**2. Budgetary Review and Recommendation Report of the Portfolio Committee on Public Enterprises, dated 26 October 2016**

The Portfolio Committee on Public Enterprises (hereinafter referred to as the Committee), having considered the performance and expenditure for the 2015/16 financial year and submission to National Treasury for the medium term period of the Department of Public Enterprises and its entities , reports as follows:

1. **Introduction**

**1.1 Mandate of Committee**

The mandate of the Committee is to consider legislation referred to it; exercise oversight over the Department and the six state-owned companies (SOCs); consider international agreements referred to it; consider the budget vote of the Department of Public Enterprises and its entities; facilitate public participation in its processes; and to consider all other matters referred to it in terms of legislation and the rules of the National Assembly.

**1.2 Description of core functions of the Department**

The Department of Public Enterprises has a distinct mandate of shareholder management on behalf of the state. It has a responsibility to ensure that SOCs primary responsibility is to support and lead in strategic government-led developmental objectives within the realm of a clearly defined public mandate of pursuing an overarching industrialisation programme, drive investment, productivity and transformation of the sectors within which they operate. The Department also seeks to unlock growth, drive industrialisation, create jobs and develop skills.

**1.3 Purpose of the BRR Report**

Section 77(3) of the Constitution stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

The Money Bills Amendment Procedure and Related Matters Act therefore makes it obligatory for Parliament to assess the Department’s budgetary needs and shortfalls vis-à-vis the Department’s operational efficiency and performance. This is done taking into consideration the fact that the Department has oversight responsibilities over six state-owned companies, namely Alexkor, Denel, Eskom, South African Express Airways (SAX), South African Forestry SOC (Safcol) and Transnet.

**1.4 Method**

This report is the culmination of a very intense and thorough analysis and interaction with the Department and state-owned companies through briefings, oversight visits and interaction with relevant stakeholders. These included a briefing from the Department of Public Enterprises on its annual report, a briefing from the Office of the Auditor-General on the audit outcomes and a deliberation on the analysis done by the parliamentary support staff on the performance of the Department in terms of its service delivery targets and financial performance. The report incorporates inputs from the Internal Audit Committee of the Department of Public Enterprises. However, in as much as these issues are raised by the Internal Audit Committee they have been sufficiently addressed in the Auditor General’s report.

**1.5 Outline of the contents of the Report**

The budgetary review and recommendation report of the Committee, in undertaking oversight over financial and non-financial performance of the Department of Public Enterprises and entities, contains the following:

* Overview of the key relevant policy focus areas.
* Summary of previous key financial performance recommendations of the Committee.
* Overview and assessment of financial performance.
* Overview and assessment of service delivery performance.
* Finance and service delivery performance assessment.
* Committee observations and responses
* Committee recommendations.
1. **Overview of the key relevant policy focus areas**

According to the International Monetary Fund (IMF), South Africa has made considerable economic and social strides since 1994, but faces significant challenges. Deep-rooted structural problems—infrastructure bottlenecks, skill mismatches, and harmful insider-outsider dynamics—have kept unemployment and inequality unacceptably high. Also, a confluence of external and domestic shocks, combined with heightened governance concerns and policy uncertainty, have weighed on confidence and growth. Though private balance sheets are still strong, vulnerabilities are elevated.

The organisation provides the outlook and risk, 2016 growth is projected at 0.1 percent. Only a muted recovery is envisaged from 2017, with rising unemployment. Downside risks dominate and stem mainly from China, heightened global financial volatility, and domestic politics and possible policy missteps. Shocks could be amplified by extensive macro-financial linkages, especially if combined with sovereign credit rating downgrades to speculative grade. On the upside, the recent dialogue between social partners could catalyse reform implementation and invigorate growth.

Structural reforms are urgent and imperative to facilitate robust and inclusive private sector-led growth that creates more jobs and reduces inequality and vulnerabilities. The authorities are making some progress in addressing electricity bottlenecks. A comprehensive package of structural reforms—greater competition, more inclusive labour market policies, better training and education, and improved governance—remains the preferred option. An initial, focused set of tangible measures that lowers policy uncertainty and boosts confidence could help generate sustained reform momentum.

The 2016 Budget targets are appropriately ambitious, but could be challenging to achieve if staff’s macro projections materialize. Maintaining debt sustainability is essential, but further adjustments need to be carefully designed to avoid pressuring an already-weak economy. Strengthening governance, private participation in SOEs, and greater spending efficiency are key interventions to improve SOE performance and public service delivery, protect the poor, and reduce contingent liabilities. After recent rate hikes, monetary policy may be able to remain on hold, though more tightening may be needed if core inflation or inflation expectations rise significantly.

The mandate of the Department of Public Enterprises provides it with a distinct scope to contribute towards economic growth, and sustainable development outcomes. At its core is the Departments contribution to employment, skills development, industrial development, transformation, community development, and environmental stewardship.

The Department provides oversight to entities established through different legislative mandates. This provides an opportunity for coordinating key major policies of government such the National Development Plan, Industrial Policy Action Plan and the Strategic Infrastructure Projects aimed at economic growth, industrial development and job creation.

There is a reaffirmation on how Government’s infrastructure programme will support the growth of supply sectors, unlock key bottlenecks in the economy and underpin structural transformation. The Strategic Infrastructure Projects (SIPs) identified in the Presidential Infrastructure Coordinating Council (PICC) which state-owned companies are leading will have a catalytic impact on job creation, unlocking resources developing the poorest regions of our country and overcoming spatial inequalities. Entities have a regional outlook informed by government’s commitment to the African Union on the key Strategic Infrastructure Projects. The Department provides oversight to entities that while having the responsibility of driving the developmental objectives of government and remaining commercially viable, they drive continental developmental objectives of government as part of government’s commitment to the AU’s Agenda 2063.

The strategy is also aligned to, and supports, the many regional initiatives that seek to improve regional integration. These include:

* The Department of Public Enterprises’ Africa Strategy;
* The SADC Regional Infrastructure Development Plan;
* The AU/NEPAD’s Programme for Infrastructure Development in Africa (PIDA);
* PIDA’s Presidential Infrastructure Champions Initiative, which includes the North-South Corridor as one of the eight cross border projects; and
* South Africa’s Presidential Infrastructure Coordinating Commission, with specific reference to Strategic Integrated Project (SIP) 17: *Regional Integration for African cooperation and development.*

The Department of Public Enterprises should be able to monitor key policy developments at the development stage and include in its planning framework key programmes to support policy implementation. This should be practiced in different spheres of government in line with the implementation of the Medium Term Strategic Framework, 2014-2019.

The President’s State-of-Nation Address in 2016 highlighted that; a resilient and fast-growing economy is at the heart of South Africa’s radical economic transformation agenda and the National Development Plan (NDP). Government has embarked on an aggressive infrastructure development programme to stimulate growth. It has urged business and labour to continue marketing the country as a preferred destination for investments.Government plans to implement the recommendations of the Presidential Review Commission on State-owned Enterprises, which outlines how the institutions should be managed in order to achieve the developmental objectives and aspirations of South Africa.

