

Briefing on the SOC audit outcomes



Briefing to Portfolio Committee

18 February 2015



1

Movements in the DPE Portfolio of SOC

2

Audit Outcomes

3

Emphasis of Matter(s) per SOC/ Concerns

4

Tabling of Annual Reports – Status Update

5

Interventions by DPE

6

Conclusion



DPE SOC portfolio

 Focus

Breakdown of the SOCs overseen by the DPE

(Rbn)



Breakdown of SOCs overseen by the DPE by Revenue, Profit and Asset Value

(Rbn)	Sector	Revenue	Profit	Asset Base Value
Eskom	Energy	139.5	7.1	504.9
Transnet	Transport	56.6	5.1	240.1
Denel	Defence	4.6	0.28	8
SAX	Transport	2.2	0.01	1.4
SAFCOL	Agriculture	0.9		0.1
Alexkor	Mining	0.15	0.045	0.9
SAA	Transport	30.0	-0.4	15.2
BBI	Communication	0.2	-0.2	1.6
Total		234.15	11.9	772.2

~84% of the total revenue generated by the DPE's SOCs can be attributed to Transnet and Eskom collectively

~Subsequent to the presidential proclamation, the two SOCs were transferred to NT and DTSP

SOC operate in the critical sectors of the economy:
 Transport: 9%
 Energy: 2%
 Mining: 5%
 Agriculture: 2%
 Manufacturing: 15%

- The DPE is the sole shareholder of some of the largest SOCs in the country, including Eskom, Denel and Transnet
- The collective Asset Value for the DPE's SOCs is over R770bn, with Eskom and Transnet accounting for R740bn, ~96% of this value
- The DPE thus plays a critical role in shaping the outcomes of the MTSF and ultimately the NDP

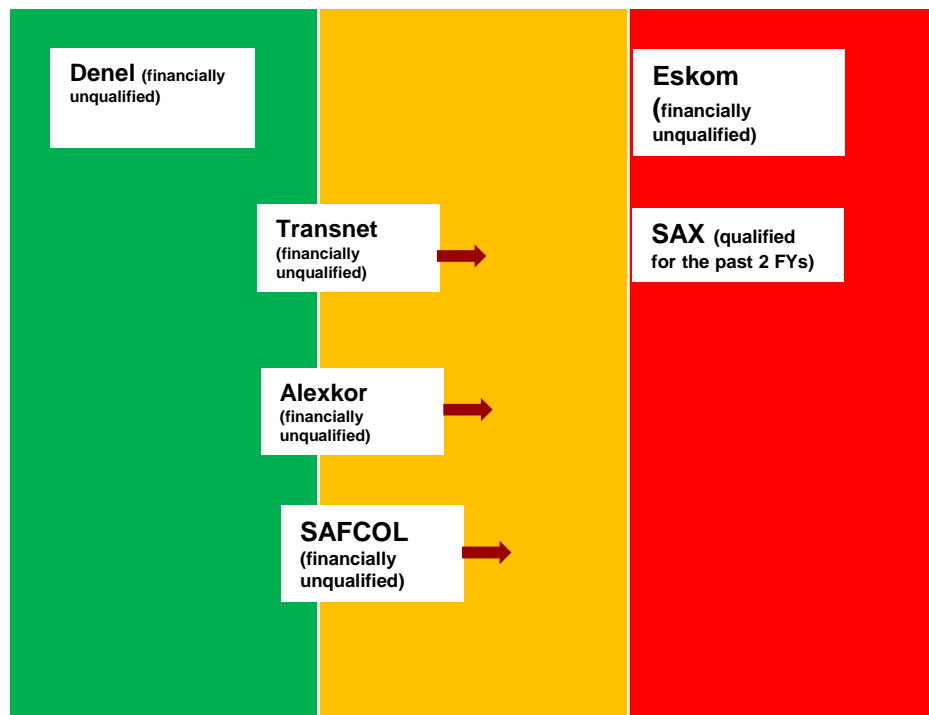
Note: Assumption being made is that due to scale of Transnet and Eskom as collective, interventions applied to these two entities can ensure the success of MTSF

Source: relevant SOC financial statements; DPE.gov.za; Team Analysis



SOCs Audit outcomes and financial performance over the 2 years are concerning

Recent review into the performance of DPE Portfolio of SOC's highlights several challenges



The majority of the SOC's within the DPE's portfolio require close monitoring or urgent attention

... Observations

- All SOC's except SAX successfully complied with the PFMA and tabled their Annual Reports
- All SOC's except SAX held their AGMs and signed the compacts
- Relatively low levels of operational efficiencies resulting in high wastage
- Limited functional and managerial skills required in often highly complex environments
- Ineffective Performance management measures
- Ineffective governance mechanisms and policies to provide clear objectives and direction



The audit findings can be summarised into themes that require clear response to enhance governance

Audit Finding theme	Intervention	Desired outcomes
Supply chain management to reduce irregular, fruitless and wasteful expenditure	<p>i Implementing strong consequence management to clamp down on non-compliance to procurement practices</p>	<ul style="list-style-type: none"> Ensuring improved supply chain management and significant reduction fruitless and wasteful expenditures.
Preparation of Annual Financial Statements that complied to PFMA requirements	<p>ii Monthly reconciliation to be undertaken by all SOC to ensure that capacity to execute the audits is significantly improved</p>	<ul style="list-style-type: none"> Eliminate misstatements in the financial statements to ensure that they reflect the correct companies' positions
Weaknesses of the controls to ensure compliance	<p>iii Risk management practices that needs to be significantly improved to ensure that the control environment is significantly improved focusing on supply chain, expenditure management and</p>	<ul style="list-style-type: none"> Improving the controls and risk management practices within the SOC
Skills and Capacity in financial management (competencies)	<p>iv Skills audit to be undertaken at the Board and executive level Contracting on compact to ensure consequence management</p>	<ul style="list-style-type: none"> Enhanced capacity of the SOC and accountability



Improving the regulatory and governance framework

- Currently the Department is in the process of reviewing its shareholder management practice tools and frameworks, for example:
 - Government Shareholder Management Model (Bill being proposed to Minister)
 - Protocol on Corporate Governance in the Public Sector and the Board Induction Toolkit
 - Remuneration Standards
- The Minister has requested Boards to put measures in place to ensure irregular, fruitless and wasteful expenditure is avoided and to hold employees accountable when found guilty.
- DPE has monthly management meetings with some SOC and attends quarterly review sessions with SOC.
- SOC must report on quarterly basis on progress made in addressing the findings and recommendations of the AGSA.

Key outcome

- Introduce a culture of discipline which will build public confidence on the SOC and support the attraction of competent people
- Improving the performance standards for all the SOC
- Clear accountability framework that will recognise good performance and address non-performance

Conclusion

-
- The shareholder management function is an evolving process requiring constant improvement to keep pace with the changing and dynamic environment in which SOC operates
 - The government direction on clarifying its role and strengthening the SOCs is supported and DPE is preparing proposals for submission to the Cluster in this regard
-



THANK YOU
