



BACKHAUL PROVIDER OF CHOICE



Portfolio Committee on Telecommunications & Postal Services

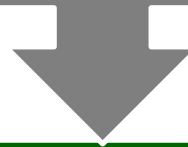
Briefing by Broadband Infraco on its Performance in respect of its
Quarterly Reports

17 March 2015

Presented by:
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Chairperson: Audit & Risk Committee

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Summary of External Audit Findings 2013/14

Department	Number of findings	Resolved	In Progress
Finance- Compliance	8	6	2
Finance- Fixed Asset	6	2	4
SCM	8	8	0
Secretariat/ Shareholder	1	0	1
HRM	3	3	0
CEO's Office	2	1	1
Total	28	20	8
Percentage	100%	71 %	29%

Detailed Findings- Finance

#	Finding	Action Plan	Status	Due Date
FIXED ASSET FINDINGS				
1.	Assets with Nil book value.	<ul style="list-style-type: none"> ▪ Full assets verification and useful life assessments will be conducted. ▪ Review entire Fixed Assets Register in terms of asset classification and assembling of assets. 	<p>In progress. A project has commenced to :</p> <ul style="list-style-type: none"> ▪ classify assets into different categories i.e. revenue generating assets, network support assets, and office and IT equipment. ▪ Assemble various components into main asset e.g. trenching, site surveys, fibre installations and duct are components of fibre as an asset. ▪ Perform annual useful life and value assessment of all assets. 	31 March 2015
2.	Assets capitalised and depreciated before delivery. (laptops)			
3.	Assets not physically verified and missing information on the asset register.			
4.	Depreciation amounts incorrectly captured.			

Detailed Findings - Finance

#	Finding	Action Plan	Status	Due date
COMPLIANCE FINDINGS				
5.	<p>Credit cards not cancelled</p> <p>During the testing of payments, it was noted that credit cards were used outside of the regulations, hence they were not cancelled at year end 31 March 2014.</p>	<p>A meeting has been held with National Treasury to request approval for deviation.</p>	<p>In progress. An application for exemption was disapproved by National Treasury. The company is exploring alternative solution of using a debit card system that would be linked to the head office account and all transactions would be visible from the main account on a daily basis.</p>	<p>31 March 2015</p>
6.	<p>No vetting of customers</p> <p>It was noted that the entity entered into contract with Transnet on 04 March 2013, however there was no evidence that Broadband verified the following:</p> <p>1) The credit background of Transnet and financial viability; and 2) Transnet is licensed for (ECNS) Electrical Communication Network Services as an operator.</p>	<p>The revenue policy will be amended to exclude the complete vetting process for certain customers.</p>	<p>In progress. The revenue policy will be amended to exclude the complete vetting process for customers who are related parties to BBI like Transnet, Eskom, SITA and Prasa</p>	<p>31 March 2015</p>

Detailed Findings - Finance

No.	Finding	Action Plan	Status	Due Date
ACCOUNTING AND ADMINISTRATION				
7.	<p>Accruals</p> <p>Accruals incorrectly classified as Provision on the statement of financial position</p>	<p>The error was rectified at year. The employees were trained on the differences between accruals and provisions.</p>	Resolved	Not applicable
8.	<p>CSIR contract agreement not signed at year end.</p> <p>It was noted that the right of use agreement between CSIR and BBI was not signed and the contract has started.</p>	<p>The contract was subsequently signed on 12 August 2014.</p>	Resolved	Not applicable
9.	<p>Smoothing of operating lease incorrect</p> <p>It was noted that BBI smoothing of operating lease was calculated incorrectly.</p>	<p>The calculation will be performed and reviewed on a timely manner in future.</p>	Resolved	Not applicable

Detailed Findings - Finance

No.	Finding	Action Plan	Status	Due Date
ACCOUNTING				
10	<p>Intangible Asset Register / Trial balance does not agree to the AFS.</p> <p>It was noted that the fixed asset register and the trial balance does not agree to the annual financial statements. The following differences were noted.</p>	The matter was finalised at year end. No further action is required.	Resolved	Not applicable
11.	<p>Fixed Asset Register / Trial does not agree to the AFS.</p> <p>It was noted that the fixed asset register and the trial balance does not agree to the annual financial statements.</p>	Comparison of trial balance and asset register is corrected and performed monthly.	Resolved.	Not applicable
12.	<p>Short term portion of deferred income calculated incorrectly.</p> <p>It was noted short term portion of the deferred income was calculated incorrectly for the following customer.</p>	The deferred income reconciliation is performed and reviewed on a monthly basis.	Resolved	Not applicable