State Owned Companies reporting to the Department support the nine-point plan as outlined in the 2015 SONA. They have a role in sustainable development outcomes, capacity creation, competitiveness and operational performance. On resolving the energy crisis the SONA outlined that; the fact that there has been no load-shedding since August 2015 shows that government has made progress in stabilising the electricity supply. Government has invested R83 billion in Eskom to enable the power utility to support Medupi Power Station in Limpopo and Kusile Power Station in Mpumalanga, and also to continue with a maintenance programme. Additional units from Ingula Power Station, situated on the border of both the Free State and KwaZulu-Natal, will be connected in 2017.

The multiple-bid windows of the Renewable Independent Power Producer Programme have attracted an investment of R194 billion. Government will this year select the preferred bidders for the coal independent power producer. A Request for Proposals will also be issued for the first windows of gas to power bids. The nuclear energy expansion programme remains part of the future energy mix. Government plans to introduce 9 600 megawatts of nuclear energy in the next decade, in addition to running the Koeberg Nuclear Power Station. As part of Operation Phakisa – the fast-result methodology launched in 2014 and implemented in the ocean economy, health, education and mining sectors – R7 billion has been committed in new port facilities. This followed the adoption of a public-private partnership model for port infrastructure development by Transnet National Ports Authority.

Through the oceans economy segment of Operation Phakisa, South Africa has registered two bulk-carrier vessels in Port Elizabeth and a third tanker in Cape Town. The launch of a fuel storage facility in Cape Town has brought an investment of R660 million.

The National Development Plan (NDP) identifies infrastructure as the foundation for social and economic development. It identifies key points to realise this objective, critical among these are the following:

* South Africa needs to maintain and expand its electricity, water, transport and telecommunications infrastructure in order to facilitate economic growth and social development goals. Given the government’s finances, private funding will need to be sourced for some of these investments.
* The role and effectiveness of sector regulators needs to be reviewed. In addition to issuing licenses and setting tariffs, regulators need to place more emphasis on stimulating market competition and promoting affordable access to quality services. This will require capacity-building in regulatory institutions.
* Policy planning and decision-making often requires trade-offs between competing national goals. For instance, the need to diversify South Africa's energy mix to include more renewable energy sources, which tend to be variable in terms of production, should be balanced against the need to provide a reliable, more affordable electricity supply.

The Department is responsible for realizing the desired objectives of the NDP as they relate to infrastructure development. There is a need for ensuring that appropriate skills are sourced by the department in order for the objectives of the NDP to be realized.

**2.1 Key policy developments and legislative changes**

The Shareholder Management Bill is at its advanced stages and will be presented to Cabinet before being introduced to Parliament. The Department exercises shareholder oversight on six SOCs. All the SOCs are incorporated as companies in accordance with the provisions of the Companies Act, 2008. Except for Denel, all the SOCs are established in terms of their own enabling legislation which sets out the purpose, mandate and objectives for which they are founded. The Department is the administrator and custodian of all legislation relating to the establishment of SOCs. In terms of section 63(2) of the Public Finance Management Act 1 of 1999, as amended (the PFMA), the Minister of Public Enterprises has, inter alia, the responsibility of ensuring that SOCs comply with the PFMA.

**2.2 Presidential Review Commission (PRC)**

The PRC identifies four key areas that contribute towards a well-run and successful SOE. The Department of Public Enterprises is in the process of implementing all four areas. In its annual report to Parliament it outlines that it has already implemented three out of four recommendations.

1. **Summary of PREVIOUS BRRR recommendations of the Committee**

Based on the analysis of the department’s budget for the year 2014/15, the following recommendations were made:

3.1The Minister of Public Enterprises should:

3.1.1 ensure the capacitation of the internal audit function in the Department to ensure an improved record keeping and compliance with the legislative framework.

3.1.2 consider introducing relevant systems as well as considering evidential requirements during the annual strategic planning process in order to ensure that all predetermined targets are achieved and that targets are realistic and achievable.

3.1.3 increase and strengthen oversight over state-owned companies through robust and regular interaction with CEOs, Board Members, Audit Committees, regular visits to the construction sites of major infrastructure projects as well as to offices and sites of the entities.

3.1.4 ensure that emphasis is placed on monitoring and evaluation, so that the SOCs’ implementation of Government’s policy objectives is realised, especially their outcomes as this has an impact on peoples’ lives.

3.1.5 fast-track the introduction of the Shareholder Management Bill which will empower the department to carry out its oversight responsibilities over state-owned companies more effectively, especially in providing guidance on how to align SOCs’ strategic priorities with government policies.

3.1.6 provide the Committee with shareholder compacts signed with state-owned companies in order to enhance the oversight role of the Committee, within one month after the signing of the agreement.

3.1.7 institutionalise the recommendations of the Presidential Review Committee on SOCs and work with the Ministerial Committee, headed by the Deputy President looking into the SOC’s and the Department.

3.1.8 ensure that the guiding frameworks for SOCs are completed timeously and implemented so as to provide a stable working environment. The Department should ensure that the SOCs comply with these frameworks.

3.1.9 ensure that there are punitive measures in place for under-performance against targets for board members, executives, contractors of SOCs and officials of the department.

3.1.10 ensure that all the SOCs undertake interim audits, as most of them got unqualified audit opinions with findings.

3.1.11 ensure that the Department of Public Enterprises closely monitors South African

 Express Airways in the implementation of the turnaround strategy.

3.1.12 ensure that the Department of Public Enterprises should introduce mechanisms that would ensure SOCs implement the recommendations of the department.

3.1.13 ensure that the Department finalises the future strategic roles for Alexkor and

 Safcol.

3.1.14 ensure that the vacancies in the department are filled, as well as the acting positions in the entities with an outcome of developing the strategic capacity of the Department.

3.1.15 pursue the finalisation of the Whole of State policy to bring alignment and synergy among state aviation assets. i.e SAA, SAX and Mango.

3.1.16 ensure that the Department continues to work closely with policy departments such as the Departments of Transport, the Department of Mineral Resources, the Department of Energy, the Department of Defence and Military Veterans and the Department of Agriculture, Forestry and Fisheries, in order to influence the policy environment in which the SOCs operate.

3.1.17 ensure that there are time frames to rectify the shortcomings as identified by the findings of the Auditor General be set and given to the Committee.

3.1.18 that the Business Process Mapping exercise objective to be completed.

**3.2 The Committee recommended that the Minister of Finance should consider:**

3.2.1 should consider the application by Denel for an amount of R400 million for the

upgrading of the ammunition plant, Denel Pretoria Metal Pressing (PMP), in lieu of the MCEP incentive.

**3.3 Minister of Finance’s response:**

3.3.1 The National Treasury has noted the recommendations of the Committee, but due to the constrained fiscal outlook, the scope to provide additional funding has been limited. Should the fiscal outlook improve, recommendations for additional funding may be considered in future budget processes.

**3.4 Minister of Public Enterprises’ responses:**

**Development of the overarching legislation on the state’s shareholding in the economy.**

Based on our experience in SOC oversight, DPE strongly believe that most of the challenges faced by SOCs in South Africa (and not necessarily those within the DPE portfolio) are also as a result of plethora of legislation and regulatory burden imposed on SOC. In addition to being subject to the PFMA, own founding legislation and companies Act of 2008, SOCs are also required to comply with sector legislation and various overarching policies.

