**Department of Public Enterprises’ Annual Report for 2016/2017 presented by Minister Lynne Brown**

**Honourable Chairperson**

**Committee members**

**Officials of the Department of Public Enterprises**

**Ladies and gentlemen**

Good morning to you all.

It is with great pleasure that I present the Department of Public Enterprises’ Annual Report for 2016/2017.

Salient features include a clean audit report from the Auditor-General, and the fact that the Department spent almost 95% of its budget, achieving 18 of 22 set targets.

Taking a step back it is important to note that in my first year as Minister, the Department had a qualified audit, followed by an unqualified audit and now the clean audit. This needs to be emulated at all State-Owned Companies in my portfolio.

In this instance, Chairperson, it is my feeling that we have bigger fish to fry. So, with your permission, I’d like to take the opportunity to reflect on processes underway to strengthen the Shareholder’s hand in exercising its oversight responsibilities at State-Owned Companies.

I’d also like to brief you on processes currently underway at Eskom.

**Ladies and gentlemen…**

Our challenge is to inculcate the principles of good governance practised within the Department across our State-Owned Companies.

Events that have unfolded over the past year have starkly demonstrated the need for a departmental structure that is agile, swift to respond to challenges at State-Owned Companies, and capable of ensuring compliance.

The Department should, in this financial year, complete a re-alignment process to significantly strengthen the tools at its disposal to exercise its oversight responsibilities.

Lessons learned over the past year will also profoundly impact the terms contained in the shareholder compacts signed by the Shareholder and State-Owned Companies in the future.

The 2016 MOI differs from the 2014 version and it gives me as Shareholder additional powers to act decisively to ensure the assets of the 54 million South Africans are looked after. The major change here is that the Minister has now been assigned the power to act against a Chief Executive Officer of a State-Owned Company should the need arises.

In addition, the principles of the new Shareholder Policy to improve the performance of State-Owned Companies and sharpen Government’s role as shareholder were approved by Cabinet in the last financial year.

In instances that company employees conspire among themselves to commit wrongful acts, the Shareholder relies on the company’s executive and board to spot the infraction and take the requisite action.

But I would like to think that structures can be put in place to avoid a repetition of the ease with which Eskom appears to have been able to lie to its Shareholder in respect of its dealings with McKinsey and Trillian.

I want to be very clear about this: I regard Eskom’s lies when asked to provide information to a Parliamentary question as an assault on our democratic system of governance. The opposition was entitled to ask the question, and to receive a truthful response. Had a truthful response been forthcoming, and the facts of the relationship been exposed last December, appropriate action would have been taken to investigate by now.

I have asked Eskom why the response provided to me in December differed from its recent responses on the McKinsey/Trillian matter. Last night, I received a report from the Board. I will read through it and ask the Department’s Legal & Governance unit for its considered recommendations.

**Chairperson…**

Over the past few days members would have noticed statements attributed to the interim Chairperson of Eskom’s board, Mr Zethemba Khoza, relating to the suspension of four senior executive members due to their alleged involvement in the McKinsey/Trillian relationship.

Mr Khoza also announced the suspension of a fifth executive against whom an allegation of conflict of interest, among others, have been under investigation.

The reason that the interim Chairperson was the person who made the announcements is because the Boards of State-Owned Companies are responsible for adherence to proper corporate governance, which includes instituting appropriate investigative and disciplinary processes into allegations of corruption, maladministration, malfeasance or conflict of interest.

Eskom’s interim Board was appointed in June, and immediately instructed by the Shareholder to initiate investigations into allegations of irregular conduct – and take disciplinary action against members of the executive, if warranted.

This instruction accords with the Shareholder’s responsibilities in instances where Boards fail to act appropriately on such allegations.

Should Boards fail to heed these directions, the Shareholder has the right to intervene.

Allow me to take a step back and remind members where Eskom was in 2014. We had continuous load shedding, the company was spending open R1 billion per month on Open Cycle Gas Turbines and its financial position precarious. This happened while the economy was bleeding.

Today, I can say that Eskom is on the path of a stable balance sheet.

The biggest remaining challenge is lack of adherence to proper governance and I intend to address collapse in governance and internal controls before the end of the financial year including the SIU investigation.

This SIU investigation is critical to restore public and investor confidence in Eskom and its procurement processes.

To finally put this matter to rest, the company must recruit new executives and strengthen their disclosure system to prevent Executives and other staff and their families of doing business with the company.

In this regard, I intent to arrange an Eskom Special General Meeting in November to appoint a permanent board. The advertising process for new board members of State-Owned Companies closed on 8 September 2017, and candidates are currently undergoing a vetting process.

Among the new Board's first mandate will be appointment of a permanent Group Chief Executive and restoring the credibility of its operations.

In the meantime, I have asked Mr Khoza to ensure that all internal disciplinary procedures relating to allegations of wrongful conduct at the utility are concluded prior to the Special General Meeting.

**Honourable members…**

You will also have noted statements from the Special Investigations Unit over the past 48 hours to the effect that, with the Department of Public Enterprises, it has agreed on the terms of reference for an investigation into Eskom governance and procurement.

The SIU has agreed to expedite the McKinsey/Trillian aspect of the investigation.

The proposed terms of reference will now be sent to the Presidency for approval and the issuing of a proclamation.

The speed of the effort to address these issues will not appease those baying for the immediate shedding of heads in the public square on the basis of leaked email correspondence.

But it is not as simple as the board game, *Cluedo*; the last time I looked people were still entitled to be regarded as innocent until proven otherwise.

Appropriate procedures articulated in the Companies Act, State-Owned Company enabling acts and Memoranda of Incorporation, among other legislative and regulatory prescripts, must be followed.

Besides the fact that some of you would like to see state-owned companies privatised, and others are using the companies as the site-of-preference for political contestation, I believe we have in common a desire to see our valuable assets well-managed and providing maximum possible benefits for all.

In conclusion, I would like to say that, barring Eskom which received a qualified audit, the other State-Owned Companies in the portfolio with the exception of SA Express achieved unqualified audits.

This does not mean that we must rest on our laurels. For 2017/18 I have tasked the Director-General with speeding up the filling of vacant positions in the Department to enhance its oversight responsibility.

This include building capacity within the Department to analyse information received from State-Owned Companies and ensuring that information I submit to Parliament and other parties is credible and legitimate at all times.

*For enquiries contact Colin Cruywagen on 082 3779916.*

**Issued by GCIS on behalf of the Ministry of Public Enterprises**

**Cape Town**

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