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Background information of the Post Office's challenges

1. Introduction

The South African Post Office received an unqualified audit report for the previous financial year 2012/13. However, auditors drew attention of the entity's financial statements to an irregular expenditure of R2, 1 billion, which constitute the main thrust of today's presentation. Irregular expenditure according to the Auditors, **"[...] is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including the Public Finance Management Act (No. 1 of 1999)."**[1]

2. SAPO in contravention of the PFMA

All State-owned Companies including the South African Post Office are subject to the rules and regulations as contained in the Public Finance Management Act (No. 1 of 1999), and all SOCs are expected to comply with the legislation (PFMA).

Section 51, b (ii) of the Public Finance Management Act (No.1 of 1999), under the heading "General responsibilities of accounting authorities or CEOs," makes the point that the CEO must **"[...] prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct, and expenditure not complying with the operational policies of the public entity."**[2]

In the event that such wasteful expenditure has taken place, the PFMA (No.1 of 1999) stipulates that the CEO or accounting authority must **"[...] take effective and appropriate disciplinary steps against any employee of the public entity who makes or permits an irregular expenditure or fruitless and wasteful expenditure."**[3]

It is not clear whether the CEO of SA Post Office took any disciplinary steps toward the employee or employees responsible for the R2, 1 billion wasteful expenditure lost by the entity in the previous financial year. What is however clear is that there are two investigation underway in the South African Post Office - one investigation conducted at the behest of the

[1] SAPO, Annual Report 2012/13
[2] Public Finance Management Act (No.1 of 1999)
[3] Ibid.

Communication Workers Union (CWU) is by the Public Protector. The second is by the Special Investigation Unit (SIU) at the behest of the State President, Mr Jacob Zuma.

3. 2014 financial statements and SAPO as a going concern

In the 2012/13 financial statement Auditors' noticed that despite the CEO having identified irregular expenditure earlier in 2012/13 the practice continued unabated, pointing out that **"[...] the accounting officer *or CEO* has therefore not taken effective steps to prevent irregular expenditure as required by Section (1) (b)(ii) of the Public Finance management Act (No. of 1999)."**[4]

Together with the above, Auditors in 2012/13 raised concerns about the South African Post Office's viability as a going concern. In other words, Auditors were worried that the entity might not be able to continue to operate as a business entity for the next ten to eighteen months period due to funding challenges.

Whether this finding by the Auditors in the previous financial year continued in the year under review as the SA Post Office this year failed to submit their annual report due to the entity's going concern. **Every State-owned company in terms of the Public Finance Management Act (No. 1 of 1999) is expected to table its annual report six months after the end of the financial year which is 31 March of every year.**

The Minister of Telecommunication and Postal Services, Mr Siyabonga Cwele explained the delay as thus, **"[...] I am unable to table these documents *(Audited financial statements)* with respect to the South African Post Office by the 30th of September 2014, and as required by section 65 (2)(a) of the PFMA."** The Minister also explained the reasons as, **"This relate to the fact that the Auditors have not yet completed the Audit process. This is due to the ongoing challenge at SAPO that we are still engaging the Minister of Finance on, and that need to be addressed prior to the conclusion of the audit."**[5]

4. The illegal strike action by workers at the South African Post Office

About 7900 casual postal workers across the country have embarked on illegal industrial strike demanding permanent employment.[6] At the root of the unrest are allegations that SAPO management failed to honour its undertaking given to workers eight months ago that it would employ casual workers as permanent part-time workers with full benefits.

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[4] Public Finance Management Act (No.1 of 1999)
[5] ATC, No 72-2014
[6] Isaacs, Lisa, 10 October, 2014

Mr Lungile Lose, SAPO's head of Corporate Services and Spokesperson in a media report pointed out that SAPO entered into too many labour agreements and supplementary contracts with labour unions that it could no longer meet, and that sparked the illegal strike.[7] Mr Chris Hlekane SAPO's Chief Executive Officer has been placed on extended leave following allegations of mismanagement of funds, wasteful expenditure including the strike that has carried on intermittently since 2012.[8]

Provinces that are affected by the strike include Gauteng, Bloemfontein and Polokwane. Cape Town initially took part in the illegal strike but later workers returned to work. According to Communications Workers Union's (CWU) General Secretary, Mr Aubrey Tshabalala the Post Office called a teleconference and concluded agreements with other unrecognised unions, giving casual workers permanent posts in the next four years. The CWU General Secretary argues that the proposal has no time frames nor a decent explanation of how the demands will be met and this according to him this has jeopardised the chances of ending the strike which is in its tenth week now.