As part of the mandate bestowed upon the Department by Cabinet Lekgotla, the Department is developing principles for the appropriate shareholder management models. The outcome of the research will be codified into the Shareholder Management Bill and our target is to conclude the concept paper for the Bill in December 2015. DPE anticipates to complete the Draft Bill by the end of the 2015/16 financial year.

3.4.1 Introduced changes in the SOC investment planning framework based on the needs of the growing economy. This led to an investment 66% increase. SOCs under the Department invested under just under R90 billion in the economy.

3.4.2 Approved the appointment of boards of and CEOs SAA and SAX.

3.4.3 Introduced the Long Term Turnaround Strategy for airlines to bring stability to the airlines; and

3.4.4 Approved the appointment of CEO of SAFCOL and Alexcor to bring stability in the leadership and management of these SOCs.

**3.5 2015/16 Portfolio Committee Budget Review Recommendations**

The Committee recommended that the Minister of Public Enterprises should ensure that the Department of Public Enterprises:

3.5.1 review the salaries of executives of state-owned companies in line with the recommendations of the presidential review committee; and

3.5.2 consider introducing an overarching legislation to empower the Department to execute its shareholder management responsibility and oversight over state-owned companies.

1. **Overview and assessment of financial performance**

The Department spent 99.8 per cent of its budget in the 2015/16 financial year, and received an unqualified audit report.

* 1. **Table 1. Overview of Vote allocation and spending (2010/11 to 2014/15) R’million**

|  |  |
| --- | --- |
| **Department of Public Enterprises (R'm)** | **Expenditure Performance For the Five Year Period Reviewed** |
| **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| **Allocation** | 353.3 | 1 376.7 | 294.1 | 322.9 | 23 303 |
| **Actual Expenditure** | 346.1 | 1 367.0 | 272.5 | 298.5 | 23 260 |
| **Percentage Spent** | 97.9 | 99.3 | 92.6 | 92.4 | 99.8 |
| **Percentage Unspent** | 2.1 | 0.7 | 7.4 | 7.6 | 0.2 |

Source: Department of Public Enterprises Annual Reports

As shown in the table above, the DPE has consistently spent 97 per cent or more of its budget until 2012/13. For the following two financial years, the Department has had unspent funds of more than 7 per cent of its final appropriation. The reason given for the under spending in the 2013/14 and 2014/15 financial years was mainly due to delays in filling vacant posts and delays in projects that have not yet commenced and other projects that still need to be completed. The under expenditure of R42.9 million in the current year similarly is also due to the slow filling of posts and delays in execution of planned projects.

The department was allocated R267.5 million at the beginning of the 2015/16 financial year. The budget allocation increased by R23 billion, due to the Special Appropriation of equity injection into Eskom, during the Adjusted Estimates of National Expenditure (AENE), which resulted in a total of R23.303 billion in voted funds. Of the allocated budget of R23.303 billion, R23.260 billion was spent, resulting in an amount of R42.9 million or 0.2 per cent not being spent. The unspent balance of R42.9 million will be surrendered to the National Revenue Fund (NRF). However, excluding the amount of R23 billion Special Appropriation from the Department’s budget, the amount left for operational requirements is R303 million, of which R260 million was spent, an underspending of R43 million or 14 per cent is under spent on the operational budget.

* 1. **Financial performance 2015/16**

**Table 2. Quarterly Expenditure for the 2015/16 financial year**

|  |  |  |
| --- | --- | --- |
| **Programme (R'm)** | **2015/16** | **Final Appropriation** |
| **1st Quarter** | **2nd Quarter** | **3rd Quarter** | **4th Quarter** |
| Programme 1: Administration | 29.5 | 61.2 | 97.0 | 144.0 | 161.9 |
| Programme 2: Legal and Governance | 4.1 | 9.4 | 14.9 | 19.7 | 23.5 |
| Programme 3: Portfolio Management and Strategic Partnerships | 13.0 | 27.8 | 42.4 | 60.4 | 117.2 |
| **Sub-Total** | 46.6 | 98.4 | 154.3 | 224.2 | 302.6 |
| Transfers and Subsidies | 0.8 | 1.8 | 1.9 | 35.5 | 34.4 |
| Payments for Financial Assets | 0 | 10 000.0 | 10 000.0 | 23 000 | 23 000 |
| **Total** | **47.5** | **10 100.2** | **10 156.2** | **23 259.7** | **23 302.6** |
| *Percentage of Budget Spent* | ***17.7%*** | ***43.4%*** | ***43.6%*** | ***99.8%*** | ***100.0%*** |

Source: National Treasury (2015) SCOA Reports

In the first quarter, April to June 2016, the Department spent R47.5 million or 17.7 per cent of the R267.5 million budget Appropriated for the 2015/16 financial year. This represents a nominal decrease of R1.2 million or 2.6 per cent compared to the first quarter of 2014/15. An amount of R46.4 million was spent on current payments, Compensation of Employees amounted to R33.3 million while Goods and Services amounted to R13.1 million. The majority of expenditure took place within the Administration programme mainly on compensation of employees and goods and services of R29.5 million. Expenditure increased by R0.3 million or 1.0 per cent when compared to the same period in the last financial year due to additional spending on goods and services and compensation. This was followed by expenditure of R13.0 million under the Portfolio Management and Strategic Partnerships programme and R4.9 million under the Legal and Governance programme. Expenditure in Legal and Governance decreased by R0.8 million or 15.1 per cent when compared to the same period in the previous year due to lower spending on goods and services. Expenditure in the programme Portfolio Management and Strategic Partnerships decreased by R1.6 million or 10.5 per cent year-on-year. Expenditure was primarily spent on compensation of employees and goods and services. The Department spent R47.5 million by the end of the first quarter while scheduled drawings amounted to R55.0 million, underspending by R7.5 million for the quarter. This was mainly due to delays in receiving invoices mainly from the service provider and the delay in commencement of projects. The shortfall was expected to be resolved in the second and third quarters.[[1]](#footnote-1)

By the end of the second quarter, April to September 2016, the Department spent
R10.1 billion or 43.4 per cent of the Adjusted Appropriated Budget of R23.302 billion, which represents a nominal increase of R10 billion compared to the second quarter in the previous financial year. During the Adjustment Budget the Department received R23 billion due to the Special Appropriation Act which injected this amount as an equity injection into the state owned company, Eskom. Transfers and subsidies account for R0.1 million of the budget, of which R1.8 million was transferred mainly to households. An amount of R10 billion was made under Payments for Financial Assets to Eskom. Thus the available operational budget of the Department was R267.4 million for operations, a decrease of 4 per cent when compared to the R102.5 million spent in the same period in the previous year. The Department spent R98.4 million or 36.8 per cent on operations, the majority of which was on Compensation of Employees and Goods and Services. An amount of R61.2 million was spent under Administration programme mainly on Compensation of Employees and Goods and Services. Expenditure on Administration decreased by R1.5 million or 2.4 per cent when compared to the same period in the previous year. Portfolio Management and Strategic Partnerships programme spent R27.8 million, a decrease of R2.2 million or 7.2 per cent on the previous year while the Legal and Governance programme spent R9.4 million, a decrease of R0.5 million or 5.3 per cent on the same period in the previous year. Both programmes primarily spent on Compensation of Employees and Goods and Services. The department was ahead of scheduled spending by R10 billion at this point due to the Special Appropriation for Eskom Holdings SOC Limited for the enhancement of electricity generation capacity and security of supply.[[2]](#footnote-2)

