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to these financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the consolidated and separate financial statements of the public entity. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated and separate financial statements.

### Basis for disclaimer of opinion

#### Going Concern

3. As indicated in note 1(b) to the consolidated and separate financial statements, the entity incurred a net loss of R621 676 000 as at 31 March 2018 and at that date, its current liabilities exceeded current assets by R291 643 000. The entity was therefore commercially insolvent because it was not able to pay its debts as and when they were due, even though its assets exceeded its liabilities. Additionally, I was unable to obtain sufficient appropriate audit evidence to confirm the reasonableness of the cash flows forecasted and the related assumptions, conditions and events to support management's assessment of the entity's viability in the foreseeable future. The solvency of the public entity and the reasonability of the cash flow forecast is also impacted by my further qualifications on property, plant and equipment and programme, film and sports rights as these assets may not be properly valued. Consequently, I was unable to confirm or dispel whether it is appropriate to prepare the consolidated and separate financial statements using the going concern assumption.

#### Property Plant and Equipment

4. Capital work in progress amounting to R106 427 627 included in note 5 to the consolidated and separate financial statements was incorrectly classified as capital work in progress, while it was available for use in terms of IAS 16, Property, plant and equipment. This resulted in capital work in progress being overstated and the related classes of completed assets being understated by R106 427 627.
5. The public entity did not assign unique identifying codes to assets classified as capital work in progress in the asset register. As a result, I was unable to obtain sufficient appropriate audit evidence relating to the existence and completeness of these assets. Consequently, I was unable to determine whether any further adjustments were necessary to capital work in progress stated at R184 038 000 in note 5 to the consolidated and separate financial statements. I was unable to verify these assets by alternative means.
6. Management did not provide the useful lives of property, plant and equipment as part of the asset register, stated in note 5 to the consolidated and separate financial statements at R1 582 476 000. I was unable to recompute the depreciation charge for the year of R167 294 000 reflected in note 5. I was therefore unable to confirm the accuracy of the accumulated depreciation of R1 839 556 000 also reflected in note 5. I was unable to determine the amount of the misstatement of depreciation and accumulated depreciation, as it was impracticable to do so. Due to the limitation on the depreciation charge I was unable to determine whether revenue amounting to R43 280 000 relating to the depreciation of technology assets acquired in terms of the deferred technology grant and the related deferred grant liability was accurate. As a result, I was unable to determine whether revenue recognised from government grants and the related deferred grant liability amounting to R186 830 000 and included in notes 19 and 25 to the consolidated and separate financial statements are accurate.
7. The entity did not assess property, plant and equipment for impairment in accordance with IAS 36, Impairment of assets. There was no system in place on which I could rely for the purpose of the audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that no assets should have been impaired. Because of the nature of the assets, I was unable to confirm or verify by alternative means the value of property, plant and equipment. As a result, I was unable to determine the correct net carrying amount of property, plant and equipment; depreciation; and impairment stated at R1 582 476 000 (2017: R1 615 102 000; R167 294 000 (2017: R159 912 000); and R0 (2017: R6 813 000), respectively, in note 5 to the consolidated and separate financial statements, as it was impracticable to do so.
8. In the prior year, I was unable to obtain sufficient appropriate evidence to confirm transfers between asset classes amounting to R212 072 000, as there was no adequate system of internal control to substantiate the transfers between asset classes. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment disclosed in note 5 at R1 615 102



000 for the prior year for transfers between asset categories. I could not confirm the transfers by alternative means.

9. In the prior year, I was unable to obtain sufficient appropriate audit evidence for the change in accounting estimates relating to the review of the useful lives of property, plant and equipment disclosed in note 5 amounting to R68 089 000. I was unable to confirm the change in accounting estimates by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment as stated at R1 615 102 000 in note 5 to the consolidated and separate financial statements relating to the prior year.

10. In the prior year, the SABC did not include all items of property, plant and equipment in the entity's accounting records, as required by IAS 16, Property, plant and equipment. The entity did not implement adequate internal control systems in the prior year to ensure that all items of property, plant and equipment owned by the entity were recorded in the asset register. This resulted in property, plant and equipment being understated in the prior year. I was unable to confirm the amount of property, plant and equipment to be disclosed in the prior year by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment stated at R1 615 102 000 in the consolidated and separate financial statements relating to the prior year.

#### **Programme, film and sports rights**

11. The entity did not adequately review the amortisation method and the amortisation period at year-end to properly account for the pattern of usage of originated programme, film and sports rights that are currently being used to generate exploited revenue and carriage fees, as required by IAS 38, Intangible assets. These assets were recorded at a zero value. Consequently, I was unable to satisfy myself that the originated programme, film and sports rights were recorded at the correct value. I was further unable to determine the amount of any adjustments that may be necessary to the programme, film and sports rights stated at R756 473 000 (2017: R768 500 000) in note 7 to the consolidated and separate financial statements, as it was impracticable to do so.

#### **Trade and other Payables**

12. In the prior year, the entity did not completely accrue for all goods and services received prior to the year-end but not paid for at year-end, which resulted in the understatement of the prior year trade and other payables, disclosed in note 22 at an amount of R706 617 000, and related prior year expenditure for broadcast costs of R519 135 000, marketing costs of R136 401 000, direct revenue collection costs of R67 471 000, professional and consulting fees of R105 696 000, and other operational expenses of R673 311 000. This was due to inadequate systems and processes in the prior year to properly accrue for expenses. I was unable to determine the amount of any adjustment to trade and other payables and related expenses, as it was impracticable to do so.

13. I was unable to obtain sufficient appropriate audit evidence to verify the prior year restated trade and other payables balances of R378 563 000 included in note 22 to the consolidated and separate financial statements. This was due to management not reconciling trade creditor balances to creditor statements. Consequently, I was unable to determine whether the trade and other payables balances were stated at the correct amount. I was unable to determine whether any adjustments were necessary to the trade and other payables balances for the prior year, as it was impracticable to do so.

#### **Irregular expenditure**

14. The SABC did not include particulars of all irregular expenditure in the notes to the consolidated and separate financial statements, as required by section 55(2)(b)(i) of the Public Financial Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA). The entity did not implement adequate internal control systems to identify and record all instances of irregular expenditure in both the current and prior years. This resulted in the irregular expenditure disclosure being understated. The full extent of the misstatement identified could not be quantified and I was unable to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the irregular expenditure disclosure stated at R4 997 300 000 (2017: R4 405 804 000) in note 42 to the consolidated and separate financial statements.

15. In the prior year, I was unable to obtain sufficient appropriate evidence to confirm irregular expenditure amounting to R192 998 000, as there were no adequate record keeping controls to ensure that complete, relevant and accurate information was accessible and available to support the irregular expenditure disclosed. I could not confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure of R4 405 804 000 as disclosed in note 42 relating to the prior year.

#### **Taxation**

16. Due to the impact of the above qualification matters, I was unable to obtain adequate assurance that the deferred tax disclosures in note 20 to the consolidated and separate financial statements were fairly stated. I was unable to determine whether any adjustments were necessary, as it was impracticable to do so.

#### **Emphasis of matters**

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

18. As disclosed in note 4.6 and 4.7 to the financial statements, the corresponding figures for 31 March 2017 were restated as a result of errors in the financial statements of the public entity at, and for the year ended, 31 March 2018.

### Significant judgement

19. As disclosed in note 25 to the consolidated and separate financial statements, the entity did not recognise licence fees to the amount of R2 436 780 000 (2017: R1 016 541 000). In management's judgement, it is not probable that the economic benefits associated with these transactions will flow to the entity in order to meet the recognition criteria.

### Significant uncertainties

20. As disclosed in note 39 to the financial statements, the SABC is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot be determined currently, and no provision for any liability that may result was provided for in the financial statements.

### Responsibilities of the board of directors for the consolidated and separate financial statements

21. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the PFMA and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act), and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

22. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

### Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

23. My responsibility is to conduct an audit of the consolidated and separate financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

24. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit of the consolidated and separate financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

### Introduction and scope

25. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

26. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

27. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Objectives	Pages in annual performance report
Objective 1– Financial sustainability	33
Objective 2- Content and platforms	33-34
Objective 4- Governance	34

28. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether

the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

29. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

### Strategic Goal 1 – Financial Sustainability

#### Indicator 1 – Achieve annual net profit before tax as per the approved budget

30. The reported achievement of a R629 million loss for the target of R0 was not reliable, due to the matters reported under the basis for disclaimer of opinion related to property, plant and equipment and programme, film and sports rights.

### Strategic Goal 2 – Content and Platform

#### Indicator 1 – Achieve ICASA local content quotas as per terrestrial television channel licence conditions

31. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below. This was due to inadequate technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement listed below as reported in the annual performance report.

Description	Target	Actual Achievement
SABC 1	70%	73%
SABC 2	60%	71%
SABC 2	40%	52%

#### Indicator 2 – Achieve ICASA PBS radio genre as per SABC broadcast licence

32. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the targets listed below: This was due to inadequate technical indicator descriptions and proper performance management systems and processes that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement listed below as reported in the annual performance report.

Description	Target	Actual Achievement
News	60 min/day	87 min/day
Current Affairs	60 min/day	172 min/day
Informal Knowledge building	180 min/week	1 561 min/week
Education	300 min/week	359 min/week
Children	60 min/week	134 min/week
Drama	150 min/week	207 min/week

#### Indicator 3 – Number of provincial programmes

33. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 57 against the target of 8 programmes. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 57 programmes as reported in the annual performance report.

### Strategic Goal 4 – Governance

#### Indicator 2 – Percentage of previous Auditor General findings resolved

34. The achievement for the target of 50% reported in the annual performance report was 49%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 12,5%.

### Other matters

35. I draw attention to the matter below.

#### Achievement of planned targets

36. Refer to the annual performance report on pages 33 to 34 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 30 to 34 of this report.

#### Adjustment of material misstatements

37. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the financial sustainability strategic goal. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

38. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

39. The material findings on compliance with specific matters in key legislation are as follows:

#### Annual financial statements, performance report and annual report

40. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and were not supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA and section 29(1)(a) of the Companies Act.

41. Material misstatements of revenue; expenditure; taxation; property, plant and equipment; and programme, film and sports rights identified by the auditors in the submitted consolidated and separate financial statements were corrected subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in these financial statements receiving a disclaimer of opinion.

#### Procurement and contract management

42. Goods, works or 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.

43. Some contracts and quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and its regulations. Similar non-compliance was also reported in the prior year.

#### Expenditure management

44. Effective and appropriate steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The value as disclosed in note 42 is not complete, as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure disclosed in the financial statements was caused by deviations from processes prescribed in the supply chain policy of the entity.

45. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R84 021 000, as disclosed in note 42 to the annual financial statements, in contravention of section 51(1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by interest on overdue accounts and unauthorised compensation identified through forensic audits conducted.

#### Strategic planning

46. An annual shareholders' compact was not concluded prior to the start of the financial year in consultation with the executive authority, as required by treasury regulation 29.2.1. The compact was submitted to the executive authority prior to the start of the financial year, however this was only approved in February 2018.

47. As a result of the above, the key performance measures and indicators included in the shareholders' compact were not agreed between the accounting authority and the executive authority prior to the start of the financial year, as required by treasury regulation



29.2.2.

## OTHER INFORMATION

48. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate, as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

51. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact.

52. I have no matters to report in this respect.

## INTERNAL CONTROL DEFICIENCIES

53. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### Leadership

54. Action plans developed to address the poor audit outcomes of prior years were not effectively implemented and monitored during the year. However critical leadership positions were filled after year end and management have started developing a turn-around strategy. The impact of this strategy will be assessed with the next audit.

55. Despite weaknesses identified in the supply chain management control environment, the entity did not implement adequate consequence management processes for transgressions against applicable policies, laws and regulations.

### Financial and performance management

56. As the public broadcaster, the SABC has a public communications mandate and serves the large majority of citizens in this country. The entity is in the process of negotiating for additional support from the Department of Communications and the National Treasury as well as various financial institutions. However, the public entity did not prepare reliable cash flow forecasts.

57. The property, plant and equipment register was not properly maintained to ensure that all assets were recorded at the correct value.

58. Management did not implement adequate review procedures to ensure that indicators and targets included in the corporate plan were useful and that information reported in the annual performance report was adequately supported with appropriate evidence.

59. Management did not adequately implement review and monitoring controls to prevent non-compliance with applicable laws and regulations relating to supply chain management.

60. In addition, where the controls did not prevent non-compliance with supply chain management legislation, detection controls were also deficient as not all irregular expenditure was disclosed.

### Governance

61. There was a lack of appropriate risk management activities to ensure that threats affecting the entity were effectively identified, monitored and responded to on a strategic level.

## OTHER REPORTS

62. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation..

**Investigations**

63. The Special Investigations Unit and the forensic unit of the SABC were in the process of conducting several investigations related to various instances and allegations of financial misconduct and possible fraud. The investigations were ongoing at the date of this report and may, or may not, result in disciplinary and/or criminal proceedings against the parties concerned.

Pretoria  
17 August 2018

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## ANNEXURE D

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## SABC STRATEGIC ROADMAP

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## 1. EXECUTIVE SUMMARY

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This document provides an overview of the direction we are going as the national public broadcaster, as we endeavour to turnaround the SABC into a financially viable organisation that is committed to its mandate of providing a range of compelling informative, educational and entertaining programmes via television, radio and digital platforms. The Strategic Roadmap includes a proposed renewed vision, mission and strategic positioning. In order to achieve our corporate goals, we will adhere to our corporate values whilst being guided by a set of behaviours in achieving our Key Performance Areas. This Strategic Roadmap outlines the role we all need to play in ensuring that we become a high performing organisation that is relevant and truly competitive.

## 2. INTRODUCTION AND BACKGROUND

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The SABC is more than just a Public Broadcaster, it is a daily companion to millions of South Africans, allowing audiences to watch, listen and engage, in their mother tongue, with news, public service programming, events of national importance, and other moments shaping their lives.

The past two fiscals were particularly difficult for our organisation on many fronts. External and internal factors detracted from the SABC delivering on a number of key strategic imperatives, and this constrained our agility to respond to environmental factors / pressures compared to other industry players. The SABC has a statutory mandate to reach and serve all South African audiences.

In the absence of a clear turnaround strategy and integrated strategic alignment, the organisational disconnect between divisional, Provincial and SABC corporate strategy as well as inefficiencies in the Operating Model, it was necessary to develop a 5-year Strategic Roadmap that will not only address the above but ensure a sustainable and profitable SABC.

## 3. VISION

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Our organisation need a renewed vision that will guide us in terms of what we want to achieve mid to long term. The following Vision has been developed:

***To become the leading, credible voice and face of the nation and the continent.***

#### 4. MISSION

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The focus and direction of our organisation during its stabilisation, renewal and sustainability period are encapsulated in the following mission:

***A high-performing, financially sustainable, digitised national public broadcaster that provides compelling informative, educational and entertaining content via all platforms.***

#### 5. STRATEGIC POSITIONING

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The success of the Strategic Roadmap is dependent on the SABC repositioning itself in the following manner:

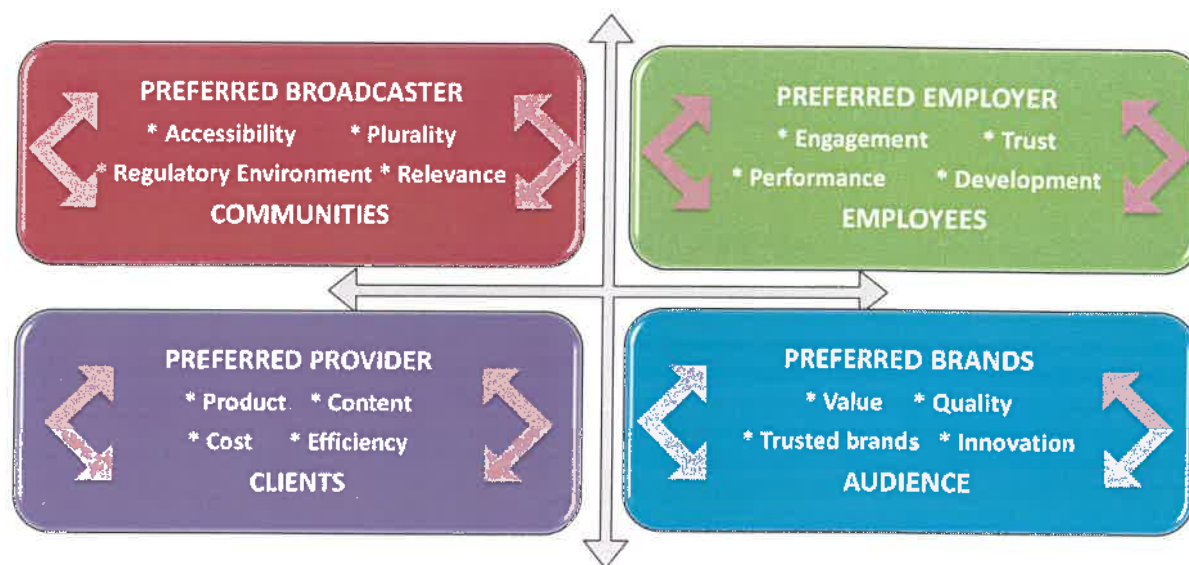
We will be the **Preferred Broadcaster** within our **Communities**. To ensure that we become the preferred broadcaster, we will provide compelling informative, educational and entertaining content via all platforms which is accessible by all South Africans. In doing so, we will adhere to the prevailing legislative and regulatory framework.