Detailed Findings - Finance

No.	Finding	Action Plan	Status	Due Date
ACCOUNTING				
13.	<p>Possible Revenue overstatement</p> <p>During the testing of revenue recognised in the current year under review for CIRS it was noted that revenue that was recognised in the current year under review for was overstated with an amount equal to R1 461 988.31. Refer to the recalculation as per the table below.</p>	The matter was finalised at year end. No further action is required	Resolved	Not applicable
14.	<p>Possible overstatement of administration Income</p> <p>It was noted that the administration fee was charged twice to the client and as per the SLA the management fee should be invoiced once every financial year. The following invoices below were inspected.</p>	The matter was finalised at year end. No further action is required	Resolved	Not applicable

Detailed Findings - Supply Chain Management

No.	Finding	Action Plan	Status	Due Date
COMPLIANCE				
1.	<p>CIDB procurement process for construction contracts not followed</p> <p>It was noted that the following construction contracts awarded during the financial year under review were not in compliance with the CIDB regulations. The following deficiencies and non-compliance were identified:</p> <ol style="list-style-type: none"> 1. The tender invitation for a construction works contract did not stipulate the minimum category which the bidders must be registered at with the CIDB in order to qualify for evaluation; 2. No evidence could be provided to show that the invitation to tender or calls of expression was advertised in the CIDB website. 3. No evidence could be provided that the invitation for tenders was advertised for at least 10 working days before the closing date and 5 working days before any compulsory site meetings on the CIDB website. 4. No evidence could be provided to show that the winning contractor is registered with CIDB. 	<p>The findings are disputed for the following reasons:</p> <p>The general scope of work and services that BBI is engaged with, is deemed to fall within the exclusion clauses of the CIDB regulation.</p> <p>CIBD also confirmed that Broadband Infracore is not a Construction Company</p>	Resolved	Not applicable

Detailed Findings - SCM



No.	Finding	Action Plan	Status	Due Date
COMPLIANCE				
2.	<p>Procurement plan not in place It was noted that the entity did not have a procurement plan for the 2013/2014 financial year, as no documentary evidence could be provided for audit purposes.</p>	Approved procurement plan is in place	Resolved	Not applicable
3.	<p>Minimum RFQ to suppliers not reached The minimum of ten suppliers being invited to quote could not be provided for audit purposes for the purchases made as detailed below.</p> <p>Furthermore, the RFQ for the purchases made as detailed below were not open for a minimum of five (5) working days.</p>	The revised SCM policy to address the non-compliance has since been approved by the board. It should also be noted that all evaluations were done in accordance to the PPPFA Regulations prescripts at that time.	Resolved	Not applicable
4.	<p>CM policy (I) - acquisition of services, works or goods up to a Rand value of R1 million</p> <p>Section 3.3.1.2.2 of the SCM policy states that: "For the procurement of goods or services greater than R 30,000.00 but less than or equal to R 500,000.00, an RFQ is to be used when going to market or registered suppliers from the supplier database. A minimum of three (3) quotes, in writing, are to be obtained. The eighty/twenty (80/20) preference points system is to be used when evaluating the quotes."</p>	The revised SCM policy to address the non-compliance has since been approved by the board. It should also be noted that all evaluations were done in accordance to the PPPFA Regulations prescripts at that time.	Resolved	Not applicable

Detailed Findings - SCM

No.	Finding	Action Plan	Status	Due Date
COMPLIANCE				
5	<p>SCM policy (ii) - acquisition of services, works or goods up to a Rand value of R1 million</p> <p>Section 3.7.2.4(D) of the SCM policy states that “For all items procured at the R500 000.00 threshold or above the SCM official is to make use of the bid process and go to market through a RFP. For these procurement items, the eighty/twenty (80/20) preference system is to be introduced and used during the evaluation process. In these cases a maximum of twenty (20) points will be allocated for B-BBEE based on the scoring table below:”</p>	<p>The revised SCM policy to address the non-compliance has since been approved by the board. It should also be noted that all evaluations were done in accordance to the PPPFA Regulations prescripts at that time.</p>	Resolved	Not applicable
6	<p>SCM policy (i) - acquisition of services, works or goods with a Rand value above R1 million</p> <p>Section 3.7.2.4(D) of the SCM policy states that “For all items procured at the R500,000.00 threshold or above the SCM official is to make use of the bid process and go to market through a RFP. For these procurement items, the eighty/twenty (80/20) preference system is to be introduced and used during the evaluation process:”</p>	<p>The revised SCM policy to address the non-compliance has since been approved by the board. It should also be noted that all evaluations were done in accordance to the PPPFA Regulations prescripts at that time.</p>	Resolved	Not applicable