The original budget of R267.5 million was adjusted upward by R23.1 billion to an adjusted budget of R23 302.6 million. An additional R33.1 million had been allocated to Denel for the tenth indemnity claim by Denel Aerostructures under the 2007 indemnity agreement with government, for the Airbus A400M contract. Transfers and Subsidies account for
R34.4 million of the budget of which R1.9 million or 5.5 per cent has been spent by the third quarter mainly to Households. Payments for financial assets amounted to R10 billion for the payment to Eskom, as per the second quarter. Excluding Transfer and Subsidies and payments for financial assets, the Department has an available operational budget of
R266.2 million of which R154.3 million or 58. per cent was spent by the end of the third quarter of 2015/16, a decrease of 6.3 per cent on the amount spent in the same period in 2014/15. The majority of this amount being spent on compensation of employees and goods and services. The Administration programme has spent 61.0 per cent of its budget by the third quarter of the 2015/16 financial year, mostly for compensation of employees and goods and services. Expenditure in Administration decreased by R3.1 million or 3.1 per cent when compared to the same period in the previous financial year. Actual expenditure to the end of December 2015 for the programme Legal and Governance amounted to R14.9 million of the available budget of R23.5 million or 63.2 per cent of the budget has been spent. Expenditure in this programme decreased by R0.7 million or 4.5 per cent, year-on-year. The decrease is primarily due to delays in receiving invoices from the state attorney. The Portfolio Management and Strategic Partnerships programme received R83.6 million and had spent R42.4 million or 50.8 per cent by the end of December 2015, a decrease of R6.6 million or 13.4 per cent year-on-year. By the end of the third quarter, actual expenditure was R10.2 billion compared to scheduled drawings of R15.2 billion, drawing less than was scheduled by R5 billion to projected drawings. This was mainly due to less than anticipated transfer payment for financial assets towards Eskom of R5 billion in the month of December for the Eskom Special Appropriation Act (2015) instead of the scheduled 10 billion.[[3]](#footnote-3)

Preliminary expenditure at the end of the fourth quarter of 2014/15 amounted to
R23 259.7 million or 99.8 per cent of the Adjusted Appropriated Budget of R23 302.7 million. Transfers and subsidies account for R34.4 million of the available budget, of which
R35.5 million or 103 per cent was spent, mainly on public corporations and private enterprises due to the R33.1 million transferred to Denel Aerostructures. An amount of
R23 billion was paid to Eskom as part of the Special Appropriation Act (2015) under Payments for Financial Assets. Of the operational budget of R302.6 million, the Department spent R224.2 million or 74.0 per cent, mainly on compensation of employees and goods and services. The Administration programme spent the largest at R144.0 million mainly on compensation of employees and goods and services. The next largest was under the Portfolio Management and Strategic Partnerships programme of R60.4 million, followed by R19.7 million under the Legal and Governance programme primarily for compensation of employees and goods and services.[[4]](#footnote-4)

The Department spent R23 259.7 million or 99.8 per cent at the end of the 2015/16 financial year, while a budget of R23 302.6 million was available, under spending by R42.9 million. However, if the R23 billion Special Appropriation is excluded from the Departments budget, the amount left for operational requirements is R303 million, of which R260 million was spent, an underspending of R43 million or 14 per cent under spending on the operational budget. The underspending of R42.9 million was mainly due to under spending on Compensation of Employees of R12.0 million was as a result of slow filling of posts due to scarcity of specialist skills in the market. Under-spending on Goods and Services of R29.9 million was a result of delays in some projects such as the Off Balance Sheet Project[[5]](#footnote-5), and projects that had to be deferred to the next financial year. The Department states that a number of projects where the delivery approach was changed affected the expenditure of the Department. The Department has not requested any rollover of funds for the 2015/16 financial year.

The original budget of R267.5 million was adjusted upward by R23 035.1 million to an adjusted budget of R23 302.6 million. An additional R23 billion had been appreciated in the Eskom Special Appropriation Act (2015) for the enhancement of electricity generation capacity and security of supply for Eskom Holdings. An additional R33.1 million was allocated to Denel for the tenth indemnity claim by Denel Aerostructures under the 2007 indemnity agreement with government for the A400M contract. Total virements between programmes and shifts within programmes amounted to R2.5 million during the Adjusted budget process.

During the Adjustment Budget the Department effected shifts and virements amounting to R2.5 million. Programme 1 shifted funds within the programme from Goods and Services amounting to R20 000 to Machinery and equipment (R20 000) for the provision of office furniture; from Compensation of Employees of R615 000 to Households for leave gratuities; and Software and other intangible assets of R50 000 to machinery and equipment for office furniture. Programme 2 shifted funds from Compensation of Employees amounting to R320 000 to Programme 1 for Compensation of Employees of R320 000 in order to centralise the learnership/intern budget in human resources (this is the same reason given in the 2014 Adjustment Budget). Programme 3 shifted funds from Compensation of Employees and leave gratuities amounting to R1.5 million to Programme 1 of R960 000 for Compensation of Employees for the centralisation of the learnerships/interns while R548 000 was shifted to Programme 2 to Transfers to Households for leave gratuities.

The department has received an unqualified audit opinion with findings in the 2015/16 financial year.

**4.3 Auditor General Report**

The Auditor-General raised the following matter in the 2014/15 audit opinion:

**4.3.1 Compliance with laws and regulations as well as Internal Control**:

The Auditor-General raised the following matters in the 2015/16 audit opinion:

The AG highlighted the following matters with respect to **Compliance with laws and regulations** of the department:

* **Financial Statements:** the financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 40(1)(a) of the Public Finance Management Act. Material misstatements of contingent liabilities and guarantees identified by the auditors in the submitted financial statements were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.
* **Expenditure Management:** Effective steps were not taken to prevent irregular expenditure amounting to R3.1 million, as required by section 38(1)(c)(ii) of the Public Finance Management Act and Treasury Regulation 9.11.

With regard to the **Internal Control** environment, the AG highlighted **Leadership** as an additional matter, stating that the Accounting Officer did not exercise adequate oversight responsibility regarding financial reporting and compliance and related internal controls.

This audit finding is an improvement on the 2014/15 findings which included compliance issues regarding procurement and contract management, human resource management and compensation, expenditure management. Internal control findings included leadership and financial and performance management.[[6]](#footnote-6) The Auditor-General stated that the root cause for the findings of the Department was due to the vacant posts at senior level such as the Director-General post which was filled in January and the Chief Financial Officer post which still needs to be filled permanently.