We will become the **Preferred Employer** with **Employees** who are our brand ambassadors. From a people perspective, our employees will excel in an authentic and transparent, environment driven by a high performance culture. Talent attraction and retention, learning and development are high priorities and so is having the right people in the right job - highly skilled, motivated, engaged, and passionate people. Our workplace has to become a safe, fun, positive environment to work in, where success is rewarded and non-performance is managed. Poor performers will be provided with the necessary tools, coaching, training and development. Where there is no discernible performance improvement, poor performers will make space for high performing employees (HiPos).

We will be the **Preferred Service Provider** to our **Clients**. We will collaborate to provide mutual profitable growth. We will ensure increased client service levels, and at the same time be flexible and effective with our operations, with improved efficiencies in our business processes. We will become client-centric, and therefore strive for a deep understanding of our clients' needs whilst accelerating revenue generation.

We will be the **Preferred Brands** for our **Audiences**, and will seek to attain increased preference and satisfaction, innovation and timeous renovation,

and to have consistent quality of products, trustworthy brands and value for money. We will provide a portfolio mix that has local, regional and global relevance perfectly aligned to our mandate.



## 6. STRATEGIC PILLARS

As our audiences and clients evolve themselves, we will transform and respond accordingly, aligning our strategies to create value and remain relevant. Seeing and putting our audiences at centre of what we do means that we will think along these lines:

- **Strategy Alignment and Communication.** There will be a greater strategy alignment and communication of our vision and mission throughout our organisation. We will translate and align each division's business plan, clearly define deliverables and how each employee has to contribute to reaching our corporate goals. This will be clearly communicated to each individual.
- **Happy Viewers and Listeners.** The image of the SABC products and brands being trusted and invited into people's homes, cars and devices should be a primary emotional driver for all our employees within our organisation. It is therefore imperative that the mantra of the 'The Voice and Face of the Nation' is embedded in all our communication. "The Voice and Face of the Nation" goes beyond the idea of our portfolio mix. It implies the notion of credibility, accessibility, relevance, trustworthiness, and a contribution to strengthening democracy, development and accountability. This is the promise we strive to finally deliver to our nation and the continent at large.
- **Flawless Execution.** The implementation of our strategies via focussed action plans, across all divisions and provinces, with a high level of

operational discipline and regular review will ensure we remain on the agreed track.

In addition to the current four Pillars of the SABC, two additional pillars have been added, each with its respective goals:

PILLARS	GOALS
FINANCIAL SUSTAINABILITY	A financially sustainable organisation
CONTENT & PLATFORMS	Offer a competitive and innovative multichannel portfolio
DIGITAL	SABC everywhere for everyone
HUMAN CAPITAL	A competent, dynamic workforce that is fit for purpose
GOVERNANCE	Compliant governance practices, risk management and sound internal controls
PARTNERSHIPS	Strategic and sustainable partnerships

## 7. KEY PERFORMANCE AREAS

Effective strategies, objectives and deliverables will be developed under the following key performance areas:

- Revenue;
- Expenditure;
- Working Capital;
- Audience Share;
- Operational Efficiencies;
- Corporate and Brand Image;
- Organisational Climate;
- Compliance.

## 8. VALUES

These organisational values will guide all our engagement with employees and external stakeholders:

- **RESPECT:** In our engagements internally and externally, we will be respectful.

- **TRUST:** We will cultivate an environment of trust with each other.
- **INTEGRITY:** We will always do what is right.
- **QUALITY:** The quality of work will be of the highest standard that we can be proud of.

## 9. BEHAVIOURS

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In driving performance, we will be guided by these behaviours:

### ***Responsibility***

- Be focussed
- Be disciplined
- Take ownership
- Do what matters
- Cross functional cooperation

### ***Attitude***

- Be positive
- Be the agent of change
- Be engaged
- Knowledge-sharing

### ***Competitiveness***

- Take calculated risks
- Have an entrepreneurial mind-set
- Be innovative
- Continues learning

### ***Execution***

- Flawless and efficient delivery
- Be effective
- Deliver quality on time

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## 10. LEADERSHIP

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As leaders we are the most important agents for change. The weight of the possibility of success rests on our shoulders. We will create focused initiatives around our clients, audience and our employees, and ensure a well-aligned, organisation with flawless execution.

Apart from our own personal "walk the talk", dedication to promote employee engagement, robust discussion with each other, and demonstrating high performance, we will lead and influence our organisation through:

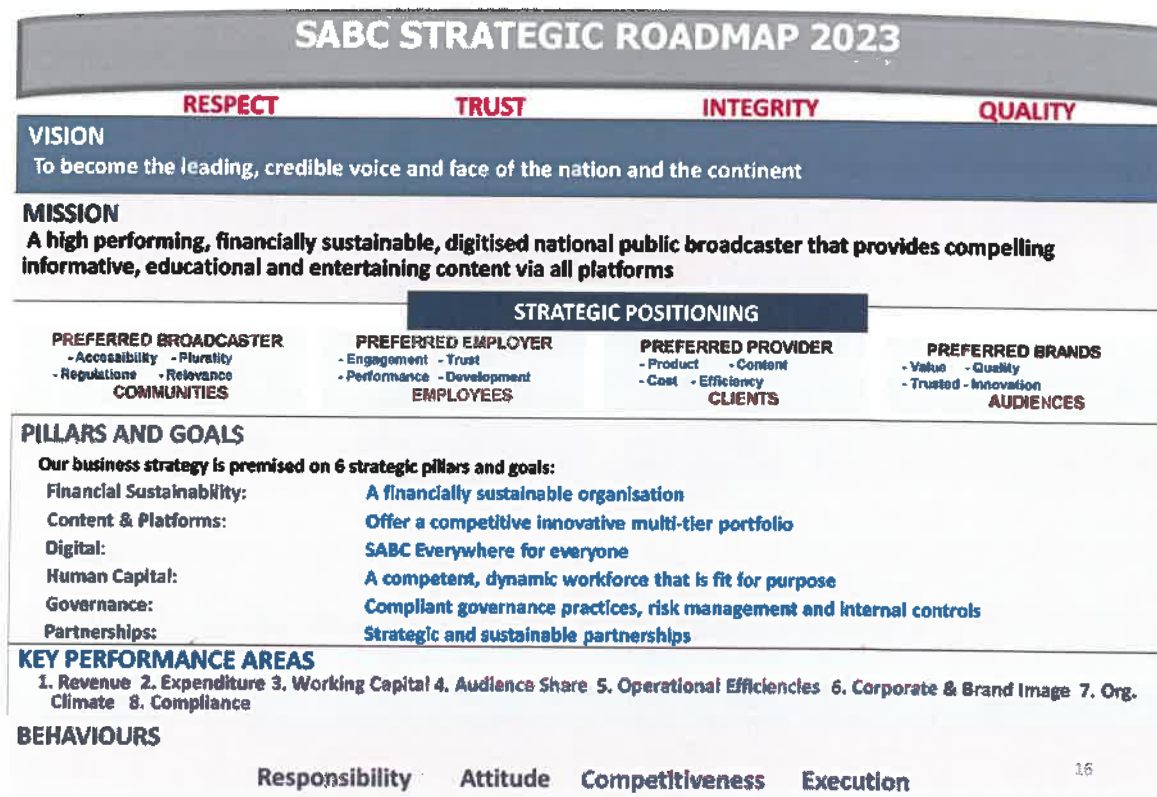
- **Focus on the future.** Whilst attending to the most immediate and short term business goals, we will share with our teams the long term vision for our organisation. We will sell the reasons why we have to accelerate growth and high performance, the prospects of the future, and not dwell on the past, except to learn from it.
- **Ethical conduct.** All our business dealings will be characterised by ethical conduct. We will walk away from business dealings with unethical attributes. We will not tolerate any unethical conduct by any member associated with our brand. Unethical conduct will not be tolerated within the corporation and will be harshly dealt with.
- **Our personal attitude and behaviour.** We must lead firmly and get results – but we must also listen, ask, invite and collaborate. We will start to focus on the intangible influence that is achieved through high emotional intelligence. We will shift from being managers and become leaders, capable of significantly mobilising our teams towards our corporate goals. We will develop and mature personally in order to help others develop. We will give each other transparent and constructive feedback at all times.
- **Employee engagement.** The teams that we lead will become "engaged". Their attitudes and behaviours will be a result of being well led. So we will create an environment for engagement, and we will give our teams space to grow. We will encourage our teams to aggressively drive the turnaround of our organisation and they will realise their part in that formation. We will assist them to commit to personal development, including skills, knowledge and attitudes and to take accountability and ownership. We have to lead the way to migrate from a "we will" mindset to a "I will" engagement.
- **Attract, Develop and Retain Talent.** We will assess the current and future talent requirements in our organisation in the context of business growth and turnaround. We will also develop a talent management strategy,



and a system to identify, develop and retain talent within the context of a matrix structure.

## 11. ONE PAGE STRATEGIC ROADMAP

The SABC's strategic roadmap is depicted in the one page outlay below:



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## ANNEXURE E

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## IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE ANALYSIS

### 1. FRUITLESS AND WASTEFUL EXPENDITURE

Note Disclosure: Fruitless and Wasteful expenditure	Mar 2019 R'000	Mar 2018 R'000
Opening balance	230 015	145 994
Add: Fruitless and wasteful expenditure – current year	132 503	84 021
Add: Fruitless and wasteful expenditure – Relating to prior years identified in the current year	91 667	-
Fruitless and wasteful expenditure awaiting condonation subject to further investigation	454 185	230 015
Details of fruitless and wasteful expenditure – Current Year		
Interest on repeat fees	3 655	-
Interest, penalties and fines on late payments	76 952	14 235
Impairment of Programmes - Television	44 506	1 677
Impairment of Programmes - Sports	91 667	-
SARS Penalties	-	20 577
Travel cancellation fees and penalties	64	-
Fraudulent payments	7 326	24 769
Legal fees	-	5 437
PAYE for employees fringe benefit not withheld	-	17 216
<b>Total</b>	<b>224 170</b>	<b>84 021</b>

## 2. IRREGULAR EXPENDITURE

		GROUP AND COMPANY	
		31 March 2019	2018
		R'000	R'000
Opening balance		4 977 300	4 405 804
Less: Irregular Expenditure not Validated **			
Add: Irregular expenditure - identified in the current year relating to the prior years		14 675	
Expenditure previously incorrectly disclosed as irregular		(107 534)	
Balance as restated		4 884 441	4 405 804
Add: Irregular Expenditure - current year		336 285	571 496
Less: Irregular Expenditure condoned in the current year but relating to prior years			
Irregular Expenditure awaiting condonation subject to further investigation		5 220 726	4 977 300
Analysis of expenditure awaiting condonation per age classification			
Current year		336 285	571 496
Prior years		4 884 441	4 405 804
		5 220 726	4 977 300
Details of Irregular expenditure			
Incidents**			
Payments without contracts		88 743	121 504
Deviations		19 311	34 789
Procurement policy/process not followed (As a result of prior disclosure)		176 549	146 135
Minimum number of quotations not obtained		26 147	27 355
Bids advertised for less than minimum number of days		85 378	8 649
Incorrect evaluation criteria applied to bids		53 267	8 759
Irregular awards due to lack of planning		11 756	101 372
Procurement through quotation process versus competitive		8 087	7 405
Variation order in excess of 15%		14 493	1 526
Irregular Expenditure Under Investigation			
Delegation of Authority Framework contravened		17	25 364
Procurement through operational advance		2 810	135 545
Awards made to suppliers without obtaining valid Tax Clearance Certificates		61	5 531
Unfair Procurement Process		20 215	35 988
Schedule All			
Insufficient Documentation			55 858
Non Compliance to CIDB			1 831
		336 285	571 496

**IN THE COMMISSION OF INQUIRY INTO ALLEGATIONS OF STATE CAPTURE,  
CORRUPTION AND FRAUD IN THE PUBLIC SECTOR INCLUDING ORGANS OF  
STATE ("THE COMMISSION")**

**SUPPLEMENTARY AFFIDAVIT**

I, the undersigned,

**MZWAMADODA MXAKWE**

hereby declare under oath as follows:

1. I have deposed to an affidavit dated 14 August 2019 (the "main affidavit"), setting my dealings with the South African Broadcasting Corporation ("SABC")
2. I depose to this supplementary affidavit to make corrections and include matters I did not raise or deal with in my main affidavit.

**CORRECTION TO MAIN AFFIDAVIT**

3. In my main affidavit, I only highlighted the losses we have made in the past 3 years. Below table shows the revenue during those three years and cash balance at the end of each year.

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ITEM	FY2016/17	FY2017/18	FY2018/19
REVENUE AND INCOME	R6.5 billion	R6.6 billion	R6.5 billion
CASH BALANCE AT YEAR-END	R82 million	R131 million	R72 million

4. I was also requested to provide more information on how we are dealing with irregular, fruitless and wasteful expenditure as highlighted in my main affidavit.
5. I attached hereto as Annexure "MM001" to "MM004" details on Irregular, Fruitless and Wasteful Expenditure dating back to 2012 and how we are dealing with this legacy matter:
  - 5.1 If we registers for 5 years + YTD as at Nov 2018 for FY19;
  - 5.2 The final notes in the AFS as at 31 March 2019;
  - 5.3 The latest quarterly report that reflects the FY19 at the time – though this changed in the mean time as the Audit was finalised and YTD June 2019;
  - 5.4 You can see initiatives to improve the internal control breakdowns and bad behaviour though;
  - 5.5 Also the IE Project report to reflect on the various activities via which we are attempting to improve the situation; and
  - 5.6 We submit a monthly report to SCOPA on progress to deal with IFWE.

#### **Amortisation of Content**

6. There was also a request from the investigators of the Commission to explain what we mean by amortisation of content, in a manner that will be more understandable.
7. The SABC acquires television content as follows:

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8. Buy local and foreign content on the market such as films, documentaries, soapiest etc. This type of content is linked to time and licence period, i.e. the SABC has a 1 year or 3 years to show this content on its television channels. If it doesn't do so in the licensing period the agreement lapse and the SABC is not allowed to show the programme or film any longer.
9. Commissions Production Houses to produce content – also in various genres but mostly soapies. This done through a Request for Proposal process where companies or production houses pitch certain content / programmes to the SABC. This content then belongs to the SABC, we have ownership thereof. The SABC can then decide to “sell or licence” this content to other broadcasters with certain terms attached to it.
10. Produces its own content – mostly in the form of Sports and News and some local content. The SABC uses its own resources (human capital, infrastructure and technology, studios) to produce a programme or sport event from start to finish. This is mostly live content but can be repeated from time to time. This is very costly to the SABC.
11. Amortisation of content (which is an accounting term) takes place once the film, sport event, drama, soapy, programme have been broadcast for the first time and within the licensing period. This is usually new or first time broadcasts. You therefore allocate the cost to a certain broadcast of a programme or event.

12. The more new and first time content is broadcast, the bigger the investment, the bigger the amortisation. Content is one of the biggest cost drivers of the SABC. However, fresh and new content attracts advertisers which, in turn, ensure that the SABC receives more advertising revenue.
13. Low amortisation costs means that the SABC has invested less in new content and showed more repeats of the content that is owned by the SABC. Some repeat programmes will still attract advertisers to spend money. This is what happened in the years that the SABC showed profits. This was not because of high revenue generation but rather not spending money (costs) on new programming.
14. One has to find a balance between acquiring new content, showing certain repeats of programmes that are popular and attracting the audiences and revenue linked to new and repeat programmes.
15. I would like to thank the Commission for the opportunity to present the SABC's case in respect of the situation of sports rights and in particular the PSL soccer rights situation and the obligations that the SABC has regarding the broadcast of sports in South Africa, and other matters of interest.
16. The SABC has over the years carried the burden of broadcasting national sporting events under very difficult financial circumstances and regulatory requirements.