In a statement the South African Post Office (SAPO) explained that its management team continues to talk with the unions. And that it can only implement its proposal by only using a staggered approach given the difficult financial position the company is in.[9] According to SAPO, since the process started in 2013, more than 2000 casual employees have been given permanent contracts. SA Post Office has recently concluded 600 more permanent contracts while 900 additional casual workers are also being issued with permanent contract.

5. Conclusion

It is clear that the South African Post Office is facing a number of challenges and these include weak internal controls that may have resulted to wasteful expenditure which in turn has also affected the entity's financial sustainability. The two investigations underway will determine whether a portion or all of the R2, 1 billion wasteful expenditure is recoverable. If this amount was prevented through strong internal controls it is possible that SAPO's future financial sustainability would have been a lot better compared to what it is now (as a going concern).

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6. References

[7] Zwane, Thuletho, 07 October 2014
[8] Zwane, Thuletho, 07 October 2014
[9] Post Office, Customer Service, 08 October 2014

1. Announcement, Tablings and Committees, No. 72-2014, Thursday 09 October
2. Isaacs, Lisa, "Post office's ploys hampering bid to end strike," 10 October, 2014
3. Post Office Customer Service, 08 October 2014
4. Zwane, Thuletho, "Post office boss on extended leave for missing funds." 10 October 2014
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6. Zwane, Thuletho, "Post office boss on extended leave for missing funds." 10 October 2014

3. Department of Public Enterprises

The mandate of the Department of Public Enterprises is to drive investment, productivity and transformation in the department's State-owned Companies, their customer and suppliers so as to unlock growth, drive industrialisation, create jobs and develop skills.

3.1.2 State-owned Companies under the Department of Public Enterprises

- Alexkor (Mining)
- Broadband Infraco (Communication)
- Denel (Arms manufacturing)
- Eskom (Electricity generation and distribution)
- Safcol (Forestry)
- South African Airways (Aviation)
- South African Express (Aviation)
- Transnet (Transport/Freight logistics)

3.1.2 Key sectors highlighted for consideration

- The introduction and processing of the Shareholder Management Bill

The Department of Public Enterprises' oversight responsibilities over State-owned Companies have been made less effective due to lack of a legislation that empowers it to effectively oversee SOC's with the government mandate. There are times when State-owned Companies are compelled by commercial imperatives to compromise government's developmental objectives. The Shareholder Management Bill was therefore designed to address among other issues the balance between government's developmental objectives and SOC's commercial imperatives. A draft of the Shareholder Management Bill was halted three years ago pending the outcome of the Presidential Review Committee on State-owned Enterprises. Now that the PRC report has been completed the Committee in its oversight responsibilities must seek further clarity o the status of the Shareholder Management Bill and subsequently ensures for its introduction since its adoption will clarify clearly the role of SOC's in the country's development agenda.

- Identifying and funding of new mining ventures for the future sustainability of Alexkor

The successful land claim by the Richtersveld Community of Alexkor's mining businesses changed the future of the company. Instead of government being the sole shareholder, the out of court deed of settlement resulted to a joint venture between the Department of Public Enterprises and the Richtersveld Community referred to as the Pooling and Sharing Joint Venture (PSJV) with the department as the shareholder representative of government owning 51% and the Richtersveld Community owning 49%. Diamond mining as the sole business of Alexkor does not seem to be able to sustain the company and government is exploring other options such as coal-mining to diversify Alexkor's business activities. However, diversifying Alexkor's business activities will require capital and re-orientation of Alexkor's activities. The Committee need to monitor Alexkor's business options and whether the required capital for diversification is provided for or will be generated through borrowing or by attracting new investors.