**4.4 Entities**

The Department’s overall objectives are to provide an effective shareholder management system and to support and promote economic efficiency within each of the state-owned companies (SOCs). The performance of SOCs has been varied in the period under review. It is also important to note that the economic environment under which SOCs operate has been negative.

The financial performance is evidenced by the service delivery done by the entities and enumerated in section 5. Section 5 highlights the performance of the entities in relation to the financial performance.

**4.4.1 Alexkor**

The entity reported a R35.5 million loss for the 2015/16 financial year, slighter better than the R82 million loss reported in the previous financial year. It seems as if the company has come to a halt in this consolidation as carat production fell from 74 387 carats produced in the previous year to 45 492 carats produced in the 2015/16 financial year. Carat production was impacted by a lack of quality exploration data in the Muisvlak target area where the bulk of mining efforts were focused during the year under review. To improve production at the land-based operations, Alexkor has invested R10 million in an exploration/prospect plant.

The entity has also taken a step back it its audit findings. Although the entity continued to receive an unqualified audit opinion, an emphasis of matter was raised and numerous new findings were contained in the auditors’ opinion for 2015/16. The emphasis of matter related to the financial statements being done in accordance with International Financial Reporting Standards (IFMS) and did not adhere to the Public Finance Management Act although the entity received approval for this from the National Treasury.

With regards to Compliance with legislation, the AG highlighted procurement and contract management, expenditure management, and consequence management. With regards to Internal Control the audit highlighted issues relating to leadership.

**4.4.2 Denel**

During the 2015/16 financial year Denel managed to secure an order book in excess of

R20 billion. The order book comprises of contracts mainly in missiles, artillery, military vehicles and aerostructure. The entity has also managed to grow revenue year-on-year by 41 per cent. Exports constitute 57 per cent of revenue while its profit margin, measured on earnings before interest and tax (EBIT), reached close to 8 per cent of revenue, while also managing a fifth consecutive clean audit opinion.

Despite the good performance of the entity, Denel is currently in discussions with the National Treasury regarding the establishment of Denel Asia, which it is alleged, was established without the necessary PFMA approvals. Denel established Denel Asia in order to take advantage of the eastern defence market, which is in a growth phase.

**4.4.3 Safcol**

The South African Forestry Company (SAFCOL) had a challenging year given that a completely new board was appointed to the entity, with both its Chief Executive Officer and its Chief Finance Officer leaving their posts in December 2016. The entity was also investigating allegations of the possible misappropriation of the entity’s assets, the case has now been reported to the South African Police Department. Financially the entity incurred an operating loss of R125 million due to the restatement of minority shareholdings (non-current assets held for sale), and property, plant and equipment.

SAFCOL is still overseeing Industrias Florestias de Manica (IFLOMA), its Mozambique subsidiary, which is still under care and maintenance, its future is still under discussion at SAFCOL. SAFCOL is currently implementing its own turnaround strategy. SAFCOL is still struggling to operate on land that is affected by land claims, which affects 61 per cent of the land SAFCOL operates. The entity however, managed to repeat its unqualified audit opinion for the second consecutive year, achieving 60 per cent of its performance targets.

SAFCOL received an unqualified audit opinion with findings. An emphasis of matter was raised on the restatement of corresponding figures, and material losses incurred as a result of fraud while the following findings were highlighted by the auditors. With respect to compliance with legislation the auditors highlighted material misstatements in the separate financial statements of SAFCOL, and expenditure management. With respect to internal control the auditors highlighted leadership and financial and performance management issues.

**4.4.4 Eskom**

During the 2014/15 financial year, Eskom continued to face multiple challenges. These challenges included the constrained electricity system, the maintenance backlog and ageing infrastructure, the funding shortfall created by the Multi-Year Price Determination (MYPD3) as well as low electricity tariffs, the increased cost of generating electricity, the delays in the new build programme and an uncertain future regarding new generation. In November 2014 Eskom developed a Turnaround Strategy to apprehend the operational and financial decline and stabilise the business. Since then Eskom has managed to stabilise the business by improving plant performance, minimising the risk of load shedding, maintaining their liquidity position and improved the financial performance.

The entity improved its net profit after tax significantly from R0.2 billion in the previous year to R4.6 billion in the 2015/16 financial year. It once again received an unqualified opinion with emphasis of matter and additional matters. The emphasis of matter related to figures that were restated for 31 March 2015. The auditors also highlighted compliance with laws and regulations specifically expenditure management of irregular expenditure, and procurement and contract management, while leadership and financial and performance management was highlighted under internal control. The auditor stated that the entity did not exercise oversight responsibility regarding compliance with applicable laws and regulations which resulted in instances of irregular expenditure. The entity’s executive management did not provide adequate and effective leadership based on a culture of honesty and ethical business practices protecting and enhancing the best interests of the entity. Eskom also applied monetary thresholds contrary to the requirements of the Preferential Procurement Policy Framework Act (PPPFA), while the entity’s financial statement’s contained material misstatements that were later corrected.

**4.4.5 Transnet**

The entity’s focus for the 2015/16 year was on the continued implementation of the Market Demand Strategy (MDS). Transnet was able to achieve R29.6 billion capital investment for the year in the context of weak economic fundamentals. Despite the steep fall in commodity prices, stagnant global and domestic economic growth and a significant decline in customer demand, Transnet was able to achieve aggregate volume performance of 90.3 per cent, although lower than the prior year’s 98.4 per cent. Transnet continued to demonstrate financial stability during the year, enabling it to continue the execution of the MDS, although at a slower pace due to the global economic slowdown.

Yet Transnet failed in 2015/16 to meet approximately 42 per cent of the performance targets it had set itself, and the Auditor-General found that the performance indicators themselves were not well defined, specific and measurable. This is the same finding highlighted in the 2014/15 financial year.

Transnet received an unqualified audit with findings on their predetermined objectives and strategic planning and performance management. With respect to compliance with laws and regulations the audit found that no effective and appropriate steps were taken to prevent irregular and fruitless and wasteful expenditure, and contracts were awarded to suppliers whose tax matters were not in order according to the South African Revenue Services. With respect to internal controls issues were raised with regards to leadership not exercising adequate oversight responsibility regarding compliance with applicable laws and regulations. The audit states that the matters identified arose due to non-adherence to operational policies in the expenditure, predetermined objectives, procurement and contract management processes. The controls over these areas have continually been improved since these matters occurred.

**4.4.6 South African Express Airways**

At the time of tabling the Budget Review and Recommendations Report for 2016 the entity had not as yet tabled their 2015/16 Annual Report to parliament due to the assumption of “going concern”.

In the previous financial year the airline was granted an extension of an existing guarantee from R539 million and R567 million, which allowed them to table the 2014/15 Annual Report and Financial Statements.

**4.5 Department of Public Enterprises’ financial performance for 2015/16**

The Department of Public Enterprises has had a fairly good start to the 2016/17 financial year. The Department has an appropriated total budget of R274.0 million of which
R54.3 million or 19.8 per cent has been spent for the period April to June 2016. This is lower than the projected expenditure of R67.2 million for the first quarter. Although the Department has underspent, this is an improvement on the R47.5 million or 17.7 per cent spent in the first quarter of the previous financial year.

