

# **PRESENTATION TO PORTFOLIO COMMITTEE DPE 2021/22 ANNUAL REPORT AND FINANCIAL STATEMENTS**

**12 OCTOBER 2022**

**CONFIDENTIAL**

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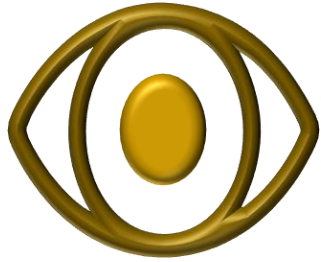
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# MANDATE



Perform shareholder oversight on behalf of government over State Owned Companies (SOCs) that play a key role in enabling economic growth, creating jobs, promoting industrialisation and transformation of the economy.

# VISION AND MISSION STATEMENT



## Vision

Create an enabling environment in which SOCs add real economic value by focusing on operational excellence, commercial viability and fiscal prudence. Drive developmental objectives, industrialisation, job creation and skill development



## Mission

Provide strategic direction and oversight to SOCs



## Values

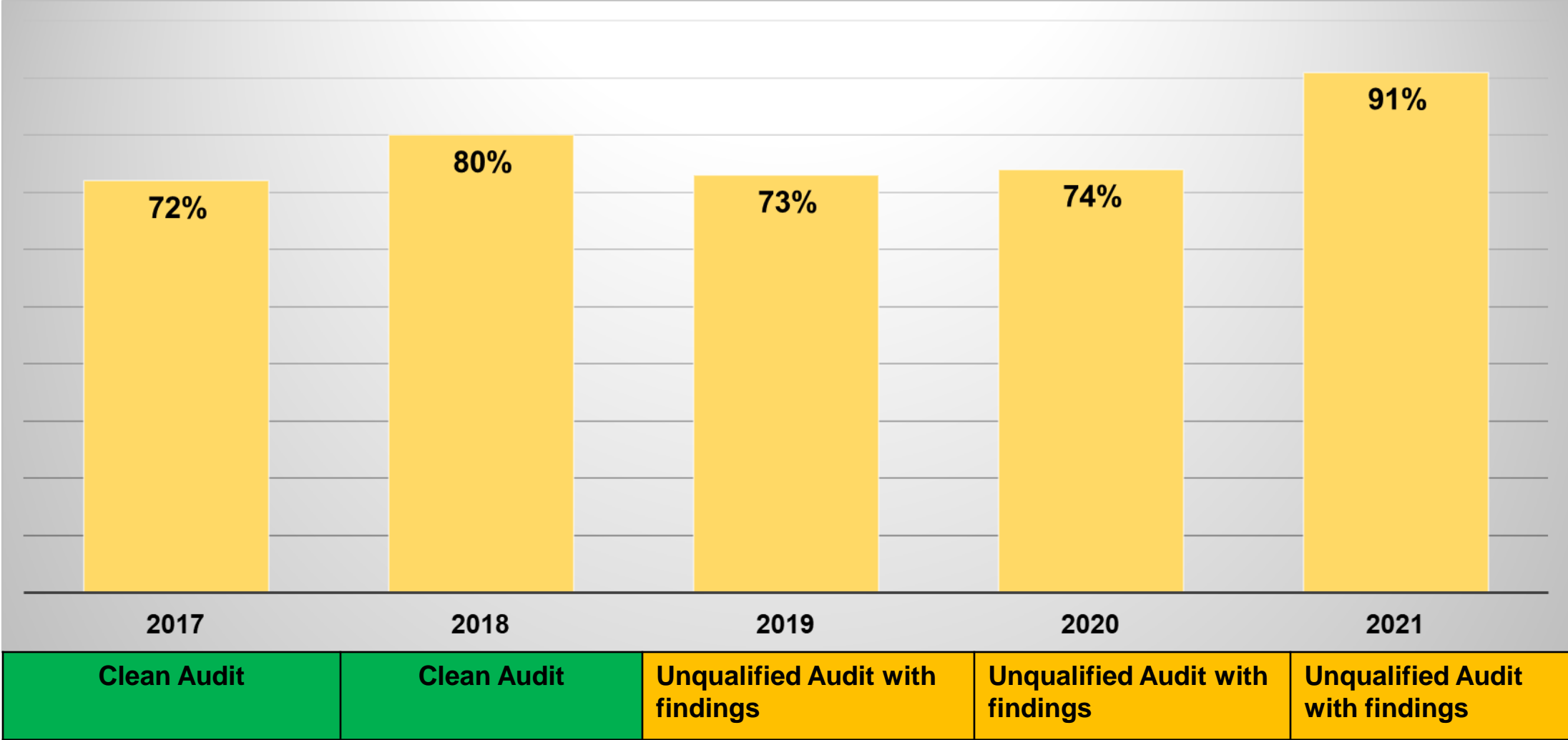
Visibility and accessibility to information relating to our business practices