- Addressing the issue of Broadband Infraco's second licence in order to enable the company to fulfil its mandate of making broadband services accessible and affordable to underserviced and underdeveloped areas

Subsection 4. 1(a) and (b) of the Broadband Infraco Act (B33-2007) stipulate that the company in accordance with the Electronic Communications Act be provided with the following two licences;

1. Electronic Communication Network Services (ECNS)

2. Electronic Communications Services (ECS)

The company only received one licence, namely the ECNS and without the ECS licence its role in the communication sector is limited and its mandate curtailed. The committee should seek clarity on why ICASA failed to grant Broadband Infraco the second licence or that the Act (B33-2007) should be amended to remove the clause that refers to the second licence.

- The implementation of Denel's turn-around strategy

Except for last year, for the past few years Denel has been reporting losses due mainly to one of the company's divisions, namely Denel Aerostructures. The division was making huge losses and among other factors for failing to meet deadlines on contracts that resulted to huge penalty fines. The appointment of Denel's new CEO, Mr Riaz Saloojee and the company's turnaround strategy saw the company reporting profits after many years of losses. The committee should continue to monitor Denel's successful turn-around strategy and to use it as a model for other State-owned Companies.

- Eskom's ability to maintain adequate energy supply and the restructuring of the energy sector as contemplated in the Independent System and Market Operator's Bill

Eskom's reserve margin is very low and the utility's energy supply is under constraint. Relief for the utility will only come once the first unit at Medupi power station is commissioned which is scheduled before the end of this year. To avoid load shedding or black-outs Eskom has to intensify the energy saving campaign. Second to Eskom's challenges is the Independent System and Market Operator's Bill which proposes for the establishment of a government entity that will buy electricity and distribute it to users. This means that Eskom will have to transfer its distribution infrastructure to the new entity and by so doing reducing its balance sheet something that might have a negative impact on its credit worthiness.

- The future role of Safcol in the forest industry

Prior to 2004 Safcol's share value of the forest market was more than 60% yet with the restructuring of the company Safcol sold more than half of its share of the market. Today Safcol's share of the forest market is around 30%, and as a company she has no significant or strategic value in the forest industry. The future role of Safcol in the forest industry hangs in the balance as government has not yet confirmed what role the company must play either to exit the forest industry or to play the role of a development agency by developing rural communities. The committee should first seek clarity of future role of Safcol in the forest industry to be able to carry out its oversight responsibilities effectively.

- SAA's balance sheet challenges and the impact of the Airbus deal

The airline has been confounded by a number of challenges some referred to as "legacy issues" whilst others are general as to all other airlines like baggage pilfering and fuel prices. Legacy issues are as a result of ill conceived commercial decisions that have compromised the commercial sustainability of the airline. Early in 2002 the airline agreed to buy 15 aircraft from the French company Airbus which were to be delivered in seven years time. In the period to seven years the airline had to deal with a number of challenges such as rising fuel prices and unprofitable routes resulting to grounding of the some aircraft. To compound issues the airline was posting losses and the balance sheet had its own challenges as it was shrinking. Guarantees from treasury did very little to change the airlines fortune as one turn-around strategy after another failed to make the company profitable. Instalment payments for the 15 aircraft to Airbus also put the airline's cash flow under strain.

In 2008 the airline successfully renegotiated the Airbus deal and instead of 15 aircraft the airline ordered a total of 20 aircraft that were fuel efficient with specific designs to meet SAA's demands. The big challenge however was that SAA had already borrowed too much money from the credit market and servicing the Airbus deal stretched the airline's resources even further. SAA's gearing ratio remains above 80% and that makes the airline depended on government's support. There is however a view that the airline when it was released from Transnet's balance sheet to be a stand- alone entity it was never fully capitalised and therefore government's support is a way of recapitalising the airline.

In 2013 the airline launched a new turn-around strategy referred to it as 'SAA's long term turn-around strategy' with no indication when will the airline posts positive results. This is despite the fact that turn around strategies in the corporate world take only eighteen months to yield positive results. This being the seventh turn-around strategy as more than five of them gathered dust in the airline's office shelves. The Committee will need to take into account the airline's legacy issues especially those that continue to impact negatively on the financial performance of the airline, but more importantly is to monitor the airline's long term turn-around strategy to ensure that this time around it succeeds in putting the company on a profit making path.