Of the R274 million appropriated budget, R0.1 million is for Transfers and Subsidies, of which R0.2 million or 162.7 per cent, has already been spent. The majority of the Department’s budget is spent on compensation of employees and Goods and services. Of the R168.4 million budgeted for compensation of employees, R36.4 million or 21.6 per cent has been spent, lower than the projected R41.8 million due to unfilled vacancies. An amount of R101.8 million has been allocated for Goods and Services, where R17.3 million or 17.0 per cent was spent in the first quarter against a projected spend of R24.9 million due to lower expenditure on line items associated with the slow filling of vacancies.

The majority of the budget was spent on this programme. The programme has an appropriated budget of R158.0 million (57.7 per cent of the total budget), of which
R30.4 million or R19.3 per cent was spent, compared to the R29.5 million or 18.6 per cent spent in the first quarter of the previous year.

The main cost drivers in this programme are compensation of employees, consultants and travel and subsistence.[[7]](#footnote-7)

The programme has an operational budget of R26.0 million of which R5.1 million or 19.6 per cent of the budget was spent, compared to R4.1 million or 17.3 per cent spent in the first quarter of the previous year. This is R1 million lower than the projected expenditure of R6.1 million for the first quarter of 2016/17. The main cost driver within the programme is compensation of employees, and travel and subsistence. The programmes also spends significantly on consultants and is mainly driven by legal assistance from private firms for matters pertaining to the state owned companies.[[8]](#footnote-8)

The programme has an operational budget of R90.0 million of which R18.8 million or 15.3 per cent of the budget was spent by the end of June 2016, compared to the R13 million or 15.3 per cent spent in the same period in the previous year.[[9]](#footnote-9)

The main cost drivers in the programme are compensation of employees, travel and subsistence and consultants mainly for projects which are run for effective oversight of state owned companies. Spending is less than the projected R20 million for the quarter due to the slow spending in compensation of employees as a result of the slow filling of vacancies (due to skills shortages in the market).[[10]](#footnote-10)

**4.6 MTEF financial allocations for 2017/18**

**Table 3. Current Estimates for the 2017/18 R’million**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme Allocation (R'm)** | **2016/17** | **2017/18** | **Variance** | **Variance %** |
| Programme 1: Administration | 158.0 | 161.4 | 3.4 | 2.15% |
| Programme 2: Legal and Governance | 26.0 | 26.7 | 0.7 | 2.69% |
| Programme 3: Portfolio Management and Strategic Relationships | 90.0 | 91.4 | 1.4 | 1.56% |
| **Total** | **274.0** | **279.5** | **5.5** | **2.01%** |

As seen above in table 3, the projected allocation for the 2017/18 financial year amounts to R279.5 million, an R5.5 million or 2.0 per cent increase. Programme 2: Legal and Governance sees the biggest increase of nearly 3.0 per cent from R26.0 million in 2016/17 to R26.7 million in 2017/18. Programme 1: Administration is projected to increase by 2 per cent while Programme 3: Portfolio Management and Strategic Partnerships increases by 1.6 per cent.

This allocation is subject to confirmation and approval by the Minister of Finance during the National Budget in 2016.

The Department has not submitted any additional requests for funding during the Medium Term Expenditure Framework process.

1. **Overview and assessment of service delivery performance**

**5.1 Service delivery performance for 2015/16**

The Department of Public Enterprises is not a direct service delivery department, but provides a distinct mandate of shareholder on behalf of the state. The Medium Term Strategic Framework identifies eight (8) priorities of government. In order to achieve these 8 priorities of government, fourteen (14) areas of impact/outcomes have been identified by the Presidency’s Department of Performance Monitoring and Evaluation (DPME). These outcomes contribute to targets based on economic growth, employment creation, infrastructure development, and rural development.

The Department has started engagement with the DPSA to devise approaches that will suit the unique position of the Department in the service delivery environment. The mandate of the Department is directed towards management of Strategic Assets of the state and the current guidelines are focused on delivery of services to the public. The current service delivery improvement plan largely entails governance related indicators such as payment of service providers, filling of vacancies and audit performance, which may not have a direct bearing on the general public.

* 1. **Performance Information by Programme**

**5.2.1 Programme 1: Administration**

**Purpose:** Provides strategic management, direction and administrative support to the Department, which enables the Department to meet its strategic objectives.

According to the Department annual report during 2015/16, the Department embarked on an initiative to reform the governance of SOCs and one of the phases of the project required a review of the as-is organizational design to determine the extent to which the Department is structurally configured to deliver on its mandate. The findings of the review provided results on the DPE’s organizational design effectiveness, with a view of providing insights into areas of potential improvement and to determine the suitability of any organizational design initiatives. Capacity models were developed for each business unit based on business processes and the final report will be presented in 2016/17. The capacity models will provide support during the re-alignment of the structure to ensure DPE organizes its employees in the most effective and efficient manner to ensure a significant improvement in its delivery capacity.

The Department developed and implemented a comprehensive International Engagement programme. Engagement with the BRICS countries: during the Chinese State Visit to South Africa in December 2015 more than 26 agreements were signed including MOU between DPE and SASAC to conduct exchanges and co-operation into areas of areas of common interest, as well as to share information and expertise in their respective enterprises.

The Department of Public Enterprises achieved all planned targets in this programme.

**5.2.2 Programme 2: Legal and Governance**

**Purpose:** Provide legal services and corporate governance systems, as well as facilitates the implementation of all legal aspects of transactions that are strategically important to the Department and SOC, and ensures alignment with Government’s strategic intent by, among others, monitoring the state owned companies’ indicators.

The Department annual report states that, in February 2015, Cabinet Lekgotla approved 12 recommendation that were to facilitate the implementation of the PRC recommendations on the SOCs. These recommendations formed part of the work programme for the SOC Reform IMC chaired by the Deputy President. The Department continues to play an active role in supporting the reform process and ensures that it strengthens the delivery capacity of the state to realise its developmental objectives. The Department has commenced the processes to develop the Shareholder Policy Concept Paper. The Policy Concept Paper will be completed in the 2016/17 financial paper.

The Department has concluded the liquidation of Aventura and the process for the repeal of Overvaal Act has commenced has commenced. The Department also introduced the Transformation Guidelines for legal profession. In this regard the Department has increased the briefing of black law firms and advocates. In the last financial year only, the Department spent just below R2 million on black attorneys and R3.5 million on black practicing advocates. The Department has over the years been committed to the transformation of the legal profession and has always given preference to black practitioners (in particular black advocates) when giving briefs target of 99.5% has been achieved in this regards.

**5.2.3 Programme 3: Portfolio Management and Strategic Partnerships**

**Purpose:** To align the corporate strategies of the SOC with Government’s strategic intent, and monitor and benchmark their financial and operational performance and capital investment plans. To align shareholder oversight with Government’s overarching economic, social and environmental policies, and build focused strategic partnerships between SOC, strategic customers, suppliers and financial institutions.