**HISTORICAL OVERVIEW OF PSL RIGHTS ACQUISITION**

17. The SABC has over the years held the broadcast rights of PSL football matches until 2007 when it lost the rights to Supersport following a legal dispute with the PSL. The SABC has since then been sublicensing the rights from Supersport. In 2011 the SABC unsuccessfully tried to bid for the PSL rights following the issuance of an Invitation to Tender by the PSL.
18. The SABC entered into an exclusive sublicense agreement with Supersport in November 2012, where the SABC was granted the TV Broadcast rights for the Republic of South Africa only, for the period 2012/13 – 2016/17, which was comprised of 5 PSL seasons. The rights granted were Free to Air (FTA) domestic terrestrial TV channels only limited to SABC 1, 2, 3; including SABC Sports Channel via a Digital Terrestrial Television (DTT) platform.
19. The rights allowed for a live, delayed-live and delayed broadcast transmission of 132 matches that were equally distributed between PSL ITT agreed selection, other PSL & NFD fixtures, Cup Fixtures and NFD Playoffs. Stipulations on the selection of the matches are stated where, other than the 33 shared matches, the SABC shall be entitled to broadcast 36 Premiership matches non exclusively and a further 50 matches exclusively; "on the basis that Supersport shall have the final say in regard to such selection should the parties not be in agreement in regard thereto". Based on the prescribed match selection here above,

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the SABC was required to broadcast a total of 119 matches. Added to the terms of agreement, the SABC was required to Host Broadcast 37 (33 shared matches as per PSL ITT and 4 non-exclusive matches) at SABCs cost as well as any additional matches that the SABC would have selected to broadcast exclusively or non-exclusively.

20. For the sublicense rights offered, the SABC was liable for a rights fee of **R800 000 000.00** (eight hundred million Rands), at **R160 000 000.00** (One hundred and sixty million Rands) per season.
21. Upon termination of the 2012 agreement, the SABC entered into another sublicense agreement through an Addendum that essentially extended the same terms agreed in 2012, for a further 2 more seasons, thus amending the license period from 2012 – 2019. The TV rights granted the SABC the same rights and terms as per the 2012 main agreement for seasons 2017/18 and 2018/19 at a price of **R240 000 000.00** per season, totalling to **R480 000 000** (Four hundred and eighty million Rands).

## LEGISLATION AND REGULATORY OBLIGATIONS

22. The Sport Broadcasting Services Regulations of 2010 which are currently applicable were developed by ICASA based on section 60 (1) of the Electronic Communications Act (ECA). The ECA provides the following:
  - 22.1 *"Subscription broadcasting services may not acquire exclusive rights*

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*that prevent or hinder the free to air broadcasting of national sporting events, as identified in the public interest from time to time, by the Authority, after consultation with the Minister and the Minister of Sport and in accordance with the regulations prescribed by the Authority”.*

23. The intention of the legislation has been clear, to make sports of national interest accessible to majority of the people in the country. ICASA has in compliance with the legislation issued regulations in 2010 wherein in it listed a number of sporting events which must not be acquired exclusively by pay television such as Multichoice. The list of the events and tournaments are expected to be broadcast by the FTA is broadcasters such as the SABC.

#### **UNINTENDED CONSEQUENCES OF THE LEGISLATION AND REGULATIONS**

24. Whilst the legislation and the regulations are meant to protect the interest of the public by ensuring that the sporting events are accessible on FTA broadcasting platform, they have over the years had unintended consequences on the SABC as a FTA broadcaster that needs to acquire the rights. The SABC has been subjected to exorbitant prices due to the fact that certain sporting events are in demand from the public such as PSL soccer matches and there is no alternative way to acquire the rights except from the rights holders (PSL) or through sublicensing from (Multichoice).
25. The burden gets more when considering other public service obligations

or unfunded mandate that the SABC has to the general public. So far the broadcast of listed events such as the PSL and Bafana Bafana games have yielded negative financial returns relative to the high cost of the rights investment made. This is what has created a recent stalemate between the SABC and Multichoice in the negotiations for the sublicensing of PSL rights. The situation gets more complicated by the fact that the SABC on the one hand is obliged through the "Must Carry" regulations to avail its channels that may have primary sports rights to subscription broadcasters, free of charge.

#### **COSTS OF SPORTS RIGHTS TO THE SABC**

26. For the past fiscal (1 April 2018 to 31 March 2019) the SABC spent R550 million on Sports Rights and the broadcasting of sporting events and revenue generated from these events for the same period was R143 million. This represents a negative Return on Investment of 74%.
27. Over the last five years, a total of R3.7 billion was spent on Sports with revenue and income from these events of R148 million with losses amounting to R3.6 billion.
28. Regarding PSL, the SABC has over the last five years incurred a loss of R1.3 billion in relation to the broadcast of PSL matches and the SABC had to take a decision that any agreement entered into, should be financially sound and sustainable for the business, ensuring that there is return on investment for the organisation.

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29. The SABC thus cannot compete nor sustain the status quo of incurring excessive expenditure for Sports Rights and production with little or no return on investment.

#### **SPORTS RIGHTS NOT SECURED BY THE SABC IN 2019**

30. To date the SABC has attempted to negotiate with rights holders for major sporting events and tournaments that are listed in the regulations with the view to comply with its sports mandate. However, the following sporting events could not be secured due to the high cost of rights:

- 30.1 Women's World Cup,
- 30.2 Netball World Cup
- 30.3 Currie Cup
- 30.4 ICC Cricket World Cup
- 30.5 Cricket Outbound India vs. SA
- 30.6 IRB Rugby World Cup
- 30.7 Live Boxing
- 30.8 SAFA Properties
- 30.9 Swimming Events
- 30.10 Athletics – Two Oceans Marathon, Nelson Mandela Marathon

**SABC SUBMISSION TO THE INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA (ICASA) ON SPORTS BROADCASTING SERVICES AMENDMENT REGULATIONS, 2018.**

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31. On the 14th of December 2018, the Independent Communications Authority of South Africa ("the Authority") published the Draft Regulations for public comment. The publication also invited interested parties to submit written comments or representations on the Draft Regulations. The intention of the process was to review the current 2010 regulations that the SABC is subjected to. This provided the SABC with an opportunity to raise all concerns it had about the regulations and it proposed various changes to the regulations. The SABC made both written and oral submission to ICASA. The hearings for the SABC were held on 31 May 2019. The outcome of the process is still pending ICASA's issuance of the final regulations.

#### **KEY SUBMISSIONS OF THE SABC TO ICASA**

32. The following are some of the key submissions that the SABC made to ICASA for consideration when reviewing the regulations:

##### **Competition**

33. There is a need for sector-specific regulations in the area of sports broadcasting services which must ensure that there is fair competition in the broadcasting sector and safeguard the sustainability and viability of public broadcasting services. It is public knowledge that the bulk of national sporting events are held by a subscription broadcasting service (MultiChoice) and that MultiChoice owns sizeable stakes in several sports franchises, these franchises constitute significant voices in the organisations with whom Multichoice negotiate sports agreements. The franchises in

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question are:

- 33.1 Supersport United Football Club: 100%
- 33.2 KZN Cricket: 50%
- 33.3 Western Province Professional cricket: 50%
- 33.4 Titans Cricket: 50%
- 33.5 Free State Cheetahs: 24.5%
- 33.6 The Sharks: 40%

#### **The unbundling of sports rights**

- 34. In order to allow access to the rights by FTA broadcasters, the regulations should oblige the rights holders to split the rights for FTA broadcasters and subscription/pay television when they put them in the market. This will obviate the anomaly where the winner takes all the rights such as is the case with PSL rights. In other jurisdictions such as the English Premier League, the rights are split between FTA and subscription broadcasters, hence the SABC was able to broadcast the EPL in the last season through sublicensing from Kwese TV.

#### **Exclusivity for the category of rights and platform as per the licensed service**

- 35. The splitting of the rights can allow the retention of exclusivity to the broadcasters in a fair manner. The FTA broadcaster will have exclusivity to the FTA rights and the subscription broadcasters will have the same for their rights. This will resolve exclusivity of all rights being allocated to one broadcaster. In addition, no broadcaster should acquire rights for a platform

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it does not have. This would mean that a television broadcaster should not be allowed to acquire rights for radio if it does not have a radio platform. This has been the case with Multichoice where it was allowed to acquire radio rights for rugby while it does not have a radio services. Such a situation unduly allows high escalation of the price for the sublicensing of radio rights to the SABC 's radio platform.

#### **A fair and transparent sub-licensing framework**

36. There is currently no transparency and fairness in how the rights are sublicensed. The party that is licensed for the rights can demand any price without any disclosure or oversight by the regulator. The fact that a bidder has put a high price and won the rights should not give it absolute authority to determine how it sublicenses without any observation by the Authority. The rights are not merely sublicensed for commercial gain but also to benefit the poor members of the public who cannot afford to subscribe to pay television.

#### **The Review of the Must Carry Regulations**

37. ICASA regulations on "Must Carry", as provided for by section 60 (2) of the ECA, which obliges the SABC to avail its channels to subscription broadcasters for free should be reviewed as it creates an unfair advantage for the subscription broadcasters. The subscription broadcasters are able to access content paid for by the SABC by relaying SABC channels on their platform. This would include sports content that the SABC has acquired and paid for from the market.

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38. It is regrettable that in the past years no consideration has been given by ICASA, the rights holders and other relevant stakeholders on the fairness and transparency in the acquisition process of sporting rights.
39. It is the SABC's view that the regulations should provide intervening mechanisms to ensure that (FTA) broadcasters are able to deliver, most importantly on national sporting events to the members of the public.
40. It is sad that 25 years into democracy, we have not transformed the broadcasting sector to ensure that the poorest of South Africans, can access freely prime sports that were meant for certain sectors of our society. Yet we want to produce heroes and heroines in Cricket, Rugby etc. from the previously disadvantaged communities. The review of the regulations should address this concern.
41. In addition, the acquisition and the sub-licensing of rights require serious review by ICASA, to ensure that there is transparency, and that the SABC is not exploited in the process.
42. The SABC calls upon ICASA and the policy maker to develop a framework that makes public funding of national sporting events to be mandatory by government. The SABC has all intentions and plans to invest and broadcast sports of national importance in a digital multiplatform environment, however these plans cannot come to fruition under the current market conditions and regulatory regime.

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43. The SABC believes the recent ICASA inquiry will go a long way in bringing significant change to the industry, with the aim of ensuring that all South Africans have access to national sporting events.

#### **SABC PRESENTATION ON THE ICASA DRAFT SPORTS REGULATIONS**

44. I attach hereto as Annexure "MM005" a copy of my opening address to ICASA, in regard to draft sports regulations.

#### **SABC PRE-CONDITIONS FOR FUNDING**

45. I attach hereto as Annexure "MM006" preconditions for finding and the chairpersons response.

46. This is all I wish to declare.

  
DEPONENT

Signed and sworn before me at HILLBROW this 02  
day of SEPTEMBER 2019 after the deponent declared that the  
deponent is familiar with the contents of this statement and regards the  
prescribed oath as binding on the deponent's conscience and has no objection  
against taking the said prescribed oath. There has been compliance with the  
requirements of the Regulations contained in Government Gazette R1258,  
dated 21 July 1972 (as amended).

57




COMMISSIONER OF OATHS:

FULL NAMES:

CAPACITY:

ADDRESS:

 7164146-S  
Mhlabane - CSI

DONALD MZAMANE MHLABANE.

CSI

STATE CAPTURE, COMMISSION

HILL ON EMPIRE

PARKTOWN, JOHANNESBURG

SUID-AFRIKAANSE POLISIEDIENS
STATION COMMANDER
2019 -09- 02
CLIENT SERVICE CENTRE HILLBROW
SOUTH AFRICAN POLICE SERVICE

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	TOTAL	2018/19 YTD	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
<b>Opening balance</b>									
Less: Reversal of incorrectly disclosed prior year amount	(21 139)	230 015	145 994	92 461	58 299	42 000			
<b>Restated opening balance</b>	(21 139)	230 015	145 994	92 461	58 299	42 000			
<b>Current year movements</b>									
Add: Fruitless and wasteful expenditure - incurred in the current year	396 167	10 751	84 021	74 672	34 678	17 168	54 600	15 662	104 615
	361 028								
Add: Fruitless and wasteful expenditure - relating to prior years identified	35 139	10 751	54 562	70 008	34 678	16 154	54 600	15 662	104 615
Less: Amounts condoned	(118 710)		29 459	4 666	1 014			(15 612)	(103 098)
<b>Fruitless and wasteful expenditure not condoned</b>	256 318	240 766	230 015	145 994	92 977	59 168	54 600	50	1 517
Less: Amounts recoverable	(15 547)				(516)	(869)	(12 600)	(50)	(1 512)
Less: Amounts recovered	(5)								(5)
Less: Amounts not recoverable (not condoned)									
<b>Fruitless and wasteful expenditure awaiting condonation</b>	240 766	240 766	230 015	145 994	92 461	58 299	42 000		
<b>Details of fruitless and wasteful expenditure</b>									
<b>Incident</b>									
Impairment of foreign and sports content	56 596	171	1 677	2 706	12 698	6 340	4 820	6 064	22 120
Withholding tax penalties and interest	29 372						29 372		
Contractual disputes with third parties	9 115							6 743	2 372
Travel cancellation fees and penalties	2 352		110	473	270	529	404	442	124
Interest, penalties and fines on late payments	31 318	8 627	14 235	111	1 697	3 033	3 615		
Staff advances long outstanding and written off	266						266		
Impairment of sport productions - not broadcast	4 430					2 034	2 396		
Impairment provision raised - not all sport content provided	13 027						13 027		
Overcharge by vendor for services rendered	600						600		
Court dismissed CCMA reward review	100						100		
Legal claims	72 060								72 060
No shows charges on training	586				246	340			
Recruitment process not followed	21 665				19 766	1 889			
Overpayment to vendor	2 942					2 942			
SARS penalties	20 577		20 577						
Unauthorised payments and overpayment of overtime	24 769		24 769						
Settlements	66 257			65 257					
Legal fees	11 563			6 126					
PAYE for employees fringe benefit not withheld	17 216		17 216						
Payment for services not provided	10 352							2 413	7 939
Interest on repeat fees	1 953	1 953							
Other	61					61			
	396 167	10 751	84 021	74 674	34 677	17 168	54 600	15 662	104 615

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	TOTAL	2018/19 YTD	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
<b>Opening balance</b>									
Irregular Expenditure not validated	(2 542 726)								
Add: Irregular expenditure - identified in the current year relating to the prior years	4 454 184								
		4 977 300	4 405 804	5 148 526 (1 429 646)	4 385 138 322 282	3 376 809 1 732 127	1 231 2 399 775		
<b>Balance as restated</b>									
	1 911 458	4 977 300	4 405 804	3 718 881	4 707 420	3 995 855	2 401 006		
Add: Irregular expenditure - identified in the current year relating to the current year	3 350 339	55 983	571 496	686 923					
					441 222	389 283	990 694	100 322	114 416
Less: Amounts condoned (The amount reported for 2018/19 is provisional based on approvals up to Board level at this time)	(501 030)	(276 840)							
Less: Amounts recoverable	(886)								
Less: Amounts recovered	(3)				(117)		(14 891)	(97 218)	(112 081)
Less: Amounts not recoverable	(3 434)							(1 873)	(3)
								(1 561)	
<b>Irregular Expenditure awaiting condonation subject to further investigation</b>									
	4 756 442	4 756 443	4 977 300	4 405 804	5 148 526	4 385 138	3 376 809	1 231	
<b>Analysis of expenditure awaiting condonation per age classification</b>									
<b>Current year</b>									
Prior years		55 983	571 496	686 923	441 106	389 283	975 803	1 231	
			4 405 804	3 718 881	4 707 420	3 995 855	2 401 006		
<b>Details of irregular expenditure</b>									
<b>Incident</b>									
Payments without contracts	412 707	27 628	121 504		40 932	13 344		97 218	112 081
Broadcast without Contract	14 934				14 934				
Deviations	40 034	5 245	34 789						
Procurement policy/process not followed	787 836	5 762	146 135	514 949	16 226	62 914	38 416	1 873	1 561
Procurement through quotation process versus competitive	8 772	1 367	7 405						
Variation order in excess of 15%	1 526		1 526						
Irregular Expenditure Under Investigation	25 364		25 364						
Delegation of Authority Framework contravened	220 140		135 545	79 968	718	3 286		325	298
Awards made to suppliers without obtaining valid Tax Clearance Certificates	1 439 626		5 531	92 006					
					142 316	308 917	890 866		
Inadequate monitoring of contracts / Split Orders	226 802				225 980	822			
Schedule All	73 341	15 962	35 968				21 391		
Insufficient Documentation	55 898		55 898						
Non Compliance to CIDB	1 831		1 831						
Misappropriation of resources	1 382								
Other	5 901				117			906	476
Sundry	34 248						5 784		
							34 248		
<b>3 350 341</b>	<b>55 984</b>	<b>571 496</b>	<b>686 923</b>	<b>441 223</b>	<b>389 283</b>	<b>990 694</b>	<b>100 322</b>	<b>114 416</b>	

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**Audit & Risk Committee Meeting****REGISTRATION NUMBER 2003/023915/30**

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**STATUS UPDATE ON IFWE**

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**1. DEPARTMENT REQUESTING SUBMISSION:**

Chief Financial Officer

**2. TITLE OF SUBMISSION:**

Status Update on IFWE.