3.1.3 Challenges and constraints

- There's an urgent need for a legislation that will empower the department so that it is able to ensure that government's developmental objectives are not compromised by commercial imperatives when it comes to business activities of State-owned Companies

- At some point there will be a need for the department to share with members of the committee some of the key performance indicators signed between the department and SOC's so as to ensure that policy objectives contained in documents such as the NDP, State of the Nation Address find expression in those shareholder compacts.

4. Department of Science and Technology

The mandate of the department is to develop, coordinate and manage a national system of innovation that will bring about maximum human capital and sustainable economic growth that will improve the quality of life for all.

4.1 Entities under the Department of Science and Technology

- National Advisory Council on Innovation (NACI)
- Technology Innovation Agency (TIA)
- Council for Scientific and Industrial Research (CSIR)
- Human Science Research Council (HSRC)
- National Research Foundation (NRF)
- Africa Institute of South Africa (AISA)
- South African National Space Agency (SANSA)

4.1.2 Key sector highlighted for consideration

- Oversight responsibilities of the Department of Science and Technology over its entities

It should be clear that the department of Science and Technology is not necessary an implementing agent when it comes to government's science and technology policies. This role is undertaken by the entities falling under the department. In other words, government's objectives find expression through the entities. The arrangement is that these entities sign shareholder compacts with the department of which their performance will be measured. The Committee will have to make sure that the shareholder compacts signed between the Department of Science and Technology and its entities do indeed contain some measurable development objectives that really change the lives of ordinary South African. This is to avoid a situation whereby the performance of these entities is confined only to academic pursuits with no bearing to the country's socio-economic conditions.

- Implementation of the Ten-Year Innovation Plan

The department is guided by the national research and Development Strategy (NRDS), the White Paper on Science and Technology and the Ten-Year Innovation Plan. These documents are basic sources of reference that outline the role of science and technology in meeting the country's development objectives. It is imperative that the committee familiarise itself with the key issues raised in these document in order to ensure their successful implementation. The White Paper on Science and Technology make the point that the objectives of science and technology is to create a system of output measurements, so that the taxpayer can demonstrably be given value for money.

- Construction of the Square Kilometre Array

Construction is underway at the Karoo and government has also set aside funding for this mega project which has stakeholders internationally in space technology. It is a project that the Department of Science and Technology is very proud of and which should have the support of the nation. The committee will need to ensure that the project sticks to its deadlines and that members of the committee are informed of project phases as the 61-antannae or MeerKat (the precursor to the SKA telescope) will be complete by 2017. The committee will also have to conduct an oversight visit to the Karoo in order to understand the magnitude of the project but also to see at what phase is the project.

- The discovery of antibodies by the Biotechnology and Health programme

The Centre for the Aids Programme of Research in South Africa (CAPRISA) under the auspices of the department's Biotechnology and Health programme has discovered potent antibodies that can kill 88% of the HIV found throughout the world. And this ground breaking discovery provides important clues that could be used in developing a vaccine against HIV and Aids. The committee will have to monitor developments around this medical breakthrough and also take note of the phase or stage the process is, for at times a breakthrough can be made but clinical trials can reveal the toxicity or harmful side effects of a medicine only for it not reach the shelves.

- Science and Technology for Social impact

Under this programme the department is overseeing mainly two projects namely, the Department's KwaNobuhle Essential Oils and Nkowankowa juice project. Clearly the Department can do more than that if indeed its mission amongst other focus areas is to strive for, "[...] sustainable economic growth and improve the quality of life for all."[10] The Committee should therefore make sure that the Department of Science and Technology broadens its scope of activities within the social impact programme to bring technological solutions that will really change people's daily lives.

4.1.3 Challenges and constraints

- The biggest challenge with department's that oversee entities is whether these entities are able to give expression to government's developmental agenda.
- The second challenge is what is the nature of the shareholder compact signed between the department and each of the entities? Do these shareholder compacts contain measurable objectives that speak to government's developmental agenda or the focus is more on academic excellence?

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[10] Annual Report, Science & Technology (2012/13)