*Sub-programme – Energy and Broadband Enterprises* oversees Eskom. In December 2014, government approved the Five Point Plan that was intended to resolve electricity challenges that resulted in Eskom implementing load shedding. As a result, the Department supported Eskom to implement interventions contained in the plan to improve energy availability and ensure that the company remained financially viable. Thus Eskom has significantly improved through the implementation of maintenance programme as well adding new capacity to the grid. In the year under review, Eskom commissioned the unit at Medupi, which provided the much-needed capacity to the grid. Furthermore, the Department has supported Eskom to conclude the Power Purchase Agreement as part of the Renewable Energy Independent Power Producer Programme.

The key highlight for the 2015/16 financial year was the successfully co-ordination in terms a disbursement of the R23 billion equity injection to Eskom by the end of March 2016. The Department will continue to monitor the compliance with the equity conditions of the Government Support Package (GSP).

*Sub-programme – Manufacturing Enterprises* includes Denel, Alexkor and South African Forestry Company (SAFCOL). During the financial year, Minister approved Denel’s acquisition of Land Systems South Africa (LSSA) now known as Denel Vehicle System (DVS). The acquisition will enhance Denel’s landward capability. The acquisition has positioned Denel to design and manufacture multi-purpose armoured vehicles that will enable the company to compete in lucrative international markets. The Department’s oversight on Denel Aero structures has assisted the company over the years to reduce claims against the 2007 Indemnity Agreement. Over the past 8 years the value of the claims has declined from R222 million per annum in 2007 to R33.1 million in 2015.

During the 2015/16 financial year, the Department conducted a review of Alexkor’s capital structure. Based on the Department’s assessment, Alexkor will be able to use the strength of its balance sheet to raise funds in its future projects. The financial and carat production targets were achieved.

During the 2015/16 financial year, the Department conducted a review of SAFCOL’s financial position. SAFCOL has a strong balance sheet that can afford to take on debt to support the company’s capital expenditure programme over the medium term.

*Sub-programme – Transport Enterprises* includes South African Airways (SAA), South African Express (SAX) and Transnet. SA Express developed austerity measures in November 2014 to bring the airline back on the path of recovery following the slow progress in implementing the 20:20 Vision Strategy. SA Express has rationalised its schedule, achieved efficiencies in maintenance, reduced catering costs, optimised labour costs through natural attrition and reduced its fuel costs. The Department has been working with SA Express, SAA and other Department to facilitate the implementation of the 20:20 Vision strategy which is heavily dependent on close collaboration with SAA. This includes facilitating the implementation of the integrated route network between the airlines. This has resulted in the airline withdrawing from some of the loss making routes.

The 35 meter long, 90 ton outer caisson at the Port of Durban’s Prince Edward Graving Dock refurbishment was completed. This was the third and final phase of TNPA’s repair programme to repair the 90 year old dry dock that was deemed unsafe. The first batch of the passenger coaches engineered and manufactured by Transnet and Botswana Railways was successfully delivered in Gaborone. The 22 out 37 coaches were engineered and manufactured according to the exact specification at the Transnet Engineering facilities in Pretoria and Cape Town. The remaining 15 coaches will be delivered by May 2016. This is one of the projects aimed at achieving Transnet’s goal of becoming “Original equipment manufacture of distinction” and its initiatives of growing business by supporting National Rail Policy in improving solution on the renaissance of South Africa and uninterrupted rail traffic to and from neighbouring countries.

*Sub-programme – Economic Impact and Policy Alignment:* During the 2015/16 financial year, the proposal to conduct High Level Economic Impact Assessment was developed. The purpose of the proposal was to identify and quantify, at a high level, the range of direct, and (where possible) indirect the macro-economic impacts of investments and operating activities of the SOCs under DPE’s portfolio, namely Transnet, Eskom, Denel, Safcol, Alexkor and SA Express. Furthermore a high level socio-economic impact assessment was done for Transnet’s major infrastructure projects.

The Macro-economic Impact assessment Transnet pricing structures on logistical costs in South Africa and SA’s competitiveness was initiated and all the quarterly targets were achieved and this included the review of existing studies on international best practice on logistical costs including study by Gain.

The Sustainability Framework was developed which will provide the basis for a long-term process of integrating sustainability as a key component of the development discourse. This would portray SA’s commitment to the principles developed by international summits and conferences in economic, social and environmental fields.

*Sub-programme – Strategic Partnerships:* The review of the financial position of SOCs was undertaken and the identification of gaps for financial sustainability as well as potential options for the delivering on capital programmes. This was done through an analysis of the future of the newly established BRICS bank. The analysis was based on what the bank would bring in improving the financial positions of the SOCs within the DPE portfolio, particularly for Eskom and Transnet. The Department has also participated in the finalisation of the Private Sector Participation Framework which was led by National Treasury as the lead on the Private Sector Participation Framework.

**5.3 Concluding comments on service delivery performance**

The Department of Public Enterprises provides oversight to six SOCs. The context in which it manages performance depends on effective, efficient and value for money service provided by the SOCs. The Department’s service delivery environment has been significantly improved as compared to the previous year.

The approval of a new organisational structure adjustment will significantly service delivery environment. Directing the organisation towards managing state strategic assets will require that human resources are attracted to fulfil the mandate of the Department. This will require that the structure deals with issues of governance in SOCs, leadership stability, financial performance, audit findings improvement, economic impact and strategic partnerships. The Department has a role in ensuring policy alignment between policy departments and SOCs, this will require implementation of an intergovernmental framework by Department in order to directly impact the sites and areas of policy impact. A strong monitoring and evaluation framework should be put in place by the Department.

1. **Finance and Service delivery performance assessment**

The Department of Public Enterprises has spent 99.8 per cent of its budget, and received an unqualified audit opinion with findings. However, the Department only achieved 84.6 per cent of its set targets with 4 of 26 targets not achieved. Although most of the targets have been shifted to future years, the delay in meeting targets could have severe consequences on the developmental goals of the SOCs. By the Department not providing guiding frameworks for the SOCs to work within, they will continue to operate in an uncertain environment.

1. **KEY FINDINGS**

These were the key findings of the Committee:

**7.1 Technical issues**

Technically the Department’s Annual Performance Plan and Annual Report aligns well with the National Treasury’s Framework for Strategic Plans and Annual Performance Plans as well as the Framework for Managing Programme Performance Information.

A financial impact assessment of the Department was not undertaken and should be considered for the following financial year.

**7.2 Governance and operational issues**

The Department had been plagued by instability in boards and senior management positions during the 2015/16 financial year, such as the resignation of the CFO and the CEO of SAFCOL in December 2015. For the financial year under review, the the Department has made substantial progress during the 2015/16 financial year, and has been able to stabilise the boards of Alexkor, Denel, SAFCOL and Eskom.

Most of the policies relevant to SOCs reside in other policy Departments. The Department must in consultation with policy Departments develop a framework in which they are able to effectively contribute to the implementation of SOCs’ strategy and objectives. The soon to be introduced Government Shareholder Management Bill will assist in this regard and give greater clarity and direction to shareholder management of SOC’s.

The Department has relevant institutional policies to achieve its mandate and to obtain clean audit outcomes. However, the Department’s internal control environment should be significantly improved. The management should take a leading role to ensure that all policies are strictly adhered to. In this regard the Department must improve on the issues raised by the Auditor General pointing to weaknesses.