Provide clear direction, guidance and forward thinking

Fostering an environment that supports our people, economy and our nation



# SUMMARY OF YEARLY PERFORMANCE TREND



# 2021/22 APP ANNUAL PERFORMANCE

# ADMINISTRATION

OUTCOME	OUTPUT INDICATORS	ACTUAL PERFORMANCE
Strengthen the governance system of SOCs and promote institutional alignment in the execution of the oversight function	Number of development interventions	20 training interventions were provided in an effort to upskill the existing human capital.
	Develop Human Resource Plan and submit to DPSA	Human Resource Plan to support the implementation of the department's plans and priorities was developed and submitted to DPSA.
	Implementation of Architecture Masterplan	The Architecture Masterplan to support the department's infrastructure platform was implemented.
	Stakeholder Engagements plan developed	Stakeholder engagement plan to facilitate the engagements with key stakeholders.

# GOVERNANCE, LEGAL ASSURANCE, RISK PROFILING AND MITIGATION

OUTCOME	ANNUAL TARGETS	ACTUAL PERFORMANCE
Strengthen the governance system of SOCs and promote institutional alignment in the execution of the oversight function	Annual assessment of independent Board Performance Index	Annual assessment of independent Board Performance Index that measured the good governance and value creation outcomes and impact was completed.
Improved governance and accountability	Reduction in the number of cases concerning board members and employees doing business with the SOC	All board members disclosed their financial interest, and none were found to be doing business with their respective SOC. The Department continues to uphold the principles of good governance it expects of SOCs.
	Developed Shareholder Management Bill	The Indicative SOE Bill was developed that will form part of the Shareholder Management Bill which will be finalised in 2022/23 financial year.
	Forensic audit reviews conducted	Forensic audit reviews were completed as part of the Department's follow ups on the implementation of SOC Forensic investigations



# FINANCIAL ASSURANCE AND INVESTMENT SUPPORT

OUTCOME	ANNUAL TARGETS	ACTUAL PERFORMANCE
Improved independent financial sustainability of SOCs	24 SOC quarterly financial reviews and reports produced	24 SOC quarterly operational and financial reviews were conducted.
	6 SOC corporate plans reviewed	6 SOC corporate plans were reviewed.
	2 consolidated progress reports on SOCs audit findings	2 progress reports on SOC audit findings were completed.
	SOCs' Dividend Policy Framework	SOCs' dividend Policy Framework was developed.

# BUSINESS ENHANCEMENT SERVICES

OUTCOME	ANNUAL TARGETS	ACTUAL PERFORMANCE
Increased the contribution of SOCs to support transformation of the South African economy	Assessment report on % increase spend on local content	Assessment of SOC local content, enterprise and supplier development were completed to ensure SOC procure in such a way that promotes building of local capability while developing and growing small businesses
	Annual value of enterprise development contributions	
	Assessment report on % increase spend on SOCs' Preferential Procurement and BBBEE level 6 compliance	Assessment of SOC spend on BBBEE and preferential procurement was completed
	Assessment reports on % increase in SOC Corporate Social Investment (CSI) programme allocation	Assessment of SOC CSI programmes to support marginalised communities, businesses within which SOC operates were completed
	Assessment reports on SOCs' 3% spent of leviable amount	Assessment of SOC's training spend as part of skills development interventions was completed

# BUSINESS ENHANCEMENT SERVICES

OUTCOME	ANNUAL TARGETS	ACTUAL PERFORMANCE
Increased the contribution of SOCs to support transformation of the South African economy	DPE Environmental Implementation Plan (EIP) published in the Government Gazette	DPE EIP was published in an effort to harmonise environmental policies and plans to promote consistency in exercising the functions that may affect the environment
	Consolidated report on SOC Climate Change Response Initiatives compiled	Consolidated report on SOC Climate Change Response initiatives was completed in line with Climate Change Response Guidelines for SOCs