**3. PURPOSE OF SUBMISSION:**

Discussion and noting.

**4. INTRODUCTION AND BACKGROUND**

See attached submissions. Note that at the time of writing, the IFWE Registers as at 31 March 2019 were not yet concluded as the audit was not yet finalized.

**5. DECISION REQUIRED**

None

**6. PRESENTATION**

Feedback will be provided at the meeting.

A handwritten signature in black ink, appearing to be a stylized 'J' or 'S' with a horizontal line extending to the right.

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**7. ESTIMATED TIME REQUIRED**

10 Minutes

**8. SIGNATORY:**

**SUBMITTED BY**

  
\_\_\_\_\_

**Yolande van Biljon**  
**Chief Financial Officer**

18/7/19

\_\_\_\_\_  
**Date**

**Contact Person:**

Yolande van Biljon  
Chief Financial Officer

Tel: 011 714-2265

Email: vanBiljonY@sabc.co.za

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**IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE**

**30 June 2019**

**PROGRESS REPORT**

D.M.

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## 1. INTRODUCTION

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In terms of Public Finance Management Act (PFMA), the following terms are defined as follows:

- *Irregular expenditure* means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including—
  - (a) this Act; or
  - (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or
  - (c) Any provincial legislation providing for procurement procedures in that provincial government.
- *Fruitless & wasteful expenditure* means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Section 51(e) (iii) then puts the responsibility on the Accounting Authority (Board of Directors) to take effective and appropriate disciplinary steps against any employee of the public entity who makes or permits an irregular expenditure or a fruitless and wasteful expenditure.

It is in the abovementioned legislative framework that monthly progress report is given on the irregular, fruitless and wasteful expenditure incurred, including the remedial action taken.

Handwritten signature and initials, possibly 'MM'.Handwritten initials, possibly 'D. M'.

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## 2. IRREGULAR EXPENDITURE PROGRESS

	Status							
	Amount	Under Determination/ Investigation	Confirmed Amount	Disciplinary Process	Recovery Process	Criminal Charges	Condoned	Removed
Awards made to supplier without obtaining valid Tax Clearance Certificate	458		Yes	In Progress				
Bids advertised for less than minimum number of days	-							
Delegation of Authority	-							
Deviations	3,291	Yes						
Incorrect evaluations criteria applied to bids	14,093		Yes	In Progress				
Irregular due to lack of planning	116		Yes	In Progress				
Minimum number of quotation not obtained	32	Yes						
Non-compliance with CIDB	-							
Payment without contract	9,112		Yes	Yes	N/A	N/A		
Procurement through quotation process instead competitive bidding process	-							
Schedule	6,962	Yes						
Variation order in excess of prescribed thresholds 15%	523	Yes						
Total Irregular Expenditure	34, 586							

IFWE May 2019

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## 2.1. Disclosure note

	June 2019 R'000	March 2019 R'000
<b>Opening balance</b>	<b>5,179,495</b>	<b>4,977,300</b>
Less: Expenditure previously incorrectly disclosed as irregular		(107,534)
Add: Irregular expenditure - identified in the current year relating to the prior years		4,028
<b>Restated Opening Balance</b>	<b>5,179,495</b>	<b>4,873,794</b>
Add: Irregular Expenditure - current year	34,587	306,722
Less:		
<b>Irregular Expenditure awaiting condonation subject to further investigation</b>	<b>5,214,082</b>	<b>5,179,495</b>
<b>Details of irregular expenditure</b>		
Payments without contracts	9,112	88,743
Deviations	3,291	13,801
Procurement policy/process not followed	14,243	168,318
Minimum number of quotations not obtained		23,933
Incorrect evaluation criteria applied to bids	14,039	52,629
Bids advertised for less than minimum number days		85,573
Irregular awards due to lack of planning	117	6,183
Procurement through quotation process versus competitive		4,037
Schedule All	6,962	28,215
Variation order in excess of 15%	523	720
DAF contravened		0
Awards to suppliers without Valid Tax Clearance	458	2,810
Unfair Procurement Process		61
Non-compliance to CIDB		-
Procurement through operational advance		17
<b>Total</b>	<b>34,587</b>	<b>306,722</b>

- Payments without contracts**

It occurs where the goods and services have been acquired without a substitutive written legal contract. This could be mainly as result of the procurement process still under way or not completed and/or lack of planning.

- Deviations**

Deviation is a processes allowed in the Supply Chain Management for the acquisition of goods and services. It occurs in instances where a normal procurement process (through competitive bidding) is not followed. The process must be in line with the Corporation's Supply Chain Management Policy and Delegation of Authority Framework and the National Treasury SCM Instruction Note 3 of 2016/17. The transactions disclosed above do not meet the criteria of Emergency, Sole Source and were not approved by National Treasury.

- **Procurement process not followed**

It occurs when the SCM or procurement process was not adhered to in the acquisition of goods and services i.e. SABC SCM Policy, PPPFA, the SABC SCM Procedures Manual and any other relevant/applicable legislation governing the procurement process..

- **RFQ instead of competitive bidding process**

It occurs in instances where competitive tendering process was necessary but the request for quotation process was rather followed. This is as result of non-adherence to the applicable thresholds as fully described in the SABC SCM Policy and Procedures Manual.

- **Schedule All**

This system is mainly used by the Outside Broadcast division to procure (book) goods/ services needed for the broadcast. The common goods/ services procured relate to catering, security, scaffolding, etc. This system was adopted by the Corporation a while back to allow the division to have preferred suppliers which can respond to the pressures and urgency of broadcasting requirements. In the past the Supply Chain Management division could not respond to the turnaround timelines which were necessary to get the goods/ services.

## 2.2. Remedial action

- **Payments with contracts**

SCM has since requested necessary information from respective business units. Business Units have been advised to plan properly in the future to avoid Payments without contracts. Previous payments without contract issues are now in the process of being condoned as per new Framework on Irregular Expenditure. Socialization of the SABC SCM Procedures Manual is currently underway within the SABC, having already started with the SCM Officials.

- **Deviations**

The application and implementation of National Treasury Instruction Note 3 of 2016/17 is being implemented effectively and efficiently for compliance with the deviation processes. Socialization of the SABC SCM Procedures Manual is currently underway within the SABC, having already started with the SCM Officials.

- **Procurement process not followed**

Socialization of the SABC SCM Procedures Manual is currently underway within the SABC, having already started with the SCM Officials.

- **RFQ instead of competitive bidding process**

Socialization of the SABC SCM Procedures Manual is currently underway within the SABC, having already started with the SCM Officials.

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- **Schedule All**

SCM has since proposed that panel of services providers will be created to avoid further Irregular Expenditure. There is progress made and procurement under this theme would closely monitor as we currently looking at further strategies in using the panel of service provider while in compliance with the proper procurement process.

### 2.3. Condonation

Total amount to be condoned by National Treasury: **R2 743 264 779.62**

Expected date of submission to the National Treasury: **31 July 2019**

### 3. FRUITLESS & WASTEFUL EXPENDITURE

Division	Amount R'000	Responsible person	Summary of actions taken
Television	1,664	Craig Van Rooyen	Request condonation of the amount
Corporate Affairs	2,606	Philly Moliwa	No action taken due to liquidity challenges.
Airwave	11	Various divisions	Amounts to be recovered from concerned individuals
<b>Total</b>	<b>4,281</b>		

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### 3.1 Disclosure note

	June 2019 R'000	Mar 2019 R'000
<b>Opening balance</b>	<b>402,465</b>	<b>230,015</b>
Add: Fruitless and wasteful expenditure – current year	4,281	80,783
Add: Fruitless and wasteful expenditure – Relating to prior years identified in the current year		91,667
<b>Fruitless and wasteful expenditure awaiting condonation subject to further investigation</b>	<b>406,746</b>	<b>402,465</b>
<b>Details of fruitless and wasteful expenditure – Current Year</b>		
Interest on repeat fees	1,664	2,587
Interest, penalties and fines on late payments	2,606	76,560
Impairment of Programmes		91,837
SARS Penalties	-	-
Travel cancellation fees and penalties	11	43
Unauthorized payments on overtime	-	-
Legal fees	-	-
PAYE for employees fringe benefit not withheld	-	-
Other		1,423
<b>Total</b>	<b>4,281</b>	<b>172,450</b>

- **Interest on repeat fees**

This relates to interest on royalties, repeat fees and exploitation fees for prior years.

- **Impairment of programmes**

This relates to an incident where a Title was taken off broadcast schedule before all episodes were broadcasted. The reason for this was that the episodes were not appropriate for public broadcasting at the scheduled time of the programme.

Sports related impairment includes instances where, contractually, the SABC is supposed to broadcast certain sporting codes but due operational reasons, they were not broadcasted. The impairment disclosed above can be considered a once-off due to protracted nature of the negotiations then and the urgency of finalizing the agreement.

## Highlights

### Travel related fruitless expenditure

Travel Cancellation fees including Traffic fines	2018/19	2017/18	2016/17	2015/16	Balance
Incurred	70,733.70	110,210.20	472,434.27	269,672.17	923,049.44

- An amount of R10k has been recovered from the total balance of R923K. Divisions with material balances are News and Sports given the nature of their business.
- All responsible Group Executives have been made aware of moneys that need to be recovered from the concerned employees. On a monthly basis, Divisions will provide update on the recoverable amount versus what has been recovered, which will be included as part of this report.
- Standard operating procedures on FWE will be updated to consider flagging process, before it is included as fruitless expenditure, and timeliness relating to recovery of moneys.

### **3.2 Remedial action**

- **Interest on repeat fees**

- a) The SOP for the payment of repeat fees has been revised with input from internal stakeholders, and has been included in the business's revised SOP.
- b) Repeat fee strategy has been approved by Board and to be implemented through Industry Development.

- **Impairment of programmes**

No remedial action yet – person responsible has already left the organization

### **3.3 Condonation**

Not yet available

**4. ACCURACY AND COMPLETENESS DECLARATION**

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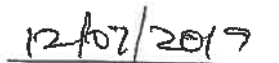
I hereby certify that the information submitted is accurate and complete, as provided by the divisions.



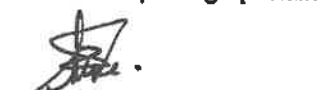
Signature (Preparer)

**Mr S Motshwa**

**Financial Reporting Specialist**

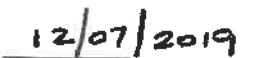


Date

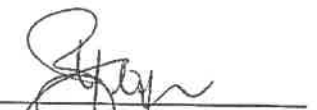


Signature (Endorser)

**Mr Rubendra Naidoo**



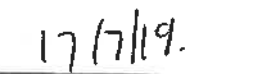
Date



Signature (Endorser)

**Ms Y van Biljon**

**Chief Financial Officer**



Date

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"MM003"



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

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1. **DEPARTMENT REQUESTING SUBMISSION**

Chief Financial Officer

2. **TITLE OF SUBMISSION**

Irregular Expenditure Project

3. **PURPOSE OF SUBMISSION**

Provide a status update of the Irregular Expenditure Project

4. **BACKGROUND**

The SABC is required in terms of paragraph 72 of the Framework to submit Irregular Expenditure to National Treasury. A subsequent National Treasury Instruction no 2 of 2019/2020 was issued with effect from 17 May 2019 wherein the SABC is required to report on Irregular Expenditure after each quarter.

The SABC has been receiving Audit Qualifications in Supply Chain Management for the past 5 fiscals due to the completeness of the Irregular Expenditure register. The Auditor General has again raised a concern for the 2018/19 Audit due to weaknesses in the internal controls.

The method for verifying irregular expenditure is still a tedious and a manual process. The detailed May Report outlined the activities identified to address the challenges.

The 4 main workflows identified are:

- Testing of the Payment file to construct the IE Register
- The Reporting of IE to the relevant authorities
- The condonation of the identified Irregular Expenditure.

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- Removal of the Irregular Expenditure from the Register

There has been numerous efforts and work performed in the 1<sup>st</sup> Quarter but not at the pace and impact that was anticipated. This is due to operational challenges of staff capacity as the focus was to complete the Irregular Expenditure Register and Note in the Annual Financial Statements for the year end and audit. During this period work streams and processes have been designed to help the team to work more effectively and produce the required level of productivity. The payments without template have been revised to align to the Instruction Note 2 Of 2019/2020. A team activity log has been introduced to track the work performed. This weekly tracking would assist in improving the productivity of the team. There needs to a permanent team appointed and trained to perform this critical function.

The SCM project team has also been assisting the broader SCM Team with providing the documentation for the RFI's that are been issued by the Auditor General. This due to the significant capacity issues in the SCM Department in general.

The SAP CCC Team have developed a system based solution to identify the irregular expenditure from the entire population of transactions. The SAP CCC team is busy testing the system and we hope to implement in August. This process will strengthen the internal control of verifying and testing for irregular expenditure on the entire population.

The SAP system enhancements has been ongoing and required reconfiguration due to the National Treasury Instruction Note 2 which came into effect on 17 May 2019. The challenge in the designing the system was the roles and responsibilities. The critical role of completing Condonation Reports was assigned to Financial Managers/Heads of Finance.

Group Internal Audit is working on establishing a Loss Control Committee which will be entrusted to implement a recoveries system so that losses are minimized.

The National Treasury Team presented guidelines and interpretations of the Supply Chain Prescripts in a 2 day workshop at the SABC Auckland Park Offices. These presentations provided useful information and insights for the SCM team. The interactions with the Treasury Officials also provided a platform for the SABC team to discuss and clarify interpretations of the May Instruction Note.

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The note for the 2018/19 fiscal that was submitted to the AG for audit. The AG has raised findings which after extensive discussions Management has agreed to and thereafter updated the year end note for the AFS which is reflected below:

	31 March 2019 R'000	GROUP AND COMPANY 2018 R'000
Opening balance	4 977 300	4 405 804
Less: Irregular Expenditure not Validated ***	-	-
Add: Irregular expenditure - identified in the current year relating to the prior years	14 675	-
Expenditure previously incorrectly disclosed as irregular	(107 534)	-
<b>Balance as restated</b>	<b>4 884 441</b>	<b>4 405 804</b>
Add: Irregular Expenditure - current year	336 285	571 496
Less: Irregular Expenditure condoned in the current year but relating to prior years.	-	-
<b>Irregular Expenditure awaiting condonation subject to further investigation</b>	<b>5 220 726</b>	<b>4 977 300</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	336 285	571 496
Prior years	4 884 441	4 405 804
	<b>5 220 726</b>	<b>4 977 300</b>
<b>Details of irregular expenditure</b>		
<b>Incident**</b>		
Payments without contracts	88 743	121 504
Deviations	19 311	34 789
Procurement policy/process not followed (As a result of prior disclosure)	176 548	146 135
Minimum number of quotations not obtained	26 147	27 356
Bids advertised for less than minimum number of days	85 378	8 649
Incorrect evaluation criteria applied to bids	53 267	8 759
Irregular awards due to lack of planning	11 756	101 372
Procurement through quotation process versus competitive	6 087	7 405
Variation order in excess of 15%	14 493	1 526
Irregular Expenditure Under Investigation		25 364
Delegation of Authority Framework contravened		135 545
Procurement through operational advance	17	
Awards made to suppliers without obtaining valid Tax Clearance Certificates	2 810	5 531
Unfair Procurement Process	61	
Schedule All	28 215	35 968
Insufficient Documentation		55 898
Non Compliance to CIDB		1 831
	<b>336 285</b>	<b>571 496</b>

The team has amended the Condonation Reports to comply with the Instruction Note 2 which came into effect in May 2019. They have been completing many of these reports which has been submitted to the Directors for approval and thereafter submitted to National treasury.