Detailed Findings - SCM

No.	Finding	Action Plan	Resolved	Due Date
COMPLIANCE AND ADMINISTRATION				
7.	<p>SCM policy (ii) - acquisition of services, works or goods with a Rand value above R1 million</p> <p>Section 3.7.2.4(D) of the SCM policy states that “For all items procured at the R500 000.00 threshold or above the SCM official is to make use of the bid process and go to market through a RFP. For these procurement items, the eighty/twenty (80/20) preference system is to be introduced and used during the evaluation process. In these cases a maximum of twenty (20) points will be allocated for B-BBEE based on the scoring table below:”</p>	<p>The revised SCM policy to address the non-compliance has since been approved by the board. It should also be noted that all evaluations were done in accordance to the PPPFA Regulations prescripts at that time.</p>	Resolved	Not applicable
8.	<p>Purchase order dated after approval</p> <p>It was noted that the purchase order is dated after the approval date by the procurement personnel.</p>	<p>The system administrator was called in to fix the problem and ensure that there is no repeat of this.</p>	Resolved	Not applicable

Detailed Findings – Secretariat and CEO’s Office

No.	Finding	Action Plan	Status	Due Date
1	<p>Memorandum of Incorporation not finalised and lodged</p> <p>It was noted that the memorandum of incorporation has not been finalised and lodged. Through discussion with management it was noted that the decision has not been reached between the shareholders and that there were outstanding Shareholders yet to be resolved prior to Approval by the Members and lodging with CIPC</p>	<p>Raised as a risk in the Q1 report ending June 2014 and discussed again with Minister of PE on 7 August at Shareholders meeting. The Shareholder undertook to resolve their outstanding issues and revert at the AGM which was held on 14 October 2014</p>	<p>In Progress. The Shareholder Representatives were informed of the importance of finalizing the Mol at separate meetings held with them, with the last meeting November and in December 2014 respectively. Both Representatives undertook to resolve all outstanding issues as a matter of urgency so as to minimize the impact on the Company.</p>	<p>31 March 2015</p>
2.	<p>Performance Information Policy</p> <p>Performance Information Policy in draft. It was noted that the entity does not have an approved performance information policy in place.</p>	<p>The draft Performance Information Policy is available. It will be tabled at the next Audit and Risk Committee</p>	<p>In-Progress. The draft Performance Information Policy will be tabled at the next Audit and Risk Committee</p>	<p>31 March 2015</p>
3.	<p>No explanation provided for over achievement of target</p> <p>Upon our review of the annual report (Predetermined objectives), it was noted that the reasons were not provided for the overachievement of certain targets.</p>	<p>To ensure that the deviations from the targets (both positive and negative) are included, a quarterly review process was put in place and all comments will be captured to ensure completeness of the reports prior to submission.</p>	<p>Resolved</p>	<p>Not applicable</p>

Detailed Findings – Human Resources Management

N.	Finding	Action Plan	Status	Due Date
1	<p>Leave days accumulated exceed 30 days</p> <p>It was noted that the following employees accumulated leave days as at 31 March 2013 exceed a maximum of 30 days and the leave pay accrual calculation was based on the actual days and were not capped to 30 days as per the policy.</p>	<p>Leave days in excess of 30 days are tracked monthly. ESS system is implemented for line managers to access leave balances automatically. Departmental leave reports are circulated to managers. VIP system will be set up to ensure that leave days are capped to 30 days.</p>	Resolved	Not applicable
2.	<p>Bonuses for key management not disclosed on the AFS (Accounting)</p> <p>It was noted that bonuses were paid to the executives of the company however the amounts were not disclosed on the financial statements note number 23.</p>	<p>The required disclosure was made in the notes to the financial statements as at 31 March 2014</p>	Resolved	Not applicable
3.	<p>Employee Cost Disclosure (Accounting)</p> <p>It was noted that the disclosure note of employee cost does not agree to the accounting records and furthermore the description below the note does include details of all amount recorded on the balance. The following errors were identified:</p>	<p>The required disclosure was made in the notes to the financial statements as at 31 March 2014</p>	Resolved	Not applicable

Risks relating to unresolved findings

No.	Risk	No of Findings
1	Policy and procedures - Non compliance. Impact: No adverse impact or exposure.	3
2.	Governance Risk – Reputational Risk Impact: Unapproved MOI will negatively impact fund raising initiatives.	1
3.	Assets management Impact: Incorrect presentation of financials and Inconsistent presentation of reporting on assets	4
TOTAL		8