**7.3 Service delivery performance**

Substantive and material achievements in terms of tackling unemployment, poverty and inequality can be recorded for the year under review in particular through Eskom, Transnet, Alexkor and SAFCOL.

The Department has contributed to the performance of SOCs and achieved 84.6 per cent of its planned targets. The Department needs to improve its strategic planning capability and set targets that are achievable. In this regards, evidence of the achievement of targets should be ready for presentation when required. The Department must clarify its targets and deliverables in line with its vision and mission. These should be easy to institutionalise and should resonate within the organisational structure.

**7.4 Financial performance including funding proposals**

The Department needs to improve on Financial Management, especially financial control mechanisms in order to improve compliance with legislation. There is a misalignment between financial performance and the targets achieved which points to weaknesses in planning and performance management systems. The Department must allocate appropriate non-financial targets and demonstrate appropriate relationship with financial performance in line with the reporting requirements.

1. **Summary of reporting requests**

**Table 4. Summary of Reporting Requests**

|  |  |  |
| --- | --- | --- |
| **Reporting matter** | **Action required** | **Timeframe (Progress)** |
| Audit Finding:Annual Financial StatementsRoot Cause:* DPE’s internal control process did not detect the errors as these were picked up during the audit process. Supporting schedules which accompany the stated amounts in the submitted financial statements were not properly reviewed before it was included in the financial statements.
 | Recommendation:The supporting schedules should be reviewed by a person independent of the preparation function to ensure that all contingencies and guarantee amounts are accurate and complete. Action Plan:Controls reviewed and additional measures put in place  | Strengthened controls documented and approved and ready for implementation. |
| Audit Finding:Irregular Expenditure Root Cause: There was a lack of monitoring of adherence to legislation on a regular basis by the accounting officer. | Recommendation:Internal controls implemented by management should monitor whether it detects and correct the possible noncompliance with legislation on a regular basis. Action Plan:Controls reviewed and additional measures put in place  | Strengthened controls documented and approved and ready for implementation. |
| Audit Finding:Fruitless and Wasteful ExpenditureRoot Cause:Management did not effectively review and monitor the compliance with applicable laws and regulations as possible fruitless and wasteful expenditure has been incurred. | Recommendation:An improved in the amount of fruitless and wasteful expenditure from the prior year should be sustained by continued implementation of internal controls in the prevention of fruitless and wasteful expenditure.Follow ups of payments for invoices received are done so that invoices are paid on time to avoid possible interest on late payments.Action PlanControls reviewed and additional measures put in place  | Strengthened controls documented and approved and ready for implementation.  |

1. **Recommendations**

9.1 The Committee recommend that the Minister of Public Enterprises should:

9.1.1 ensure the capacitation of the internal audit function in the Department and state-owned companies to ensure an improved record keeping and compliance with the legislative framework.

9.1.2 consider introducing relevant systems as well as considering evidential requirements during the annual strategic planning process in order to ensure that all predetermined targets are achieved and that targets are realistic and achievable.

9.1.3 increase and strengthen oversight over state-owned companies through robust and regular interaction with CEOs, Board Members, Audit Committees, regular visits to the construction sites of major infrastructure projects as well as to offices and sites of the entities.

9.1.4 ensure that emphasis is placed on monitoring and evaluation, so that the SOCs’ implementation of Government’s policy objectives is realised, especially their outcomes as this has an impact on peoples’ lives.

9.1.5 fast-track the introduction of the Shareholder Management Bill which will empower the department to carry out its oversight responsibilities over state-owned companies more effectively, especially in providing guidance on how to align SOCs’ strategic priorities with government policies.

9.1.6 provide the Committee with shareholder compacts signed with state-owned companies in order to enhance the oversight role of the Committee, within one month after the signing of the agreement.

9.1.7 institutionalise the recommendations of the Presidential Review Committee on SOCs and work with the Ministerial Committee, headed by the Deputy President looking into the SOC’s and the Department.

9.1.8 ensure that the guiding frameworks for SOCs are completed timeously and implemented so as to provide a stable working environment. The Department should ensure that the SOCs comply with these frameworks.

9.1.9 ensure that there are punitive measures in place for under-performance against targets for board members, executives, contractors of SOCs and officials of the department.

9.1.10 ensure that all the SOCs undertake interim audits, as most of them got unqualified audit opinions with findings.

9.1.11 ensure that the Department of Public Enterprises closely monitors South African

 Express Airways in the implementation of the turnaround strategy.

9.1.12 ensure that the Department of Public Enterprises should introduce mechanisms that would ensure SOCs implement the recommendations of the department.

9.1.13 ensure that the Department finalises the future strategic roles for Alexkor and

 Safcol.

9.1.14 ensure that the vacancies in the department are filled, as well as the acting positions in the entities with an outcome of developing the strategic capacity of the Department.

9.1.15 pursue the finalisation of the Whole of State policy to bring alignment and synergy among state aviation assets. i.e SAA, SAX and Mango.

9.1.16 ensure that the Department continues to work closely with policy departments such as the Departments of Transport, the Department of Mineral Resources, the Department of Energy, the Department of Defence and Military Veterans and the Department of Agriculture, Forestry and Fisheries, in order to influence the policy environment in which the SOCs operate.

9.1.17 ensure that there are time frames to rectify the shortcomings as identified by the findings of the Auditor General be set and given to the Committee.

9.1.18 that the Business Process Mapping exercise objective to be completed.

9.1.19 that service providers are paid within timeframes and project management capacity is enhanced in the department.

9.1.20 ensure that compensation on spend is fast tracked through acquiring critical skills.

9.1.21 address issues relating to SOCs with going concern issues.

9.1.22 ensures that the Department of Public Enterprises optimally use the budget for

 intended purposes to avoid under-expenditure.

9.1.23 provides the Committee with quarterly progress reports regarding the

 implementation of these recommendations.

The Committee recommend that the Minister of Finance:

9.1.24 should consider to clarify issues relating to Eskom coal contract and provide

 guidance in terms of actions that should be followed.

9.1.25 should provide clarity regarding Denel Asia and provide the best course of action.

**10. Appreciation**

The Committee would like to express its gratitude to the management of the Department of Public Enterprises, the Office of the Auditor General, state-owned companies reporting to the Department of Public Enterprises and the parliamentary officials supporting the Committee for their hard work and co-operation during this process.

Report to be considered

1. National Treasury (2015a) [↑](#footnote-ref-1)
2. National Treasury (2015b) [↑](#footnote-ref-2)
3. National Treasury (2015c) [↑](#footnote-ref-3)
4. National Treasury (2016a) [↑](#footnote-ref-4)
5. Department of Public Enterprises (2016) [↑](#footnote-ref-5)
6. Department of Public Enterprises (2016b) [↑](#footnote-ref-6)
7. National Treasury (2016) [↑](#footnote-ref-7)
8. National Treasury (2016) [↑](#footnote-ref-8)
9. National Treasury (2016) [↑](#footnote-ref-9)
10. Ibid. [↑](#footnote-ref-10)