The team has met with Internal Audit to provide guidance on the compliance of the Condonation reports to the Irregular Expenditure Framework. The Condonation reports for

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irregular expenditure relating to The Media Shop, Bokwa Attorneys and Gekkonomix T/A Infonomix have been amended accordingly.

The National Treasury Instruction note 2 which came into effect on 17 May 2019 clearly states the process of condonation in the updated Irregular Expenditure Framework. The below clauses from the National Instruction Note 2 of 2019/2020 outlines:

- “ All requests for condonation for irregular expenditure from national departments, trading entities, constitutional entities and public entities Schedule 2 , 3A, 3B to the PFMA must be submitted to the National Treasury”

Due to the above instruction the SABC is now required to submit the condonation reports via the office of the GCEO directly to National Treasury. This therefore implies that the same process for deviation will have to be adopted.

The team is following the strategy of preparing condonation reports of Irregular Expenditure that has been investigated by the SIU. Thereafter to address irregular expenditure incurred in the 2019 fiscal and then attend to the historical expenditure to clear the balances of irregular expenditure carried forward from prior fiscals. Condonations reports for irregular expenditure of the following Suppliers was approved by the GCEO and thereafter sent to National Treasury on 19 July 2019 for consideration:

• Audio Auditing	(R10 596 711.34)
• Sidas	(R24 991 002.73)
• Lornavision (Pty) Ltd	(R71 985 975.47)
• Gekkonomix (Pty) Ltd (trading as Infonomix),	(R5 187 000.00)
• Umhlanga Resources	(R33 639 102.93)
• Tax Clearance Certificates	(R2 543,536,683.22)

Once the replies from National Treasury are received, the relevant committees will be notified and further submissions will be made.

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In an effort to clear the opening balances, a consolidated condonation report has been drafted for irregular expenditure incurred due to not obtaining Tax Clearance certificates.

The analysis below reflects this impact on the prior fiscals.

FISCAL	Nature of Transgression		General Comments
2012-13	TCC	948 297 129,08	Condonation Report Completed
<b>Total Irregular expenditure for the year</b>		<b>948 297 129,08</b>	
2013-14	TCC	758 638 070,46	Condonation Report Completed
	Incorrect Evaluation Criteria	30 939 622,15	6 vendors - Umhlanga condonation Report has been completed - DDB South Africa identified for condonation R8 557 449,80
<b>Total Irregular expenditure for the year</b>		<b>789 577 692,61</b>	
2014-15	TCC	472 768 292,60	Condonation Report Completed
	Incorrect Evaluation Criteria	40 965 391,46	DDB South Africa - R30 846 604,45 ( identified for condonation)
<b>Total Irregular expenditure for the year</b>		<b>513 733 684,06</b>	
2015-16	TCC	263 425 826,92	Condonation Report Completed
	Incorrect Evaluation Criteria	49 546 041,27	
Section 9 of NT Instr. 3 Of 2016/17 (Expansion)	Lack of Planning	281 147 736,48	asante,lorna ,icas,ocsa,sekela,sidas,the media shop,venus security- condonation reports completed
<b>Total Irregular expenditure for the year</b>		<b>594 119 604,67</b>	
2016-17	TCC	92 005 774,33	Condonation Report Completed
	Incorrect Evaluation Criteria	33 782 927,20	DDB SA identified for condonation R16 731 425,40
Section 9 of NT Instr. 3 Of 2016/17 (Expansion)	Lack of Planning	356 818 115,70	Asante sana,audio auditing,icas,ocsa,sidas,vision view -condonation reports completed
<b>Total Irregular expenditure for the year</b>		<b>482 606 817,23</b>	
2017-18	TCC	5 531 351,00	Condonation Report Completed
	Schedule ALL	35 968 349,22	
Section 8 of NT Instr 3 of 2016/17 (Deviations)	Deviations	34 789 214,00	
	Incorrect Evaluation Criteria	8 759 837,86	
Section 9 of NT Instr. 3 Of 2016/17 (Expansion)	Lack of Planning	101 372 179,00	
<b>Total Irregular expenditure for the year</b>		<b>186 420 931,08</b>	

The detail of the balances are listed below:

- Total Irregular Expenditure amounts to R 3, 515 billion
- Condonation reports based on Tax Clearance Certificated are R 2,541 billion
- The remaining balance of R 974 million will be removed once replies from National Treasury are received for the Condonation Submissions.

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The below Note was prepared for the 1<sup>st</sup> Quarter.

	June 2019 R'000	March 2019 R'000
<b>Opening balance</b>	<b>5,210,079</b>	<b>4,977,300</b>
Less: Expenditure previously incorrectly disclosed as irregular	0	(107,534)
Add: Irregular expenditure - identified in the current year relating to the prior years	0	4,028
<b>Restated Opening Balance</b>	<b>5,179,495</b>	<b>4,873,794</b>
Add: Irregular Expenditure - current year	<b>34,587</b>	<b>336,285</b>
Less:		
<b>Irregular Expenditure awaiting condonation subject to further investigation</b>	<b>5,244,666</b>	<b>5,210,079</b>
<b>Details of irregular expenditure</b>		
Payments without contracts	9,112	88,743
Deviations	3,291	19,311
Procurement policy/process not followed	<b>14,243</b>	<b>176,548</b>
Minimum number of quotations not obtained	0	26,147
Incorrect evaluation criteria applied to bids	14,039	85,378
Bids advertised for less than minimum number days	0	53,267
Irregular awards due to lack of planning	117	11,756
Procurement through quotation process versus competitive	0	6,087
Schedule All	6,962	28,215
Variation order in excess of 15%	523	14,493
DAF contravened	0	0
Awards to suppliers without Valid Tax Clearance	458	2,810
Unfair Procurement Process	0	61
Non-compliance to CIDB	0	0
Procurement through operational advance	0	17
<b>Total</b>	<b>34,587</b>	<b>336,285</b>

- The total irregular expenditure identified for the 1<sup>st</sup> quarter amounts to R 34,587m.

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The below table provides a comparison of the Irregular Expenditure incurred in the current and prior 2 fiscals:

Details of Irregular Expenditure				2 019			2 018			Movement 2019 vs 2020		
Incident**	R000	No of Vendors	No of Records	R000	No of Vendors	No of Records	R000	No of Vendors	No of Records	R000	No of Vendors	No of Records
Payments without contracts	7 749	14	139	88 743	64	820	121 504	82	930	(32 761)	(18)	(110)
Deviations	216	2	3	19 311	25	89	34 789	21	157	(15 478)	4	(68)
Procurement policy/process not followed (As a result of prior disclosure)	7 156	10	26	176 548	139	1 071	146 135	99	1709	30 413	40	(638)
Minimum number of quotations not obtained	-	-	-	26 147	89	406	27 355	43	420	(1 208)	46	(14)
Bids advertised for less than minimum number of days	-	-	-	85 378	17	392	8 649	2	70	76 729	15	322
Incorrect evaluation criteria applied to bids	7 040	9	25	53 267	17	153	8 759	12	84	44 508	5	69
Irregular awards due to lack of planning	116	1	1	11 756	16	120	101 372	42	1135	(89 616)	(26)	(1 015)
Procurement through quotation process versus competitive	-	-	-	6 087	12	41	7 405	12	138	(1 318)	-	(97)
Variation order in excess of 15%	401	3	7	14 493	8	102	1 526	2	77	12 967	6	25
Irregular Expenditure Under Investigation	-	-	-	-	-	-	25 364	1	265	(25 364)	(1)	(265)
Delegation of Authority Framework contravened	-	-	-	-	-	-	135 545	160	1485	(135 545)	(160)	(1 485)
Procurement through operational advance	-	-	-	17	4	4	-	0	-	17	4	4
Awards made to suppliers without obtaining valid Tax Clearance Certificates	458	13	25	2 810	25	24	5 531	9	-	-	-	-
Unfair Procurement Process	-	-	-	61	1	1	-	-	33	(2 721)	16	(9)
Schedule All	5 469	36	637	28 215	65	2 503	35 968	80	2875	61	1	1
Insufficient Documentation	-	-	-	-	-	-	55 898	-	-	(55 898)	-	-
Non Compliance to CIDB	-	-	-	-	-	-	-	-	-	-	-	-
Total	21 449	88	863	336 285	482	5 726	571 496	566	9379	(1 831)	(1)	(1)
										(235 211)	(84)	(3 653)

The trend is that the irregular expenditure is reducing which could be attributed to socialising of the SCM Policy, awareness of the National Treasury Instruction Notes and the accompanying workshops.

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Annexure A – List of Condonations

SUPPLIER NAME	TOTAL AMOUNT TO BE CONDONED R (Rand's)	APPROVED BY THE ACCOUNTING AUTHORIT	RELEVANT AUTHORITY TO CONDONE	APPROVED BY RELEVANT AUTHORITY- NATIONAL TREASURY	DATE OF APPROVAL	PROGRESS	COMMENTS
Lorna Vision	71,985,975.47	APPROVED	BOARD	PENDING	To be sent	GCEO has signed	Sent to National Treasury for final approval
Asante Sana	19,803,822.80	APPROVED	BOARD	PENDING	To be sent	With the GCEO for signature	To be sent to National Treasury for final approval
Umhlanga Resources	33 639 102.93	APPROVED	BOARD	PENDING	To be sent	GCEO has signed	Sent to National Treasury for final approval
Audio Auditing International (Pty) Ltd	10,596,711.34	APPROVED	BOARD	PENDING	To be sent	GCEO has signed	To be sent to National Treasury for final approval
Turnkey Media Solution (Pty) Ltd	21,288,516.81	APPROVED	BOARD	NOT APPLICABLE	31.10.2018	NOT APPLICABLE	
Sidas Security Services(Pty) Ltd	24,991,002.73	APPROVED	BOARD	PENDING	To be sent	GCEO Has signed	Sent to National Treasury for final approval

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Venus Security Services- Auckland park	94,534,456.62	APPROVED	BOARD	PENDING	To be sent	With the GCEO for signature-	To be sent to National Treasury for final approval
Leago and Asante Sana	783,300.00	PENDING				Head of SCM is finalizing	To be sent to National Treasury for final approval
Vision View	53,264,500.72	PENDING				Head of SCM is finalizing	To be sent to National Treasury for final approval
The Media Shop	487,524,552.58	PENDING				This report went to Group Execution Committee for review. Correction are underway, Head of SCM is finalizing	To be sent to National Treasury for final approval
Bokwa Incorporation	5,476,180.43	PENDING				This report went to Group Execution Committee for review. Correction are underway, Head of SCM is finalizing	To be sent to National Treasury for final approval
Infonomix	5,187,000.00	PENDING				GECO has signed	Sent to National Treasury for final approval
Zimele Broadcasting Services	9,306,294.34	PENDING				Head of SCM is finalizing	

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TNA Media	904,075.57	PENDING				Head of SCM is finalizing	
ScheduleAll 2017/2018	35,968,349.22	PENDING				Head of SCM is finalizing	
ICAS	26,538,105.92	PENDING				Head of SCM & GM Finance of CE is finalizing	
OCSA	29,956,088.53	PENDING				Condonation to be reviewed	
Media Credit Co-ordinators and CoreXalance	3,307,386.58	PENDING				Condonation report for payment without Contract is challenging due to the slow responses from Management on consequence management. The information is insufficient on the payment without contract motivation, an updated template is work in progress which will assist in obtaining the	

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									appropriate information.	
Asitico Construction, MVT Construction, Cassandra Constriction and Pepulutjie Construction	2,420,615.00								Condonation to be reviewed	
Payment Without Contract 2018/2019	88,743,190.84								Head of SCM updated CFO comments and sent it back for approval	
Bulk Condonation :Minimum number of Quotations not Obtained	19,761,663.88								Head of SCM & GM Finance of CE is finalizing	
Tax Clearance Certificate	2,543,536,683.22								GCEO has signed	Sent to National Treasury
SekelaXabiso	26 056 270.23								Finalizing	

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South African Broadcasting Corporation SOC Limited

#REF!

#REF! Licence agreements

The Group was granted the following Public Television Broadcasting Licences by the Independent Communications Authority of South Africa ("ICASA") for the period 18 December 2008 to 18 December 2023: SABC 1 and SABC 2.

The Group was granted the following Commercial Television Broadcasting Licences by ICASA for the period 18 December 2008 to 18 December 2023: SABC 3.

The Group was granted the following Public Sound Broadcasting Licences by ICASA for the period 18 December 2018 to 18 December 2028: SA FM, RSG, UMHLOBO WENENE FM, UKHOZI FM, LESEDI FM, MOTSWEDING FM, THOBELA FM, LIGWALAGWALA FM, IKWEKWEZI FM, MUNGHANA LONENE FM, PHALAPHALA FM, LOTUS FM, RADIO 2000, X-K FM and TRU FM.

The Group was granted the following Commercial Sound Broadcasting Licences by ICASA for the period 18 December 2018 to 18 December 2028: 5 FM, METRO FM and GOOD HOPE FM.

The licence area for all of the licences above is the Republic of South Africa. The Licences were granted at no consideration and the Group is required to comply with the applicable regulations as amended from time to time. No subsequent expenditure has been incurred on these licences.

#REF! Expenditure and losses through criminal conduct, irregular, fruitless and wasteful expenditures

In trying to resolve the audit qualification, the SABC performed a detailed investigative process on 100% of payments or expenditure incurred since the 2012/13 financial period. This extensive exercise was aimed at identifying/ detecting an accurate and complete list of irregular expenditure for the current and prior financial years. The incidents/ instances of contraventions which resulted into the irregular expenditure have been categorized and disclosed below.

(i) All losses through any irregular expenditure

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation.

The following amounts have been determined as being irregular expenditure, in terms of section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended:

	Notes	GROUP AND COMPANY	
		2019	2018
		R'000	R'000
Opening balance			
Less: Expenditure previously incorrectly disclosed as irregular		4 977 300	4 405 804
Add: Irregular expenditure - identified in the current year relating to the prior years		(107 534)	-
Balance as restated		14 675	-
		4 884 441	4 405 804
Add: Irregular expenditure - identified in the current year		336 285	571 496
Irregular Expenditure awaiting condonation subject to further investigation		5 220 726	4 977 300
Current year			
Payments without contracts	k	336 285	571 496
Deviations	c	88 743	121 504
Procurement policy/process not followed (As a result of prior disclosure)		19 311	34 789
		176 548	146 135

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Minimum number of quotations not obtained  
 Bids advertised for less than minimum number of days  
 Incorrect evaluation criteria applied to bids  
 Irregular awards due to lack of planning  
 Procurement through quotation process versus competitive  
 Variation order in excess of 15%  
 Irregular Expenditure Under Investigation  
 Delegation of Authority Framework contravened  
 Procurement through operational advance  
 Awards made to suppliers without obtaining valid Tax Clearance Certificates  
 Unfair Procurement Process  
 ScheduleAll  
 Insufficient Documentation  
 Non Compliance to CIDB

a	26 147	27 355
f	85 378	8 649
b	53 267	8 759
m	11 756	101 372
h	6 087	7 405
g	14 493	1 526
d	-	25 364
n	-	135 545
e	17	-
b	2 810	5 531
i	61	-
j	28 215	35 968
l	-	55 898
	-	1 831
	<b>336 285</b>	<b>571 496</b>

#### Key

- a The Corporation issued Purchase Orders without obtaining the minimum number of quotations as required by the SCM policy
- b The bid evaluation and/or adjudication processes did not follow the pre-approved evaluation criteria as set out in the policy and the PPPFA.
- c Payments that did not qualify as deviations which is defined as an emergency, sole source or where prior approval was requested from National Treasury.
- d Quotations were not awarded at appropriate management level as per DAF
- e The Corporation awarded contracts to suppliers without obtaining original tax clearance certificates or confirming the tax matters of the suppliers prior to awarding
- f The Corporation awarded bids without advertising for the minimum number of days as required by the SCM policy.
- g Variation order in excess of 15% as prescribed by National Treasury
- h The Corporation procured goods and services through the quotation process whereas the SCM policy requires goods and services above R2 mil should follow the competitive bid process.
- i Goods and services relating to TVOB are procured through ScheduleAll system. These transactions are deemed irregular expenditure due to the impracticality of following SCM processes.
- j Insufficient Documentation
- k The Corporation made payment to suppliers without a valid contract. This could be as result of the procurement process not yet finalised or poor planning.
- l The Corporation awarded contracts without following Construction Industry Development Board processes.
- m Poor planning that leads to deviating from normal SCM process.
- n The Corporation procured goods and services through petty cash instead of RFQ.