# ENERGY AND RESOURCES

OUTCOME	OUTPUT INDICATOR	ACTUAL PERFORMANCE
Improved governance and accountability	Number of Shareholder Compacts signed (Eskom, Alexkor and SAFCOL)	Two Shareholder Compacts (Eskom and SAFCOL) signed  Alexkor's 2022/23 Shareholder Compact to be reviewed by the new board appointed in January 2022
Increase the contribution by SOCs in support of the transformation of the South African economy	Progress report on SAFCOL's Timbadola re-investment project	SAFCOL progress on the upgrade of the Timbadola sawmill to improve operational efficiency was assessed
	Restructured Alexkor	Update on the optimal operating structure for the state owned diamond assets was carried out
Supply of energy secured	Eskom planned capacity adherence (infrastructure/build programme)	Analysis on Eskom's capital expansion programme was assessed to monitor the implementation of corrective plan to improve operational efficiencies
	Increased electricity reserve margin	Analysis and monitoring of the energy availability factor of the plant performance
	Explore embedded generation options to augment generation capacity by 1000 MW by 2024	Update report on Small Scale Embedded Generation (SSEG) to augment Eskom's generation capacity

# ENERGY AND RESOURCES

OUTCOME	OUTPUT INDICATOR	ACTUAL PERFORMANCE
Supply of energy secured	Eskom's roadmap for reformed electricity supply industry implemented by 2024	Progress report on the implementation of the Roadmap for Eskom in a Reformed Electricity Supply Industry was completed

# TRANSPORT AND DEFENCE

OUTCOME	OUTPUT INDICATOR	ACTUAL PERFORMANCE
Improved governance and accountability	Number of shareholder compacts signed (Transnet, Denel and SAA)	2022/23 Shareholder Compacts for Transnet, SAA and Denel were not finalised.
Improved independent financial sustainability of SOCs	Progress report on performance of Denel against client-agreed milestones on significant contracts	Assessment of Denel’s major projects in an effort to improve SOC operations and financial state
Increase access to an affordable and reliable transport system	Improved service reliability, predictability of service and cost-effectiveness of the transport system with a higher customer satisfaction rate	Progress on Transnet’s service reliability, predictability of service and cost-effectiveness of the transport system was carried out
	Progress reports on the implementation of the decision on the future structure and functions of TNPA	Progress on the corporatisation of Transnet National Ports Authority(TNPA) was carried out
	Improved turnaround times across the strategic container terminals	Assessment of the strategic container terminals was done
	Assessment reports providing status report on the implementation of the corridor strategy	Assessment on the corridor strategy against action plans was carried out

# RESEARCH AND ECONOMIC MODELLING

OUTCOME	OUTPUT INDICATOR	ACTUAL PERFORMANCE
<p>Increase the contribution of SOCs to support the transformation of the South African economy</p>	<p>Progress report on development of “Just” Energy Transition Framework</p>	<p>Development of the Just Energy Transition Framework was developed to guide SOCs on the Just Energy Transition</p>
	<p>Review of global, regional and local economic report</p>	<p>Review of global, regional and local economic reports were developed to guide the department on key strategic discussions</p>
	<p>Number of industry-specific researches conducted</p>	<p>Research studies on sector specific areas were undertaken to inform planning and decision making process</p>

# ANNUAL FINANCIAL PERFORMANCE



# EXPENDITURE PER PROGRAMME

Programme	Final Appropriation (R'000)	Expenditure (R'000)	Variance (R'000)	Expenditure as per % of Final Appropriation
Administration	138 777	121 078	17 699	87.2%
SOC Governance Assurance & Performance	54 900	47 434	7 466	86.4%
Business Enhancement, Transformation & Industrialisation	56 309	49 847	6 462	88.5%
<b>Sub-Total</b>	<b>249 986</b>	<b>218 359</b>	<b>31 627</b>	<b>87.3%</b>
Transfers to SOCs	36 024 833	35 808 831	216 002	99.8%
Direct Charges	3 035 500	3 030 886	4 614	99.8%
<b>Total</b>	<b>39 310 319</b>	<b>39 058 076</b>	<b>252 243</b>	<b>99.4%</b>

