



# Sebata Holdings

## INNOVATIVE SOLUTIONS

### **Material Risks Disclosure: Financial Year Ended 31 March 2020**

#### **Impact of COVID-19**

Already tough trading conditions have been exacerbated by the effects of COVID-19 and the associated National lockdown, the effects of which are not expected to ease in the short-term. There has been an immediate impact on the Group's debtors book and short-term liquidity. This, among other aspects, is due to negative impacts on suppliers, customers, and our staff. Internal measures have been implemented and adequate working capital facilities are available to curb the effects of this. There remains uncertainty with respect to the long-term effects of COVID-19. The Board expects the results to remain under pressure for the foreseeable future as a result.

#### **Liquidity Risk**

The Board of Directors has evaluated the going concern statement and associated assumptions as of 31 March 2020 and considered it to be appropriate in the preparation of the financial statements. There remain strains on the liquidity position of the Group, including the risks disclosed in this document, however the Board are

satisfied with the internal controls to mitigate this risk and the Group's access to the necessary working capital to remain a going-concern for the foreseeable future.

## **Cyber Security Risk**

As the majority of the Group is dependent on the systems and platforms that it utilises to deliver its products and services, the risk in respect of cyber-security and potential attacks on these systems and platforms remains an ever present consideration for the Risk Committee and the Board. Constantly updated cloud-based network environments, minute-by-minute back-ups, and internal IT-skills remain the Group's biggest mitigation of this risk.

## **Political Risk**

The majority of the Group services Local and Provincial Government in various forms, thus are subject to the operational changes that often come with shifts in political control over the municipalities which the Group provides services to. Whilst this can also provide opportunities, especially with the Group's revised empowerment credentials, the loss of clients as a result of a change in political control is a risk that is ever-present, especially in election years. Robust legal contracts and aggressive business development strategies are the chief mitigations in this respect.

## **Unethical Behaviour and Fraud Risk**

Sebata employs a zero-tolerance approach in respect of fraudulent activity and unethical behaviour. Due to the nature of our services and clients, the Group is susceptible to fraudulent activities and unethical behaviour at lower operational levels. Various internal controls are in place to ensure any suspected activity in this respect is immediately investigated and where necessary, corrective action taken. The Group fraud hotline remains in effect and monthly reports are provided in this respect.

## **Supply Chain Risk**

This risk is inherent across all Group companies, however the Water companies are particularly susceptible in this respect due to their offering being mainly based on the manufacturing and supply of water metering devices. The import of supply components was impacted by the effects of COVID-19 due to import restrictions, however these issues have since subsided. Due to the general uncertainty around the long-term response to the COVID-19 pandemic, this remains a risk to these

companies. Further, the unreliable supply of electricity by Eskom remains a risk to the manufacturing processes. A procurement committee has been established to ensure we are best prepared to deal with any further supply-chain interruptions.

## **Billing Risk**

The majority of the Group services Local and Provincial Government in various forms, thus are subject to the challenges all government-servicing entities face in respect of receiving payment for work completed or services rendered. This is due to the strained financial position of these government entities, and the Group relies heavily on equitable share payments from National Treasury to be paid through to our companies. This is mitigated, where possible, through contractual provisions, including suspension of services clauses, however where legal remedies are possible, the Board has instituted the necessary actions in this respect.

## **Employee Retention Risk**

All of the Group companies rely heavily expertise in respect of ICT services and the relevant skills and know-how of its employees pertaining thereto. This is most prevalent in the Software Services businesses, specifically its software development and management resources. As these skills, at the levels required, are in short-supply across the industry, the introduction of retention initiatives such as product delivery incentive schemes for pre-identified key staff members that are at risk has been required. Succession planning is also reviewed constantly to ensure risks are mitigated in this respect and relevant employees are upskilled as required.

## **Tender Risk**

Lack of transparency in tender adjudication processes and questionable selection of suppliers by tender adjudication committees remains a prevalent risk, given the nature of clients the majority of the Group services. Whilst every effort is made to streamline tender processes in line with requirements, the risk of business being lost due to internal government administrative issues remains inherent.