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## South African Broadcasting Corporation SOC Limited

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#REF! Expenditure and losses through criminal conduct, irregular, fruitless and wasteful expenditures (continued)

## (ii) Material losses through fruitless and wasteful expenditures

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines fruitless and wasteful expenditure as expenditure which were made in vain and could have been avoided had reasonable care been exercised.

The following material losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of the materiality framework approved by the Minister of Communications for the year under review:

	GROUP AND COMPANY	
	2019 R'000	2018 R'000
Opening balance		
Less: Reversal of incorrectly disclosed prior year amount	230 015	145 994
Restated opening balance	230 015	145 994
Current year movements		
Add: Fruitless and wasteful expenditure - incurred in the current year	224 170	84 021
Add: Fruitless and wasteful expenditure - relating to prior years identified in the current year	132 503	54 562
	91 667	29 459
Fruitless and wasteful expenditure not condoned	454 185	230 015
Less: Amounts recoverable	.	.
Fruitless and wasteful expenditure awaiting condonation	454 185	230 015

## Details of fruitless and wasteful expenditure

Incident	Remedial action implemented
Impairment of foreign and sports content	Reconciliation of broadcast schedule to reduce impairments
Travel cancellation fees and penalties	Reported to recover value
Interest, penalties and fines on late payments	Timeous payments to avoid penalties or renegotiated payment

136 173 1 677  
64 110  
80 607 14 235

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SARS penalties		20 577
Unauthorised payments on overtime		24 769
Settlements		-
Legal fees		5 437
PAYE for employees fringe benefit not withheld		17 216
Fraudulent payments		
	7 326	
	224 170	84 021

#### #REF! Subsequent Events

##### Going concern

On the 23 July 2019 Finance Minister introduced the Special Appropriation Bill to Parliament. The bill seeks to provide a financial support package amounting to R3.2 billion to the SABC. This amount will be released by National Treasury to the SABC in tranches. The release of funding is subject to the SABC meeting performance pre-conditions. Management believes that they will be able to meet all the preconditions to access the full funding available. This announcement ensures the going concern risk is adequately mitigated



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**OPENING ADDRESS BY THE GCEO**  
**SABC PRESENTATION ON THE ICASA DRAFT SPORTS REGULATIONS**  
**FRIDAY 31 MAY 2019**

Thank you Chair, councilors, consultants and the various individuals from ICASA for the opportunity to present the SABC's submission on the Draft Sports Regulations. My name is Madoda Mxakwe, Group CEO of the SABC. Joining me is the Acting COO, Dr. Craig Van Rooyen, and SABC team members.

From the outset the SABC would like to state that it appreciates and values the ICASA process of reviewing the Sports Regulations. The Regulations were last reviewed and published in 2010 and owing to the rapidly evolving market and broadcasting environment the Regulations have lost their relevance. The process is therefore welcomed.

The SABC has over the years carried the burden of broadcasting national sporting events under very difficult financial circumstances and regulatory requirements. This is notwithstanding the fact the regulations have been applicable to all free-to-air broadcasters and not just the SABC. While the focus on the public broadcaster is understandable, it factually incorrect to state that the SABC should carry this burden when the public broadcaster is not directly mentioned in the regulations.

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The following difficulties should be considered by the Authority in the review, so as to have outcomes that will best suit the current broadcasting environment and the governing of Sports Rights going forward.

The SABC's public mandate as contained in the Broadcasting Act requires us to broadcast a range of diverse programming that includes Sports, both national sporting events as well as developmental sports. From a financial sustainability and cost implication perspective the acquiring of Sports Rights and subsequent broadcasts of these events places a huge burden on the public broadcaster. However, the existing and the proposed regulations do not deal with the commercial, pricing and market-related conditions with regard to the acquisition and sub-licensing of sports rights for national sporting events.

The SABC is currently not receiving any public or government funding for Sports and this situation has led to the SABC having to utilise cash from its current operations to fund Sports and the public service mandate in general.

It is regrettable that to date, no consideration has been given by the Authority, the Rights Holders and other relevant stakeholders regarding the fairness and transparency in the process of acquisition and sub-licensing of Sports Rights.

As a result, the SABC is continuously faced with exorbitant price offerings on all sporting events which compromises its financial sustainability, its credibility and image as the public broadcaster as well as its delivery on the public service mandate.

During the past few years the Sports Rights costs have been escalating by exorbitant amounts far beyond inflation which have become unsustainable for the SABC. The Sports Rights are set by Rights Holders and owing to the growing demand of new entrants in this landscape it seems that this escalating trajectory of costs will continue. However the valuation of the rights by the Rights Holders bear no relation to their commercial value for free-to-air broadcasters. This imbalance and misalignment continues to undermine the primary goal of the regulations, which is free-to-air access by all South Africans to national sporting events.

For the past fiscal (1 April 2018 to 31 March 2019) the SABC spent R550 million on Sports Rights and the broadcasting of sporting events and revenue generated from these events for the same period was R143 million. This represents a negative Return on Investment of 74%.

Over the last five years, a total of R3.7 billion was spent on Sports with revenue and income from these events of R148 million with losses amounting to R3.6 billion. The SABC cannot compete nor sustain the

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status quo of incurring excessive expenditure for Sports Rights and production with little or no return on investment.

All Sports related costs are funded by the SABC and the operating losses incurred from broadcasting these events have to be absorbed by the Corporation as part of the bigger budget.

It is the SABC's view that the Regulations should provide intervening mechanisms to ensure that Free-To-Air (FTA) broadcasters are able to deliver, most importantly on national sporting events to the members of the public.

It is disappointing that after 25 years of democracy, we still have not transformed the broadcasting sector to ensure that the poorest of South Africans can freely access prime sports that are meant to contribute to social cohesion and nation building.

In addition, the acquisition and the sub-licensing of Sports Rights require proper and all inclusive review by the Authority, in order to ensure that there is transparency, and that the SABC, as the public broadcaster, is not exploited in the process. The SABC believes that the unbundling of Sports Rights may be one mechanism whereby anti-competitive pricing measures may be dealt with. It is unfair for dominant broadcasters to acquire the rights for all platforms and then sub-licence them to other players without any regulated criteria

The SABC calls upon ICASA and the policy maker to develop a framework that makes public funding of national sporting events to be mandatory by government. The SABC has all intentions and plans to invest and broadcast sports of national importance in a digital multiplatform environment, however, these plans cannot come to fruition under the current market conditions and regulatory regime.

It should be noted that the current regulations do not require the SABC to broadcast all national sporting events at all costs. The SABC has therefore at all times been compliant with the regulations, despite its inability to broadcast all national sporting events.

The Authority is charged with protecting the integrity and viability of the public broadcaster and this important statutory objective should be taken into account in the design and substance of any new regulations.

I would like to conclude by stating that we believe this enquiry should go a long way in bringing significant change to the industry, with the aim of ensuring that all South Africans have access to national sporting events. In order to achieve this goal, we respectfully request the Authority to take into account the SABC's pressing issues as set out in our submission

I will now hand over to Mr Philly Moilwa, who is our Acting Group Executive: Corporate Affairs and Marketing to take you through the presentation.

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I thank you.

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"MM 006"



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Dear Chairperson

**SUBJECT: RESPONSES OF THE SABC TO THE PRE-CONDITIONS FOR FUNDING OF THE NATIONAL TREASURY**

Your letters dated 18 July, 31 July and 14 August 2019 as well as the notice issued to hold the 82<sup>nd</sup> Annual General Meeting on 30 August 2019 are hereby acknowledged.

The two Departments [(Department of Communications "DoC") together with the National Treasury (NT)], undertook a thorough analysis of the responses of the SABC to the preconditions for funding. The two Departments considered information contained in the draft Status Quo Report by GTAC and the actual responses of the SABC together with all annexures.

It is brought to the attention of the SABC that the NT will not release any part of the R3.2 billion earmarked funding allocation for the SABC until the two Departments are satisfied that the public broadcaster has fully complied or demonstrated a commitment to comply with all preconditions to funding. The R3.2 billion funding will be released in tranches as and when the SABC produces satisfactory evidence in response to the preconditions.

Subsequent to the analysis of the GTAC report together with the SABC's responses to the preconditions, the Departments (NT and DoC) have drawn the following conclusions in relation to the responses to each precondition:

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Precondition 1: The SABC must determine their immediate cash requirements (next 12 to 18 months). This is to be supported by detailed cash flow projections for the next 12 to 18 months, set out in a financial model for the income statement and balance sheet. The cash requirements must adequately ensure it remains a going concern.

In terms of the response to this precondition, the SABC indicates that it requires R6.8 billion, however the figures contained in the financial statements indicate that the public broadcaster requires R2.5 billion and R1.8 billion over a period of 24 months.

The Departments have also observed that the R6.8 billion includes an amount of R1 billion and R2.5 billion that will be utilised for long term capital expenditure and digital migration, respectively. However, the GTAC Status Quo Report indicates that the SABC only requires R393.7 million and R896.2 million for capital expenditure and digital migration in the 2019/20 and 2020/21 financial years, respectively.

As it can be noted from above the responses provided by the SABC to the precondition and the GTAC Status Quo Report reflect various amounts which go beyond the immediate cash requirements. The SABC is therefore requested to revise its response to the precondition in order to reflect only its immediate cash requirement for the next 12 to 18 months. The funding requirement should be confirmed by the Auditor General as being sufficient to allow for the signing off of the annual financial statements of the SABC as a going concern.

Precondition 2: The SABC must submit a list of identified initiatives for revenue enhancement and cost-cutting initiatives that the entity has been implementing in the interim. The value of the savings / enhancements, timelines and risks to achieving savings / revenue enhancements must be included for monitoring purposes.

It is noted from the responses that the SABC has identified revenue enhancement and cost-containment initiatives highlighting values, timelines and risks associated with each initiative as required by this precondition.

The Departments are of the view that the SABC did implement revenue enhancement initiatives, however the cost containment initiatives were not sufficient based on the observation emanating from the GTAC draft report. This report indicates that the SABC did not initiate strategic cost containment measures linked to significant cost drivers of the business, e.g. the need to review transmission and distribution costs have not been identified as a cost containment initiative.

The Departments are of the view that the SABC has complied with this precondition to some extent. The public broadcaster is therefore urged to continue identifying cost containment initiatives related to major expenditure items of the SABC and revenue enhancement initiatives with the assistance of the GTAC. It is expected that these initiatives will form part of the Board approved turnaround plan that is expected from the SABC. Moreover, the SABC must provide confirmation that these initiative form part of the entity's financial projections going forward.

Precondition 3: A thorough investigation must be conducted into what caused the financial collapse of the SABC (both internal and external factors) and why previous turnaround plans have failed to be successfully implemented. These experiences and lessons must form the basis of the new turnaround plan incorporating measures to prevent the reoccurrence of the identified factors. This must also take into account various reports including those of the Special Investigation Unit, the Public Protector, the Auditor General and Parliament

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Although the GTAC draft report clearly captures the root causes that led to the financial collapse of the SABC, the report does not indicate why the previous Turnaround Plans have not been successfully implemented.

The SABC is required to provide detailed reasons for the non-implementation of previous Turnaround Strategies. The Departments advises that the SABC with the assistance of the GTAC should take into account lessons learnt from various available reports including the Special Investigative Unit, the Public Protector, Auditor General and *ad-hoc* Committee findings and include measures/policies that would address the wrong doing identified in the various reports.

*Precondition 4: An update on how the entity is dealing with the people implicated in the reports (if any) listed above*

The Departments have noted actions that have been taken by the SABC against former employees that are implicated by the various investigation reports undertaken by the SIU, Public Protector, Auditor General and Parliament. The Departments are satisfied with the SABC's response to this precondition.

*Precondition 5: The SABC must produce separate financial reporting for their public and commercial broadcasting services*

The SABC has indicated that it is not possible to produce separate financial reports in respect of the Public Broadcasting Service (PBS) and Public Commercial Service (PCS) due to fact that stations have evolved over time. This is despite the fact that the SABC did produce separate financial reports as per statutory requirements.

The GTAC report also confirms that historically the SABC did have a cost allocation policy and was accounting as per statutory requirements and at some point a decision was taken to cease this practice. The immediate effect of this decision was that it made platform reporting difficult and as such the overhead costs were not allocated on a platform basis or not allocated at all. GTAC is also of the view that reporting by platform is normal commercial broadcasting practice.

The two Departments are therefore of the view that the SABC has failed to comply with precondition 5 above. The SABC is required to take active steps and / or develop a plan that will demonstrate its commitment to start complying with the requirement to reporting PBS and PCS separately as it was done previously. It has also been noted from the SABC's input into the Broadcasting Amendment Bill that the SABC suggests that this requirement must be discontinued.

It is therefore reiterated that the SABC is required to comply with this legislative requirement until the decision on the input is reached through the finalisation of the Broadcasting Amendment Bill.

This condition is especially important in determining the allocation of public resources to entities within the budgeting process, so that government is able to determine the actual cost of public service mandates. This will also allow the shareholder to determine the optimal mandate of the SABC considering the need for the entity to remain financially sustainable. It should be noted that this is a legislative requirement emanating from the Broadcasting Act.

*Precondition 6: SABC must identify non-core assets for sale to assist with reducing the recapitalisation required by Government. The SABC must submit a comprehensive property strategy and a list of non-core assets identified for disposal, including timelines for disposal and the estimated values. This should be contained in an Assets Disposal Plan*

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The Departments have noted the Strategic Direction on the SABC's Properties document that has been submitted as an annexure to the response to this precondition. This report contains a list of residential properties, commercial properties and leasehold properties owned / occupied by the SABC. The report provides particulars of each property, physical location, estimated value, as well as the recommended disposal methodology for each property.

The submitted required information related to residential, commercial and leasehold properties is welcomed. The Departments are however concerned that similar information was not provided in the case of radio stations and TV channels. The Departments are of the view that even though the SABC has not yet conducted the valuations of these properties the SABC should at least be able to identify radio stations and TV channels that are not contributing positively towards the mandate and core business objectives of the corporation.

Therefore, the response provided to the precondition 6 is not satisfactory because the SABC has not demonstrated adequate commitment to comply with this precondition, the Asset Disposal Plan should be approved by the Board of directors (BoD). It should be noted that such a disposal plan should be aligned to the overall optimal corporate structure of the entity as would be required to implement and support a revised BoD approved Turnaround Strategy.

*Precondition 8: The SABC must develop a comprehensive Private Sector Participation (PSP) strategy, clearly highlighting initiatives to be implemented and the net value to be derived from these partnerships*

The Government notes that the SABC is currently negotiating to enter into long-term partnerships and collaborations with potential partners such as Telkom, Cell C, MTN etc in order to enhance its sustainability, both financially and operationally.

In this regard, the SABC is expected to indicate all the private partnerships it is currently negotiating / pursuing, projected returns of such partnerships, expected impact on the future sustainability of the public broadcaster and the timeframes indicating when respective partnerships are anticipated to be concluded in line with the approved PSP framework. The two Departments are further cognisant of the fact that these deals may be confidential in nature and also note the SABC's reservations to divulge the information.

The SABC is cautioned that in terms of section 54(2) of the PFMA before a public entity conclude acquisition or disposal of a significant shareholding in a company, the accounting authority for the public entity must promptly and in writing inform the relevant Treasury of the transaction and submit relevant particulars to its executive authority for approval of the transaction, subsequent to approval by the Board. It is therefore in the best interest of the SABC to pro-actively share the information with the executive authority so that by the time the potential partnerships are concluded there are some alignment. If needs be, to accommodate the SABC's reservations, initial engagements on the prospective partnerships can be facilitated through the Minister of Communications through bilateral in-camera presentations.

Considering the above concerns, the Departments are of the view that the SABC has not yet demonstrated commitment to comply with the above precondition.

*Precondition 9: SABC to develop a comprehensive capital and content investment plan which includes the forecast return on investment of all Capex and content spend, split between commercial and developmental activities.*

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While the SABC has submitted Annexure D1 in compliance with the precondition, the Departments are not satisfied that the SABC has fully complied with the requirements. The content spend is not split between public and commercial activities and there is no forecasted Return on Invested Capital (ROIC) on all capex and content spend. The SABC needs to ensure that this is included in the revised plan to be submitted and this plan should be approved by the BoD and aligned to the SABC's revised turnaround plan.