# EXPENDITURE PER ECONOMIC CLASSIFICATION

<b>Economical Classification</b>	<b>Final Appropriation</b>	<b>Expenditure</b>	<b>Variance</b>	<b>Expenditure as per % of Final Appropriation</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	
<b>Current Payments</b>	<b>245 558</b>	<b>216 847</b>	<b>28 711</b>	<b>88.3%</b>
- Compensation of Employees	158 954	140 047	18 907	88.1%
- Goods and Services	86 604	76 800	9 804	88.7%
<b>Transfers and Subsidies</b>	<b>757</b>	<b>737</b>	<b>20</b>	<b>97.4%</b>
-Municipalities	18	15	3	83.2%
- Households	739	722	17	97.7%
<b>Capital Assets</b>	<b>3 671</b>	<b>775</b>	<b>2 896</b>	<b>21.1%</b>
- Machinery and Equipment	3 671	775	2 896	21.1%
<b>Payments for Financial Assets</b>	<b>39 060 333</b>	<b>38 839 717</b>	<b>220 616</b>	<b>99.4%</b>
<b>Total</b>	<b>39 310 319</b>	<b>39 058 076</b>	<b>252 243</b>	<b>99.4 %</b>

# ANALYSIS OF EXPENDITURE

- The spending for the period ending March 2022 was 99.4% (R39.1 billion of R39.3 billion).
- The total spending excluding payments for financial assets or transfers made to SOCs as at end of March 2021 was 87.3%.
- R218 million was for departmental operations and R38.8 billion was for equity injection for SOCs.
- The R38.8 billion was used by SOCs to settle Government guaranteed debt, of which R31.7 billion was for Eskom, R4.1 billion for SAA and R3.1 billion for Denel.
- The under expenditure of R252.2 million primarily related to:
  - compensation to employees – this is due to vacant posts as appropriate candidates could not be attracted with specialised skills.
  - goods and services - caused by reduced travelling because of the COVID-19 restrictions and
  - capital assets – due to delay of international delivery for IT equipment
- The spending on transfers and subsidies was 97.4% of the budget which is for Households and departmental vehicle licenses paid to the municipality.

# IRREGULAR EXPENDITURE

	Amount	Comments
Opening Balance 01 April 2021	R 32 588 080	Due to material deficiency in the appointment of a service provider. The department brought a self-review application to court to have the appointment of the service provider reviewed and set aside.
Add Irregular expenditure – relating to prior year	R 972 207	Relates to an extension of a contract without approval. Investigations have been completed. Awaiting approval for corrective measures to be taken and for condonation to be submitted to National Treasury.
Add Irregular expenditure – relating to current year	R 2 065 074	Material non-compliance as a result on not adhering with legislation and other SCM prescripts. The matter is under investigation.
Less: Prior year amounts written off	(R1 385)	The invoice amount exceeded the contract amount, resulting in a irregular expenditure. The official responsible has been disciplined and the matter is now closed.
<b>Closing Balance</b>	<b>35 623 976</b>	

# FRUITLESS AND WASTEFUL EXPENDITURE

	Amount	Comments
Opening Balance 01 April 2021	R 4 860	Penalty charged for booking a venue and not cancelling in time. The matter is currently under investigation.
<b>Closing Balance</b>	<b>R 4 860</b>	

# UNAUTHORISED EXPENDITURE

	Amount	Comment
Unauthorised Expenditure relating to current year	R 15 160 000	Payment made prior to obtaining approval. The Department is conducting investigations to determine whether it is irregular or unauthorised. However, the beneficiary of the payment has since paid back the funds.
<b>Closing balance</b>	<b>R 15 160 000</b>	

# 2021/22 AUDIT OUTCOME

- The Department continues to maintain a sound governance and compliance framework on how it utilises its resources.
- The Department obtained an unqualified audit opinion with findings for the 2021/22 financial year:

## **Annual Financial Statements:**

- The Auditor-General of South Africa (AGSA) identified two (2) audit findings affecting the auditors' reports on the financial statements and these were subsequently corrected.

## **Predetermined objectives:**

- The AGSA identified one (1) audit finding affecting the auditor's report on the predetermined objectives and the report was subsequently adjusted.

**THANK YOU**