### Conclusion

As indicated above, the Departments have mainly relied on the GTAC's Status Quo Report in the assessment of the SABC's compliance with the pre-conditions to funding. A summary of the conclusions reached by GTAC indicates largely that the SABC has either not adequately addressed or not addressed the pre-conditions at all. The Status Quo Report, goes further to make suggestions on how to improve the SABC's submissions.

Funding will be released to the SABC in line with its progress in meeting the preconditions. The DoC, will as part of the submission to the National Treasury, provide progress on the pre-conditions related to the policy requirements.

Moreover, the SABC is required to urgently provide feedback on how it is addressing the shortcomings identified by GTAC in relation to each of its turnaround pillars. The SABC is also requested to provide timelines indicating by when the revised documentation will be made available.

With regards to SABC's request for an extension to submit the Annual Report, the BoD is advised that, should the SABC fail to finalize and submit the report so that the Minister of Communications is unable to table it in Parliament on 30 September 2019 as prescribed in section 65(1)(a) of the PFMA, the Executive Authority will be required to table a written explanation in the National Assembly, setting out reasons for not tabling the report as prescribed in terms of section 65(2)(a). In light of this requirement, the SABC is advised to continue with the finalisation of the 2018/19 Annual Report and Annual Financial Statements with the Auditor General as soon as possible.

In view of the delays regarding the finalisation of the 2018/19 Annual Financial Statements, the SABC is advised to postpone the 82nd Annual General Meeting and reschedule to a date not later than 20 September 2019.

Furthermore, the SABC is advised not to write any further letters regarding funding earmarked through the Contingency Reserves until such time that the public broadcaster has complied with the preconditions for funding and has fully addressed concerns of the two Departments as articulated above.

Yours sincerely,

  
MS STELLA NDABENI-ABRAHAMS, MP  
MINISTER

DATE: 27/8/2019

  
TT MBOWENI, MP  
MINISTER OF FINANCE

DATE: 27/8/2019

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30 August 2019

**ELECTRONICALLY**

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The Honourable Minister TT Mboweni, MP  
 Ministry of Finance  
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The Honourable Minister Ms S Ndabeni-Abrahams, MP  
 Ministry of Communications  
 Tshedomose House  
 1035 Francis Baard & Festival Streets  
 Hatfield  
 Pretoria  
 0001

Dear Honourable Ministers,

**RE: FEEDBACK ON THE SABC PRE-CONDITIONS FOR FUNDING RESPONSE**

Your letter dated 27 August 2019 was discussed at the Special Meeting of the Board held on 30 August 2019.

The Board is concerned with the contents of the letter. We can only assume that the Honourable Ministers have not been fully briefed on the information provided by the SABC thus far.

It is our understanding that we have either complied or substantially complied with each precondition, which has been demonstrated by the substantive documentation supplied over a period of eight (8) months. We have attached to this letter detail on the SABC's compliance with each condition.

We have noted that reliance has been placed on the Status Quo Report from GTAC. The GTAC project is still ongoing and it is vital to draw your attention to the fact that the Board and Management commented on that document and that extensive engagements on its content took place since its first iteration. GTAC is currently in the process of finalising an updated report and is currently engaged with the SABC.

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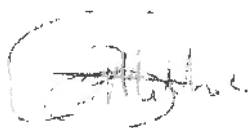
We also bring to your attention that we are engaging with the AG to finalise the Audit Report and Management Letter. This will be done in the next few days. The approval process will then follow and we will schedule the AGM as directed. The Audit Opinion is likely to remain a Disclaimer.

As a result of the status of our funding request, the Board will be left with no option but to implement the requirements of the Companies Act, taking into account the severe implications on the Directors Liabilities. The AG has raised a finding that the Directors are contravening the Companies Act and that we are exposed to potential damages and a possible action to declare the Directors delinquent.

We assure you of our commitment to serving the Corporation in the public interest. To this end we will continue to work with the DCDT and the National Treasury. The Board therefore respectfully requests that an urgent meeting between the Honourable Ministers and representatives of the Board be held at your earliest convenience to resolve the current impasse, well in advance of the rescheduled AGM.

We request a favourable response to our request for an urgent meeting.

Yours sincerely,



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**Mr B E Makhathini**  
**SABC CHAIRPERSON**

## COMPLIANCE WITH THE PRE-CONDITIONS

*Pre-Condition 1: The SABC must determine their immediate cash requirement (next 12 – 18 months). This should be supported by detailed cash flow projections for the next 12 to 18 months, set out in a financial model for the income statement and balance sheet. The cash requirement must adequately ensure it remains a going concern.*

On the basis of the information supplied previously, the SABC believes that Pre-Condition 1 has been met.

Please see the table below that was included in the original application submitted in February 2019:

**Table 1: Cash flow outlay of Government support and utilisation of funds**

	Budget FY19/20	Estimate FY20/21	Estimate FY21/22	Estimate FY22/23	Total
<b>Cash inflows (Funding)</b>	<b>3 658 140</b>	<b>1 188 341</b>	<b>1 101 407</b>	<b>857 192</b>	<b>6 805 079</b>
Government guarantee	1 658 140	374 419	267 442		2 300 000
Bailout	2 000 000				2 000 000
MTEF Grant (digital migration)	0	813 923	833 965	857 192	2 505 079
<b>Cash outflows (Expenditure)</b>	<b>3 641 338</b>	<b>1 205 144</b>	<b>1 101 406</b>	<b>857 192</b>	<b>6 805 079</b>
Digital Migration CAPEX	-	813 923	833 965	857 192	2 505 079
Trade and other payables – Bailout funded	2 000 000				2 000 000
Loan – Content	1 213 405		86 595		1 300 000
Loan – Capex (Guarantee funded)	427 933	391 221	180 846		1 000 000

The Digital Migration CAPEX is R 2 505 079 000 as seen above.

A breakdown of the short-term funding required is included below. It should be noted that it does not incorporate the Digital Migration Capex referred to above as firstly, at the time of preparation the Government Guarantee Application it was indicated that it will be funded via the MTEF process and, secondly, it was not deemed critical in the next 12 – 18 months.

ITEM	REQUIREMENTS (R'000)
Trade and Other Payables	2 000 000
Television Content – broadcast material	840 000
Capital Expenditure – Digital Migration, Maintenance and Upgrade of Broadcast Equipment	400 000
<b>TOTAL</b>	<b>3 240 000</b>

The above was further analysed in our response to the Pre-Conditions as follows:

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## Annexure A

## Bail out summary

Programme, film &amp; sports rights

Trade &amp; other payables

Capital expenditure

DTT implementation

- Signal and distribution costs

- Marketing

- Additional Capex

Forecasts FY 19/20	Budget FY 20/21	TOTAL
2 520 461	1 813 923	4 334 384
162 500	650 000	812 500
2 124 930	-	2 124 930
233 031	350 000	583 031
		-
-	367 075	367 075
-	50 000	50 000
-	396 848	396 848

The SABC's request for the next 12 – 18 months remained R3.2 billion despite the first 3 line items totalling R3.5 billion, and the amount of time that has lapse since the first application.

In the context of the above it must therefore be pointed out that the GTAC report referenced by the Ministers refers to their Table 40: DTT Capital Needs 2019 on page 124 of the report as per the below.

	2019/20	2020/21	2021/22	2022/23	Total
<b>DTT PROJECTS STILL TO BE APPROVED FUNDS REQUIRED FROM GG</b>					
TV BROADCAST RESOURCES - OUTSIDE BROADCAST	148 150	248 800	149 000	158 000	696 350
TV BROADCAST RESOURCES - HENLEY	31 512	232 453	185 900	429 530	902 455
RADIO BROADCAST RESOURCES	22 547	138 991	116 793	1 944	250 278
BIT	19 750	77 500	20 000	9 540	126 750
LOGISTICAL SERVICES	148 785	228 685	73 491	41 670	492 631
<b>TOTAL</b>	<b>393,744</b>	<b>896,229</b>	<b>545,787</b>	<b>632,704</b>	<b>2,468,464</b>

The above should not be confused with the SABC's short-term requirement of R400 million as it is in fact not related at all.

The table that should have been referred to is Table 41 on page 125 – *Approved projects in progress*.

To confirm – the immediate Cash requirement remains R 3.2 billion.

Pre-Condition 2 - The SABC must submit a list of identified initiatives for revenue enhancement and cost-cutting initiatives that the entity has been implementing in the interim. The value of the savings / enhancements, timelines and risks to achieving savings / revenue enhancements must be included for monitoring purposes.

**The SABC believes that it met Pre-Condition 2.**

Cost containment measures are linked to significant cost drivers of the business such as signal distribution and transmission costs.

The SABC has repeatedly identified Sentech's anti-competitive pricing as a problem and identified DTH as a massive cost saving. It should also be noted that the Board was prevented from reducing staff costs in 2018 and that it has been Government policy to require the SABC to use Sentech as a platform provider, with a huge impact on the SABC's cost base.

The table below was included in the original Government Guarantee application submitted to Department in February 2019:

KEY PERFORMANCE AREA	FACTORS AFFECTING BUSINESS	STRATEGIES AND TURNAROUND PLANS
DTT VS DTH	<p>DTH offers more channels than DTT, which will result in:</p> <ul style="list-style-type: none"> <li>• less cost for Transmitters and we will have;</li> <li>• more channels on DTH.</li> </ul> <p>As such there are 3 scenarios with the following impacts:</p> <ol style="list-style-type: none"> <li>1. Current Scenario: 86% via DTT and 14% via DTH gives a full year saving of R70 million p.a.</li> <li>2. Proposed Optimized 2 Scenario: Optimizing coverage areas by increasing DTH to approximately 40% gives full year saving of R120 million p.a.</li> <li>3. Ideal Scenario: 100% DTH, however don't believe it will be accepted as it dilutes the existence of Sentech will be R580 million saving.</li> </ol>	<ul style="list-style-type: none"> <li>• R2.5 billion capital expenditure is required for the digital migration to prepare the SABC to accommodate up to 9 channels and to modernize equipment related to production and playout into linear DTH or DTT.</li> <li>• At the moment SABC only has some equipment to accommodate current channels, however as they increase channels, they also need to modernize equipment to accept additional channels, like History Channel, Health Channel, Sports Channel, Parliamentary Channel.</li> <li>• Continue discussions with Sentech and DoC to motivate migration to DTH.</li> </ul>

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Also included in the SABC's response in July 2019 to the Pre-Conditions was the following:

COST DRIVERS	FACTORS AFFECTING BUSINESS	STRATEGIES AND TURNAROUND PLANS
<b>SIGNAL DISTRIBUTION AND LINKAGE COSTS</b> <i>Includes Sentech costs, satellite and linkage costs for outside broadcasts, special events and sporting events.</i>	<ul style="list-style-type: none"> <li>• Signal distribution costs high relative to the benchmark;</li> <li>• Expected DTT to reduce signal distribution cost significantly, but reduction was only 15% (land, power output, antennae);</li> <li>• Broadcast Digital Migration policy limits expansion into high definition (HD) and beyond, which is the broadcasting standard worldwide;</li> <li>• Current DTT coverage not properly aligned with the population distribution;</li> <li>• SABC spending 12% of revenue on signal distribution (international average is 7%).</li> </ul>	<p><u>Scenario 1</u></p> <ul style="list-style-type: none"> <li>• Start working on migrating to 60% DTT and 40% DTH immediately;</li> <li>• Savings of about R120m per annum in signal distribution costs will be realised – closer to 8%;</li> <li>• Presentation to be made to the minister to amend the policy directives, pointing out the misalignment in the population distribution as the policy stands;</li> <li>• Viewers also prefer DTH set-top boxes (STBs) as there are more channels on DTH STBs than on DTT STBs.</li> </ul> <p><u>Scenario 2</u></p> <ul style="list-style-type: none"> <li>• 100% migration to DTH;</li> <li>• To be implemented over 5 years;</li> <li>• Migrate all standard-definition (SD) channels to full HD;</li> <li>• Relatively minimal cost will be incurred in the satellite space segment;</li> <li>• Start promoting DTH to limit DTT STB uptake.</li> </ul>

Furthermore, in the absence of any reference to the initiatives related to the Restructuring of the Corporation - the plans of which was included in Annexure A4 – the SABC assumes that these are accepted.

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*Pre-Condition 3: A thorough investigation must be conducted into what caused the financial collapse of the SABC (both internal and external factors) and why previous turnaround plans have failed to be successfully implemented. These experiences and lessons must form the basis of the new turnaround plan incorporating measures to prevent the reoccurrence of the identified factors. This must also take into account various reports including those of the Special Investigation Unit (SIU), the Public Protector (PP), the Auditor General (AG) and Parliament.*

On the basis of information provided by the SABC and research done by GTAC, we believe that Pre-Condition 3 has been met.

It should be noted the current Board and Management played no role in previous failures and that GTAC was indeed contracted to perform this task. GTAC shared their observations having researched and analysed the history of the Corporation with the Board and we strongly recommend that GTAC share these observations to the respective Ministers.

However, from the perspective of the Board and as confirmed by GTAC, the past failures to implement strong and relevant Turnaround Strategies are attributable to the frequency of Shareholder, Board and management changes, which left the Corporation in a perpetually unstable environment and unable to plan properly.

The SABC further refers you to Section 4 of the response submitted in July 2019 as evidence that the Corporation is not only addressing the findings raised in the various reports but that it has on numerous occasions reported the initiatives and status of the various measures and policies that, we believe, would address the wrongdoing identified in the various reports. Please refer to 1.5 of said response as included below.

KEY PERFORMANCE AREA	FACTORS AFFECTING BUSINESS	STRATEGIES AND TURNAROUND PLANS
GOVERNANCE AND INTERNAL CONTROLS	<ul style="list-style-type: none"> <li>• Previous AG outcomes and findings (FY2017/18 was disclaimer opinion).</li> <li>• Internal Audit findings take long to resolve.</li> <li>• Ongoing forensic and SIU investigations;</li> <li>• Policy, legislative and regulatory framework outdated and/or too restrictive.</li> <li>• Lack of consequence management and accountability.</li> <li>• Outstanding declaration of business interests from 10% of staff.</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed audit action plan in place to resolve AG findings. Tracked on weekly and monthly basis on SAP system.</li> <li>• Implementation of internal audit findings tracked on a quarterly basis.</li> <li>• Recommendations and corrective action emanating from investigations to be implemented as and when issued.</li> <li>• Ongoing engagement with ICASA, the National Treasury and the Department of Communications to</li> </ul>



	<ul style="list-style-type: none"> <li>• Risk management not properly performed, and treatment plans not implemented.</li> <li>• Internal control environment not sufficient.</li> <li>• Policy reviews take long to conduct.</li> </ul>	<p>fast-track changes to legislation, regulations and policies.</p> <ul style="list-style-type: none"> <li>• Culture of accountability to be instilled in organisation. Performance reviews to be conducted on regular basis.</li> <li>• Action to be taken against individuals who have not yet declared business interests.</li> <li>• New approach on risk management required. Ongoing training and engagements with divisions on risk management and implementation of treatment plans.</li> <li>• Implementation of internal control framework.</li> <li>• Compliance monitoring and evaluation.</li> <li>• Business continuity management to be implemented.</li> <li>• Improve turnaround times on policy reviews.</li> <li>• A combined assurance framework established to increase coverage of all assurance providers,</li> <li>• Internal Audit monitors and evaluate the implementation of external audit recommendations,</li> <li>• Recoveries committee to be formed to formalize the process of recovering amounts lost due to irregular, fruitless and wasteful expenditure, and</li> <li>• Annual evaluation of internal control environment and reporting to the Audit and Risk Committee.</li> <li>• Perform more "performance and value for money audits" as a tool to measure value.</li> <li>• Regular governance stakeholder engagements with the group executives to focus on the internal control environment.</li> </ul>
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Pre-Condition 5 - The SABC must produce separate financial reporting for their public and commercial broadcasting services.

**The SABC believes that Pre-Condition 5 has been met.**

Separate financial reporting per platform (PBS/PCS), except for the allocation of the Shared Services, does now take place and there are active steps and a plan developed that will see to the segmented reporting including the Shared Services allocation taking place up to a Net Profit/Loss level.

Therefore any statements to the contrary are not correct.

We believe that Pre-Condition 5 has been met. Alternatively we look forward to understanding how the reported response does not meet expectations.

For further information, please refer to the SABC's response in Section 5 (pg 43) of its July 2019 submission.

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Pre-Condition 6 - SABC must identify non-core assets for sale to assist with reducing the recapitalisation required by Government. The SABC must submit a comprehensive property strategy and a list of non-core assets identified for disposal, including timelines for disposal and the estimated values. This should be contained in an Assets Disposal Plan.

**The SABC has demonstrated a substantial commitment to comply with this Pre-condition.**

The SABC has been indicated from the start that the Corporation does not have the necessary resources to fund the valuations. The DCDT had indicated that they will provide the funding and possibly even the relevant service provider. As such the SABC formally submitted this request to DCDT in early July – to date no feedback has been received on this matter.

More importantly, the Board does not believe that it is possible at this juncture to identify radio stations and TV channels that are not contributing positively towards both the mandate and core business objectives of the Corporation. An asset may be contributing positively to the mandate but not to the core business objectives of the Corporation. It is our considered view that an analysis of the profitability of the stations is not enough on its own as the Corporation needs to be satisfied that it can still meet its mandate requirements without these stations. Therefore, the Board requires both the valuation to be completed and a full discussion and decision as to whether these stations can be disposed of without compromising the public broadcaster's mandate.

In the absence of the valuations and the implications on the Corporation's mandate being identified it is not possible for the Board to approve an Asset Disposal Plan with respect to stations and channels and particularly not without it having gone through the necessary governance procedures which are required in terms of the PFMA.

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*Pre-Condition 8 - The SABC must develop a comprehensive Private Sector Participation (PSP) strategy, clearly highlighting initiatives to be implemented and the net value to be derived from these partnerships.*

**The SABC has demonstrated a commitment to comply with this Pre-Condition.**

The view that the SABC is not being transparent with these activities and may be holding back sensitive information is denied.

The Corporation is well aware of the PFMA requirements and that it has to always act in terms of these requirement.

The requirements above – where possible - have already been incorporated in the Corporation's Corporate Plan. However there are significant opportunities where is it not currently possible to define the projected returns, expected impact on financial sustainability or the timeframes. These requirements are very closely linked to the Asset Disposal Plan referred to above in some instances.

Please see below the SABC's response in July – Section 8 page 47. It should also be noted that many of the opportunities listed below are in the ordinary course of business and relate to the SABC's core business. However, should any opportunities progress that require the approval of the Executive Authority in terms of section 54(2) of the PFMA, the SABC commits again to ensure that the Ministry and Department officials are kept apprised of these opportunities once commercial information becomes available.

PRECONDITION	COMMENTS
The SABC must develop a comprehensive Private Sector Participation (PSP) strategy, clearly highlighting initiatives to be implemented and the net value to be derived from these partnerships.	<p>The SABC will enter into partnerships and collaborations in order to increase its sustainability – both financially and operational. These partnerships would vary widely in terms of their scope, participants, governance models, purpose, and levels of activity. Potential SABC partnerships are still at a nascent stage, especially given the long-term nature of partnership building and system change.</p> <p>In investigating possible partnerships and collaborations, the SABC will take the following into consideration:</p> <ul style="list-style-type: none"> <li>• Cooperation with business partners along value chains;</li> <li>• Project-level, financing and implementation partnerships;</li> <li>• Multi-stakeholder institutions, platforms and networks;</li> <li>• Industry-level, precompetitive business alliances;</li> <li>• Coordination between different levels and types of partnership to</li> </ul>

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	<p>drive systemic change.</p> <p>It should be noted that any partnership that is anticipated will conform to follow all relevant governance and legislative prescripts and requirements.</p> <p>The SABC has already entered into partnerships with MultiChoice, VIU and Cell C. Other initiatives include</p> <ul style="list-style-type: none"> <li>• Telkom deal to be pursued as a matter of urgency and is on-going</li> <li>• SABC to continue conversation with Media partners <ul style="list-style-type: none"> <li>• Engage Sentech about Satellite Capacity</li> <li>• Establish Commercial Partnerships to promote digital migration boxes</li> <li>• e.tv - a potential partner for DTH</li> <li>• Multichoice is also a potential partner - provided the partnership is beneficial to both parties</li> </ul> </li> <li>• Channel carriage deals underway – explore more deals with Telcos</li> <li>• Partnerships require renewed focus and persuasion. These must be linked to timelines and deliverables predictability – linked to consequence management and sound scheduling. Revenue is hampered if the market does not trust scheduling.</li> <li>• Revisit the agenda to take SABC to the continent – re-instate new bureaus through sponsorship and non-conflict funding.</li> <li>• President to Chair African union – could monetise this.</li> <li>• Restructure of Channel Africa and conditions for SABC role to partner with entities such as EU, UN, ECOWAS, SADC, AU and other African regional parties</li> </ul> <p>In addition to the above, the Corporation will explore opportunities for Private Sector Participation and will develop a strategy in response. The strategy, and net value anticipated to be derived, will be developed with the support of the GTAC team.</p> <p>Currently the SABC is in the process of evaluating its core and non-core assets. Once this exercise is completed it would assist with the partnerships the SABC can enter into and the return of investment of same.</p>
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Pre-Condition 9 - SABC to develop a comprehensive capital and content investment plan which includes the forecast return on investment of all Capex and content spend, split between commercial and developmental activities.

**The SABC believes that it has fully complied with the above Pre-Condition.**

Please refer to Annexure below for the full and detailed information as provided in Section 9.1, page 50 of the SABC's response in July.



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## ANNEXURE A

### CAPEX INVESTMENT PLAN Quantitative Evaluation

	Budget FY 19/20	Estimate FY 20/21	Estimate FY 21/22	Estimate FY 22/23	Estimate FY 23/24	Estimate FY 24/25	Estimate FY 25/26	Estimate FY 26/27
Total capital investment over the period	451,423	167,896	324,353	-	-	-	-	943,672
Total income	80,000	63,000	66,150	300,000	315,000	330,750	347,288	1,846,840
Total expenses	(14,107)	(70,535)	(91,522)	(132,066)	(136,768)	(136,768)	(136,768)	(855,303)
Net profit								991,537

Return on investment

105%

Assumptions: -

- All amounts are round up to the nearest thousand
- All income is attracted as a result of the investment in capital
- Expenditure is as a result of the wear and tear from the use of the capital investment
- Capital investment over the period includes only projects with approved businesses
- All capital projects still to be approved to the value of R3,465,364,000 have not been considered in the computation

Qualitative Evaluation

Technical Infrastructure needs to be maintained, upgraded and / or replaced in order: -

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- To assist the SABC “to become the leading, credible voice and face of the nation and the continent” through the provision of high quality broadcasting;
- To assist the SABC to be “a high-performing, financially viable, digitised, national public broadcaster that provides compelling informative, educational and entertaining content via all platforms”;
- To assist the SABC “to provide consistent quality of products, trustworthy brands and value for money”;
- To technically enable a Multichannel portfolio that has local, regional and global relevance perfectly aligned to our mandate;
- To facilitate continued Radio and Television Broadcasting to adhere to the Mandate of the SABC as well as the ICASA Regulations without incurring penalties for non-compliance;
- To facilitate the aggregation of revenue through the broadcasting of advertisements and sponsorships;
- To facilitate the aggregation of revenue through the digitization of SABC Content, Sales of SABC Content as well as the facilitation of productions for external production companies;
- To facilitate the aggregation of revenue by exploiting digital media platforms such as website, mobile devices (applications) and other Over-the-Top (OTT) services;
- To facilitate the broadcasting of Events of National Interest; for example, National and Municipal Elections, State of the Nation Address, National Budget Speech, Sporting World Cups, Local Sporting Events;
- To facilitate the broadcasting of additional channels on the DTT / DTH platforms to increase market share; and provide a tantalizing offering to the SABC viewers;
- To facilitate the broadcasting of SABC Radio Stations on Digital Sound platforms such as DAB+ and DRM;
- To ensure DTT / DTH readiness from technology and content aggregation / production perspectives;

**RETURN ON INVESTMENT =**  
**(Net Profit / Cost of**  
**Investment) x 100.**

Net profit would relate to (income less expenses)

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The following could be seen as "income":

- > potential income over the life of the investment
- > potential savings after project implementation
- > loss of revenue

"expenses" are all the directly attributable expenses as a result of the capital investment

Cost attributable to capital investment.

Budget	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26	FY 26/27	
000	000	000	000	000	000	000	000	000
Total capital investment over the period	451 423	167 896	324 353	-	-	-	-	943 672
Total income	60 000	66 150	300 000	315 000	330 750	347 288	364 652	1 846 840
Total expenses	(14 107)	(70 535)	(91 522)	(132 066)	(136 768)	(136 768)	(136 768)	(855 303)
Net profit								991 537

Return on investment

105%

#### Assumptions:

All amounts are round up to the nearest thousand

All income is attracted as a result of the investment in capital

Expenditure is as a result of the wear and tear from the use of the capital investment

Capital investment over the period includes only projects with approved businesses

All capital projects still to be approved to the value of R3,465,364,000 have not been considered the computation

Projected savings	520 584	551 819	584 928	620 024	657 226
Risk adjustment		(236 819)	(254 178)	(272 736)	(292 574)
Total					
savings after risk adjustment	60 000	63 000	66 150	300 000	315 000
				330 750	347 288
					364 652

With respect to Content spend – it is common knowledge that SABC 1 includes pure public activities, SABC 2 is a hybrid and 3 includes pure commercial activities. You are referred again to section 9.2 page 53 onwards of our submission. You are further referred to Editorial Guide Notes on each of the buying plans for S1, S2 and S3.

We further refer you to a document that was submitted to DoC on 22 March 2019 with the title – *SABC Immediate Funding Requirements breakdown of utilisation, impact and business risks*. I include an excerpt from that document below: Refer to page 18 of said document.

*“Owing to the SABC’s cash crisis, the SABC had to implement a repeat strategy. Currently, the repeat strategy looks as follows:*

*SABC Television has been unable to commission new content to the desired levels which required a minimum of R140m per month for the past 24 months. Due to the monthly allocation averaging between R50m and R65m only during the past 24 month period, the SABC is focusing on repeating key revenue generating properties. As a once-off exceptional case, SABC 2 scheduled a new programme to with the aim to address the audience decline on the 21:30 slot.*

*The SABC repeat schedule is current at 35% during Prime Time and 40% Full Day. SABC 3 still receiving new licenced programming as there is no shelf stock for this platform.*

*In terms of current programme inventory Television has the following stock available for the key revenue generating slots:*

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	Title	Slot	Day	Genre	Delivery Status	Available episodes
SABC 1	Uzalo	20:30	Mon Fri	Soapie	A week before TX	Today's episode
SABC 1	Generations	20:00	Mon Fri	Soapie	A week before TX	Until 30 March 2019
SABC 1	Skeem Saam	18:30	Mon Fri	Soapie	Two weeks before TX	Until 15 April 2019
SABC 2	7nd Laan	18:00	Mon-Fri	Soapie	A month before TX	Until 12 April
SABC 3	Isidingo	19:00	Mon-Fri	Soapie	Broadcasting with no contract	Until 30 March 2019
SABC 2	Giyani	21:30	Mon-Wed	Telenovela	Program launch 1 <sup>st</sup> April	5 Episodes delivered

Should the SABC not receive the necessary cash injection to pay for existing content that is due to Television as well as to start commissioning new content immediately, the Corporation will have to implement a full blown repeat strategy on all its platforms. The impact will be disastrous on the SABC as was seen from the previous implementation of a repeat strategy in FY2009/10 and in 2014, which is still attributable to the audience loss and some audiences were never recovered. The impact of the repeat strategy is already impacting on the SABC's revenue generation and audience retention. The consequences of continuing with a repeat strategy are as follows:

- Total revenue will be under target by R870m mainly owing to advertising revenue. The advertising market doesn't have confidence in the SABC's product and is therefore disinvesting.
- Sponsorship revenue can only be generated through new programme content. Repeats will impact this specific revenue stream to an amount of R300m.
- SABC2 and SABC3's turnaround strategy is ultimately dependent on the investment in new content. Without these funds, this strategy will fail.
- Audience share and numbers will decline significantly from the already low audience share numbers.
- The SABC will no longer be able to comply with its licensing conditions as repeat programmes are not included in the calculations of local content quotas and therefore the required conditions to operate as a broadcaster will be in real jeopardy.

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- The SABC financial performance will decline to insignificant levels making the public broadcaster irrelevant.
- TV licence payments will cease as the public will see no value in paying licence fees with little or no new content and sporting events. Currently, TV licence revenue is tracking behind by R107m.
- The launch of DTT / DTH in the country will be further delayed as the SABC as the public broadcaster has to play a leading role in the migration process. With new content and additional channel offerings, there would be no incentive or rationale for the public to migrate to a DTT platform. They will most likely make use of competitor platforms.

**Why the SABC's repeat strategy cannot continue any longer:**

- The media landscape has changed significantly from 2009/10 and 2014 when the SABC had to embark on a repeat strategy.
- Current audience reach levels will never be regained, due to the surge in Digital access and alternative box set access to content in South Africa. Viewers are already finding new ways to access their favourite video content, and the SABC repeat strategy will provide motivation for viewers to accelerate testing and access alternative by all South Africans.
- The current programme following will be lost and audiences will be encouraged to find new content streams elsewhere. Already, ETV's prime time new content strategy is competing aggressively with SABC's primetime line-up. Should the SABC increase repeats, all competitive advantage will be handed to ETV to grow and retain audiences previously with SABC. The eminent launch of the new Free-to-Air broadcaster will provide previous SABC audiences with no reason return to the SABC.
- Audience share and numbers will decline significantly from the already low audience share numbers of 38.6% all day share YTD (Table 1 below).

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## MONTHLY SHARE (%) PERFORMANCE

Total Screen

ALL DAY (05:00-23:00)	Adults (15+)			Share points gain (DSTV & Other)	Growth % DSTV and "other" TV stations (Satellite & FTA)
	TOTAL TV (Total screen)	SABC Network	Total e.tv (incl OVHD)		
FY16/17	100	46.7	17.6		
FY17/18	100	44.9	18.3		
FY18/19 (YTD)	100	38.6	18.0	5.8	18%

PRIME TIME (18:00-22:00)	Adults (15+)			Share points gain (DSTV & Other)	Growth % DSTV and "other" TV stations (Satellite & FTA)
	TOTAL TV (Total screen)	SABC Network	Total e.tv (incl OVHD)		
FY16/17	100	54.0	18.8		
FY17/18	100	54.3	18.1		
FY18/19 (YTD)	100	47.5	19.2	5.8	21%

### Substantiation for the above:

- Audience share growth of DSTV and other satellite stations surged in the past 10 months by 18% improvement all day and 21% improvement in prime time.
- Lower data costs and gradual fibre roll-out highlighting alternative video content accessibility to South African audiences, leading to more video being consumed via platforms such as YouTube and Netflix.
- ETV's new programme line up to compete with SABC will attract new programme following, diminishing SABC's ability to draw those audiences away again to "older" favourites they had in the past.

Example of significant reduction in TV viewership when fighting repeat programmes:

Keeping score	SABC 2	Jan-Apr 2018	<b>Ave audience rating 5.8ARs (2 million adult viewers)</b>
Keeping score	SABC 2	March 2019	<b>Ave audience rating 0.3ARs (0.1 million/106K viewers)</b>

Even though the broadcast time was different, fighting was in prime time and expected audience for March 2019 was for the programme to deliver at least 2 ratings

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- South African audiences access more video content than ever, and fewer TV viewing is recorded over time. This is not necessarily due to poor broadcast content quality, but reflective of how content choices available over diverse platforms change the way communities worldwide choose their desired way to access the content of their choice in the most convenient and cost effective way they can.

#### **Revenue expectation concerns**

- Should SABC continue the repeat schedule, the expectation is that audience ratings and share could drop as much as 70%. Since at least 64% of total TV audiences have access to digital or satellite viewing, advertisers will not be able to optimise total advertising campaign reach on SABC FTA platforms. Advertisers then also have substantiation that audiences with less economic value will be reached by SABC platforms vs competitors. This has been a major reason for SABC not receiving proportionate share of advertising revenue to date, and the repeat schedule strategy will exasperate the situation.
- Revenue loss from advertising is estimated between 60%-80%.
- SABC will not be able to sell programmes individually, but will have to sell a network average audience rating at fixed price.
- The SABC will not be able to recover from this change in commercial trading model, and high value assets will not be sold on a premium basis for at least 8 months after new programming gets introduced.

Please indicate, taking into account the information provided before and referred to above how it has been concluded that the SABC has not fully complied with the Pre-Condition.

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